

# **PSERS Membership**

## **EHB 1923: PSERS Expansion For Certain Corrections And DSHS Employees**

### **Bill Provisions**

EHB 1923 has four main provisions:

- ❖ Expanding the Public Safety Employees' Retirement System (PSERS) statutory definition of employer.
- ❖ Defining plan membership for the Department of Social and Health Services (DSHS) and certain Corrections employees.
- ❖ Defining the optional transfer window for existing members.
- ❖ Creating a new study for the Office of the State Actuary (OSA).

### **PSERS Employer Definition**

Under this bill, DSHS is added to the statutory definition of a PSERS employer.

### **PSERS Member Eligibility**

The membership definition is expanded for DSHS employees and certain Corrections employees whose primary responsibility is to provide direct care to, or ensure the custody and safety of, offender and patient populations.

DSHS employees must also complete defensive tactics training or de-escalation training and be employed by one of the following institutions or centers to be eligible for PSERS:

- ❖ Juvenile Rehabilitation Administration.
- ❖ Mental health hospitals.
- ❖ Child Study and Treatment Center.
- ❖ Special Commitment Center.
- ❖ Institutions or residential sites that serve developmentally disabled patients or offenders.

### **Optional Transfer Window**

Current DSHS and Corrections employees who are eligible for PSERS membership under this bill have the option of transferring from PERS Plan 2 or Plan 3 to PSERS. An optional transfer window of two months is given to eligible members under this bill.

If an eligible member transfers they will then become dual members and their PSERS membership will be prospective from the date of their election to transfer. Existing members of the Public Employees' Retirement System (PERS) who have previously had the opportunity to transfer to PSERS but elected to continue PERS membership are not eligible for transfer under this bill. All new hires who are eligible under this bill and hired after the effective date will become members of PSERS.

## **OSA Study**

OSA, with the assistance of the Department of Retirement Systems (DRS), shall study changes in PSERS employers and membership since the plan's inception. OSA must also assess the policy objectives that drove the creation of PSERS and any changes that have been made since the creation of the plan. The report shall be submitted to the fiscal committees of the Legislature.

## **Legislative Action**

This bill passed the House floor (94 yeas; 3 nays), but received no action in the Senate during the 2013 Legislative Session.

## **Additional Materials**

1. EHB 1923 bill language.
2. Draft Actuary's Fiscal Note to EHB 1923, updated for the 2014 Legislative Session.
3. Bill comparison.
4. SCPP Executive Committee's Proposed Striking Amendment to EHB 1923 Bill Summary.
5. SCPP Executive Committee's Proposed Striking Amendment to EHB 1923.
6. SCPP Executive Committee's Proposed Striking Amendment to EBH 1923 Draft Fiscal Note.

## **Staff Contact**

Devon Nichols  
Policy Analyst  
360.786.6145  
[devon.nichols@leg.wa.gov](mailto:devon.nichols@leg.wa.gov)

O:\SCPP\2013\12-10-13\_Full\4.PSERS\_EHB\_1923\_Bill\_Summary.docx

---

**ENGROSSED HOUSE BILL 1923**

---

**State of Washington**

**63rd Legislature**

**2013 Regular Session**

**By** Representatives Ormsby, Sullivan, Hayes, Pollet, Blake, Hope, Orcutt, Alexander, Moscoso, Bergquist, Santos, and Freeman

Read first time 02/18/13. Referred to Committee on Appropriations.

1       AN ACT Relating to membership in the Washington public safety  
2 employees' retirement system for employees at city and county  
3 corrections departments, public corrections entities, the department of  
4 corrections, and the department of social and health services who  
5 provide direct care to, or ensure the custody and safety of, offender  
6 and patient populations; amending RCW 41.37.010; adding a new section  
7 to chapter 41.37 RCW; and creating a new section.

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

9       **Sec. 1.** RCW 41.37.010 and 2012 c 236 s 5 are each amended to read  
10 as follows:

11       The definitions in this section apply throughout this chapter,  
12 unless the context clearly requires otherwise.

13       (1) "Accumulated contributions" means the sum of all contributions  
14 standing to the credit of a member in the member's individual account,  
15 including any amount paid under RCW 41.50.165(2), together with the  
16 regular interest thereon.

17       (2) "Actuarial equivalent" means a benefit of equal value when  
18 computed upon the basis of such mortality and other tables as may be  
19 adopted by the director.

1 (3) "Adjustment ratio" means the value of index A divided by index  
2 B.

3 (4) "Annuity" means payments for life derived from accumulated  
4 contributions of a member. All annuities shall be paid in monthly  
5 installments.

6 (5)(a) "Average final compensation" means the member's average  
7 compensation earnable of the highest consecutive sixty months of  
8 service credit months prior to such member's retirement, termination,  
9 or death. Periods constituting authorized leaves of absence may not be  
10 used in the calculation of average final compensation except under RCW  
11 41.37.290.

12 (b) In calculating average final compensation under (a) of this  
13 subsection, the department of retirement systems shall include:

14 (i) Any compensation forgone by a member employed by a state agency  
15 or institution during the 2009-2011 fiscal biennium as a result of  
16 reduced work hours, mandatory or voluntary leave without pay, temporary  
17 reduction in pay implemented prior to December 11, 2010, or temporary  
18 layoffs if the reduced compensation is an integral part of the  
19 employer's expenditure reduction efforts, as certified by the employer;  
20 and

21 (ii) Any compensation forgone by a member employed by the state or  
22 a local government employer during the 2011-2013 fiscal biennium as a  
23 result of reduced work hours, mandatory leave without pay, temporary  
24 layoffs, or reductions to current pay if the reduced compensation is an  
25 integral part of the employer's expenditure reduction efforts, as  
26 certified by the employer. Reductions to current pay shall not include  
27 elimination of previously agreed upon future salary increases.

28 (6) "Beneficiary" means any person in receipt of a retirement  
29 allowance or other benefit provided by this chapter resulting from  
30 service rendered to an employer by another person.

31 (7)(a) "Compensation earnable" for members, means salaries or wages  
32 earned by a member during a payroll period for personal services,  
33 including overtime payments, and shall include wages and salaries  
34 deferred under provisions established pursuant to sections 403(b),  
35 414(h), and 457 of the United States internal revenue code, but shall  
36 exclude nonmoney maintenance compensation and lump sum or other  
37 payments for deferred annual sick leave, unused accumulated vacation,  
38 unused accumulated annual leave, or any form of severance pay.

1 (b) "Compensation earnable" for members also includes the following  
2 actual or imputed payments, which are not paid for personal services:

3 (i) Retroactive payments to an individual by an employer on  
4 reinstatement of the employee in a position, or payments by an employer  
5 to an individual in lieu of reinstatement, which are awarded or granted  
6 as the equivalent of the salary or wage which the individual would have  
7 earned during a payroll period shall be considered compensation  
8 earnable to the extent provided in this subsection, and the individual  
9 shall receive the equivalent service credit;

10 (ii) In any year in which a member serves in the legislature, the  
11 member shall have the option of having such member's compensation  
12 earnable be the greater of:

13 (A) The compensation earnable the member would have received had  
14 such member not served in the legislature; or

15 (B) Such member's actual compensation earnable received for  
16 nonlegislative public employment and legislative service combined. Any  
17 additional contributions to the retirement system required because  
18 compensation earnable under (b)(ii)(A) of this subsection is greater  
19 than compensation earnable under (b)(ii)(B) of this subsection shall be  
20 paid by the member for both member and employer contributions;

21 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,  
22 and 72.09.240;

23 (iv) Compensation that a member would have received but for a  
24 disability occurring in the line of duty only as authorized by RCW  
25 41.37.060;

26 (v) Compensation that a member receives due to participation in the  
27 leave sharing program only as authorized by RCW 41.04.650 through  
28 41.04.670; and

29 (vi) Compensation that a member receives for being in standby  
30 status. For the purposes of this section, a member is in standby  
31 status when not being paid for time actually worked and the employer  
32 requires the member to be prepared to report immediately for work, if  
33 the need arises, although the need may not arise.

34 (8) "Department" means the department of retirement systems created  
35 in chapter 41.50 RCW.

36 (9) "Director" means the director of the department.

37 (10) "Eligible position" means any permanent, full-time position  
38 included in subsection (19) of this section.

1 (11) "Employee" or "employed" means a person who is providing  
2 services for compensation to an employer, unless the person is free  
3 from the employer's direction and control over the performance of work.  
4 The department shall adopt rules and interpret this subsection  
5 consistent with common law.

6 (12) "Employer" means the Washington state department of  
7 corrections, the Washington state parks and recreation commission, the  
8 Washington state gambling commission, the Washington state patrol, the  
9 Washington state department of natural resources, ((and)) the  
10 Washington state liquor control board, and the Washington state  
11 department of social and health services; any county corrections  
12 department; any city corrections department not covered under chapter  
13 41.28 RCW; and any public corrections entity created under RCW  
14 39.34.030 by counties, cities not covered under chapter 41.28 RCW, or  
15 both. Except as otherwise specifically provided in this chapter,  
16 "employer" does not include a government contractor. For purposes of  
17 this subsection, a "government contractor" is any entity, including a  
18 partnership, limited liability company, for-profit or nonprofit  
19 corporation, or person, that provides services pursuant to a contract  
20 with an employer. The determination whether an employer-employee  
21 relationship has been established is not based on the relationship  
22 between a government contractor and an employer, but is based solely on  
23 the relationship between a government contractor's employee and an  
24 employer under this chapter.

25 (13) "Final compensation" means the annual rate of compensation  
26 earnable by a member at the time of termination of employment.

27 (14) "Index" means, for any calendar year, that year's annual  
28 average consumer price index, Seattle, Washington area, for urban wage  
29 earners and clerical workers, all items, compiled by the bureau of  
30 labor statistics, United States department of labor.

31 (15) "Index A" means the index for the year prior to the  
32 determination of a postretirement adjustment.

33 (16) "Index B" means the index for the year prior to index A.

34 (17) "Ineligible position" means any position which does not  
35 conform with the requirements set forth in subsection (10) of this  
36 section.

37 (18) "Leave of absence" means the period of time a member is

1 authorized by the employer to be absent from service without being  
2 separated from membership.

3 (19) "Member" means any employee employed by an employer on a full-  
4 time basis:

5 (a) Who is in a position that requires completion of a certified  
6 criminal justice training course and is authorized by their employer to  
7 arrest, conduct criminal investigations, enforce the criminal laws of  
8 the state of Washington, and carry a firearm as part of the job;

9 (b) Whose primary responsibility is to ensure the custody and  
10 security of incarcerated or probationary individuals as a corrections  
11 officer, probation officer, or jailer;

12 (c) Who is a limited authority Washington peace officer, as defined  
13 in RCW 10.93.020, for an employer; ((~~or~~))

14 (d) Whose primary responsibility is to provide direct care to, or  
15 ensure the custody and safety of, offender and patient populations, and  
16 who is in a position that requires completion of defensive tactics  
17 training or de-escalation training, and who is employed by one of the  
18 following state institutions or centers:

19 (i) Juvenile rehabilitation administration;

20 (ii) Mental health hospitals;

21 (iii) Child study and treatment center;

22 (iv) Special commitment center;

23 (v) Institutions or residential sites that serve developmentally  
24 disabled patients or offenders;

25 (e) Whose primary responsibility is to provide direct care to, or  
26 ensure the custody and safety of, offender and patient populations, and  
27 who is employed by a city or county corrections department as set forth  
28 in subsection (12) of this section, a public corrections entity as set  
29 forth in subsection (12) of this section, or the Washington state  
30 department of corrections; or

31 (f) Whose primary responsibility is to supervise members eligible  
32 under this subsection.

