

Select Committee on Pension Policy

Early Retirement Factors (Retire-Rehire)

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Overview

- Stakeholders have written the SCPP requesting a change to retire-rehire provisions
- Currently, members who retire early under the 2008 Early Retirement Factors (ERFs) are prohibited from using retire-rehire provisions before age 65
- According to stakeholders, this restriction is at least partly contributing to substitute teacher shortage
- Executive Committee scheduled work session

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Today's Presentation

- Background
 - Retire-rehire
 - ERFs
 - Administrative process
- Initial policy considerations
- Possible next steps


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Retire-Rehire Rules Do Not Prevent Members From Returning To Work

- Retire-rehire limits when members can return to work and collect benefits at the same time
- No limit if retiree goes to work in private sector
 - Or ineligible position
- Limit of 867 hours if retiree works in a position that is normally eligible for retirement benefits
 - If retiree works more hours, benefits will be suspended
- Please see the plan handbooks for more info


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Members Of Plans 2/3 Can Retire As Early As Age 55

- Age 65 is “normal” retirement age
 - Meaning full benefits – no reduction
- Members who retire early have their monthly benefits reduced



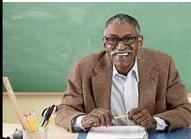
Why Are Early Retirement Benefits Reduced?

- Intended to offset the cost of paying benefits longer
- Base rule is full actuarial reduction
 - Same total benefits, but stretched out longer
 - To the extent assumptions match experience
 - Largest reduction
- Members with at least 30 years of service can qualify for smaller reduction



Subsidized Early Retirement Factors

- Early retirement with smaller reduction to benefits than full actuarial reduction
- Subsidized, meaning the plan absorbs the additional cost
 - Member receives benefits longer, creating a cost
 - Subsidized ERF is not a full offset of that cost



Three Types Of Subsidized Benefit Reductions For Early Retirement

- Types of ERFs
 - 2000 ERFs
 - 2008 ERFs
 - 2012 ERFs
- Different reductions and different restrictions



Early Retirement Factors

Reduction To Benefits					
Age	Full Actuarial	2000	2008	2012	
	Reduction*	ERFs	ERFs	ERFs**	
64	10%	3%	0%	5%	
63	19%	6%	0%	10%	
62	27%	9%	0%	15%	
61	34%	12%	2%	20%	
60	41%	15%	5%	25%	
59	46%	18%	8%	30%	
58	51%	21%	11%	35%	
57	56%	24%	14%	40%	
56	60%	27%	17%	45%	
55	64%	30%	20%	50%	
Can use retire-rehire before age 65					
	Y	Y	N	Y	

*Factors are rounded to the nearest percent. For more details, see the DRS document "Thinking About Retiring Early?" <http://www.drs.wa.gov/publications/member/multisystem/p23earlyretirement.htm>

**Members hired on or after May 1, 2013, are only eligible for the 2012 ERFs or a full actuarial reduction.



Hypothetical Example: Age 62 And 55

- Assuming 30 years of service and an AFC of \$50,000 per year

Hypothetical Early Retirement At Age 62				
	Unreduced Yearly Benefit	Early Retirement Benefit	ERF Reduction	Retire-Rehire Eligible Before Age 65
2000 ERFs	\$30,000	\$27,300	9%	Y
2008 ERFs	\$30,000	\$30,000	0%	N
2012 ERFs	\$30,000	\$25,500	15%	Y

Hypothetical Early Retirement At Age 55				
	Unreduced Yearly Benefit	Early Retirement Benefit	ERF Reduction	Retire-Rehire Eligible Before Age 65
2000 ERFs	\$30,000	\$21,000	30%	Y
2008 ERFs	\$30,000	\$24,000	20%	N
2012 ERFs	\$30,000	\$15,000	50%	Y



Early Retirements Since July 1, 2008

Early Retirements Since July 1, 2008	
ERF	Count
Full Actuarial Reduction	7,891
2000 ERFs	228
2008 ERFs	Total 5,024
	Under age 65 3,542
	Over age 65 1,482
2012 ERFs	N/A

*All plans as of November 3, 2014.
Source: Department of Retirement Systems

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Administrative Process

- DRS notifies members of the retire-rehire restriction at several points in time
- For example
 - Forms members must fill out at retirement
 - Retirement seminars
 - Brochures
 - Responses to requests for retirement benefit estimates

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Initial Policy Considerations

- Benefit consistency
- Recruitment and retention
- Overlap with education and human resource policy



Benefit Consistency

- Different retire-rehire rules in current law
 - Restriction only exists for 2008 ERFs; not before or after
- Statutory goal of providing consistency whenever possible
 - Some exceptions have been made where the Legislature felt it was warranted (e.g. public safety)
- Not clear from written record why retire-rehire rules for 2008 ERFs are different



Sample Policy Viewpoints: Benefit Consistency

- Some may feel the retire-rehire rules should be the same for all retirees
 - Consistency could go either way: All can use or none can
- Others may feel the retire-rehire rules for the 2008 ERFs is tradeoff, and a warranted exception to general rules
 - Higher monthly benefits – 2008 ERFs
 - Ability to use retire-rehire before age 65 – 2000 ERFs
- Still others may feel that some groups are in a unique position and an exception to current rules is warranted
 - Substitute teachers?
 - Others?



Recruitment And Retention

- Retire-rehire could be described as either recruitment or retention
 - Allows entities to tap into skills and expertise of former employees on temporary and part time basis
- Issue may be early retirement itself
 - DB plans generally reward longevity with larger benefits
 - If members can receive the same benefits at an earlier age, they may feel compelled to do so
 - Employers may need to enact special measures to recruit/retain experienced personnel



Sample Policy Viewpoints: Recruitment And Retention

- Some may feel it is a retire-rehire issue
 - Employers should be able to recruit among retirees regardless of which ERFs they retire under
 - Employers may have greater need/desire to utilize retirees in certain occupations
- Others may feel that retention of experienced personnel is an early retirement issue
 - Not necessarily a retire-rehire issue
- Still other policy makers may be concerned about the public perception of rehiring retirees



Overlap With Education And Human Resource Policy

- Prior two issues are broad pension issues
- SCPP may want to coordinate with other entities to address stakeholders' assertion about substitute shortage
- Staff was unable to locate data on substitute teachers
- Possible areas of research
 - Is the shortage statewide?
 - How severe is the shortage?
 - Are there ways of addressing substitute teachers outside the pension system?
 - What effect, if any, will *McCleary* or I-1351 have on this issue?



Summary

- Plans 2/3 members who retire early under the 2008 ERFs are prevented from using retire-rehire until they reach age 65
 - Stakeholders have stated that this prohibition is at least partly contributing to a shortage of substitute teachers
- The retire-rehire prohibition does not apply if the member
 - Retires at normal retirement age
 - Retires early with less than 30 years of service or a different ERF

Sample Pension Policy Questions

- How are the retire-rehire rules for 2008 ERFs impacting the workforce?
- Is the retire-rehire restriction for the 2008 ERFs a warranted exception?
 - Benefit consistency
 - Workforce needs
- If not, should consistency be restored in some way?
 - All retirees or no retirees?
- Or is another exception warranted?
 - In other words, restriction not applied to certain groups only (e.g. substitute teachers)
- Should research be coordinated with other entities?

Possible Next Steps

- Nothing further at this time
- Further study
- Ask staff to prepare options based on clear policy goals
- Coordinate study with other entities

