Retire-Rehire Corrections

Issue

Should the SCPP re-endorse its Retire-Rehire Corrections legislation that the committee recommended to the Legislature last interim?

Background

Issue History

In the 2011 Session, the Legislature enacted ESHB 1981. This bill made several changes to retiree return-to-work rules, as well as changes to the Higher Education Retirement Plans.

In the 2012 Interim, the Department of Retirement Systems (DRS) approached the SCPP stating that ESHB 1981 changed the return-to-work rules in a way that created inconsistencies between Public Employees' Retirement System (PERS) retire-rehire rules and the rules for the other retirement systems. DRS then asked the SCPP to sponsor legislation removing those inconsistencies.

The bills that resulted from the SCPP recommendation last interim (HB 1226/SB 5633) received "do pass" recommendations from their respective policy committees, but ultimately did not make it out of their respective Rules committees. These two bills are still "alive" for the second session of the biennium.

Retire-Rehire Generally

Prior to ESHB 1981, a retiree could work in public employment up to 867 hours per year without a suspension of that retiree's pension benefits. This general rule typically applied whether or not the retiree was hired into a position covered by the same retirement system the member retired from.

Exceptions to the general rule existed, for example, when the retiree returned to work in a position that was not eligible for membership in any DRS-administered retirement system. In other words, retirees working in ineligible positions could work full time without a suspension of benefits.

Current Situation

Two of the changes in ESHB 1981 were flagged by DRS. DRS reports that it is not administering these two changes yet.

Change 1

PERS Plans 2/3 members who return to work in other systems (e.g. Teachers' Retirement System, etc.) will receive an immediate suspension of benefits.

Change 2

PERS retirees working in positions ineligible for retirement benefits can work up to 867 hours without a suspension of benefits.

Effects of SCPP Bills (HB 1226/SB 5633)

These bills remove the two changes listed above, thus restoring prior policy.

Side-By-Side Comparison

	Before ESHB 1981	After ESHB 1981	SCPP Bills
PERS retiree hired for ineligible position	No Limit	867	No Limit
PERS retiree hired for PERS position	867*	867	867
PERS retiree hired for OTHER position	867*	Imm. Susp.**	867
OTHER retiree hired for ineligible position	No Limit	No Limit	No Limit
OTHER retiree hired for PERS position	867	867	867
OTHER retiree hired for OTHER position	867	867	867

**Plans 1 retirees also had option to work additional hours without suspension. Please see the fiscal note for ESHB 1981 for more information.*

***PERS 1 retirees working in OTHER positions were not affected by ESHB 1981 and remain eligible for the 867-hour limit.*

No Limit: Retiree can work full time with no suspension of benefits.

Imm. Susp: The retiree's pension payments are immediately suspended so long as the retiree continues to work.

867: Retiree's pension payments will be suspended if retiree works more than 867 hours per year.

Other: Systems other than the Public Employees' Retirement System or the Law Enforcement Officers' and Fire Fighters' Plan that are administered by DRS.

Committee Activity

Following the July 23, 2013, SCPP meeting, the Executive Committee scheduled a work session with possible executive action.

Staff Contact

Aaron Gutierrez
Policy Analyst
360.786.6152
aaron.gutierrez@leg.wa.gov

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HOUSE BILL 1226

State of Washington 63rd Legislature 2013 Regular Session

By Representatives Ormsby, Alexander, Sullivan, Haigh, and Ryu; by request of Select Committee on Pension Policy

Read first time 01/21/13. Referred to Committee on Appropriations.

AN ACT Relating to restrictions on collecting a pension in the public employees' retirement system for retirees returning to work in an ineligible position or a position covered by another state retirement system; and amending RCW 41.40.037.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.40.037 and 2011 1st sp.s. c 47 s 19 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred sixty hours per month. Any benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2) A retiree from plan 1, plan 2, or plan 3 who ((~~enters employment with an employer at least one calendar month after his or~~

F-89

~~her accrual date may continue to receive pension payments while engaged in such service for~~)) has satisfied the break in employment requirement of subsection (1) of this section may work up to eight hundred sixty-seven hours ((~~of service in a~~)) per calendar year ((~~without a reduction of pension. For purposes of this section, employment includes positions covered by annuity and retirement income plans offered by institutions of higher education pursuant to RCW 28B.10.400~~)) in an eligible position, as defined in RCW 41.32.010, 41.35.010, 41.37.010, or 41.40.010, or as a firefighter or law enforcement officer, as defined in RCW 41.26.030, or in a position covered by annuity and retirement income plans offered by institutions of higher education pursuant to RCW 28B.10.400, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.40.023(12), he or she terminates his or her retirement status and becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible in accordance with RCW 41.40.180. However, if the right to retire is exercised to become effective before the member has rendered two uninterrupted years of service, the retirement formula and survivor options the member had at the time of the member's previous retirement shall be reinstated.

(4) The department shall collect and provide the state actuary with information relevant to the use of this section for the select committee on pension policy.

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five months in a calendar year without a reduction of his or her pension.

--- END ---

F-90

SUMMARY OF RESULTS

This bill restores the general consistency between PERS return-to-work policies and most other state retirement systems. Specifically, it reapplies the 867-hour option to PERS retirees who return to work in positions covered by other state retirement systems and removes the 867-hour limit for PERS retirees who return to work in positions ineligible for state retirement system membership.