33 (20) "Membership service" means all service rendered as a member.

34 (21) "Pension" means payments for life derived from contributions  
35 made by the employer. All pensions shall be paid in monthly  
36 installments.

37 (22) "Plan" means the Washington public safety employees'  
38 retirement system plan 2.

1 (23) "Regular interest" means such rate as the director may  
2 determine.

3 (24) "Retiree" means any person who has begun accruing a retirement  
4 allowance or other benefit provided by this chapter resulting from  
5 service rendered to an employer while a member.

6 (25) "Retirement" means withdrawal from active service with a  
7 retirement allowance as provided by this chapter.

8 (26) "Retirement allowance" means monthly payments to a retiree or  
9 beneficiary as provided in this chapter.

10 (27) "Retirement system" means the Washington public safety  
11 employees' retirement system provided for in this chapter.

12 (28) "Separation from service" occurs when a person has terminated  
13 all employment with an employer.

14 (29) "Service" means periods of employment by a member on or after  
15 July 1, 2006, for one or more employers for which compensation earnable  
16 is paid. Compensation earnable earned for ninety or more hours in any  
17 calendar month shall constitute one service credit month. Compensation  
18 earnable earned for at least seventy hours but less than ninety hours  
19 in any calendar month shall constitute one-half service credit month of  
20 service. Compensation earnable earned for less than seventy hours in  
21 any calendar month shall constitute one-quarter service credit month of  
22 service. Time spent in standby status, whether compensated or not, is  
23 not service.

24 Any fraction of a year of service shall be taken into account in  
25 the computation of such retirement allowance or benefits.

26 (a) Service in any state elective position shall be deemed to be  
27 full-time service.

28 (b) A member shall receive a total of not more than twelve service  
29 credit months of service for such calendar year. If an individual is  
30 employed in an eligible position by one or more employers the  
31 individual shall receive no more than one service credit month during  
32 any calendar month in which multiple service for ninety or more hours  
33 is rendered.

34 (30) "Service credit month" means a month or an accumulation of  
35 months of service credit which is equal to one.

36 (31) "Service credit year" means an accumulation of months of  
37 service credit which is equal to one when divided by twelve.

1 (32) "State actuary" or "actuary" means the person appointed  
2 pursuant to RCW 44.44.010(2).

3 (33) "State elective position" means any position held by any  
4 person elected or appointed to statewide office or elected or appointed  
5 as a member of the legislature.

6 (34) "State treasurer" means the treasurer of the state of  
7 Washington.

8 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.37 RCW  
9 to read as follows:

10 (1) An employee of an employer as defined in RCW 41.37.010(12) who  
11 was a member of the public employees' retirement system plan 2 or plan  
12 3 before January 1, 2014, and on January 1, 2014, meets the eligibility  
13 requirements as set forth in RCW 41.37.010(19), has the following  
14 options during the election period defined in subsection (2) of this  
15 section:

- 16 (a) Remain in the public employees' retirement system; or
- 17 (b) Become a member of the public safety employees' retirement  
18 system plan 2 and, be a dual member as provided in chapter 41.54 RCW,  
19 and public employees' retirement system service credit may not be  
20 transferred to the public safety employees' retirement system.

21 (2) The "election period" is the period between January 1, 2014,  
22 and March 1, 2014.

23 (3) A member of the public employees' retirement system plan 2 or  
24 plan 3 who has previously had the opportunity to transfer to the public  
25 safety employees' retirement system is not eligible to become a member  
26 of the public safety employees' retirement system during the election  
27 period.

28 (4) During the election period, employees who are employed by an  
29 employer as defined in RCW 41.37.010(12) remain members of the public  
30 employees' retirement system plan 2 or plan 3, until they elect to join  
31 the public safety employees' retirement system. Members who elect to  
32 join the public safety employees' retirement system as described in  
33 this section will have their membership begin prospectively from the  
34 date of their election.

35 (5) If after March 1, 2014, the member has not made an election to  
36 join the public safety employees' retirement system he or she will  
37 remain in the public employees' retirement system plan 2 or plan 3.

1 (6) An employee who was a member of the public employees'  
2 retirement system plan 1 on or before January 1, 2014, and on or after  
3 January 1, 2014, is employed by an employer as defined in RCW  
4 41.37.010(12) as an employee who meets the eligibility requirements  
5 included in RCW 41.37.010(19), shall remain a member of the public  
6 employees' retirement system plan 1.

7 (7) All new employees hired on or after January 1, 2014, who become  
8 employed by an employer as defined in RCW 41.37.010(12) as an employee  
9 who meets the eligibility requirements included in RCW 41.37.010(19)  
10 will become members of the public safety employees' retirement system.

11 NEW SECTION. **Sec. 3.** The state actuary, with the assistance of  
12 the department of retirement systems, shall study the change in the  
13 covered employers and members of the public safety employees'  
14 retirement system between the plan's inception and current law  
15 including this act. The study shall assess how the policy objectives  
16 that drove the creation of the public safety employees' retirement  
17 system may have been altered through the legislative changes made since  
18 the inception of the plan. The state actuary shall report the findings  
19 of the study to the relevant fiscal committees of the legislature and  
20 the select committee on pension policy no later than December 1, 2013.

--- END ---

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## SUMMARY OF RESULTS

This bill expands future membership in PSERS and allows eligible employees at the DSHS, DOC, city and county corrections departments, and public corrections entities to transfer from PERS to PSERS.

This updated draft fiscal note replaces our fiscal note for the engrossed version of the bill from the 2013 Session. That bill had an implementation date of January 1, 2014. We assumed an implementation date of January 1, 2015, for this updated version.

Impact on Contribution Rates (Effective 09/01/2014)		
Fiscal Year 2015 State Budget	PERS	PSERS
Employee (Plan 2)	0.00%	0.42%
Total Employer	0.00%	0.42%

Budget Impacts			
(Dollars in Millions)	2014-2015	2015-2017	25-Year
General Fund-State	\$1.6	\$4.0	\$80.1
Local Government	\$0.3	(\$0.4)	(\$1.6)
Total Employer	\$2.5	\$4.7	\$115.4

*Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## HIGHLIGHTS OF ACTUARIAL ANALYSIS

We expect at least a 25-year total employer cost of \$115 million (at least \$80 million from the state general fund) as a result of this bill. This estimated cost excludes impacts from affected local government employees due to lack of data for this covered group.

The costs shown above include three components: (1) the estimated impact on PERS and PSERS for all system employers, (2) the estimated budget impacts for DSHS and DOC from the difference between projected PERS and PSERS employer contribution rates for the current employees assumed to transfer under the bill, and (3) the estimated budget impacts for DSHS and DOC from new entrants (or members who replace the members who are eligible to transfer) who become PSERS members under this bill. Please see **Appendix A – Budget Impact Details** for the separate fiscal costs for the three components of this bill.

In reviewing the sensitivity of the cost of the bill to the assumed transfer rate, we found that the third component above drives the majority of the 25-year impact. For example, if no current members transfer, the estimated 25-year total employer cost would fall from \$115 to \$98 million (the estimated 25-year cost from the state general fund would fall from \$80 to \$61 million).

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

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## WHAT IS THE PROPOSED CHANGE?

### Summary Of Benefit Improvement

This bill impacts the following systems:

- ❖ Public Employees' Retirement System Plans 2/3 (PERS 2/3).
- ❖ Public Safety Employees' Retirement System Plan 2 (PSERS).

This bill expands PSERS membership by allowing employees who meet certain eligibility criteria and who are employed by one of the following employers to transfer from PERS 2/3 to PSERS.

- ❖ Department of Social and Health Services (DSHS).
- ❖ Department of Corrections (DOC).
- ❖ City and county corrections departments.
- ❖ Public corrections entities.

Under this bill, DSHS is added to the statutory list of PSERS employers. Employees at DSHS are eligible to transfer during the optional election period if they meet the following criteria.

- ❖ Primary responsibility to provide direct care to, or ensure the custody and safety of, offender and patient populations.
- ❖ In a position that requires the completion of defensive tactics or de-escalation training.
- ❖ Employed by one of the following state institutions or centers: Juvenile Rehabilitation Administration, mental health hospitals, Child Study and Treatment Center, Special Commitment Center, or an institution or residential site that serves developmentally disabled patients or offenders.
- ❖ Supervise eligible members that meet the above criteria.

Employees who are employed by city or county corrections departments, public corrections entities, or DOC must meet the following criteria to be eligible for transfer during the optional election period.

- ❖ Primary responsibility to provide direct care to, or ensure the custody and safety of, offender and patient populations.
- ❖ Supervise eligible members that meet the above criteria.

All employees who meet the eligibility requirements above are allowed to transfer from PERS 2/3 to PSERS. If an employee elects to transfer they will become a dual member and no PERS service credit may be transferred. If a PERS member has had the opportunity to transfer to PSERS previously they are not allowed to transfer during the election period.

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

All eligible new employees hired on or after the implementation date will automatically become members of PSERS.

The implementation date in EHB 1923 is January 1, 2014, with an optional transfer window between January 1, 2014, and March 1, 2014. However, for the purpose of this draft fiscal note, we have assumed an updated implementation date of January 1, 2015, with an optional transfer window between January 1, 2015 and March 1, 2015.

The engrossed version of the bill requires the Office of the State Actuary to study the change in covered employers and members of PSERS since the system's inception. The addition of this study is beyond the scope of the actuarial analysis presented in this fiscal note.

Assumed Effective Date: 90 days after session.

## What Is The Current Situation?

PSERS was established in 2006 for public safety type positions and is generally comprised of corrections officers and limited authority law enforcement officers.

DSHS is not currently included in the statutory list of PSERS employers. However, city and county corrections departments, public corrections entities, and DOC are currently included. DSHS employees and employees of correctional facilities who provide direct care to offender and patient populations are generally members of PERS 2/3.

PERS employees have a normal retirement age of 65 with five years of service in Plan 2 or 65 with up to ten years of service (depending on hire age) in Plan 3. Early retirement eligibility begins at age 55 with 20 years of service for Plan 2 members or age 55 with ten years of service for Plan 3 and is subject to certain reduction factors.

PSERS generally has earlier normal retirement benefits and higher disability benefits than PERS 2/3. Normal retirement age in PSERS is 65 with five years of total service or 60 with ten years of PSERS service. Early retirement eligibility begins at age 53 with 20 years of total service and is subject to certain reduction factors. Disability benefits equal the accrued benefit, actuarially reduced from age 60 (age 65 in PERS 2/3).

Current PSERS membership eligibility requirements include:

- ❖ Certified criminal justice training with authority to arrest, conduct criminal investigations, enforce criminal laws of Washington, and carry a firearm as part of the job; or
- ❖ Ensure the custody and security of incarcerated or probationary individuals; or
- ❖ Function as a Peace Officer; or
- ❖ Supervise eligible members that meet the above criteria.

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## Who Is Impacted And How?

We received data for 3,606 potentially eligible employees in DSHS. Of those, we found 3,074 eligible employees in our valuation data. We then identified 2,201 active members in PERS 2/3 who could benefit, at least in part, by a prospective transfer to PSERS.

We also received data for 977 potentially eligible employees in DOC. Of those, we found 775 eligible employees in our valuation data. We then identified 516 active members in PERS 2/3 who could benefit, at least in part, by a prospective transfer to PSERS.

We have not received reliable data from county or municipal corrections agencies at this time; this draft fiscal note does not include an expected cost for those employees.

