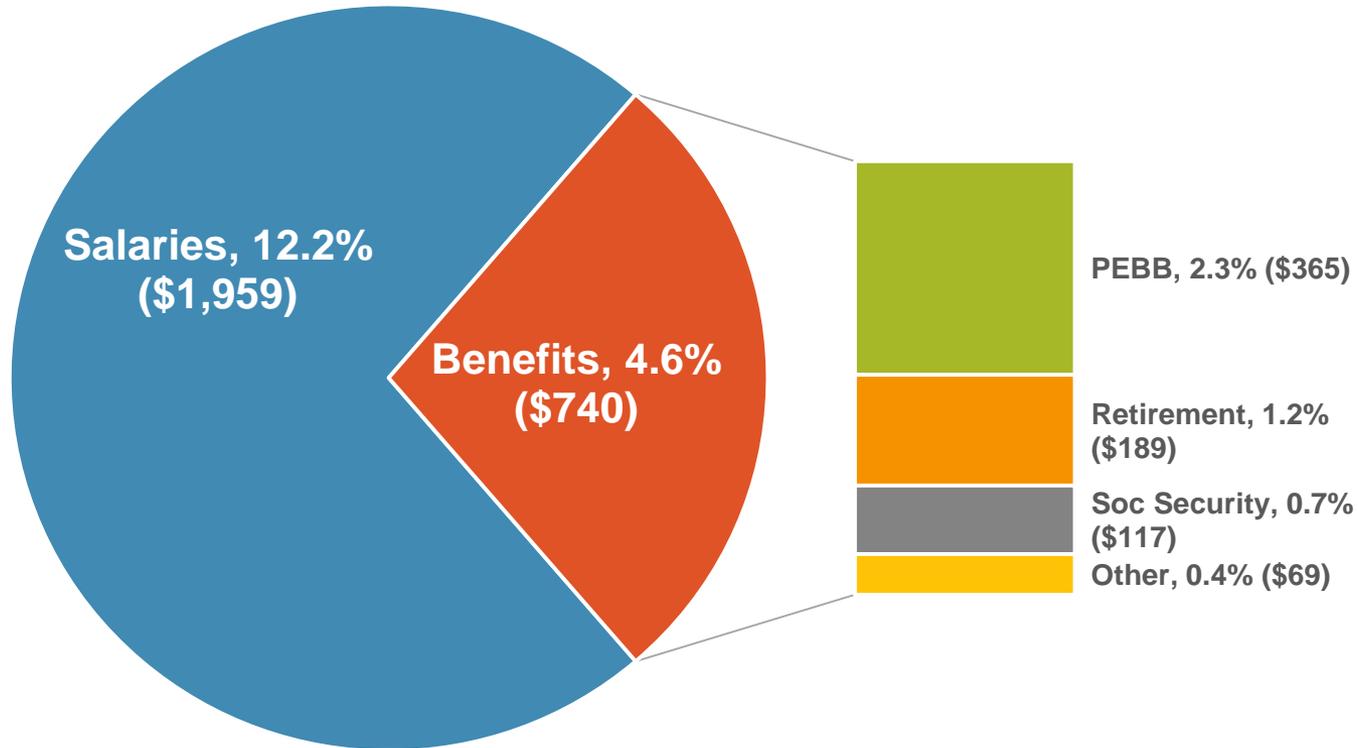


# OVERVIEW OF COMPENSATION BUDGETS

# Salaries & Benefits are just under 17% of the State General Fund

2

## FY 2014 Actual Expenditures\* % of State General Fund \$ in millions

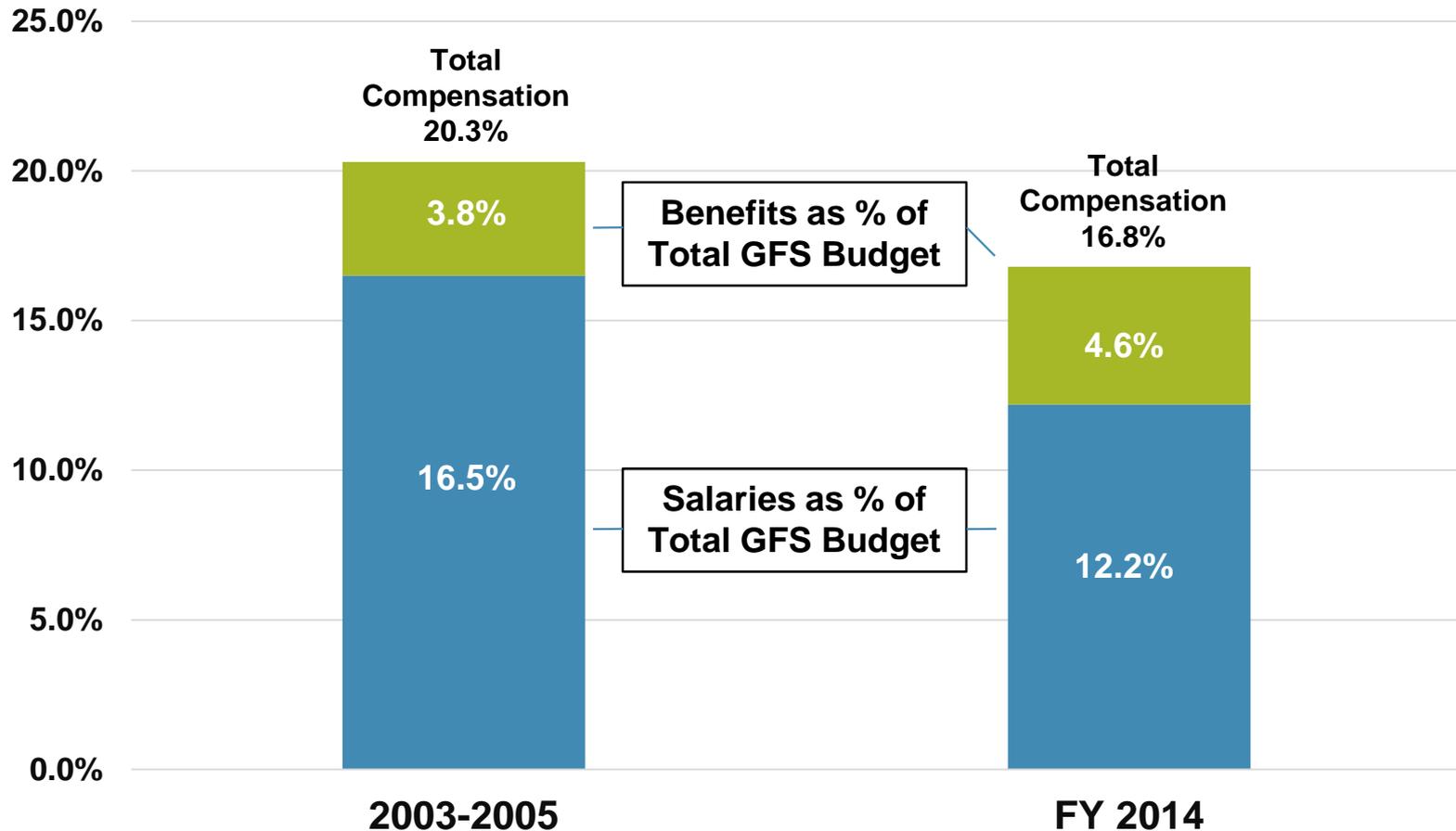


\* not including K12 compensation nor non-state employees

