Select Committee on Pension Policy

Early Retirement Factors (Retire-Rehire)

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Office of the State Actuary
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Quick Refresher

- Members who choose to retire early under the 2008 Early Retirement Factors (ERFs) are prohibited from using retire-rehire provisions before age 65
- According to correspondence, this restriction is at least partly contributing to substitute teacher shortage

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Follow Up From Last Month's Work Session

- Policy briefing last month
- Executive Committee asked staff to
  - Survey school districts with the help of Office of the Superintendent of Public Instruction (OSPI) and present results
  - Show possible fiscal impacts to removing retire-rehire restriction
- SCPP members expressed desire to hear from cities/counties on the issue
  - Received memo from Association of Washington Cities (AWC)

Today's Presentation

- Survey of districts
- AWC memo
- Fiscal impact of removing retire-rehire restriction
- Possible next steps

Survey Of School Districts

- Executive Committee instructed staff to survey school districts regarding substitute teacher shortage and possible retire-rehire connection
  - Assisted by OSPI
- Polled administration
- Full list of questions in appendix of PowerPoint

Limited Results Available Today

- Response rate
  - Eighty-nine total responses out of 295 districts
  - Many responses incomplete or require clarification of at least one answer lowering initial response farther
  - Responding districts represent approximately 43 percent of enrolled students
- Timing
  - Recipients were given short time to respond
  - Staff had short time to compile
- Staff will continue compiling and make final summary publicly available
- For today, will present the easiest questions to quantify and compile without additional clarification

Is There A Shortage Of Certified Substitutes In Your District?

- Seventy-four responding districts said yes
  - Six said no
  - Nine did not answer or require clarification
  - Some report greater difficulty in certain areas such as special education
- Forty-seven districts reported shortages in non-teaching positions, such as bus drivers and food service
  - Twenty said no
  - Twenty-two did not answer or require clarification

Would Removing Retire-Rehire Restriction For 2008 ERF Recipients Help?

- Survey asked districts if they have identified
  - Cause(s) of the shortage
  - Potential solution(s) they believe would help
- Eight responding districts said removing the restriction would help
  - Eighty-one did not answer or did not identify it as a potential solution
  - Other identified causes and solutions will be included in final summary
- Unknown if or how much removing restriction would help other districts
- Removing restriction would make some retirees eligible to work earlier

How Many Retired Teachers Would Be Available If The Restriction Was Removed?

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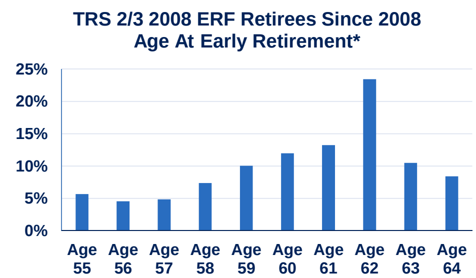
- As many as 1,003 as of November*
- Can only determine upper limit
  - Not all would choose to work
  - May have other jobs, conflicts, or have left the state
  - Most have retired at age 62 and are only unavailable for three years



* Source: DRS.

AWC Memo

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- Staff was asked to reach out to cities and counties
  - Memo emailed to SCPP members
    - Received after packets printed, so not in correspondence log
- In brief, according to AWC
  - Complex regulations can lead to inadvertent violation
  - Several areas where cities need experienced personnel on temporary basis
    - E.g., interim management, planning, community development, public works
  - Would welcome efforts to streamline retire-rehire provisions

Executive Committee Asked About The Cost Of Removing The Retire-Rehire Restriction From The 2008 ERFs

- Assume removing prospectively
- Some members currently choose to retire under 2000 ERFs
  - Selection represents a savings to the systems
- Removal of retire-rehire restriction from 2008 ERFs removes incentive to retire under the 2000 ERFs
  - Fewer, if any, retirees would choose 2000 ERFs
  - Would reduce or eliminate future gains associated with this selection

Preliminary Budget Impacts

Preliminary Budget Impacts				
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**Total**
2015-2040				
General Fund	$4	$62	$3	$68
Non-General Fund	$6	$0	$0	$6
Total State	**$9**	**$62**	**$3**	**$74**
Local Government	$11	$25	$3	$39
Total Employer	**$20**	**$87**	**$6**	**$113**
Total Employee	**$16**	**$17**	**$2**	**$35**

Note: Totals may not agree due to rounding.