PSERS provides more valuable benefits than PERS 2/3 in terms of retirement eligibility and unreduced benefits at an earlier age. This bill would benefit a typical member by making at least part of their retirement benefit available earlier than under current law, resulting in a higher lifetime retirement benefit for that member.

For example, a future PERS 2 member who enters at age 30 could retire as early as age 55 in PERS under current law, with a total of 25 years of service at retirement. The benefit would be actuarially reduced to recognize retirement before age 65. If the member's Average Final Compensation (AFC) is \$50,000, their retirement benefit would be as follows.

$$\$50,000 \times 25 \times 2\% \times 0.365 = \$9,125 \text{ per year}$$

The same future member who starts service in PSERS could retire as early age 53, with a more favorable early retirement factor. To keep this example consistent, the PSERS retirement benefit at age 55 with 25 years of service is calculated as follows.

$$\$50,000 \times 25 \times 2\% \times 0.85 = \$21,250 \text{ per year}$$

Current members who transfer to PSERS can also benefit from improved PSERS benefits on the service they earn in PSERS after the transfer. Members who plan to retire soon after the transfer would benefit less relative to those members who might retire years later.

This bill impacts all PSERS 2 members through increased contribution rates. The bill also impacts all PERS 2 members through decreased contribution rates. This bill will not affect member contribution rates in PERS 1 since they are fixed in statute. Additionally, this bill will not affect member contribution rates in PERS 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

Please see the **Special Data Needed** section of this draft fiscal note for more details.

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

### Why This Bill Has A Cost

We expect the bill will have an impact on all Plan 2 members and all employers in PERS and PSERS plus an additional impact on employers who employ affected current members and affected new entrants for the following reasons.

- ❖ **PERS Impact:** A savings due to an experience gain from the members who transfer from PERS to PSERS resulting in lower future benefits in PERS than expected under current law.
- ❖ **PSERS Impact:** A cost due to adding members to PSERS who are more expensive than the current covered population.
- ❖ **Affected Employers Impact:** A cost or savings depending on the time period equal to the difference between projected employer contribution rates in PERS and PSERS for (a) their employees who transfer under the bill and for (b) their affected new hires in the future. Please see the **How We Applied These Assumptions** section for further details.

### Who Will Pay For These Costs?

The costs/savings to the affected retirement systems that result from this bill will be divided between members and employers according to standard funding methods that vary by plan.

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

## HOW WE VALUED THESE COSTS

### Assumptions We Made

Because the bill allows eligible members to transfer prospectively from PERS to PSERS, we needed to make an assumption of who would transfer to price this bill. We used our actuarial valuation model to inform this assumption.

Using our valuation model, we identified all members who could benefit under this bill. In other words, we identified all members who had a larger future liability in PSERS than under PERS. Of this group, we assumed all members currently under the age of 55 would transfer from PERS to PSERS.

This resulted in the assumed transfer rates displayed in the following table.

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

	Eligible For Transfer	Assumed Number Of Transfers	Transfer Rate
DSHS	3,074	2,201	72%
DOC	775	516	67%
Total	3,849	2,717	71%

Please see **How The Results Change When We Make Different Assumptions** for information on how the result change when we assume different transfer rates.

For purposes of this pricing, we further assumed that the demographic profile of future new entrants in PERS and PSERS would not change as a result of this bill.

Otherwise, we developed these costs using the same assumptions as disclosed in the [June 30, 2012, Actuarial Valuation Report](#) (AVR).

## How We Applied These Assumptions

To find the costs of this bill, we changed the PERS records for members we assumed would transfer by switching them from active status to inactive status and recalculating their PERS liabilities, assuming all members would become vested for retirement purposes in the future if they were not already vested in PERS. Next, we created new active status records for the same members in PSERS and calculated the additional liabilities. These active records showed no beginning service or accumulated contributions in PSERS, but included their past PERS service for benefit eligibility purposes.

Using the resulting cost differences from the method described above, we found constant, or static, contribution rate differences for PERS and PSERS. This method identified the estimated impact to PERS and PSERS described in the **Why This Bill Has A Cost** section.

To identify the estimated impact to affected employers for their employees who are expected to transfer under the bill and for the affected new hires in the future, we applied the projected PERS and PSERS employer contribution rates (under current law) to projected payroll for the affected members.

We expect the difference between PSERS and PERS contribution rates to decrease in the near future (PERS rates are expected to be higher than PSERS for four years) and then increase thereafter, ultimately ending in a larger difference than currently exists. The table below shows the varying contribution rates.

## Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

Expected Difference Between PSERS and PERS Employer Contribution Rates			
Year		Year	
2015	1.33%	2028	0.86%
2016	0.64%	2029	0.86%
2017	0.64%	2030	1.09%
2018	(0.27%)	2031	1.09%
2019	(0.27%)	2032	1.30%
2020	(0.29%)	2033	1.30%
2021	(0.28%)	2034	1.49%
2022	0.02%	2035	1.49%
2023	0.02%	2036	1.68%
2024	0.33%	2037	1.68%
2025	0.33%	2038	1.85%
2026	0.61%	2039	1.85%
2027	0.61%		

Otherwise, we developed these costs using the same methods as disclosed in the AVR.

### Special Data Needed

The Department of Retirement Systems (DRS) provided us with the member data we used for this pricing. We checked the data for reasonableness. An audit of this data was not performed. We relied on all data provided by DRS as complete and accurate. In our opinion, the data is reasonable, adequate, and substantially complete for the purposes of this pricing.

We relied on data from DRS about employees of DSHS and DOC who are potentially eligible for transfer to PSERS. We matched the data provided by DRS with our valuation data. We found 3,849 DRS records for active members (3,074 DSHS and 775 DOC) that matched our valuation data. These members represented “all potential transfers” under this bill.

We eliminated members we thought would not transfer under this bill. Please see **Assumptions We Made** for more details. Under this bill, we expect 2,717 active PERS members to transfer to PSERS. Beyond those actions, we did not audit the data for accuracy. It is possible that some of the members identified in the data will not actually qualify for transfer to PSERS, but we are unable to identify them. The table below shows some general information about the records we used for this pricing, along with similar information from PERS and PSERS.

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

Active Membership					
				Average	
	Count	Age	Service	Annual Salary	Accumulated Savings
<b>PERS 2/3</b>	143,955	47.42	11.76	\$56,911	\$26,941
<b>PSERS</b>	4,250	40.09	8.52*	\$55,999	\$17,993
<b>Data for Bill (Best Estimate)</b>	2,717	41.63	9.91	\$44,368	\$17,144
<b>DSHS only</b>	2,201	41.52	10.45	\$41,325	\$17,645
<b>DOC only</b>	516	42.10	7.59	\$57,351	\$15,006
<b>All Potential Transfers</b>	3,849	46.98	11.70	\$45,893	\$22,659

*\*Includes 4.35 years of service in PSERS and 4.17 years of service from PERS. PERS service may be used for retirement eligibility.*

We have not received reliable data from county or municipal corrections agencies at this time, so we have not included best-estimate costs for them in this fiscal note.

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR. In addition, we recognized investment returns of 12.36 percent through June 30, 2013, when estimating projected asset values.

## ACTUARIAL RESULTS

### How The Liabilities Changed

If all of the expected DSHS and DOC employees we identified above transferred from PERS to PSERS, this bill would impact the actuarial funding of PERS and PSERS by increasing/(decreasing) the Present Value of Future Benefits (PVFB) payable under the systems as shown below.

Impact on Pension Liability – Current Employees Only			
<i>(Dollars in Millions)</i>	Current	Increase	Total
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 2/3	\$28,796.5	(126.2)	\$28,670.3
<b>PSERS 2</b>	<b>\$488.1</b>	<b>\$181.7</b>	<b>\$669.8</b>
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)*</i>			
<b>PERS 1</b>	<b>\$3,725.1</b>	<b>\$0.0</b>	<b>\$3,725.1</b>
<b>Unfunded Projected Unit Credit Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
PERS 2/3	(\$2,306.0)	\$15.3	(\$2,290.7)
<b>PSERS 2</b>	<b>(\$45.4)</b>	<b>\$0.1</b>	<b>(\$45.3)</b>

*Note: Totals may not agree due to rounding.*

*\* PERS 1 is amortized over a ten-year period.*

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## How The Present Value of Future Salaries (PVFS) Changed

If all of the expected DSHS and DOC employees we identified above transferred from PERS to PSERS, this bill would impact the actuarial funding of PERS and PSERS by increasing/(decreasing) the PVFS of the members of the systems as shown below.

Present Value of Future Salaries – Current Employees Only			
(Dollars in Millions)	Current	Increase	Total
<b>Actuarial Present Value of Future Salaries</b>			
<i>(The Value of the Future Salaries Expected to be Paid to Current Members)</i>			
PERS 2	\$55,979.3	(\$983.5)	\$54,995.8
PERS 3	\$14,017.8	(308.7)	\$13,709.1
<b>PERS 2/3</b>	<b>\$69,997.2</b>	<b>(\$1,292.2)</b>	<b>\$68,704.9</b>
<b>PSERS 2</b>	<b>\$2,531.9</b>	<b>\$1,235.8</b>	<b>\$3,767.7</b>

*Note: Totals may not agree due to rounding.*

## How Contribution Rates Changed

The rounded increase/(decrease) in the required actuarial contribution rate results in the supplemental contribution rate for PSERS shown on page one that applies in the current biennium. We will use the un-rounded rate increase/(decrease) shown below to measure the budget changes in future biennia.

The change in PERS contribution rates does not result in a supplemental contribution rate because the bill does not provide a benefit improvement in PERS. The rate decrease in PERS occurs because of an experience gain due to assumed transfers from PERS to PSERS under this bill. As such, we excluded the change in PERS contribution rate from the 2014-15 Fiscal Year and applied the decrease in PERS contribution rates to subsequent biennia to measure future budget changes.

## Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

Impact on Contribution Rates (Effective 09/01/2014 for PSERS) Current Employees Only		
System/Plan	PERS	PSERS
<b>Current Members</b>		
Employee (Plan 2)	(0.013%)	0.419%
<b>Employer</b>		
Normal Cost	(0.013%)	0.419%
Plan 1 UAAL	0.000%	0.000%
<b>Total</b>	<b>(0.013%)</b>	<b>0.419%</b>

### How This Impacts Budgets And Employees

If all of the expected DSHS and DOC employees we identified above transferred from PERS to PSERS, this bill would impact future budgets as shown below.

The budget impacts shown include additional compensation/benefit budget impacts on employers of transferring members. Please see **Appendix A – Budget Impact Details** for a separate listing of these impacts.

## Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

Budget Impacts			
(Dollars in Millions)	PERS	PSERS	Total
<b>2014-2015</b>			
General Fund	(\$2.0)	\$3.6	\$1.6
Non-General Fund	(1.2)	1.8	0.6
<b>Total State</b>	<b>(\$3.2)</b>	<b>\$5.4</b>	<b>\$2.2</b>
Local Government	0.0	0.3	0.3
<b>Total Employer</b>	<b>(\$3.2)</b>	<b>\$5.7</b>	<b>\$2.5</b>
<b>Total Employee</b>	<b>(\$2.4)</b>	<b>\$5.7</b>	<b>\$3.4</b>
<b>2015-2017</b>			
General Fund	(\$12.5)	\$16.5	\$4.0
Non-General Fund	(8.0)	9.1	1.1
<b>Total State</b>	<b>(\$20.4)</b>	<b>\$25.5</b>	<b>\$5.1</b>
Local Government	(1.1)	0.7	(0.4)
<b>Total Employer</b>	<b>(\$21.5)</b>	<b>\$26.2</b>	<b>\$4.7</b>
<b>Total Employee</b>	<b>(\$15.8)</b>	<b>\$26.2</b>	<b>\$10.3</b>
<b>2014-2039</b>			
General Fund	(\$286.8)	\$367.0	\$80.1
Non-General Fund	(177.1)	213.9	36.9
<b>Total State</b>	<b>(\$463.9)</b>	<b>\$580.9</b>	<b>\$117.0</b>
Local Government	(8.1)	6.4	(1.6)
<b>Total Employer</b>	<b>(\$472.0)</b>	<b>\$587.3</b>	<b>\$115.4</b>
<b>Total Employee</b>	<b>(\$327.5)</b>	<b>\$587.3</b>	<b>\$259.9</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

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.