# The portion of the state budget spent on state employee salaries has become smaller while the portion spent on benefits has grown

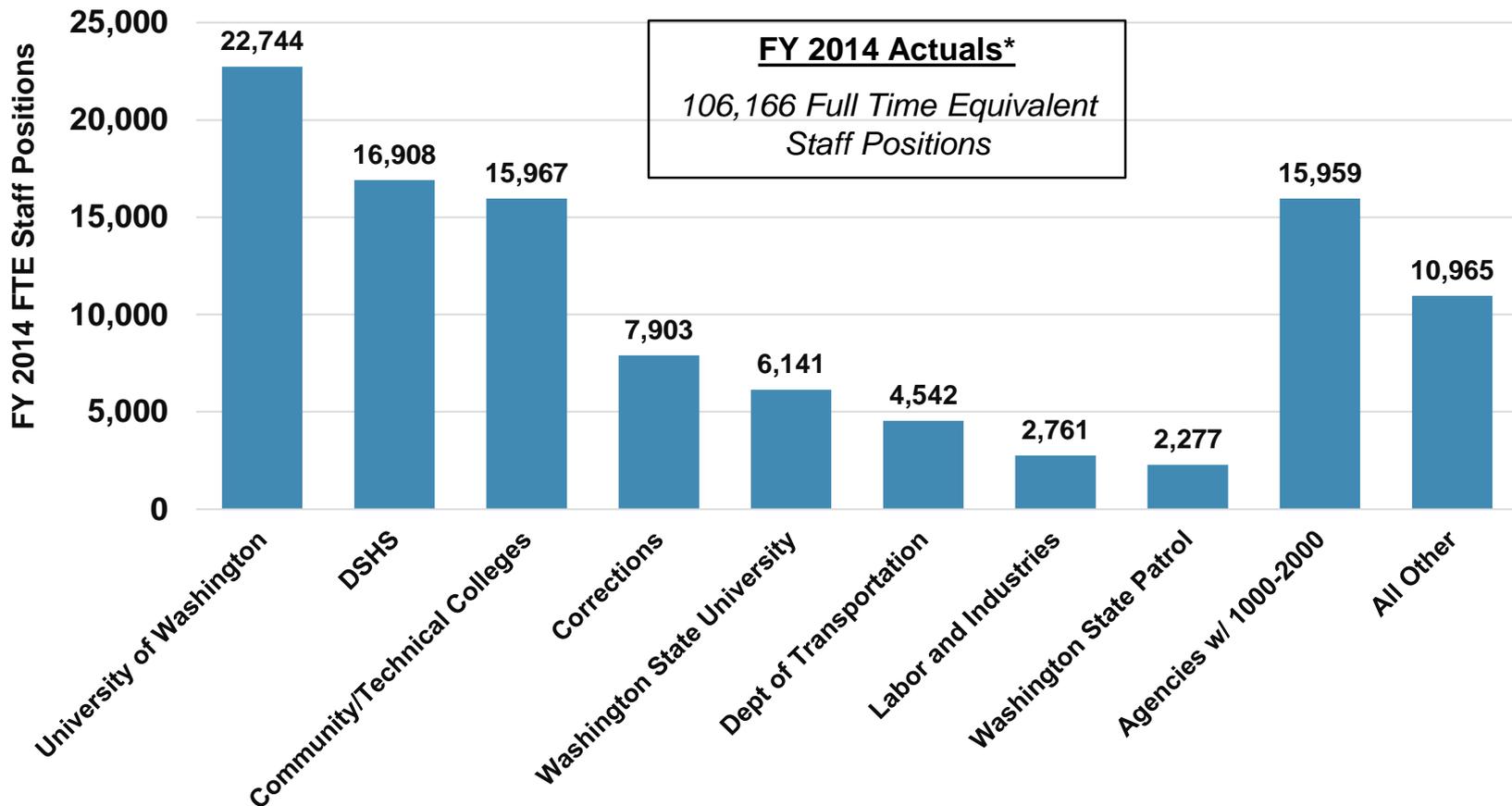
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State Employee Compensation As a Percent of Total GF-S Budget