- Please see the appendix for additional detail on these estimates. Note the rate impacts used to estimate this pricing are used for budget purposes only. No supplemental contribution rate will be charged as a result of this proposal. The estimated contribution rate increases will arise over time as data gains from electing the 2000 ERF no longer occur.

Hypothetical Example: Age 62 And 55

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

Hypothetical Early Retirement At Age 62

	Unreduced Yearly Benefit	Initial Early Retirement Benefit	Present Value of Lifetime Benefits*	ERF Reduction	Retire-Rehire Eligible Before Age 65
2000 ERFs	$30,000	$27,300	$390,000	9%	Y
2008 ERFs	$30,000	$30,000	$430,000	0%	N
2012 ERFs	$30,000	$25,500	$370,000	15%	Y

Hypothetical Early Retirement At Age 55

	Unreduced Yearly Benefit	Initial Early Retirement Benefit	Present Value of Lifetime Benefits*	ERF Reduction	Retire-Rehire Eligible Before Age 65
2000 ERFs	$30,000	$21,000	$340,000	30%	Y
2008 ERFs	$30,000	$24,000	$390,000	20%	N
2012 ERFs	$30,000	$15,000	$240,000	50%	Y

**Present Value based on a single life annuity factor, calculated using an interest rate of 7.8% and TRS mortality rates at a valuation date of 2013. All assumptions are consistent with the June 30, 2013, Actuarial Valuation Report.*

Summary

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- Survey
  - Eighty-nine responses out of 295 districts
  - Staff will finish compiling survey results and make summary available to members, education staff, and public
- AWC memo
  - States that AWC would welcome efforts to streamline retire-rehire provisions
- Fiscal Impact
  - Removal of retire-rehire restriction from 2008 ERFs would reduce or eliminate future gains associated with selection of 2000 ERFs

Possible Next Steps

- Nothing further at this time
  - Wait and see what impact *McCleary* and I-1351 may have on the issue
- Further study next interim related to
  - Teachers/school employees
  - Other types of employees
- Coordinate study with other entities
- Endorse a proposal
- Make a recommendation or policy statement

Appendix

- Survey Questions
- Sample Policy Viewpoints from last month
  - Benefit consistency
  - Recruitment and retention
- Tables from last month
- Actuarial support information

Survey Questions (Part One)

- Do you have a substitute teacher shortage?
  - If so, is it for certain grades or subjects?
- What is the daily compensation rate for substitutes?
- How many applicants have applied to substitute teach?
  - Of those, how many of them does your district consider viable?
    - I.e., have successfully interviewed or met all of your district's criteria for hiring
  - If they are not viable, what are the most prevalent reasons why?
- How many substitutes are needed in your district?
  - On an average day?
  - Over the course of an average school year?

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Survey Questions (Part Two)

- What percentage of requests go unfilled in your district?
  - On an average day?
  - Over the course of an average school year?
- Have these numbers increased or decreased over the last few years?
- If the fill rate is less than 100 percent:
  - Have you identified the root cause(s)?
  - Do you have any suggested solutions that could help your district improve its fill rate?
- What other types of substitute employees (e.g., substitute bus drivers, and classroom assistants) does your district employ?
  - Please answer the above questions for each type of temporary employee.

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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?

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

Early Retirement Factors

Reduction To Benefits				
Age	Full Actuarial Reduction*	2000 ERFs	2008 ERFs	2012 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.*

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

Actuary's Certification

For the pricing exercise on slide 11, the undersigned hereby certifies that:

- The actuarial cost and asset valuation methods are appropriate for the purposes of this pricing exercise.
- The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
- The data on which this estimate is based are sufficient and reliable for the purposes of this pricing exercise.
- Use of another set of methods, and assumptions, and data may also be reasonable, and might produce different results.
- We prepared this estimate for the SCPP during the 2014 Interim.
- We prepared this estimate and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on slide one of this presentation.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this estimate is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Luke Masselink

Luke Masselink, ASA, EA, MAAA
Actuary

Special Data Needed

The Department of Retirement Systems (DRS) provided headcounts of eligible retirements since 2008 and their early retirement factor election. That data is summarized below. No other special data was needed. The remaining data and assets are the same as those described in the AVR.

Early Retirement Factor Selection*			
	No. Selecting 2008 ERFs	No. Selecting 2000 ERFs	No. Selecting 2000 ERFs
PERS 2/3	3,247	62	1.9%
TRS 2/3	1,344	137	9.3%
SERS 2/3	371	26	6.5%

Data provided by DRS for members retiring early between 2008 and 2014.