### How the Risk Measures Changed

We have not analyzed this bill using the risk assessment model.

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## How the Results Change When We Make Different Assumptions

The cost of the bill is sensitive to number of people who actually transfer from PERS to PSERS, their age, and their salary. To demonstrate this, we varied the transfer assumption from our best-estimate pricing as follows:

- ❖ **No Transfers** – we assumed no transfers from PERS to PSERS under this bill.
- ❖ **Twenty-Five Percent Most Expensive** – we assumed only 25 percent of the most expensive eligible members would transfer.
- ❖ **Fifty Percent Most Expensive** – we assumed only 50 percent of the most expensive eligible members would transfer.

Under this bill, the members with the largest impacts on liability and future plan salary typically entered the PERS system at a younger age and also have higher salaries relative to the entire population eligible to transfer. The affected members who entered PERS at a younger age will be more likely to take advantage of early retirement in PSERS.

How Results Change When We Assume Different Transfers				
<i>(Dollars in Millions)</i>	No Transfers	25% Most Expensive	50% Most Expensive	Best Estimate
<b>Number of Current Members Impacted</b>				
Number of Transfers	0	962	1,925	2,717
<b>2014-15 Budget Impacts</b>				
GF-S	\$0	\$1	\$1	\$2
Total Employer	\$0	\$1	\$2	\$3
<b>2015-17 Budget Impacts</b>				
GF-S	\$1	\$3	\$4	\$4
Total Employer	\$2	\$4	\$4	\$5
<b>25-Year Budget Impacts</b>				
GF-S	\$61	\$70	\$77	\$80
Total Employer	\$98	\$108	\$113	\$115

Overall, we found the 25-year budget impact is not that sensitive to the transfer assumption. This occurs because the budget impact for assumed new entrants (including replacements of current members assumed not to transfer) drives the majority of the long-term budget impact as shown in the table below. The transfer assumption does not change this component of the cost (component 3 below) because new entrants in positions covered under this bill must join PSERS (no transfer option).

## Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

How Results Change When We Assume Different Transfers				
(Dollars in Millions)	No Transfers	25% Most Expensive	50% Most Expensive	Best Estimate
<b>1. 25-Year Budget Impact – All Employers in PERS and PSERS</b>				
GF-S	-	\$9	\$16	\$17
Total Employer	-	\$10	\$14	\$14
<b>2. 25-Year Budget Impact – Employers of Assumed Transferring Members</b>				
GF-S	-	(\$0)	\$1	\$2
Total Employer	-	(\$1)	\$1	\$3
<b>3. 25-Year Budget Impact – Employers of Assumed New Entrants</b>				
GF-S	\$61	\$61	\$61	\$61
Total Employer	\$98	\$98	\$98	\$98
<b>25-Year Budget Impact - All Components (1 + 2 + 3)</b>				
GF-S	\$61	\$70	\$77	\$80
Total Employer	\$98	\$108	\$113	\$115

DRAFT

# **Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session**

## **WHAT THE READER SHOULD KNOW**

The Office of the State Actuary (“we”) prepared this draft fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this draft fiscal note to be used by the Select Committee on Pension Policy during the 2013 Interim 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 draft 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.

DRAFT

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## 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. The data excludes affected local government employees.
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 during the 2013 Legislative Interim.
6. Because of missing or insufficient data on affected members, this fiscal note provides estimated impacts for affected DSHS and DOC employees only. Please do not use this fiscal note as an estimate of the impacts from affected local government employees.
7. We prepared this draft 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 extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA  
State Actuary

O:\Fiscal Notes\2014\Draft\1923\_EHB\_Revised.docx

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## APPENDIX A – BUDGET IMPACT DETAILS

As described in the **Why This Bill Has A Cost** section, we expect the bill will have an impact on all Plan 2 members and all employers in PERS and PSERS plus an additional impact on employers who employ affected current members and affected new entrants.

We break out the impacts (from the total impacts) on all employers in PERS and PSERS in the following table.

<b>Budget Impacts - Retirement System Changes</b>			
<b>All Employers in PERS and PSERS</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2014-2015</b>			
General Fund	\$0.0	\$1.0	\$1.0
Non-General Fund	0.0	0.2	0.2
<b>Total State</b>	<b>\$0.0</b>	<b>\$1.1</b>	<b>\$1.1</b>
Local Government	0.0	0.3	0.3
<b>Total Employer</b>	<b>\$0.0</b>	<b>\$1.5</b>	<b>\$1.5</b>
<b>2015-2017</b>			
General Fund	(\$0.4)	\$2.1	\$1.7
Non-General Fund	(0.6)	0.3	(0.3)
<b>Total State</b>	<b>(\$1.0)</b>	<b>\$2.5</b>	<b>\$1.5</b>
Local Government	(1.1)	0.7	(0.4)
<b>Total Employer</b>	<b>(\$2.0)</b>	<b>\$3.1</b>	<b>\$1.1</b>
<b>2014-2039</b>			
General Fund	(\$2.9)	\$20.3	\$17.3
Non-General Fund	(4.6)	3.3	(1.3)
<b>Total State</b>	<b>(\$7.5)</b>	<b>\$23.6</b>	<b>\$16.0</b>
Local Government	(8.1)	6.4	(1.6)
<b>Total Employer</b>	<b>(\$15.6)</b>	<b>\$30.0</b>	<b>\$14.4</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

We break out the impacts (from the total impacts) on employers of assumed transferring current members in the following table. For this table, we assumed 100 percent of DOC's funding comes from the General Fund and 50 percent of DSHS' funding comes from the General Fund.

<b>Budget Impacts</b>			
<b>Employers of Assumed Transferring Members</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2014-2015</b>			
General Fund	(\$1.6)	\$2.1	\$0.4
Non-General Fund	(1.0)	1.3	0.3
<b>Total State</b>	<b>(\$2.6)</b>	<b>\$3.3</b>	<b>\$0.7</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$2.6)</b>	<b>\$3.3</b>	<b>\$0.7</b>
<b>2015-2017</b>			
General Fund	(\$8.9)	\$9.8	\$1.0
Non-General Fund	(5.4)	6.0	0.6
<b>Total State</b>	<b>(\$14.2)</b>	<b>\$15.8</b>	<b>\$1.6</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$14.2)</b>	<b>\$15.8</b>	<b>\$1.6</b>
<b>2014-2039</b>			
General Fund	(\$85.8)	\$87.5	\$1.7
Non-General Fund	(52.1)	53.2	1.0
<b>Total State</b>	<b>(\$138.0)</b>	<b>\$140.7</b>	<b>\$2.7</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$138.0)</b>	<b>\$140.7</b>	<b>\$2.7</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

We break out the impacts (from the total impacts) on employers of assumed impacted future entrants in the following table. For this table, we assumed 100 percent of DOC's funding comes from the General Fund and 50 percent of DSHS' funding comes from the General Fund.

<b>Budget Impacts</b>			
<b>Employers of Assumed New Entrants</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2014-2015</b>			
General Fund	(\$0.3)	\$0.6	\$0.2
Non-General Fund	(0.2)	0.3	0.1
<b>Total State</b>	<b>(\$0.6)</b>	<b>\$0.9</b>	<b>\$0.4</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$0.6)</b>	<b>\$0.9</b>	<b>\$0.4</b>
<b>2015-2017</b>			
General Fund	(\$3.3)	\$4.5	\$1.2
Non-General Fund	(2.0)	2.7	0.8
<b>Total State</b>	<b>(\$5.2)</b>	<b>\$7.2</b>	<b>\$2.0</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$5.2)</b>	<b>\$7.2</b>	<b>\$2.0</b>
<b>2014-2039</b>			
General Fund	(\$198.1)	\$259.2	\$61.1
Non-General Fund	(120.3)	157.5	37.1
<b>Total State</b>	<b>(\$318.4)</b>	<b>\$416.7</b>	<b>\$98.3</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$318.4)</b>	<b>\$416.7</b>	<b>\$98.3</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## APPENDIX B – DATA AND RESULTS BY AGENCY

The analysis presented in the main body of this fiscal note combined results for DSHS and DOC. The tables below show similar information for the two agencies separately.

### Participant Data

Please see **Special Data Needed** section for more details.

### How The Liabilities Changed

<b>Impact on Pension Liability – Current Employees Only (DSHS)</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
<b>PERS 2/3</b>	\$41,310.8	(\$96.7)	\$41,214.1
<b>PSERS 2</b>	\$488.1	\$138.2	\$626.3
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)*</i>			
<b>PERS 1</b>	\$3,725.1	\$0.0	\$3,725.1
<b>Unfunded Projected Unit Credit Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
<b>PERS 2/3</b>	\$1,540.9	\$12.0	\$1,553.0
<b>PSERS 2</b>	(\$45.4)	\$0.1	(\$45.3)

*Note: Totals may not agree due to rounding.  
\*PERS 1 is amortized over a ten-year period.*

<b>Impact on Pension Liability - Current Employees Only (DOC)</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
<b>PERS 2.3</b>	\$41,310.8	(\$29.5)	\$41,281.3
<b>PSERS 2</b>	\$488.1	\$43.5	\$531.5
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)*</i>			
<b>PERS 1</b>	\$3,725.1	\$0.0	\$3,725.1
<b>Unfunded Projected Unit Credit Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
<b>PERS 2/3</b>	\$1,540.9	\$3.3	\$1,544.2
<b>PSERS 2</b>	(\$45.4)	\$0.0	(\$45.4)

*Note: Totals may not agree due to rounding.  
\*PERS 1 is amortized over a ten-year period.*

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## How The PVFS Changed

<b>Present Value of Future Salaries - Current Employees Only (DSHS)</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Future Salaries</b>			
<i>(The Value of the Future Salaries Expected to be Paid to Current Members)</i>			
PERS 2	\$55,979.3	(\$752.9)	\$55,226.4
PERS 3	\$14,017.8	(227.9)	\$13,789.9
<b>PERS 2/3</b>	<b>\$69,997.2</b>	<b>(\$980.8)</b>	<b>\$69,016.3</b>
<b>PSERS 2</b>	<b>\$2,531.9</b>	<b>\$941.2</b>	<b>\$3,473.1</b>

*Note: Totals may not agree due to rounding.*

<b>Present Value of Future Salaries - Current Employees Only (DOC)</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Future Salaries</b>			
<i>(The Value of the Future Salaries Expected to be Paid to Current Members)</i>			
PERS 2	\$55,979.3	(\$230.6)	\$55,748.7
PERS 3	\$14,017.8	(80.8)	\$13,937.0
<b>PERS 2/3</b>	<b>\$69,997.2</b>	<b>(\$311.4)</b>	<b>\$69,685.7</b>
<b>PSERS 2</b>	<b>\$2,531.9</b>	<b>\$294.5</b>	<b>\$2,826.4</b>