# There are approximately 106,000 full time equivalent state agency and higher education staff

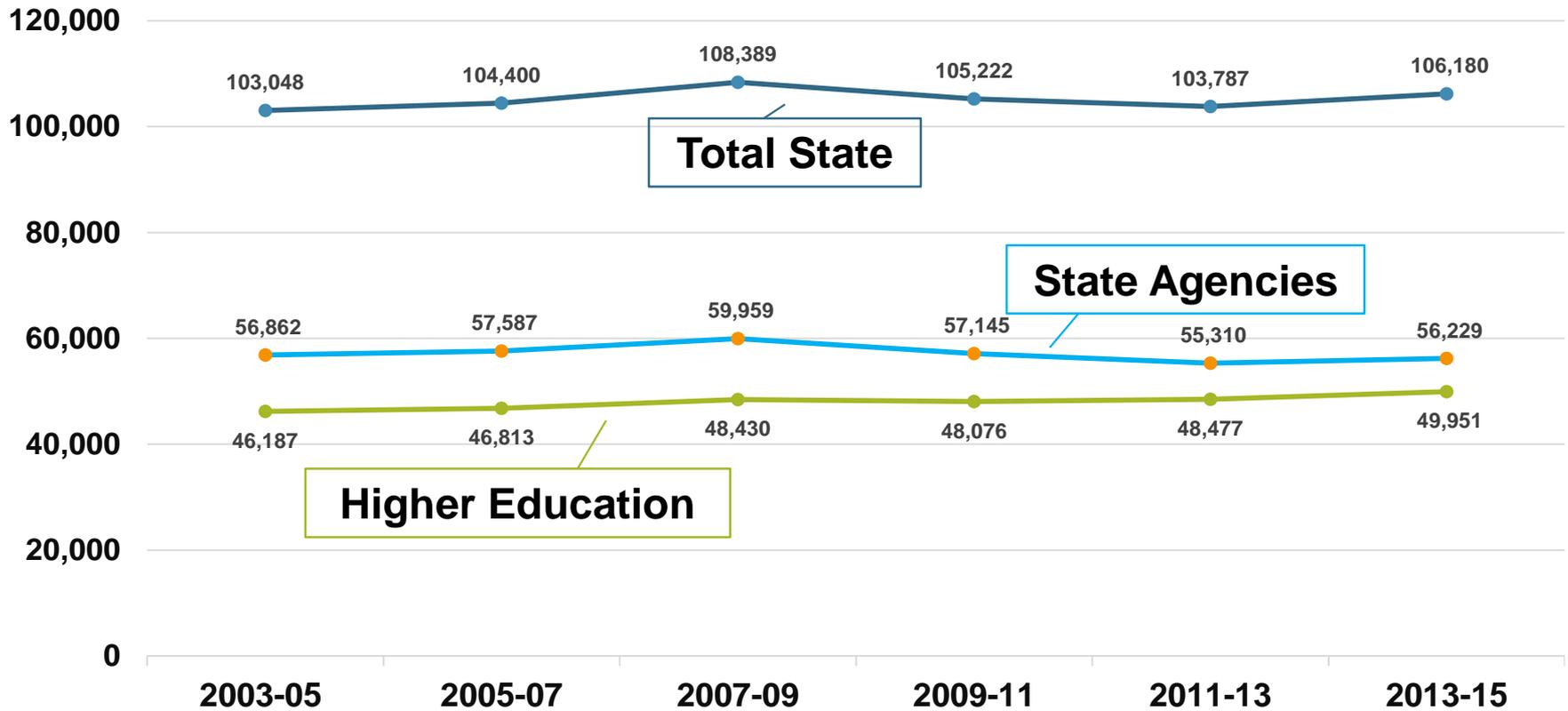
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\* Reflects operating omnibus and transportation budgets, excluding the approximately 3,200 positions funded in the capital budget.