Assumptions We Made

The current valuation assumes all eligible retirements will elect the more generous 2008 Early Retirement Factors (ERF). The assumptions used to price this bill include a reversion back to the 2000 ERF and a change to retirement rates related to the ERF reversion. These assumption changes are applied to PERS 2/3, TRS 2/3, and SERS 2/3 members hired before May 1, 2013.

A table detailing both ERFs is located on slide 20.

Since the reduction in benefits is greater under the 2000 ERF, we assume member retirement behavior would also change. This change in behavior is assumed to only occur at service greater than or equal to 30 years. When compared to the 2008 ERF retirement rates, in general, members are assumed to retire later since the early retirement subsidy is not as large. The adjusted set of rates in the following table was developed under the same methods as the 2007-2012 Demographic Experience Study and reflects the assumed behavior change.

Assumptions We Made *(Continued)*

Adjusted Retirement Rates

	PERS Plans 2/3		SERS Plans 2/3		TRS Plans 2/3			
	Svc >= 30		Svc >= 30		Svc = 30		Svc > 30	
Age	Male	Female	Male	Female	Male	Female	Male	Female
55	0.04	0.04	0.03	0.04	0.07	0.06	0.04	0.04
56	0.05	0.04	0.04	0.04	0.07	0.07	0.05	0.06
57	0.06	0.04	0.05	0.04	0.07	0.08	0.06	0.07
58	0.07	0.04	0.06	0.05	0.08	0.10	0.06	0.08
59	0.09	0.09	0.08	0.09	0.12	0.11	0.08	0.10
60	0.08	0.08	0.08	0.07	0.16	0.13	0.11	0.11
61	0.12	0.15	0.17	0.15	0.24	0.23	0.17	0.17
62	0.25	0.23	0.26	0.23	0.33	0.33	0.27	0.26
63	0.23	0.20	0.24	0.22	0.29	0.30	0.24	0.24
64	0.56	0.56	0.56	0.51	0.55	0.49	0.55	0.48

Otherwise, we developed these costs using the same assumptions as disclosed in the June 30, 2013, AVR.

How We Applied These Assumptions

The results in the AVR assume that all eligible retirees elect the more generous 2008 ERF. That means when a retiree does elect the 2000 ERF, the subsequent valuation will experience a data gain from that decision since the retirement benefit will be less than assumed. By removing the retire/rehire restriction, there will no longer be an incentive for any retiree to elect the 2000 ERF. Therefore, we expect all eligible retirees will elect the 2008 ERF and there will no longer be any data gains from this election in future valuations.

To estimate the long-term budget impact, we created a new base assuming all eligible early retirements would elect the 2000 ERF. The pricing run became our current valuation since that valuation assumes everyone elects the 2008 ERF. The actual impact of removing this restriction will fall somewhere between these two runs.

To estimate the impact, we relied on historical experience provided by DRS detailing how many retirees elected each ERF given the choice (see Special Data Needed slide). We assumed the same percentage of historical retirements electing the 2000 ERF would occur for future active and terminated vested retirements if no changes were made.

How We Applied These Assumptions *(Continued)*

We applied these percentages to the fiscal impact between the base and pricing runs to estimate the long-term impact of removing the retire/rehire restriction.

We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members. We applied the change in the Aggregate rates to projected current member payroll to determine the fiscal impact. Those rates are summarized in the table below. Please note these are used for budget purposes only. No supplemental contribution rate will be charged as a result of this proposal. The estimated contribution rate increases will arise over time as data gains from electing the 2000 ERF no longer occur.

Impact on Contribution Rates			
System/Plan	PERS	TRS	SERS
Current Members			
Employee (Plan 2)	0.016%	0.105%	0.031%
Employer	0.016%	0.105%	0.031%

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

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How The Results Of This Estimate Could Change

If this proposal is introduced as a bill during the 2015 Legislative Session, we will prepare a fiscal note based upon that bill language. The results of that pricing may change from the estimate documented in this presentation.

In particular, this analysis is sensitive to the assumption regarding the percentage of the population we expect to select the 2000 ERF in the future. Further research and information may ultimately lead us to change this assumption when we produce a fiscal note. Similarly, we may decide to use a different methodology to produce retirement rate changes for this proposal.