*Note: Totals may not agree due to rounding.*

## How Contribution Rates Changed

<b>Impact on Contribution Rates - Current Employees Only (DSHS)</b>		
<b>System/Plan</b>	<b>PERS</b>	<b>PSERS</b>
<b>Current Members</b>		
<b>Employee (Plan 2)</b>	(0.010%)	0.344%
<b>Employer</b>		
Normal Cost	(0.010%)	0.344%
Plan 1 UAAL	0.000%	0.000%
<b>Total</b>	<b>(0.010%)</b>	<b>0.344%</b>

<b>Impact on Contribution Rates - Current Employees Only (DOC)</b>		
<b>System/Plan</b>	<b>PERS</b>	<b>PSERS</b>
<b>Current Members</b>		
<b>Employee (Plan 2)</b>	(0.003%)	0.136%
<b>Employer</b>		
Normal Cost	(0.003%)	0.136%
Plan 1 UAAL	0.000%	0.000%
<b>Total</b>	<b>(0.003%)</b>	<b>0.136%</b>

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## How This Impacts Budgets And Employees

Budget Impacts – DSHS Only			
(Dollars in Millions)	PERS	PSERS	Total
<b>2014-2015</b>			
General Fund	(\$1.2)	\$2.3	\$1.1
Non-General Fund	(1.2)	1.7	0.5
<b>Total State</b>	<b>(\$2.4)</b>	<b>\$4.0</b>	<b>\$1.6</b>
Local Government	0.0	0.2	0.2
<b>Total Employer</b>	<b>(\$2.4)</b>	<b>\$4.3</b>	<b>\$1.9</b>
<b>Total Employee</b>	<b>(\$1.8)</b>	<b>\$4.3</b>	<b>\$2.5</b>
<b>2015-2017</b>			
General Fund	(\$7.5)	\$10.2	\$2.6
Non-General Fund	(7.7)	8.8	1.1
<b>Total State</b>	<b>(\$15.2)</b>	<b>\$19.0</b>	<b>\$3.8</b>
Local Government	(0.8)	0.5	(0.3)
<b>Total Employer</b>	<b>(\$16.0)</b>	<b>\$19.5</b>	<b>\$3.5</b>
<b>Total Employee</b>	<b>(\$11.9)</b>	<b>\$19.5</b>	<b>\$7.6</b>
<b>2014-2039</b>			
General Fund	(\$168.1)	\$219.5	\$51.4
Non-General Fund	(169.4)	206.6	37.2
<b>Total State</b>	<b>(\$337.5)</b>	<b>\$426.1</b>	<b>\$88.6</b>
Local Government	(6.5)	4.9	(1.6)
<b>Total Employer</b>	<b>(\$344.0)</b>	<b>\$430.9</b>	<b>\$86.9</b>
<b>Total Employee</b>	<b>(\$239.6)</b>	<b>\$430.9</b>	<b>\$191.3</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

Budget Impacts - DOC Only			
(Dollars in Millions)	PERS	PSERS	Total
<b>2014-2015</b>			
General Fund	(\$0.8)	\$1.3	\$0.5
Non-General Fund	0.0	0.0	0.0
<b>Total State</b>	<b>(\$0.8)</b>	<b>\$1.4</b>	<b>\$0.6</b>
Local Government	0.0	0.1	0.1
<b>Total Employer</b>	<b>(\$0.8)</b>	<b>\$1.4</b>	<b>\$0.6</b>
<b>Total Employee</b>	<b>(\$0.6)</b>	<b>\$1.4</b>	<b>\$0.9</b>
<b>2015-2017</b>			
General Fund	(\$5.1)	\$6.4	\$1.3
Non-General Fund	(0.1)	0.1	(0.0)
<b>Total State</b>	<b>(\$5.3)</b>	<b>\$6.5</b>	<b>\$1.3</b>
Local Government	(0.2)	0.2	(0.1)
<b>Total Employer</b>	<b>(\$5.5)</b>	<b>\$6.7</b>	<b>\$1.2</b>
<b>Total Employee</b>	<b>(\$3.9)</b>	<b>\$6.7</b>	<b>\$2.8</b>
<b>2014-2039</b>			
General Fund	(\$125.6)	\$154.2	\$28.6
Non-General Fund	(0.9)	0.8	(0.1)
<b>Total State</b>	<b>(\$126.5)</b>	<b>\$155.0</b>	<b>\$28.5</b>
Local Government	(1.6)	1.6	0.0
<b>Total Employer</b>	<b>(\$128.0)</b>	<b>\$156.5</b>	<b>\$28.5</b>
<b>Total Employee</b>	<b>(\$87.9)</b>	<b>\$156.5</b>	<b>\$68.7</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

# Draft Fiscal Note For EHB 1923 Updated For The 2014 Legislative Session

## 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.



# PSERS Membership

## SCPP Executive Committee's Proposed Striking Amendment to EHB 1923: PSERS Expansion For Certain DSHS Employees

### Bill Provisions

This proposed striking amendment to EHB 1923 has two main provisions:

- ❖ Expanding the Public Safety Employees' Retirement System (PSERS) statutory definition of employer.
- ❖ Defining the optional transfer window for existing members.

### PSERS Employer Definition

Under this proposed striking amendment, Department of Social and Health Services (DSHS) is added to the statutory definition of a PSERS employer. No other changes are made to the PSERS membership eligibility requirements under this proposed amendment. Therefore, current employees and future new hires at DSHS who meet existing PSERS job duty requirements are eligible for PSERS membership under this proposed striking amendment.

### Optional Transfer Window

Current DSHS employees who are eligible for PSERS membership under this proposed striking amendment have the option of transferring from Public Employees' Retirement System (PERS) Plan 2 or Plan 3 to PSERS. An optional transfer window of two months is given to eligible members. If an eligible member transfers they will then become dual members and their PSERS membership will be prospective from the date of their election to transfer. All new hires who are eligible under this proposed striking amendment, and hired after the effective date, will become members of PSERS.

### Additional Materials

1. SCPP Executive Committee's Proposed Striking Amendment to EHB 1923 Bill.
2. SCPP Executive Committee's Proposed Striking Amendment to EBH 1923 Draft Fiscal Note.
3. Bill comparison.

4. EHB 1923 bill language.
5. Draft Actuary's Fiscal Note to EHB 1923, updated for the 2014 Legislative Session.

## **Staff Contact**

Devon Nichols  
Policy Analyst  
360.786.6145  
[devon.nichols@leg.wa.gov](mailto:devon.nichols@leg.wa.gov)

O:\SCPP\2013\12-10-13\_Full\4.PSERS\_AMD\_1923\_Bill\_Summary.docx

Devon Nichols  
Policy Analyst  
Office of the State Actuary  
Draft language for the SCPP Executive  
Committee's Proposed Striking Amendment to  
EHB 1923

1       Strike everything after the enacting clause and insert the  
2 following:

3  
4       **Sec. 1.** RCW 41.37.010 and 2012 c 236 s 5 are each amended to read  
5 as follows:

6       The definitions in this section apply throughout this chapter,  
7 unless the context clearly requires otherwise.

8       (1) "Accumulated contributions" means the sum of all contributions  
9 standing to the credit of a member in the member's individual account,  
10 including any amount paid under RCW 41.50.165(2), together with the  
11 regular interest thereon.

12       (2) "Actuarial equivalent" means a benefit of equal value when  
13 computed upon the basis of such mortality and other tables as may be  
14 adopted by the director.

15       (3) "Adjustment ratio" means the value of index A divided by index  
16 B.

17       (4) "Annuity" means payments for life derived from accumulated  
18 contributions of a member. All annuities shall be paid in monthly  
19 installments.

1 (5) (a) "Average final compensation" means the member's average  
2 compensation earnable of the highest consecutive sixty months of  
3 service credit months prior to such member's retirement, termination,  
4 or death. Periods constituting authorized leaves of absence may not  
5 be used in the calculation of average final compensation except under  
6 RCW 41.37.290.

7 (b) In calculating average final compensation under (a) of this  
8 subsection, the department of retirement systems shall include:

9 (i) Any compensation forgone by a member employed by a state  
10 agency or institution during the 2009-2011 fiscal biennium as a result  
11 of reduced work hours, mandatory or voluntary leave without pay,  
12 temporary reduction in pay implemented prior to December 11, 2010, or  
13 temporary layoffs if the reduced compensation is an integral part of  
14 the employer's expenditure reduction efforts, as certified by the  
15 employer; and

16 (ii) Any compensation forgone by a member employed by the state or  
17 a local government employer during the 2011-2013 fiscal biennium as a  
18 result of reduced work hours, mandatory leave without pay, temporary  
19 layoffs, or reductions to current pay if the reduced compensation is  
20 an integral part of the employer's expenditure reduction efforts, as  
21 certified by the employer. Reductions to current pay shall not  
22 include elimination of previously agreed upon future salary increases.

23 (6) "Beneficiary" means any person in receipt of a retirement  
24 allowance or other benefit provided by this chapter resulting from  
25 service rendered to an employer by another person.

26 (7) (a) "Compensation earnable" for members, means salaries or  
27 wages earned by a member during a payroll period for personal  
28 services, including overtime payments, and shall include wages and  
29 salaries deferred under provisions established pursuant to sections  
30 403(b), 414(h), and 457 of the United States internal revenue code,  
31 but shall exclude nonmoney maintenance compensation and lump sum or  
32 other payments for deferred annual sick leave, unused accumulated  
33 vacation, unused accumulated annual leave, or any form of severance  
34 pay.

1 (b) "Compensation earnable" for members also includes the  
2 following actual or imputed payments, which are not paid for personal  
3 services:

4 (i) Retroactive payments to an individual by an employer on  
5 reinstatement of the employee in a position, or payments by an  
6 employer to an individual in lieu of reinstatement, which are awarded  
7 or granted as the equivalent of the salary or wage which the  
8 individual would have earned during a payroll period shall be  
9 considered compensation earnable to the extent provided in this  
10 subsection, and the individual shall receive the equivalent service  
11 credit;

12 (ii) In any year in which a member serves in the legislature, the  
13 member shall have the option of having such member's compensation  
14 earnable be the greater of:

15 (A) The compensation earnable the member would have received had  
16 such member not served in the legislature; or

17 (B) Such member's actual compensation earnable received for  
18 nonlegislative public employment and legislative service combined.  
19 Any additional contributions to the retirement system required because  
20 compensation earnable under (b)(ii)(A) of this subsection is greater  
21 than compensation earnable under (b)(ii)(B) of this subsection shall  
22 be paid by the member for both member and employer contributions;

23 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,  
24 and 72.09.240;

25 (iv) Compensation that a member would have received but for a  
26 disability occurring in the line of duty only as authorized by RCW  
27 41.37.060;

28 (v) Compensation that a member receives due to participation in  
29 the leave sharing program only as authorized by RCW 41.04.650 through  
30 41.04.670; and

31 (vi) Compensation that a member receives for being in standby  
32 status. For the purposes of this section, a member is in standby  
33 status when not being paid for time actually worked and the employer

1 requires the member to be prepared to report immediately for work, if  
2 the need arises, although the need may not arise.

3 (8) "Department" means the department of retirement systems  
4 created in chapter 41.50 RCW.

5 (9) "Director" means the director of the department.

6 (10) "Eligible position" means any permanent, full-time position  
7 included in subsection (19) of this section.

8 (11) "Employee" or "employed" means a person who is providing  
9 services for compensation to an employer, unless the person is free  
10 from the employer's direction and control over the performance of  
11 work. The department shall adopt rules and interpret this subsection  
12 consistent with common law.