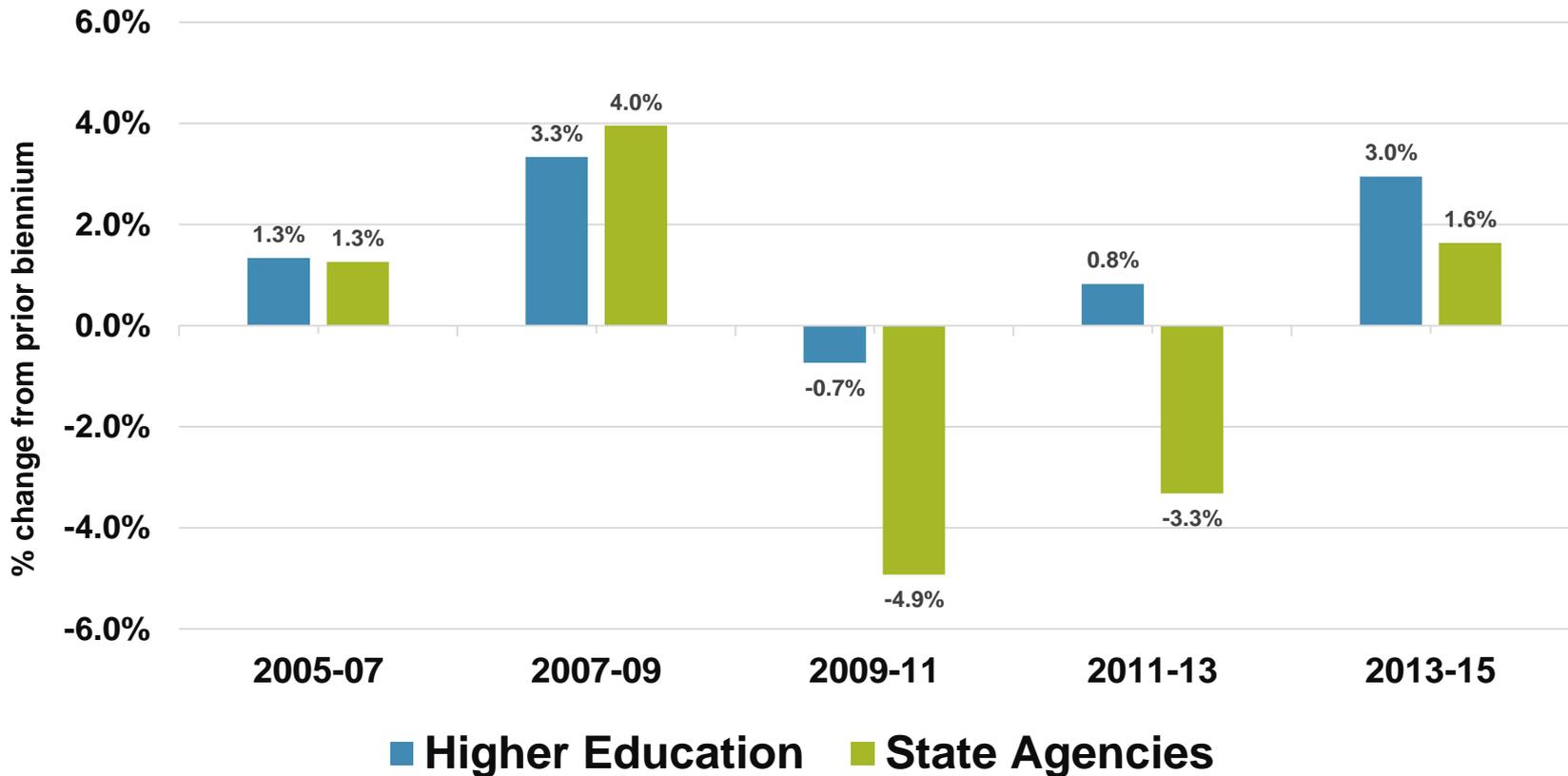
# The number of state agency staff is lower than in 2007-09 biennium; the number of higher education staff is higher

