5. PSERS Study Update

At the July meeting of the Select Committee on Pension Policy (SCPP), the Executive Committee requested a review of the Public Safety Employees' Retirement System (PSERS), the 2012 SCPP interim study on high-risk job classifications, and the subsequent legislation introduced in the 2013 Legislative Session as a result of the SCPP study.

The following background and summary materials are attached to supplement the presentation. The materials are provided for background and context only. The key points of the included materials will be covered during the presentation to the SCPP.

Index of Materials

- 2012 Final Interim Status Executive Summary: SCPP Study High-Risk Job Classifications
- Handout One: PSERS Plan Overview
- Handout Two: Overview of legislation relating to the 2012 SCPP Study on High-Risk Job Classifications

SCPP Study: High-Risk Job Classifications

Issue

Recent legislation (Chapter 7, Laws of 2012, First Special Session) modified Early Retirement Factors (ERFs) for newly hired employees in the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). It also required the Select Committee on Pension Policy (SCPP) to study two things.

- High-risk job classifications.
- Classroom Employee ERFs.

This report responds to the mandate to "study high-risk job classifications that entail high degrees of physical or psychological risk, or result in elevated risks of injury or disablement for older employees for inclusion in the Public Safety Employees' Retirement System (PSERS)."

Background

A majority of public employees are in the PERS, TRS, and SERS Plans 2/3. These plans have a normal retirement age of 65, and early retirement is available for eligible members beginning at age 55—with a benefit reduction.

PSERS membership is based on job duties and employment with an employer listed in statute. The PSERS system includes corrections officers and limited authority law enforcement officers.

PSERS has an earlier normal retirement age of 60 for eligible members and more generous early retirement and disability benefits than PERS, TRS, and SERS.

This study, among other factors, took injury rate data from the Workers' Compensation Program at the Department of Labor and Industries (L&I) into consideration when determining job risk. The Workers' Compensation Program covers medical expenses and pays a portion of wages lost for certain claims while a worker recovers from injuries sustained in the workplace (referred to as "compensable claims").

Policy Questions

The study mandate raised the following key policy questions.

- Are current retirement eligibility requirements appropriate for older employees working in high-risk or high stress jobs?
- Should pension policy be adjusted in response to potential risks of older employees working in high-risk or high stress jobs?
- If so, how should it be adjusted and for which employees?

Findings

- Changing pension policy cannot eliminate all physical and psychological risk for older employees. However, allowing earlier retirement could reduce exposure for some individuals.
- Research suggests that older workers, as a group, may not be more at risk for job-related injuries. Older workers have lower rates of job-related injury, but experience more time-loss and greater rates of fatality when injured on the job. Also, the impacts of aging on work performance vary by individual. As workers age, physical and cognitive abilities change but most are able to compensate for changes and perform at the same level.
- There are many ways to address concerns over job risk both inside and outside the pension system, including options available to members under current law.
  - Outside the pension system: Human resource options, safety practices, disability insurance or technological advancements.
  - Current pension policy: Early retirement, changing careers, deferred retirement.
  - New pension policy: Enhanced ERFs, expansion of PSERS, enhanced disability benefits, increased benefit/service credit multiplier for high risk occupations, new pension system for high-risk jobs, expansion of deferred indexed vested benefit, new benefit tier within PERS, TRS, or SERS for high-risk jobs.
- Job conditions can lead to stress, which can lead to increased overall health risk, but isolating stress caused by the job versus stress caused by other factors is difficult due to the variability of sources of stress.
- Among employers, three agencies had compensable claims rates that were at least 30 percent higher than the general population studied:

Department of Social and Health Services (DSHS), Department of Veteran's Affairs, and Department of Corrections.

- DSHS had the highest compensable claims rates among employers. Within DSHS, the residential habilitation centers and mental health hospitals and institutions have the highest compensable claims rates, with rates more than twice the general population studied.
- Over the study period, approximately one-third of the occupations studied had compensable claims rates above the general population.
- Ten non-PSERS occupations had higher compensable claims rates over the study period than PSERS occupations including attendant counselor, mental health technician, K-12 service worker, licensed practical nurse, nursing assistant, psychiatric security attendant, psychiatric child care counselor, K-12 crafts/trades, attendant counselor or trainee, and K-12 laborer.
- The study was not able to adequately analyze job risk by all risk types, age groups, or for every occupation. This was due to time and resource constraints, the infrequency of certain types of claims, and limitations in the occupational data that could be collected—including lack of local government and higher education data.
- PSERS membership may be evaluated on the basis of job duties or job risk. There are multiple criteria that can be used to assess either including injury rates, job risks and hazards, and similarity to current PSERS occupations. Policy makers may weigh various criteria differently when determining if and how to expand PSERS.
- Some non-PSERS members may have similar job duties to existing PSERS members but are excluded from PSERS because their employer is not a PSERS-eligible employer. Such members may include Juvenile Rehabilitation Administration staff and Office of the Insurance Commissioner Investigators.