13 (12) "Employer" means the Washington state department of  
14 corrections, the Washington state parks and recreation commission, the  
15 Washington state gambling commission, the Washington state patrol, the  
16 Washington state department of natural resources, ~~((and))~~ the  
17 Washington state liquor control board, and the Washington state  
18 department of social and health services; any county corrections  
19 department; any city corrections department not covered under chapter  
20 41.28 RCW; and any public corrections entity created under RCW  
21 39.34.030 by counties, cities not covered under chapter 41.28 RCW, or  
22 both. Except as otherwise specifically provided in this chapter,  
23 "employer" does not include a government contractor. For purposes of  
24 this subsection, a "government contractor" is any entity, including a  
25 partnership, limited liability company, for-profit or nonprofit  
26 corporation, or person, that provides services pursuant to a contract  
27 with an employer. The determination whether an employer-employee  
28 relationship has been established is not based on the relationship  
29 between a government contractor and an employer, but is based solely  
30 on the relationship between a government contractor's employee and an  
31 employer under this chapter.

32 (13) "Final compensation" means the annual rate of compensation  
33 earnable by a member at the time of termination of employment.

1 (14) "Index" means, for any calendar year, that year's annual  
2 average consumer price index, Seattle, Washington area, for urban wage  
3 earners and clerical workers, all items, compiled by the bureau of  
4 labor statistics, United States department of labor.

5 (15) "Index A" means the index for the year prior to the  
6 determination of a postretirement adjustment.

7 (16) "Index B" means the index for the year prior to index A.

8 (17) "Ineligible position" means any position which does not  
9 conform with the requirements set forth in subsection (10) of this  
10 section.

11 (18) "Leave of absence" means the period of time a member is  
12 authorized by the employer to be absent from service without being  
13 separated from membership.

14 (19) "Member" means any employee employed by an employer on a  
15 full-time basis:

16 (a) Who is in a position that requires completion of a certified  
17 criminal justice training course and is authorized by their employer  
18 to arrest, conduct criminal investigations, enforce the criminal laws  
19 of the state of Washington, and carry a firearm as part of the job;

20 (b) Whose primary responsibility is to ensure the custody and  
21 security of incarcerated or probationary individuals as a corrections  
22 officer, probation officer, or jailer;

23 (c) Who is a limited authority Washington peace officer, as  
24 defined in RCW 10.93.020, for an employer; or

25 (d) Whose primary responsibility is to supervise members eligible  
26 under this subsection.

27 (20) "Membership service" means all service rendered as a member.

28 (21) "Pension" means payments for life derived from contributions  
29 made by the employer. All pensions shall be paid in monthly  
30 installments.

31 (22) "Plan" means the Washington public safety employees'  
32 retirement system plan 2.

33 (23) "Regular interest" means such rate as the director may  
34 determine.

1 (24) "Retiree" means any person who has begun accruing a  
2 retirement allowance or other benefit provided by this chapter  
3 resulting from service rendered to an employer while a member.

4 (25) "Retirement" means withdrawal from active service with a  
5 retirement allowance as provided by this chapter.

6 (26) "Retirement allowance" means monthly payments to a retiree or  
7 beneficiary as provided in this chapter.

8 (27) "Retirement system" means the Washington public safety  
9 employees' retirement system provided for in this chapter.

10 (28) "Separation from service" occurs when a person has terminated  
11 all employment with an employer.

12 (29) "Service" means periods of employment by a member on or after  
13 July 1, 2006, for one or more employers for which compensation  
14 earnable is paid. Compensation earnable earned for ninety or more  
15 hours in any calendar month shall constitute one service credit month.  
16 Compensation earnable earned for at least seventy hours but less than  
17 ninety hours in any calendar month shall constitute one-half service  
18 credit month of service. Compensation earnable earned for less than  
19 seventy hours in any calendar month shall constitute one-quarter  
20 service credit month of service. Time spent in standby status,  
21 whether compensated or not, is not service.

22 Any fraction of a year of service shall be taken into account in  
23 the computation of such retirement allowance or benefits.

24 (a) Service in any state elective position shall be deemed to be  
25 full-time service.

26 (b) A member shall receive a total of not more than twelve service  
27 credit months of service for such calendar year. If an individual is  
28 employed in an eligible position by one or more employers the  
29 individual shall receive no more than one service credit month during  
30 any calendar month in which multiple service for ninety or more hours  
31 is rendered.

32 (30) "Service credit month" means a month or an accumulation of  
33 months of service credit which is equal to one.

1 (31) "Service credit year" means an accumulation of months of  
2 service credit which is equal to one when divided by twelve.

3 (32) "State actuary" or "actuary" means the person appointed  
4 pursuant to RCW 44.44.010(2).

5 (33) "State elective position" means any position held by any  
6 person elected or appointed to statewide office or elected or  
7 appointed as a member of the legislature.

8 (34) "State treasurer" means the treasurer of the state of  
9 Washington.

10 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.37 RCW  
11 to read as follows:

12 (1) An employee of an employer as defined in RCW 41.37.010(12) who  
13 was a member of the public employees' retirement system plan 2 or plan  
14 3 before January 1, 2015, and on January 1, 2015, meets the  
15 eligibility requirements as set forth in RCW 41.37.010(19), has the  
16 following options during the election period defined in subsection (2)  
17 of this section:

18 (a) Remain in the public employees' retirement system; or

19 (b) Become a member of the public safety employees' retirement  
20 system plan 2 and, be a dual member as provided in chapter 41.54 RCW,  
21 and public employees' retirement system service credit may not be  
22 transferred to the public safety employees' retirement system.

23 (2) The "election period" is the period between January 1, 2015,  
24 and March 1, 2015.

25 (3) During the election period, employees who are employed by an  
26 employer as defined in RCW 41.37.010(12) remain members of the public  
27 employees' retirement system plan 2 or plan 3, until they elect to  
28 join the public safety employees' retirement system. Members who  
29 elect to join the public safety employees' retirement system as  
30 described in this section will have their membership begin  
31 prospectively from the date of their election.

1 (4) If after March 1, 2015, the member has not made an election to  
2 join the public safety employees' retirement system he or she will  
3 remain in the public employees' retirement system plan 2 or plan 3.

4 (5) An employee who was a member of the public employees'  
5 retirement system plan 1 on or before January 1, 2015, and on or after  
6 January 1, 2015, is employed by an employer as defined in RCW  
7 41.37.010(12) as an employee who meets the eligibility requirements  
8 included in RCW 41.37.010(19), shall remain a member of the public  
9 employees' retirement system plan 1.

10 (6) All new employees hired on or after January 1, 2015, who  
11 become employed by an employer as defined in RCW 41.37.010(12) as an  
12 employee who meets the eligibility requirements included in RCW  
13 41.37.010(19) will become members of the public safety employees'  
14 retirement system.

15

16

17 Correct title accordingly.

18

--- END ---

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## SUMMARY OF RESULTS

This proposed striking amendment to EHB 1923 expands future membership in PSERS by adding DSHS to the statutory list of PSERS employers, but does not change the job duty eligibility requirements for PSERS membership under current law. Eligible DSHS employees are allowed to transfer from PERS to PSERS.

Impact on Contribution Rates (Effective 09/01/2014)		
Fiscal Year 2015 State Budget	PERS	PSERS
Employee (Plan 2)	0.00%	0.06%
Total Employer	0.00%	0.06%

Budget Impacts			
(Dollars in Millions)	2014-2015	2015-2017	25-Year
General Fund-State	\$0.1	\$0.3	\$6.6
Local Government	\$0.0	(\$0.0)	(\$0.1)
Total Employer	\$0.2	\$0.4	\$11.3

*Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## HIGHLIGHTS OF ACTUARIAL ANALYSIS

We expect a 25-year total employer cost of approximately \$11 million (about \$7 million from the state general fund) as a result of this proposal. The costs shown above include (1) the estimated impact on PERS and PSERS for all system employers, (2) the estimated budget impacts for DSHS from the difference between projected PERS and PSERS employer contribution rates for the current employees assumed to transfer under the proposal, and (3) the estimated budget impacts for DSHS for new entrants (or members who replace the members who are eligible to transfer) who become PSERS members under this proposal. Please see **Appendix A – Budget Impact Details** for the separate fiscal costs for the three components of this bill.

In reviewing the sensitivity of the cost of the bill to the assumed transfer rate, we found that the third component above drives the majority of the 25-year impact. For example, if no current members transfer, the estimated 25-year total employer cost would fall from \$11 to \$10 million (the estimated 25-year cost from the state general fund would fall from \$7 to \$5 million).

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

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## WHAT IS THE PROPOSED CHANGE?

### Summary Of Benefit Improvement

This proposed striking amendment impacts the following systems.

- ❖ Public Employees' Retirement System Plans 2/3 (PERS 2/3).
- ❖ Public Safety Employees' Retirement System Plan 2 (PSERS).

This proposed striking amendment expands PSERS membership by adding the Department of Social and Health Services (DSHS) to the statutory list of PSERS employers.

Current DSHS employees who meet the existing eligibility requirements of PSERS are allowed to transfer from PERS 2/3 to PSERS during an optional transfer window of January 1, 2015, through March 1, 2015. If an employee elects to transfer they will become a dual member in both PERS and PSERS, meaning no PERS service credit may be transferred to PSERS.

All future new employees of DSHS who meet the eligibility requirements of PSERS, and are hired on or after the implementation date of January 1, 2015, will automatically become members of PSERS.

### How This Version Of The Bill Differs From The Engrossed Version

The following changes in this proposed striking amendment to EHB 1923 have impacted the costs shown for the engrossed version of the bill:

- ❖ Adds DSHS to the statutory list of PSERS employers and limits the expansion of PSERS to only DSHS employees who meet the existing eligibility requirements of PSERS
- ❖ Does not change the job duty eligibility requirements of PSERS membership
- ❖ Implementation date is postponed a year to reflect the second year of the biennium

Assumed Effective Date: 90 days after session.

### What Is The Current Situation?

PSERS was established in 2006 for public safety-type positions and is generally comprised of corrections officers and limited authority law enforcement officers.

DSHS is not currently included in the statutory list of PSERS employers. Generally, most DSHS employees are members of PERS 2/3.

PERS employees have a normal retirement age of 65 with five years of service in Plan 2 or 65 with up to ten years of service (depending on hire age) in Plan 3. Early retirement eligibility begins at age 55 with 20 years of service for Plan 2 members or age 55 with ten years of service for Plan 3 and is subject to certain reduction factors.

## Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

PSERS generally has earlier normal retirement benefits and higher disability benefits than PERS 2/3. Normal retirement age in PSERS is 65 with five years of total service or 60 with ten years of PSERS service. Early retirement eligibility begins at age 53 with 20 years of service and is subject to certain reduction factors. Disability benefits equal the accrued benefit, actuarially reduced from age 60 (age 65 in PERS 2/3).

### Who Is Impacted And How?

We received data for 378 potentially eligible employees in DSHS. Of those, we found 343 potentially eligible employees in our valuation data. We then identified 242 active members in PERS 2/3, who could benefit, at least in part, by a prospective transfer to PSERS.

PSERS provides more valuable benefits than PERS 2/3 in terms of retirement eligibility and unreduced benefits at an earlier age. This proposal would benefit a typical member by making at least part of their retirement benefit available earlier than under current law, resulting in a higher lifetime retirement benefit for that member.