## FTEs by Biennium



# The rates of decline or increase vary by biennium

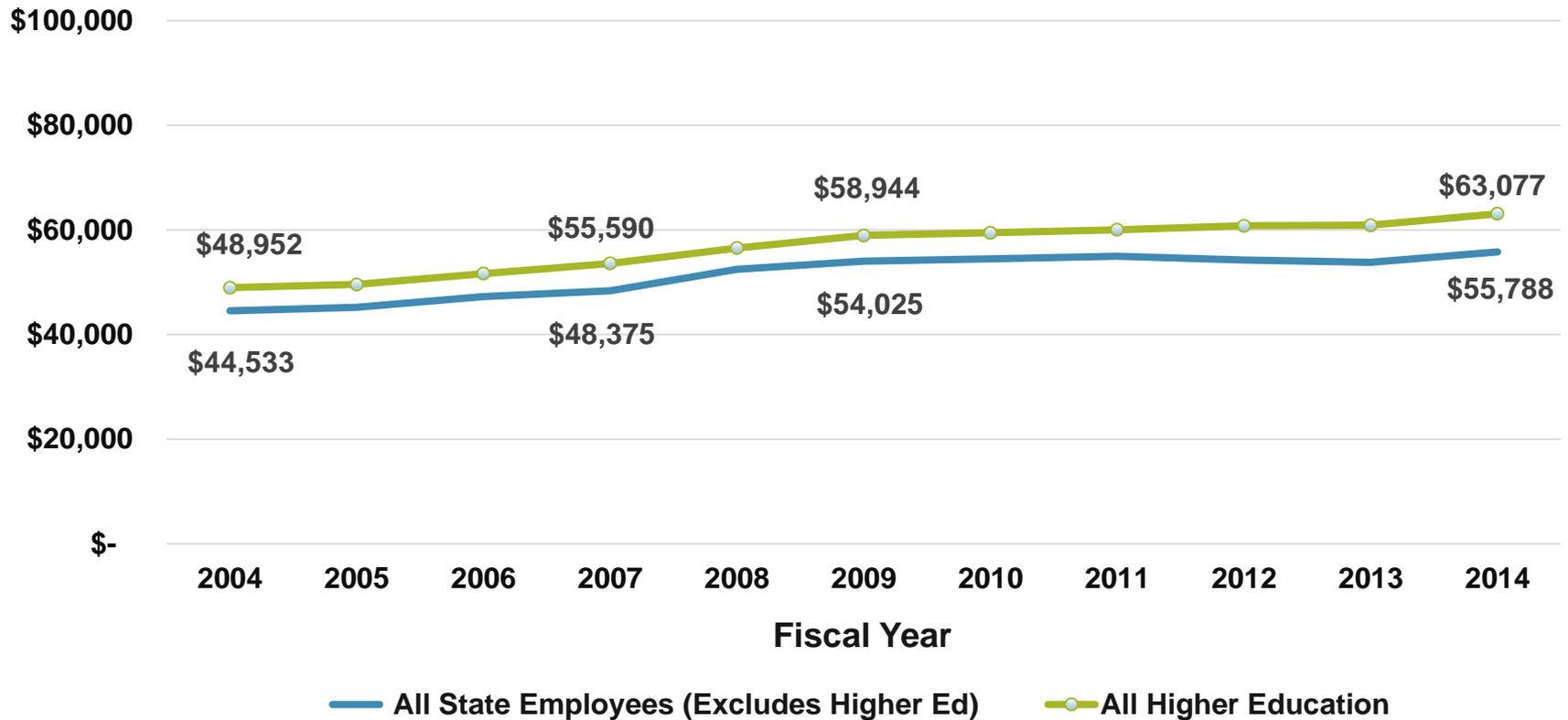
## FTE Change by Biennium



# Comparison of changes in overall average wages

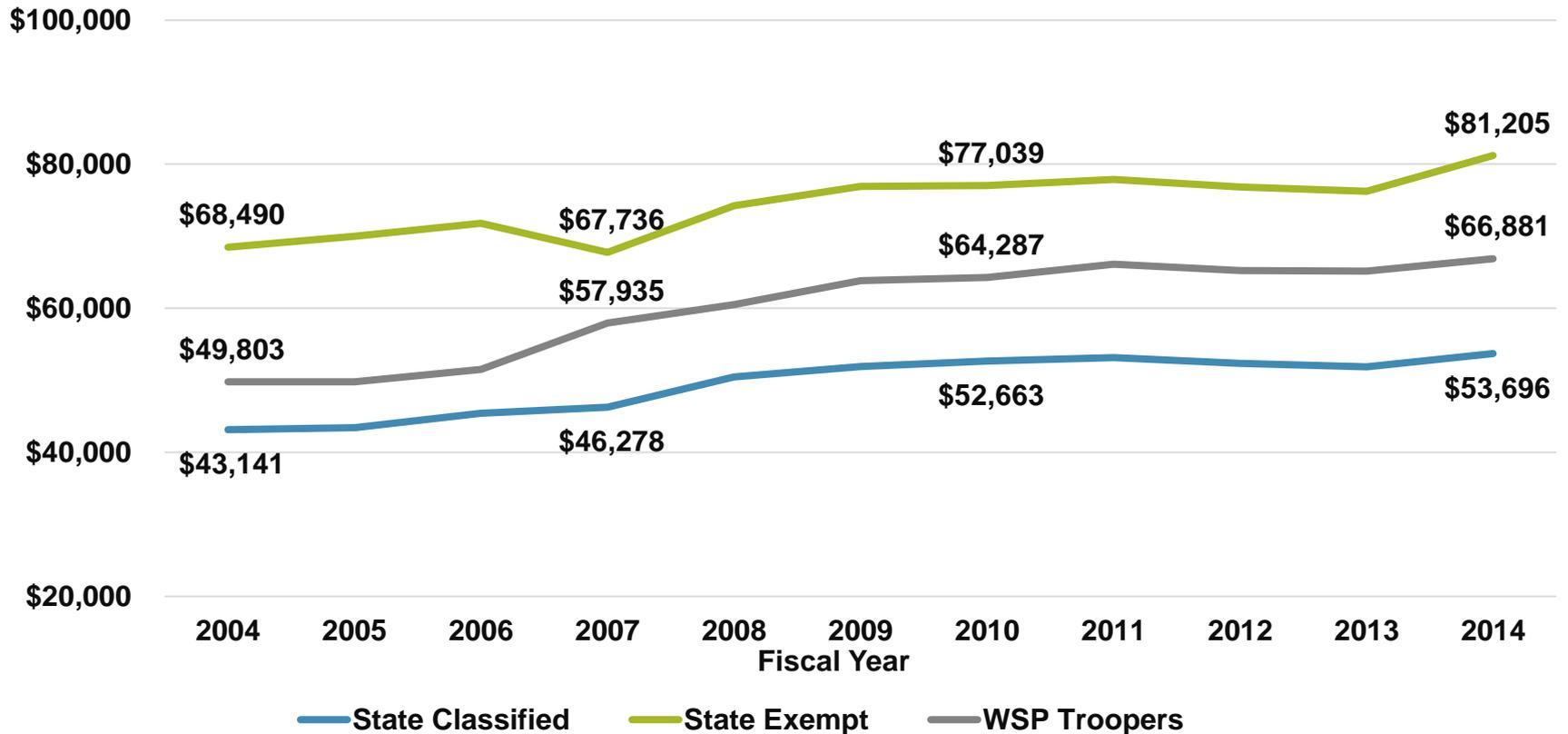
7

## State Employee and Higher Education Average Wages Fiscal Year 2004 - Fiscal Year 2014



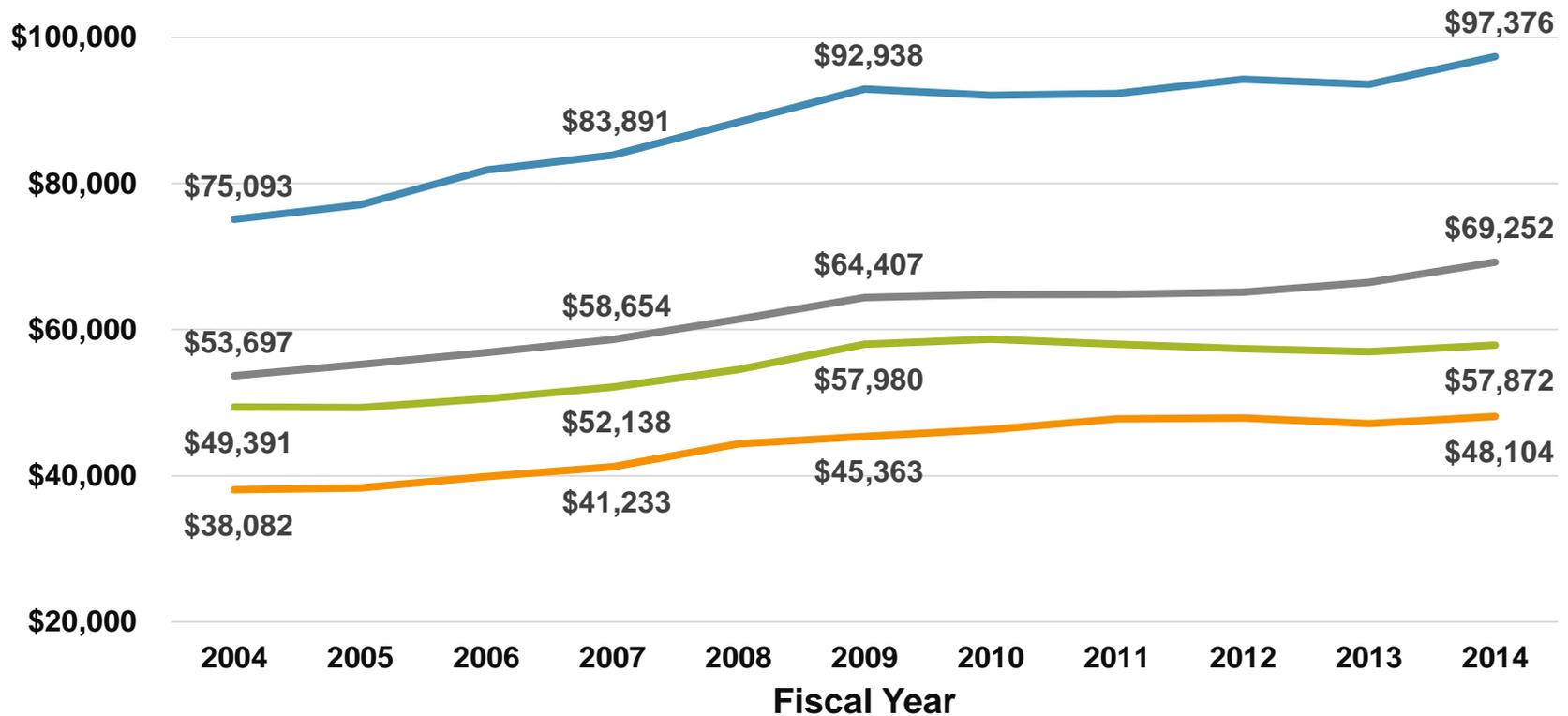
# The average salary varies by employee type

### State Employee Average Wage Change Fiscal Year 2004 - Fiscal Year 2014



# Likewise, average salaries vary by employee type in higher education

### Higher Education Average Wage Change Fiscal Year 2004 - Fiscal Year 2014



Higher Ed Four Year Faculty  
Higher Ed Classified

Higher Ed Two-Year Faculty (AF)  
Higher Ed exempt

# Legislatively Authorized Across-the-Board Salary Changes

	State Classified	WSP Troopers	Higher Ed Four-Year Faculty	Higher Ed Two-Year Faculty	Higher Education Classified	US IPD	Seattle CPI
<b>FY 2004</b>	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	1.3%
<b>FY 2005</b>	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	1.9%
<b>FY 2006</b>	3.2%	3.2%	3.2%	3.2%	3.2%	3.1%	3.2%
<b>FY 2007</b>	1.6%	5.0%	1.6%	1.6%	1.6%	2.3%	4.0%
<b>FY 2008</b>	3.2%	4.0%	3.2%	3.2%	3.2%	3.1%	4.2%
<b>FY 2009</b>	2.0%	4.0%	2.0%	2.0%	2.0%	1.2%	2.4%
<b>FY 2010</b>	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	0.3%
<b>FY 2011</b>	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%	1.2%
<b>FY 2012</b>	-3.0%	0.0%	-3.0%	-3.0%	-3.0%	2.4%	3.1%
<b>FY 2013</b>	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	1.8%
<b>FY 2014</b>	3.0%	3.0%	3.0%	3.0%	3.0%	1.3%	1.4%

- Salaries were frozen for many state employees in late FY 2009; temporary layoffs and compensation reductions for some management positions reduced some salaries in FY 2010 (some agencies were permitted to achieve reductions through approved alternative compensation reduction plans that did not involve reduced salaries).
- The temporary 3% salary reduction in 2011-13 excluded several groups including those earning less than \$2,500/month, some WSP and DOT, and select others identified in ESSB 5860.
- The temporary 3% salary reduction of 2011-13 was restored in the carryforward budget of 2013-15.
- The addition of a new step in the state salary schedules for general service employees and registered nurses in July 2013 provided 2.5% increases to at least 30,000 employees as of October 2014.