Policy Highlights

- The state has existing policies regarding lower retirement ages for certain occupations considered high-risk, such as police officers, fire fighters, state patrol, and corrections officers.
- Retirement policy is better suited to mitigate risks that are related to or exacerbated by aging or length of exposure. Other risks may be better addressed outside of pension policy.
- Improving benefits for employees in high-risk occupations will likely create long-term contractual rights to those benefits which cannot be easily undone if job risks change in the future.

- Ultimately, determining an appropriate retirement age for employees in high-risk/stress jobs is a balancing act between employee and employer needs and affordability.
- Policy makers may differ on their preferred approaches for addressing workplace risk. Some may find current policies appropriate, others may prefer to address workplace risk outside of pension policy, and still others may prefer to adjust pension policy in response to workplace risk.
- Further study could provide more data and analysis to better inform policy discussions around addressing risk through the pension system.
- Policy makers could approach improved benefits for high-risk occupations from the perspective of rewarding individuals for taking high-risk jobs or to promote recruitment and retention in high-risk jobs.

Options For Further Study

Policy makers seeking to look further into addressing high-risk job classifications through the pension system may wish to further study one or more of the following areas:

- Comprehensive injury rate data analysis including data from local government and higher education entities and covering a longer period of time. Such analysis falls outside of the expertise of the SCPP and would likely be better suited for the Department of Labor & Industries.
- Improved benefits for members who separate from service before normal retirement age and defer retirement until normal retirement age.
- Increased benefit/service credit multiplier within the PERS, TRS, and SERS systems for service in qualifying high-risk jobs.
- Expansion of PSERS membership based on job risk or job duty. Expanding PSERS based on job duty would require consultation with DRS to determine which occupations would likely qualify.
- Creation of a new plan for high-risk jobs.
- Enhanced disability benefits for PERS, TRS, and SERS members.
- Enhanced ERFs for PERS, TRS, and SERS members.

Addressing risk outside of pension policy is also an option, such as through human resource options, private disability insurance, safety practices, or technology.

However, developing options outside of pension policy falls outside the purview of the SCPP.

It is likely that pursuing one or more of these options for further study would be time consuming and resource intensive and may require funding. Some options, such as creating a new plan for high-risk jobs, would be a major undertaking for the SCPP.

Committee Activity

The SCPP studied this issue at the May, June, July, September, October, and November meetings. At the December meeting, the Full Committee forwarded the study to the Legislature without adopting findings or recommendations.

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PSERS Plan Overview

Eligibility

The Public Safety Employees' Retirement System (PSERS) is a Defined Benefit (DB) plan created in 2004, and implemented in 2006, for public employees with limited law enforcement authority and who are not eligible for membership in the Law Enforcement Officers' and Fire Fighters' Plan (LEOFF).

To be eligible for PSERS, an employee must:

- Serve as a corrections officer or limited-authority peace officer.
- Be employed by a PSERS employer.

The current list of PSERS employers includes the following agencies.

- Department of Corrections.
- Parks and Recreation Commission.
- Gambling Commission.
- Washington State Patrol.
- Liquor Control Board.
- Department of Natural Resources.
- Washington state counties.
- Washington state cities.
  - Except the first class cities (Seattle, Tacoma and Spokane).

Membership

As of June 30, 2012, there are 4,250 active members of PSERS. PSERS is a comparatively young plan, and only 27 members have retired.

Beginning July 1, 2006, all newly-hired PSERS-eligible employees are members of PSERS. Employees hired prior to that date were members of the Public Employees' Retirement System (PERS). Those employees were given the limited opportunity to transfer to PSERS or remain in PERS. Of those eligible to transfer, 1,860 members did so. A second transfer window was created when the Department of Natural Resources (DNR) was added to the list of PSERS employers, and four employees from DNR made the transfer.