For example, a future PERS 2 member who enters at age 30 could retire as early as age 55 in PERS under current law, with a total of 25 years of service at retirement. The benefit would be actuarially reduced to recognize retirement before age 65. If the member's Average Final Compensation (AFC) is \$50,000, their retirement benefit would be as follows.

$$\$50,000 \times 25 \times 2\% \times 0.365 = \$9,125 \text{ per year}$$

The same future member who starts service in PSERS could retire as early age 53, with a more favorable early retirement factor. To keep this example consistent, the PSERS retirement benefit at age 55 with 25 years of service is calculated as follows.

$$\$50,000 \times 25 \times 2\% \times 0.85 = \$21,250 \text{ per year}$$

Current members who transfer to PSERS can also benefit from improved PSERS benefits on the service they earn in PSERS after the transfer. Members who plan to retire soon after the transfer would benefit less relative to those members who might retire years later.

This proposal impacts all PSERS 2 members through increased contribution rates. The proposal also impacts all PERS 2 members through decreased contribution rates. This proposal will not affect member contribution rates in PERS 1 since they are fixed in statute. Additionally, this proposal will not affect member contribution rates in PERS 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

Please see the **Special Data Needed** section of this draft fiscal note for more details.

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

### Why This Proposal Has A Cost

We expect the proposal will have an impact on all Plan 2 members and all employers in PERS and PSERS plus an additional impact on the affected employer, DSHS, which employs current members who may transfer to PSERS and affected new entrants for the following reasons.

- ❖ **PERS Impact:** A savings due to an experience gain from the members who transfer from PERS to PSERS resulting in lower future benefits in PERS than expected under current law.
- ❖ **PSERS Impact:** A cost due to adding members to PSERS who are more expensive than the current covered population.
- ❖ **Affected Employer Impact:** A cost or savings depending on the time period equal to the difference between projected employer contribution rates in PERS and PSERS for (a) their employees who transfer under the proposal and for (b) their affected new hires in the future. Please see the **How We Applied These Assumptions** section for further details.

### Who Will Pay For These Costs?

The costs/savings to the affected retirement systems that result from this proposal will be divided between members and employers according to standard funding methods that vary by plan.

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

## HOW WE VALUED THESE COSTS

### Assumptions We Made

Because the bill allows eligible members to transfer prospectively from PERS to PSERS, we needed to make an assumption of who would transfer to price this bill. We used our actuarial valuation model to inform this assumption.

Using our valuation model, we identified all members who could benefit under this bill. In other words, we identified all members who had a larger future liability in PSERS than under PERS. Of this group, we assumed all members currently under the age of 55 would transfer from PERS to PSERS.

This resulted in the assumed transfer rates displayed in the following table.

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

	Eligible For Transfer	Assumed Number Of Transfers	Transfer Rate
DSHS	343	242	71%

Please see **How The Results Change When We Make Different Assumptions** for information on how the result change when we assume different transfer rates.

For purposes of this pricing, we further assumed that the demographic profile of future new entrants in PERS and PSERS would not change as a result of this proposal.

Otherwise, we developed these costs using the same assumptions as disclosed in the [June 30, 2012, Actuarial Valuation Report](#) (AVR).

## How We Applied These Assumptions

To find the costs of this proposal, we changed the PERS records for members we thought would transfer by switching them from active status to inactive status and recalculating their PERS liabilities, assuming all members would become vested for retirement purposes in the future if they were not already vested in PERS. Next, we created new active status records for the same members in PSERS and calculated the additional liabilities. These active records showed no beginning service or accumulated contributions in PSERS, but included their past PERS service for benefit eligibility purposes.

Using the resulting cost differences from the method described above, we found constant, or static, contribution rate differences for PERS and PSERS. This method identified the estimated impact to PERS and PSERS described in the **Why This Proposal Has A Cost** section.

To identify the estimated impact to affected employers for their employees who are expected to transfer under the proposal and for the affected new hires in the future, we applied the projected PERS and PSERS employer contribution rates (under current law) to projected payroll for the affected members.

We expect the difference between PSERS and PERS contribution rates to decrease in the near future (PERS rates are expected to be higher than PSERS for four years) and then increase thereafter, ultimately ending in a larger difference than currently exists. The table below shows the varying contribution rates.

## Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

Expected Difference Between PSERS and PERS Employer Contribution Rates			
Year		Year	
2015	1.33%	2028	0.86%
2016	0.64%	2029	0.86%
2017	0.64%	2030	1.09%
2018	(0.27%)	2031	1.09%
2019	(0.27%)	2032	1.30%
2020	(0.29%)	2033	1.30%
2021	(0.28%)	2034	1.49%
2022	0.02%	2035	1.49%
2023	0.02%	2036	1.68%
2024	0.33%	2037	1.68%
2025	0.33%	2038	1.85%
2026	0.61%	2039	1.85%
2027	0.61%		

Otherwise, we developed these costs using the same methods as disclosed in the AVR.

### Special Data Needed

The Department of Retirement Systems (DRS) provided us with the member data we used for this pricing. We checked the data for reasonableness. An audit of this data was not performed. We relied on all data provided by DRS as complete and accurate. In our opinion, the data is reasonable, adequate, and substantially complete for the purposes of this pricing.

We relied on data from DRS about employees of DSHS who are potentially eligible for transfer to PSERS. We matched the data provided by DRS with our valuation data. We found 343 DRS records for active members that matched our valuation data. These members represented “all potential transfers” under this proposal.

We eliminated members we thought would not transfer under this proposal. Please see **Assumptions We Made** for more details. Under this proposal, we expect 242 active PERS members to transfer to PSERS. Beyond those actions, we did not audit the data for accuracy. It is possible that some of the members identified in the data will not actually qualify for transfer to PSERS, but we are unable to identify them. The table below shows some general information about the records we used for this pricing, along with similar information from PERS and PSERS.

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

Active Membership					
				Average	
	Count	Age	Service	Annual Salary	Accumulated Savings
<b>PERS 2/3</b>	143,955	47.42	11.76	\$56,911	\$26,941
<b>PSERS</b>	4,250	40.09	8.52*	\$55,999	\$17,993
<b>Data for Bill (Best Estimate)</b>	242	43.44	11.03	\$42,383	\$18,750
<b>Plan 2</b>	201	43.51	11.35	\$42,445	\$22,574
<b>Plan 3</b>	41	43.06	9.49	\$42,081	-
<b>All Potential Transfers</b>	343	48.25	12.79	\$42,746	\$23,418

*\*Includes 4.35 years of service in PSERS and 4.17 years of service from PERS. PERS service may be used for retirement eligibility.*

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR. In addition, we recognized investment returns of 12.36 percent through June 30, 2013, when estimating projected asset values.

## ACTUARIAL RESULTS

### How The Liabilities Changed

If all of the expected DSHS employees we identified above transferred from PERS to PSERS, this proposal would impact the actuarial funding of PERS and PSERS by increasing/(decreasing) the Present Value of Future Benefits (PVFB) payable under the systems as shown below.

Impact on Pension Liability - Current Employees Only			
<i>(Dollars in Millions)</i>	Current	Increase	Total
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 2/3	\$28,796.5	(11.2)	\$28,785.3
<b>PSERS 2</b>	<b>\$488.1</b>	<b>\$15.7</b>	<b>\$503.7</b>
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)*</i>			
<b>PERS 1</b>	<b>\$3,725.1</b>	<b>\$0.0</b>	<b>\$3,725.1</b>
<b>Unfunded Projected Unit Credit Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
PERS 2/3	(\$2,306.0)	\$1.4	(\$2,304.6)
<b>PSERS 2</b>	<b>(\$45.4)</b>	<b>\$0.0</b>	<b>(\$45.4)</b>

*Note: Totals may not agree due to rounding.*

*\*PERS 1 is amortized over a ten-year period.*

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## How The Present Value of Future Salaries (PVFS) Changed

If all of the expected DSHS employees we identified above transferred from PERS to PSERS, this proposal would impact the actuarial funding of PERS and PSERS by increasing/(decreasing) the PVFS of the members of the systems as shown below.

<b>Present Value of Future Salaries - Current Employees Only</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Future Salaries</b>			
<i>(The Value of the Future Salaries Expected to be Paid to Current Members)</i>			
PERS 2	\$55,979.3	(\$90.3)	\$55,889.0
PERS 3	\$14,017.8	(18.1)	\$13,999.7
<b>PERS 2/3</b>	<b>\$69,997.2</b>	<b>(\$108.5)</b>	<b>\$69,888.7</b>
<b>PSERS 2</b>	<b>\$2,531.9</b>	<b>\$103.5</b>	<b>\$2,635.3</b>

*Note: Totals may not agree due to rounding.*

## How Contribution Rates Changed

The rounded increase/(decrease) in the required actuarial contribution rate results in the supplemental contribution rate for PSERS shown on page one that applies in the current biennium. We will use the un-rounded rate increase/(decrease) shown below to measure the budget changes in future biennia.

The change in PERS contribution rates does not result in a supplemental contribution rate because the proposal does not provide a benefit improvement in PERS. The rate decrease in PERS occurs because of an experience gain due to assumed transfers from PERS to PSERS under this proposal. As such, we excluded the change in PERS contribution rate from the 2014-15 Fiscal Year and applied the decrease in PERS contribution rates to subsequent biennia to measure future budget changes.

## Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

Impact on Contribution Rates (Effective 09/01/2014 for PSERS) Current Employees Only		
System/Plan	PERS	PSERS
<b>Current Members</b>		
<b>Employee (Plan 2)</b>	(0.001%)	0.059%
<b>Employer</b>		
Normal Cost	(0.001%)	0.059%
Plan 1 UAAL	0.000%	0.000%
<b>Total</b>	<b>(0.001%)</b>	<b>0.059%</b>

### How This Impacts Budgets And Employees

If all of the expected DSHS employees we identified above transferred from PERS to PSERS, this proposal would impact future budgets as shown below.

The budget impacts shown include additional compensation/benefit budget impacts on employers of transferring members. Please see **Appendix A – Budget Impact Details** for a separate listing of these impacts.

## Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

Budget Impacts			
<i>(Dollars in Millions)</i>	PERS	PSERS	Total
<b>2014-2015</b>			
General Fund	(\$0.1)	\$0.3	\$0.1
Non-General Fund	(0.1)	0.2	0.1
<b>Total State</b>	<b>(\$0.3)</b>	<b>\$0.5</b>	<b>\$0.2</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$0.3)</b>	<b>\$0.5</b>	<b>\$0.2</b>
<b>Total Employee</b>	<b>(\$0.2)</b>	<b>\$0.5</b>	<b>\$0.3</b>
<b>2015-2017</b>			
General Fund	(\$0.8)	\$1.2	\$0.3
Non-General Fund	(0.9)	1.0	0.1
<b>Total State</b>	<b>(\$1.7)</b>	<b>\$2.2</b>	<b>\$0.5</b>
Local Government	(0.1)	0.1	(0.0)
<b>Total Employer</b>	<b>(\$1.8)</b>	<b>\$2.2</b>	<b>\$0.4</b>
<b>Total Employee</b>	<b>(\$1.4)</b>	<b>\$2.2</b>	<b>\$0.8</b>
<b>2014-2039</b>			
General Fund	(\$18.4)	\$25.1	\$6.6
Non-General Fund	(18.6)	23.4	4.8
<b>Total State</b>	<b>(\$37.0)</b>	<b>\$48.4</b>	<b>\$11.4</b>
Local Government	(0.7)	0.6	(0.1)
<b>Total Employer</b>	<b>(\$37.8)</b>	<b>\$49.1</b>	<b>\$11.3</b>
<b>Total Employee</b>	<b>(\$27.2)</b>	<b>\$49.1</b>	<b>\$21.9</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

The analysis of this proposal 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.

### How the Risk Measures Changed

We have not analyzed this proposal using the risk assessment model.

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## How the Results Change When We Make Different Assumptions

The cost of the bill is sensitive to the number of people who actually transfer from PERS to PSERS, their age, and their salary. To demonstrate this, we varied the transfer assumption from our best-estimate pricing as follows.

