



Office of the State Actuary

"Securing tomorrow's pensions today."

September 16, 2014

TO: Select Committee on Pension Policy (SCPP) Members

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

SUBJECT: 2015-17 OSA BUDGET REQUEST

Enclosed please find the Office of the State Actuary's (OSA's) 2015-17 Budget request. The SCPP Rule of Procedure 8 (F) requires the state actuary to submit the biennial budget request to the SCPP for approval. After approval, I will submit the budget to the Office of Financial Management. This budget is also subject to review and revision by the Legislature in the 2015 Legislative Session.

The enclosed budget request includes the following items:

- ❖ Description of agency mission.
- ❖ Statutory authority.
- ❖ OSA organizational chart.
- ❖ 2015-17 Budget documents.

The proposed 2015-17 Budget represents an increase of \$337,000 above the current 2013-15 Biennial Budget (9.55 percent increase). This increase is comprised of an increase of \$118,000 to the agency's "carry forward level" (see attached budget documents) plus an increase of \$218,000 to facilitate "workload changes" (noted below).

The \$218,000 increase to facilitate workload changes includes funding to provide (1) step salary increases for eligible staff during each fiscal year of the 2015-17 Biennium and (2) additional salary increases for retention purposes if necessary.

Funding Source

The Legislature provides funding for the agency's budget through the Department of Retirement Systems (DRS) Expense Fund. The Guaranteed Education Tuition Committee, Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board, Institutions of Higher Education, and the Board for Volunteer Fire Fighters' and Reserve Officers' reimburse the OSA for the cost of actuarial services through an interagency agreement.



The DRS Expense fund is supported by an administrative expense rate that is collected by DRS from all retirement system employers. The current DRS administrative expense rate is 0.18 percent. OSA's proposed 2015-17 Budget request will not impact this expense rate.

Workload Changes

Step Salary Increases

OSA requests \$168,000 to provide step increases to eligible staff during the 2015-17 Biennium (this includes both salary and benefits costs). The \$168,000 represents approximately a 5 percent increase each fiscal year for all non-management staff (2.5 percent increase each fiscal year for management staff). OSA does not automatically provide step salary increases when available. Eligibility for step increases depends on individual performance and the number of step increases available for an employee based on their current salary within their current salary range.

Additional Salary Increases for Retention Purposes

OSA requests \$50,000 to provide additional salary increases for retention purposes if necessary. The \$50,000 represents approximately 10 percent for two credentialed actuaries for 24 months (based on the current average annual salary for credentialed actuarial staff). OSA has faced difficulties recruiting credentialed actuaries and has made counter offers in an effort to retain them.

The \$50,000 of additional funding represents a one-time request, but the cost of providing additional salary increases for retention purposes would become an on-going expense if increases are provided during the 2015-17 Biennium.

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Our Mission Statement

The Office of the State Actuary promotes the security of Washington State public employees' retirement benefits by providing expert, accurate, and objective actuarial and policy analysis in a cost-effective and timely manner.

Our Values Statement

We model the highest level of professionalism. We remain independent and unbiased when delivering services in support of our mission. We value teamwork and collaboration to continually improve the quality of our services and working relationships. We promote a fun and friendly office culture that provides work-life balance and opportunities to grow.

Office Overview

The Office of the State Actuary (OSA) is an independent and non-partisan agency of the Washington State Legislature and works primarily on the funding and benefit issues of the state's public retirement systems. OSA was created in 1977 and its duties are set forth in Chapters [44.44](#), [41.24](#) and [28B.10.423](#) RCW. The role of the office as currently defined is to function on two levels:

The First Functional Level Is To Provide Actuarial Services.