# Governor's budget funds the 2015-17 collective bargaining agreements (CBAs) and other compensation increases

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	GF-S (millions)	
<b><u>2013-15 Employee Compensation</u></b>		
Restore 3% Salary Cut	\$169	
New 2.5% Step M	\$39	
<b><u>2015-17 Employee Compensation</u></b>		
Salary Increases	\$229	(3% and 1.8% for most employees) (5% and 4.3% for most DOC employees) (7% and 3% for WSP troopers)
PEBB insurance contributions	\$61	(Plus \$190 M carry-forward adjustment)
Non-State Employee CBAs	\$150	(Home care & child care providers, adult family homes, language access providers)
<b>Total 2015-17</b>	<b>\$440</b>	

12

# Employee Health Benefits

# Individual costs of state and employee shares and participation (2015)

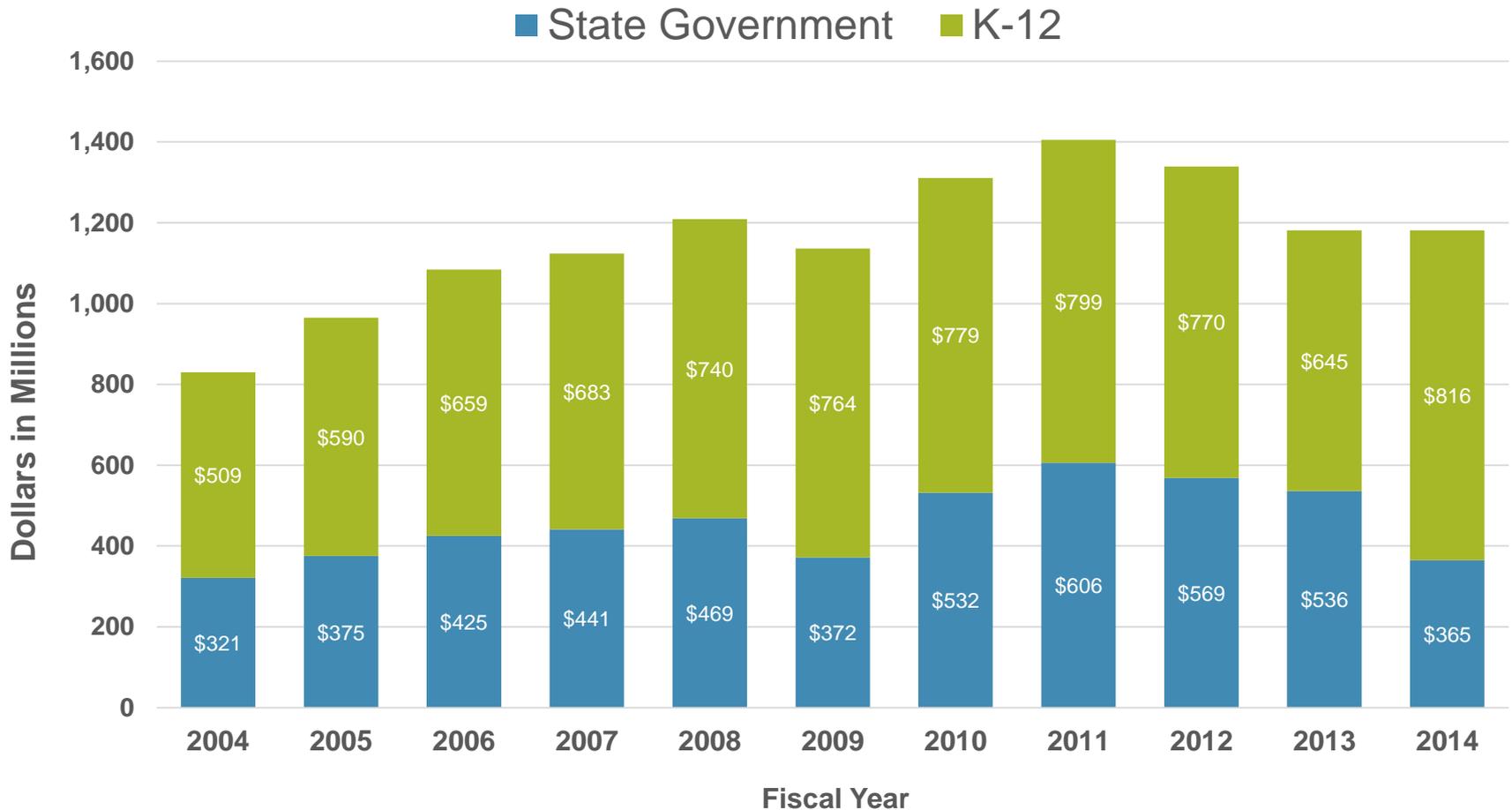
13

	Monthly Share		Enrollment	
	State Rate or Subsidy	Employee/ Retiree	Subscribers	Members
PEBB				
General Government and Higher Education	\$662	\$143	107,784	229,348
Medicare Retirees	\$150	\$235*	57,252	79,912
Non-Medicare Retirees	~\$300	\$579*	7,618	12,344
K-12	\$768 (certificated) \$885 (classified)	varies		