❖ **No Transfers** – we assumed no transfers from PERS to PSERS under this bill.

Under this bill, the members with the largest impacts on liability and future plan salary typically entered the PERS system at a younger age and also have higher salaries relative to the entire population eligible to transfer. The affected members who entered PERS at a younger age will be more likely to take advantage of early retirement in PSERS.

How Results Change When We Assume Different Transfers		
<i>(Dollars in Millions)</i>	No Transfers	Best Estimate
<b>Number of Current Members Impacted</b>		
Number of Transfers	0	242
<b>2014-15 Budget Impacts</b>		
GF-S	\$0.0	\$0.1
Total Employer	\$0.0	\$0.2
<b>2015-17 Budget Impacts</b>		
GF-S	\$0.1	\$0.3
Total Employer	\$0.2	\$0.4
<b>25-Year Budget Impacts</b>		
GF-S	\$4.8	\$6.6
Total Employer	\$9.7	\$11.3

Overall, we found the 25-year budget impact is not that sensitive to the transfer assumption. This occurs because the budget impact for assumed new entrants (including replacements of current members assumed not to transfer) drives the majority of the long-term budget impact as shown in the table above. The transfer assumption does not change this component of the cost because new entrants in positions covered under this bill must join PSERS (no transfer option).

# **Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923**

## **WHAT THE READER SHOULD KNOW**

The Office of the State Actuary (“we”) prepared this draft fiscal note based on our understanding of the proposal as of the date shown in the footer. We intend this draft fiscal note to be used by the Select Committee on Pension Policy during the 2013 Interim 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 draft 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.

DRAFT

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## 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 draft 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 draft fiscal note for the Select Committee on Pension Policy during the 2013 Legislative Interim.
6. We prepared this draft 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 draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA  
State Actuary

O:\Fiscal Notes\2014\Draft\1923\_EHB\_Amendment.docx

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## APPENDIX A – BUDGET IMPACT DETAILS

As described in the **Why This Proposal Has A Cost** section, we expect the proposal will have an impact on all Plan 2 members and all employers in PERS and PSERS plus an additional impact on employers who employ affected current members and affected new entrants.

We break out the impacts (from the total impacts) on all employers in PERS and PSERS in the following table.

<b>Budget Impacts - Retirement System Changes</b>			
<b>All Employers in PERS and PSERS</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2014-2015</b>			
General Fund	\$0.0	\$0.1	\$0.1
Non-General Fund	0.0	0.0	0.0
<b>Total State</b>	<b>\$0.0</b>	<b>\$0.1</b>	<b>\$0.1</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>\$0.0</b>	<b>\$0.1</b>	<b>\$0.1</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.1</b>	<b>\$0.1</b>
<b>2015-2017</b>			
General Fund	(\$0.0)	\$0.2	\$0.2
Non-General Fund	(0.1)	0.0	(0.0)
<b>Total State</b>	<b>(\$0.1)</b>	<b>\$0.2</b>	<b>\$0.1</b>
Local Government	(0.1)	0.1	(0.0)
<b>Total Employer</b>	<b>(\$0.2)</b>	<b>\$0.3</b>	<b>\$0.1</b>
<b>Total Employee</b>	<b>(\$0.2)</b>	<b>\$0.3</b>	<b>\$0.1</b>
<b>2014-2039</b>			
General Fund	(\$0.3)	\$2.0	\$1.7
Non-General Fund	(0.4)	0.3	(0.1)
<b>Total State</b>	<b>(\$0.7)</b>	<b>\$2.3</b>	<b>\$1.6</b>
Local Government	(0.7)	0.6	(0.1)
<b>Total Employer</b>	<b>(\$1.4)</b>	<b>\$3.0</b>	<b>\$1.5</b>
<b>Total Employee</b>	<b>(\$1.1)</b>	<b>\$3.0</b>	<b>\$1.8</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

We break out the impacts (from the total impacts) on employers of assumed transferring current members in the following table. For this table, we assumed 50 percent of DSHS' funding comes from the General Fund.

<b>Budget Impacts - Employer of Assumed Transferring Members</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2014-2015</b>			
General Fund	(\$0.1)	\$0.1	\$0.0
Non-General Fund	(0.1)	0.1	0.0
<b>Total State</b>	<b>(\$0.2)</b>	<b>\$0.3</b>	<b>\$0.1</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$0.2)</b>	<b>\$0.3</b>	<b>\$0.1</b>
<b>Total Employee</b>	<b>(\$0.2)</b>	<b>\$0.3</b>	<b>\$0.1</b>
<b>2015-2017</b>			
General Fund	(\$0.6)	\$0.7	\$0.1
Non-General Fund	(0.6)	0.7	0.1
<b>Total State</b>	<b>(\$1.2)</b>	<b>\$1.4</b>	<b>\$0.1</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$1.2)</b>	<b>\$1.4</b>	<b>\$0.1</b>
<b>Total Employee</b>	<b>(\$1.0)</b>	<b>\$1.4</b>	<b>\$0.4</b>
<b>2014-2039</b>			
General Fund	(\$5.7)	\$5.8	\$0.1
Non-General Fund	(5.7)	5.8	0.1
<b>Total State</b>	<b>(\$11.4)</b>	<b>\$11.5</b>	<b>\$0.1</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$11.4)</b>	<b>\$11.5</b>	<b>\$0.1</b>
<b>Total Employee</b>	<b>(\$9.5)</b>	<b>\$11.5</b>	<b>\$2.1</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

We break out the impacts (from the total impacts) on employers of assumed impacted future entrants in the following table. For this table, we assumed 50 percent of DSHS' funding comes from the General Fund.

<b>Budget Impacts - Employer of Assumed New Entrants</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2014-2015</b>			
General Fund	(\$0.0)	\$0.0	\$0.0
Non-General Fund	(0.0)	0.0	0.0
<b>Total State</b>	<b>(\$0.0)</b>	<b>\$0.1</b>	<b>\$0.0</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$0.0)</b>	<b>\$0.1</b>	<b>\$0.0</b>
<b>Total Employee</b>	<b>(\$0.0)</b>	<b>\$0.1</b>	<b>\$0.0</b>
<b>2015-2017</b>			
General Fund	(\$0.2)	\$0.3	\$0.1
Non-General Fund	(0.2)	0.3	0.1
<b>Total State</b>	<b>(\$0.4)</b>	<b>\$0.6</b>	<b>\$0.2</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$0.4)</b>	<b>\$0.6</b>	<b>\$0.2</b>
<b>Total Employee</b>	<b>(\$0.3)</b>	<b>\$0.6</b>	<b>\$0.3</b>
<b>2014-2039</b>			
General Fund	(\$12.5)	\$17.3	\$4.8
Non-General Fund	(12.5)	17.3	4.8
<b>Total State</b>	<b>(\$24.9)</b>	<b>\$34.6</b>	<b>\$9.7</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$24.9)</b>	<b>\$34.6</b>	<b>\$9.7</b>
<b>Total Employee</b>	<b>(\$16.6)</b>	<b>\$34.6</b>	<b>\$18.0</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

# Draft Fiscal Note For SCPP Executive Committee Proposed Striking Amendment to EHB 1923

## 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.



## PSERS Membership

### Bill Side-By-Side: EHB 1923 and SCPP Executive Committee's Proposed Striking Amendment to EHB 1923

	EHB 1923*	SCPP Executive Committee's Proposed Striking AMD to EHB 1923
<b>High-Level Policy</b>	<ul style="list-style-type: none"> <li>❖ Expands PSERS for certain DSHS and Corrections employees.</li> <li>❖ Adds DSHS to statutory list of PSERS employers.</li> <li>❖ Changes job duty requirements to include those providing direct care to, or ensuring the custody and safety of, patient and offender populations.</li> <li>❖ Optional transfer window for existing eligible employees.</li> <li>❖ Mandatory entrance for eligible future new hires.</li> </ul>	<ul style="list-style-type: none"> <li>❖ Expands PSERS for certain DSHS employees.</li> <li>❖ Adds DSHS to statutory list of PSERS employers.</li> <li>❖ Optional transfer window for existing eligible employees.</li> <li>❖ Mandatory entrance for eligible future new hires.</li> </ul>
<b>Implementation Date</b>	January 1, 2014	January 1, 2015
<b>Total Assumed Number of Active Employees Electing to Transfer</b>	2,717	242
<b>Occupations Impacted</b>	Department of Corrections <ul style="list-style-type: none"> <li>❖ Classification Counselor</li> <li>❖ Clinical Nurse Specialist</li> </ul>	DSHS Juvenile Rehabilitation Administration <ul style="list-style-type: none"> <li>❖ Juvenile Rehabilitation Security Manager</li> <li>❖ Juvenile Rehabilitation Security Officer</li> </ul>

**EHB 1923\***

**SCPP Executive Committee's Proposed  
Striking AMD to EHB 1923**

- ❖ Dentist/Dental Hygienist/Assistant
- ❖ Imaging Technologist
- ❖ Laboratory Technician
- ❖ Licensed Practical Nurse (LPN)
- ❖ Nursing Assistant/Medical Assistant
- ❖ Mental Health Counselor
- ❖ Pharmacist/Pharmacist Supervisor/Technician
- ❖ Physician/Certified Physician Assistant
- ❖ Psychiatrist/Psychiatric Social Worker
- ❖ Psychologist/Psychologist Associate
- ❖ Registered Nurse
- ❖ Sex Offender Treatment Specialist
- ❖ Social Service Specialist

DSHS Juvenile Rehabilitation Administration

- ❖ Juvenile Rehabilitation Counselor Assistant
- ❖ Juvenile Rehabilitation Resident Counselor
- ❖ Juvenile Rehabilitation Security Manager
- ❖ Juvenile Rehabilitation Security Officer
- ❖ Juvenile Rehabilitation Supervisor
- ❖ Psychologist
- ❖ Recreation & Athletics Specialist
- ❖ Residential Rehabilitation Counselor

State Mental Health Hospitals

- ❖ Adult Training Specialist

State Mental Health Hospitals

- ❖ Psychiatric Security Attendant
- ❖ Psychiatric Security Nurse

EHB 1923*		SCPP Executive Committee's Proposed Striking AMD to EHB 1923
	<ul style="list-style-type: none"> <li>❖ Institution Counselor</li> <li>❖ LPN</li> <li>❖ Mental Health Technician</li> <li>❖ Occupational Therapist/Assistant/ Supervisor</li> <li>❖ Psychiatric Security Attendant</li> <li>❖ Psychiatric Security Nurse</li> <li>❖ Psychiatric Social Worker</li> <li>❖ Psychologist/Psychologist Associate</li> <li>❖ Recreation &amp; Athletics Specialist</li> <li>❖ Recreation Therapist</li> <li>❖ Security Guard</li> </ul> <p>DSHS Special Commitment Center</p> <ul style="list-style-type: none"> <li>❖ Adult Training Specialist</li> <li>❖ LPN</li> <li>❖ Psychologist/Psychologist Associate</li> <li>❖ Recreation &amp; Athletics Specialist</li> <li>❖ Residential Rehabilitation Counselor</li> <li>❖ Security Guard</li> </ul>	
<b>Estimated 25-Year Total Employer Fiscal Impact</b>	\$115.4 million	\$11.3 million

*\*Current bill language states an implementation date of January 1, 2014. The draft fiscal note for EHB 1923, updated for the 2014 Legislative Session, assumes an updated implementation date of January 1, 2015.*

O:\SCPP\2013\12-10-13\_Full\4.Bill\_Comparison.docx