- ❖ Perform annual actuarial valuations on all state funded and/or state sponsored retirement plans. The manner in which the valuation is performed is subject to statutory requirements and actuarial standards of practice.
- ❖ Recommend employer/state and member contribution rates to the Pension Funding Council (PFC) based on the results of the valuations. It is the PFC's responsibility to officially adopt any changes to contribution rates. The PFC also solicits an outside audit to verify the OSA results.
- ❖ Prepare an actuarial fiscal note on each pension bill introduced in the Legislature. Any pension bill that passes into law may alter the funding status of the state's retirement plans. Current law requires any additional costs be calculated and contribution rates adjusted accordingly. Provide risk analysis/assessments for applicable actuarial fiscal notes.
- ❖ Provide advice and consultation to the Legislature, Office of the Governor, Department of Retirement Systems and State Investment Board.
- ❖ Perform all actuarial services for the Department of Retirement Systems including all studies required by law.
- ❖ Provide actuarial assistance to the Law Enforcement Officers' and Fire Fighters' Plan (LEOFF) 2 Board. LEOFF 2 rates are adopted by the LEOFF 2 Retirement Board.



- ❖ Provide actuarial services for the state Board for Volunteer Fire Fighters and Reserve Officers.
- ❖ Perform actuarial valuations and experience studies, provide actuarial services, risk analysis and price-setting recommendations for the Guaranteed Education Tuition Program.
- ❖ Perform actuarial valuations and experience studies for supplemental retirement plans within Higher Education.

The Second Functional Level Is To Provide Staff And Assistance To The Select Committee On Pension Policy (SCPP).

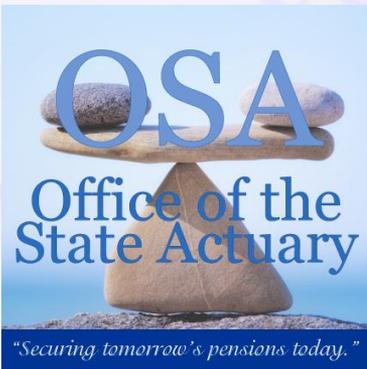
- ❖ Research issues or subject areas at the direction of the SCPP, provide verbal and written testimony on its research findings, and prepare and/or evaluate proposed legislation. This function mirrors the activity performed by other legislative committees.
- ❖ Maintain the SCPP website.