This bill does not have a material cost to the state retirement systems.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

This bill may impact the retirement systems by changing retirement behavior.

The additional return-to-work restrictions currently in place for impacted PERS members could change their post-retirement income. Changes in income can, in turn, impact retirement behavior. For example, members might retire earlier if their income increases and might defer retirement if their income decreases. Based on this bill, the easing of the extra restrictions could promote earlier retirement. Generally, when members retire earlier than expected, the result is an increase in costs to the retirement system.

However, we do not currently model the costs of the return-to-work program in any of our retirement systems because we do not expect they will materially impact contribution rates. Therefore, a minor adjustment to the immaterial costs would also be considered immaterial.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This bill impacts the following systems:

- Public Employees' Retirement System (PERS).

This bill restores the general consistency between PERS return-to-work policies and most other state retirement systems. Specifically, it reapplies the 867-hour option to PERS Plan 2/3 retirees who return to work in positions covered by other state retirement systems and removes the 867-hour limit for PERS Plan 1/2/3 retirees who return to work in positions ineligible for state retirement system membership.

Effective Date: 90 days after session.

What Is The Current Situation?

Washington's return-to-work, or "retire-rehire" rules are complex and contain several exceptions. The following description only covers aspects of the return-to-work rules necessary to understand the changes made by this bill. For more information, please see the Department of Retirement Systems (DRS) publication *Thinking About Working After Retirement*.

Generally, the return-to-work rules allow an employee who separates from service and begins receiving his or her retirement benefits to return to work and continue receiving those retirement benefits. There are, however, limits on the amount of hours a retiree can work.

Typically, retirees are limited to working part time, up to 867 hours per year. If the retiree works longer, his or her retirement benefits will be temporarily suspended. In other words, the return-to-work rules do not prevent retirees from working as many hours as the retiree chooses, but instead limit how long the retiree can work each year *and continue receiving retirement benefit checks at the same time.*

These limitations do not apply if the retiree returns to work in the private sector, or works in a public job that is not otherwise eligible for state retirement system membership ("ineligible positions").

In 2011, the Legislature enacted ESHB 1981. That bill changed several aspects of retirement statutes. Most of the changes in ESHB 1981 are not impacted by this bill.

Two of the changes in ESHB 1981 related to PERS return-to-work rules resulted in inconsistencies with other state retirement systems. These changes are addressed by this bill. Specifically:

- ESHB 1981 removed the 867-hour option for PERS Plan 2/3 retirees who return to work in other state retirement systems. PERS Plan 2/3 retirees who return to work would receive an immediate suspension of their benefits.
- ESHB 1981 applied an 867-hour limit to PERS retirees who return to work in positions ineligible for retirement benefits.

DRS reports that these two changes in ESHB 1981 are not currently being administered. Thus, this bill is consistent with current practice.

Who Is Impacted And How?

We estimate this bill could affect 152,417 active PERS members who may return to work in affected positions after they retire. We further estimate this bill would affect the following members in the impacted PERS positions by increasing the number of hours they can work and receive retirement benefits compared to current law.

Members Impacted				
	PERS 1	PERS 2	PERS 3	All PERS
All Service Retirees (As Of June 30, 2011)	46,006	21,256	1,233	68,495
Returned to Work in Eligible Position Outside PERS*	N/A	109	4	113
Returned to Work in Ineligible Position*	3,365	1,127	56	4,548

**Information from Department of Retirement Systems as of November 2012.*

WHY THIS BILL DOES NOT HAVE A MATERIAL COST

Why This Bill Does Not Have A Material Cost

While this bill could theoretically increase retirement rates, thereby causing increased liabilities in PERS, we believe the costs would be immaterial. There are two potential sources of additional cost to the affected systems. Any costs that do occur would be absorbed by PERS as experience losses.

- PERS Plan 2/3 members who return to work in eligible positions in other state retirement systems, could work additional hours under this bill and still receive their retirement benefits.
- Members of any PERS plan who return to work in ineligible positions could work unlimited hours under this bill and continue to receive their retirement benefits.

Who Will Pay For These Costs?

Any costs that do occur as experience losses would materialize in future contribution rate increases payable according to the usual funding method for each plan.

- Plan 1 and Plan 3: 100 percent employer.
- Plan 2: 50 percent member and 50 percent employer.

HOW WE VALUED THESE COSTS

We based our analysis for this bill on the same assets, data, assumptions, and methods as disclosed in the *June 30, 2011, Actuarial Valuation Report* (AVR).

We also relied on data from the Department of Retirement Systems to complete the **Who Is Impacted And How** section of this fiscal note. We relied on this data as complete and accurate. In our opinion, this information is adequate and substantially complete for purposes of this analysis.

The analysis of this bill does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the systems will vary from those presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2013 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Select Committee on Pension Policy.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned is available to provide additional advice and explanations as needed.

Lisa A. Won, ASA, FCA, MAAA
Actuary

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GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded actuarial accrued liability. The normal cost is determined for the actuarial accrued group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- ❖ Normal cost.
- ❖ Amortization of the unfunded actuarial accrued liability.

The normal cost is determined on an individual basis, from a member's age at plan entry and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.