PSERS Plan Provisions

The following table presents a high-level summary of the PSERS plan provisions and is not meant to be an exhaustive list. For complete details on plan provisions, please refer to the statutes or the DRS PSERS Plan Handbook.

PSERS	
	Plan 2*
Effective Date of Plan	7/1/06
Date Closed to New Entrants	Open
Statutory Reference	Chapter 41.37 RCW
Normal Retirement Eligibility (age/service)	65/5 Total Service, 60/10 PSERS service
Accrued Benefit Formula	2% x YOS x AFC
Computation of AFS	Average compensation earnable for the highest 60 consecutive months
Credited Service	Monthly, based on hours worked each month
Vesting	5 years
Vested Benefits Upon Termination	Refund of employee contributions plus interest, or deferred retirement allowance
Early Retirement Eligibility (age/service)	53/20 Total Service
Early Retirement Reduction Factors	3% ERF with 20 YOS, otherwise actuarial
Disability Retirement Benefit	Accrued benefit, actuarially reduced from age 60
COLA	Lesser of CPI** or 3%

** Technically, it is PSERS "Plan 2," but there is no Plan 1. The designation of Plan 2 is in line with Washington's other DB plans.*

*** CPI: Urban Wage Earners & Clerical Workers, Seattle-Tacoma-Bremerton, WA - All Items.*

Key Differences In Plan Provisions

Provision	System/Plan	
	PSERS	PERS 2
Retirement Eligibility (Age/Years of Service)	65/5 (total) 60/10 (PSERS)	65/5
Early Retirement*	53/20	55/20
Disability Benefit	Accrued benefit, actuarially reduced from age 60	Accrued benefit, actuarially reduced from age 65
Non-Duty Death Benefits		
< 10 YOS	ROC**	ROC
> 10 YOS	Choice of ROC or Monthly Benefit***	Choice of ROC or Monthly Benefit***
Line of Duty Death Benefits		
Additional Line of Duty Death Benefit	Lump sum payment of $150,000	Lump sum payment of $150,000

** Includes actuarial reduction factors.*
*** ROC = Return of Contributions.*
**** May include actuarial reduction based on age. The age from which benefits will be reduced varies by plan.*

Comparison Of Contribution Rates

Member and Employer Rate Summary				
	Member	Total Employer	Employer* (Normal Cost)	Employer* (PERS Plan 1 UAAL)
PSERS	6.36%	10.36%	6.36%	4.0%
PERS 2	4.92%	9.03%	5.03%	4.0%

** Excludes a 0.18% DRS Administrative Expense Rate.*

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Legislation Relating To The 2012 SCPP Study On High-Risk Job Classifications

Bill Number		Sponsor	Brief Description[1]	Example of Occupations Impacted	Cost[2] *(in Millions)*	Immediate Rate Impact? [3]	Status as of July 11, 2013
HB 1913	SB 5827	Ormsby / Chase	Increases the multiplier used to calculate retirement benefits for certain classified school employees employed as service workers	Custodian, food service worker, warehousemen, deliverymen, sercurity personnel	Ind.	No	HB heard in House Appropriations SB not heard in Senate
HB 1914	SB 5830	Ormsby / Chase	Reinstates repealed early retirement benefits for certain classified school employees employed as service workers.	K-12 Service Workers	$21.4	No	HB not heard in House SB not heard in Senate
EHB 1923[4]	SB 5781	Ormsby / Hobbs	Expands membership in PSERS for employees at city and county corrections departments, public corrections entities, the department of corrections, and the department of social and health services who provide direct care to, or ensure the custody and safety of, offender and patient populations.	Attendant counselor, mental health technician, psychiatric social worker/security attendant/child care counselor, nurse, phychologist, dentist, pharmacist	$92.4	Yes	HB passed House floor SB not heard in Senate
HB 1929		Ormsby	Expands membership in PSERS for qualified trades people at public utility districts.	Serviceman, lineman, wireman, substation electircian, foreman	Ind.	No	Heard in House Appropriations
SB 5853		Conway	Expands membership in PSERS for qualified trades people at qualified public utility districts.	Serviceman, lineman, wireman, substation electircian, foreman	Ind.	No	Not heard in Senate

[1] *Description applies to the latest version of the bill.*
[2] *Total employer 25-year cost.*
[3] *The cost of the bill is sufficient under current actuarial methods to result in an additional contribution rate being collected in the 2013-15 Biennium.*
[4] *Administrative impact for the Office of the State Actuary.*

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