Statutory Authority

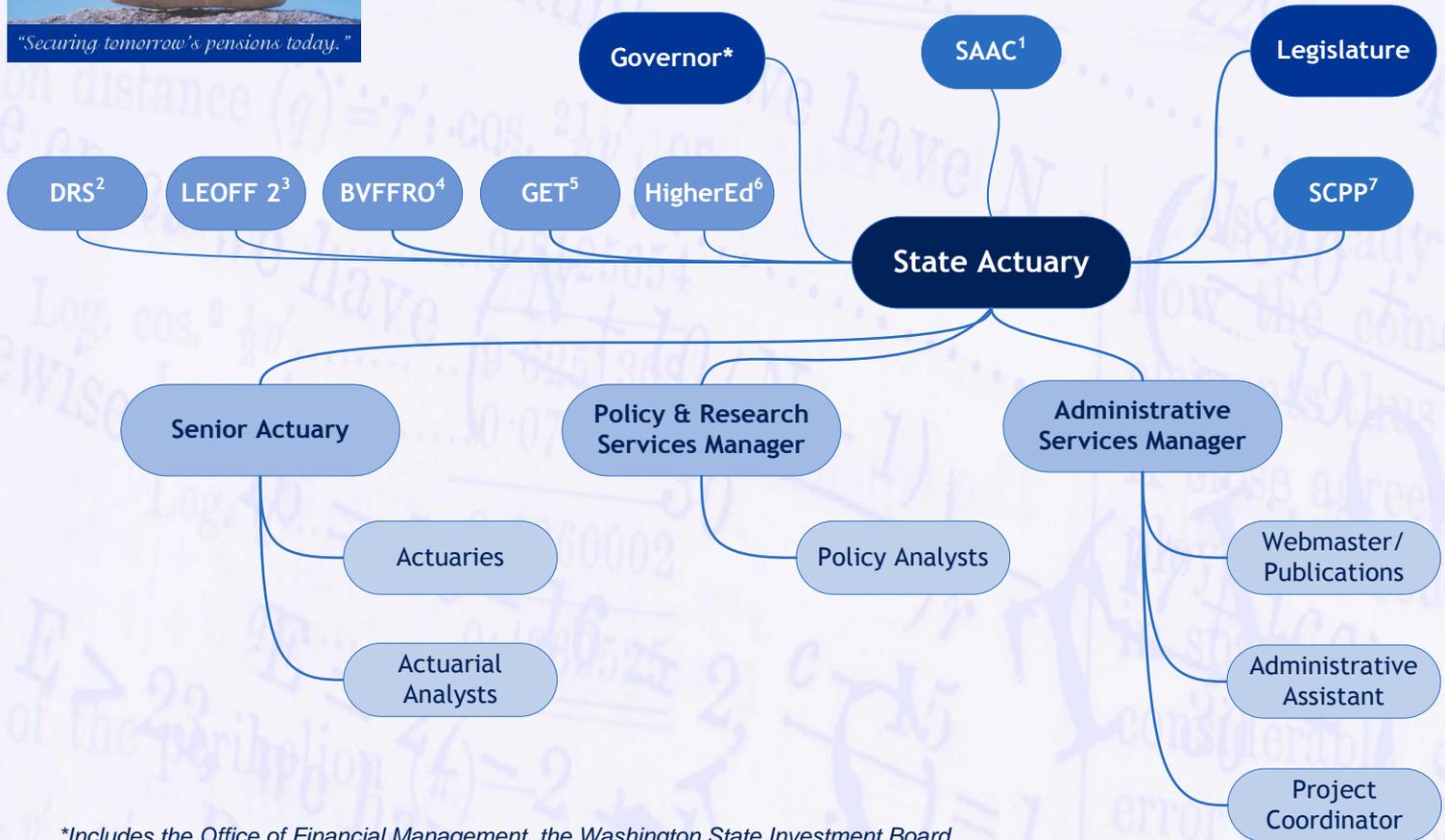
The powers and duties of the Office of State Actuary specified in [RCW 44.44.040](#).

The Select Committee on Pension Policy was established by Chapter 295, Laws of 2003, and codified in [RCW 41.04.276](#), [.278](#), and [.281](#).

[Current SCPP Members.](#)



2014 Organizational Chart



*Includes the Office of Financial Management, the Washington State Investment Board, the Office of the State Treasurer, and the Health Care Authority.

¹ State Actuary Appointment Committee.

² Department of Retirement Systems.

³ Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board.

⁴ The Board for Volunteer Fire Fighters and Reserve Officers.

⁵ Guaranteed Education Tuition Committee.

⁶ Higher Education Entities.

⁷ Select Committee on Pension Policy.

State of Washington
Recommendation Summary

2:20PM

Agency: **035 Office of State Actuary**

8/21/2014

Dollars in Thousands

	Annual Average FTEs	General Fund State	Other Funds	Total Funds
2013-15 Current Biennium Total	13.0		3,527	3,527
CL AA 05 Biennialize pay increments			54	54
CL AB 92K Des Central Services			11	11
CL AC Biennialize Employee Pebb Rate			53	53
Total Carry Forward Level	13.0		3,645	3,645
Percent Change from Current Biennium			3.3%	3.3%
Carry Forward plus Workload Changes	13.0		3,645	3,645
Percent Change from Current Biennium			3.3%	3.3%
M2 AD OSA Merit Decision Package			168	168
M2 AE OSA Retention Contingency Package			50	50
Total Maintenance Level	13.0		3,863	3,863
Percent Change from Current Biennium			9.5%	9.5%
Subtotal - Performance Level Changes	0.0			
2015-17 Total Proposed Budget	13.0		3,863	3,863
Percent Change from Current Biennium			9.5%	9.5%

M2 AD OSA Merit Decision Package

OSA requests funding to provide step increases to eligible staff during the 2015-17 Biennium. The additional funding represents approximately a 5 percent increase for each fiscal year for all non-management staff (2.5 percent increase each fiscal year for management staff). OSA does not automatically provide step salary increases when available. Eligibility for step increases depends on individual performance and the number of step increases available for an employee based on their current salary within their current salary range.

M2 AE OSA Retention Contingency Package

OSA requests \$50,000 to provide additional salary increases for retention purposes if necessary. The \$50,000 represents approximately a one-time salary increase of 10 percent for two credentialed actuaries for 24 months (based on the current average annual salary for credentialed actuarial staff). OSA has faced difficulties recruiting credentialed actuaries and has made counter offers in an effort to retain them.

State of Washington
Decision Package

Agency: 035 Office of State Actuary
Decision Package Code/Title: AD OSA Merit Decision Package
Budget Period: 2015-17
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

OSA requests funding to provide step increases to eligible staff during the 2015-17 Biennium. The additional funding represents approximately a 5 percent increase for each fiscal year for all non-management staff (2.5 percent increase each fiscal year for management staff). OSA does not automatically provide step salary increases when available. Eligibility for step increases depends on individual performance and the number of step increases available for an employee based on their current salary within their current salary range.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	56,000	112,000	168,000
Total Cost	56,000	112,000	168,000

Package Description:

OSA Merit Decision Package

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Retain current staff expertise and maintain current levels of service.

Performance Measure Detail

Activity:

No measures submitted for package

Incremental Changes

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Not applicable.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Not applicable.

What are the other important connections or impacts related to this proposal?

Not applicable.

What alternatives were explored by the agency, and why was this alternative chosen?

We considered absorbing this cost, but don't have the available funds to provide such increases. Additionally, if approved, the authority to provide such salary increases would be clearly granted.

What are the consequences of adopting or not adopting this package?

OSA may lose current staff and be unable to maintain current levels of service.

What is the relationship, if any, to the state's capital budget?

Not applicable.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

Not applicable.

Expenditure and revenue calculations and assumptions

Not applicable.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The additional funding represents a one-time request, but the cost of providing step salary increases would become an on going expense to the extent these salary increases are provided during the 2015-17 Biennium.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages	49,000	99,000	148,000
B Employee Benefits	7,000	13,000	20,000
Total Objects	56,000	112,000	168,000

Agency: 035 Office of State Actuary
Decision Package Code/Title: AE OSA Retention Contingency Package
Budget Period: 2015-17
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

OSA requests \$50,000 to provide additional salary increases for retention purposes if necessary. The \$50,000 represents approximately a one-time salary increase of 10 percent for two credentialed actuaries for 24 months (based on the current average annual salary for credentialed actuarial staff). OSA has faced difficulties recruiting credentialed actuaries and has made counter offers in an effort to retain them.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	25,000	25,000	50,000
Total Cost	25,000	25,000	50,000

Package Description:

OSA Retention Contingency Package

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Retain current staff expertise and maintain current levels of service.

Performance Measure Detail

Activity:

No measures submitted for package

Incremental Changes

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Not applicable.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Not applicable.

What are the other important connections or impacts related to this proposal?

Not applicable.

What alternatives were explored by the agency, and why was this alternative chosen?

We considered absorbing this cost should the need to provide retention salary increases arise next biennium. We selected this option because, if approved, the authority to provide such salary increases would be clearly granted.

What are the consequences of adopting or not adopting this package?

OSA may not have the authority or available funds to provide such salary increases next biennium if necessary to retain actuarial staff.

What is the relationship, if any, to the state's capital budget?

Not applicable.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

Not applicable.

Expenditure and revenue calculations and assumptions

Not applicable.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The \$50,000 of additional funding represents a one-time request, but the cost of providing additional salary increases for retention purposes would become an on-going expense if increases are provided during the 2015-17 Biennium.