\* Example rate: Uniform Medical Plan

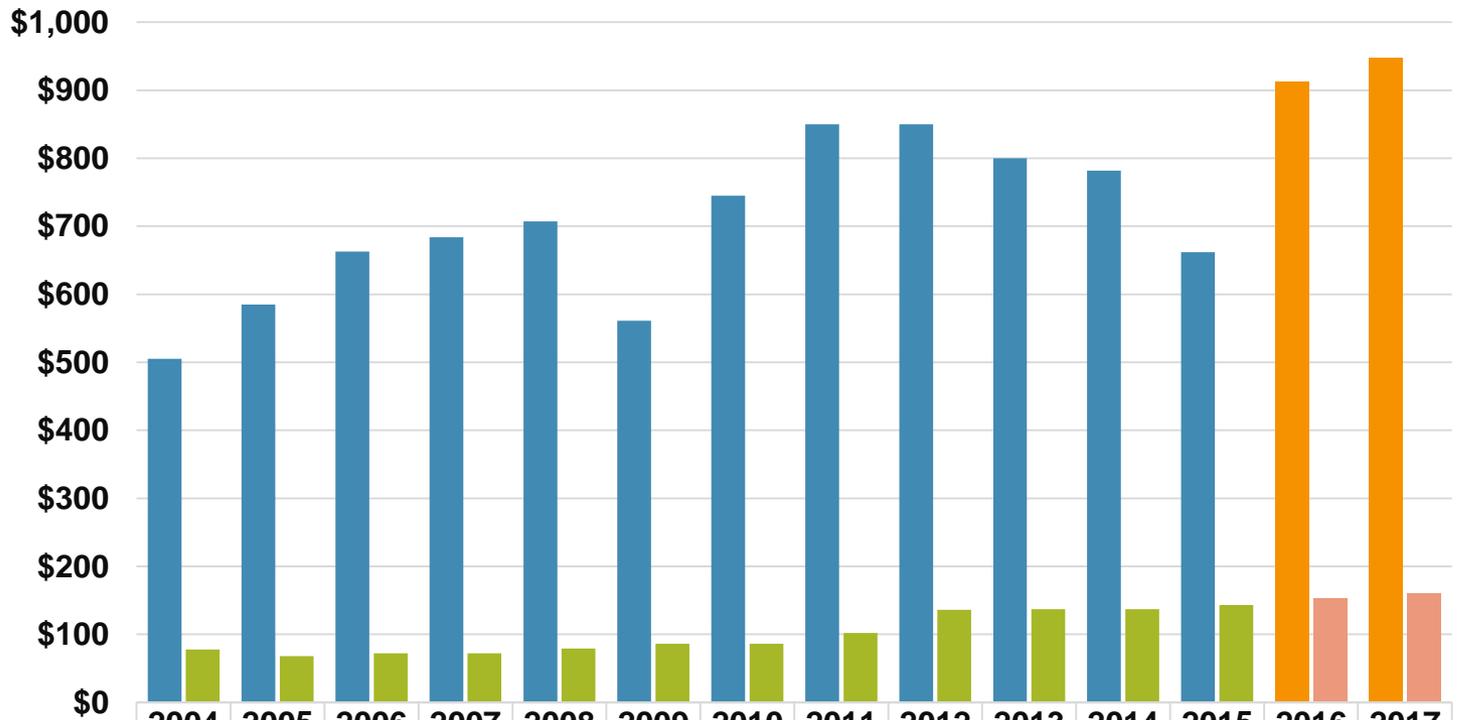
# In FY 2014, state funding for employee health benefits totaled \$1.2 billion GF-S for state agencies, higher education, and school districts

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State contributions were reduced in FY 2014 & 2015 by use of a PEBB fund surplus. Governor's budget assumes increases in contribution rates in FY 2016 and FY 2017 to maintain current benefits and employee cost share.

■ State Contribution ■ Employee Contribution



■ State Contribution	505	585	663	684	707	561	745	850	850	800	782	662	913	947
■ Employee Contribution	78	68	72	72	79	86	86	102	136	137	137	143	153	161

# Proposed 2015-17 Collective Bargaining Agreement for Health Benefits

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## Key provisions

Maintain 15% employee share of health premium cost

Maintain current UMP Classic point-of-service costs (deductibles, etc.)

- May be changed to support value-based benefits design or to respond to federal mandates

Option to earn \$125 or more Wellness Incentive

- Reduced deductible or deposit into Health Savings Account

	PEBB/UMP Classic	KFF/HRET 2014 survey
Employee % share of premium		
<ul style="list-style-type: none"> <li>• Employee only</li> <li>• Family</li> </ul>	<p>14.3 %</p> <p>15.3 %</p>	<p>18%</p> <p>29%</p>
Individual Deductible (PPOs)	\$250	\$843
Actuarial Value	84.3%	Not reported

# New State Employee Wellness Program (SmartHealth) Launched

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- **2014 :**
  - 77,000 subscribers qualify for \$125 incentive in 2015 by attesting to taking health assessment, choosing a primary care provider and starting a healthy activity.
  
- **2015:**
  - New wellness program portal launched January 1<sup>st</sup> with easy-to-use, interactive tools intended to promote fitness, nutrition, and stress management. New portal and program applies to all PEBB members, regardless of health plan.
  
  - 25,749 members representing 182 agencies and institutions have signed-on to the new portal to date. The first step includes a well-being assessment to help customize the member's involvement with the wellness program.

# The state provided \$1.6 billion GF-S funding for K-12 employee health benefits in 2013-2015

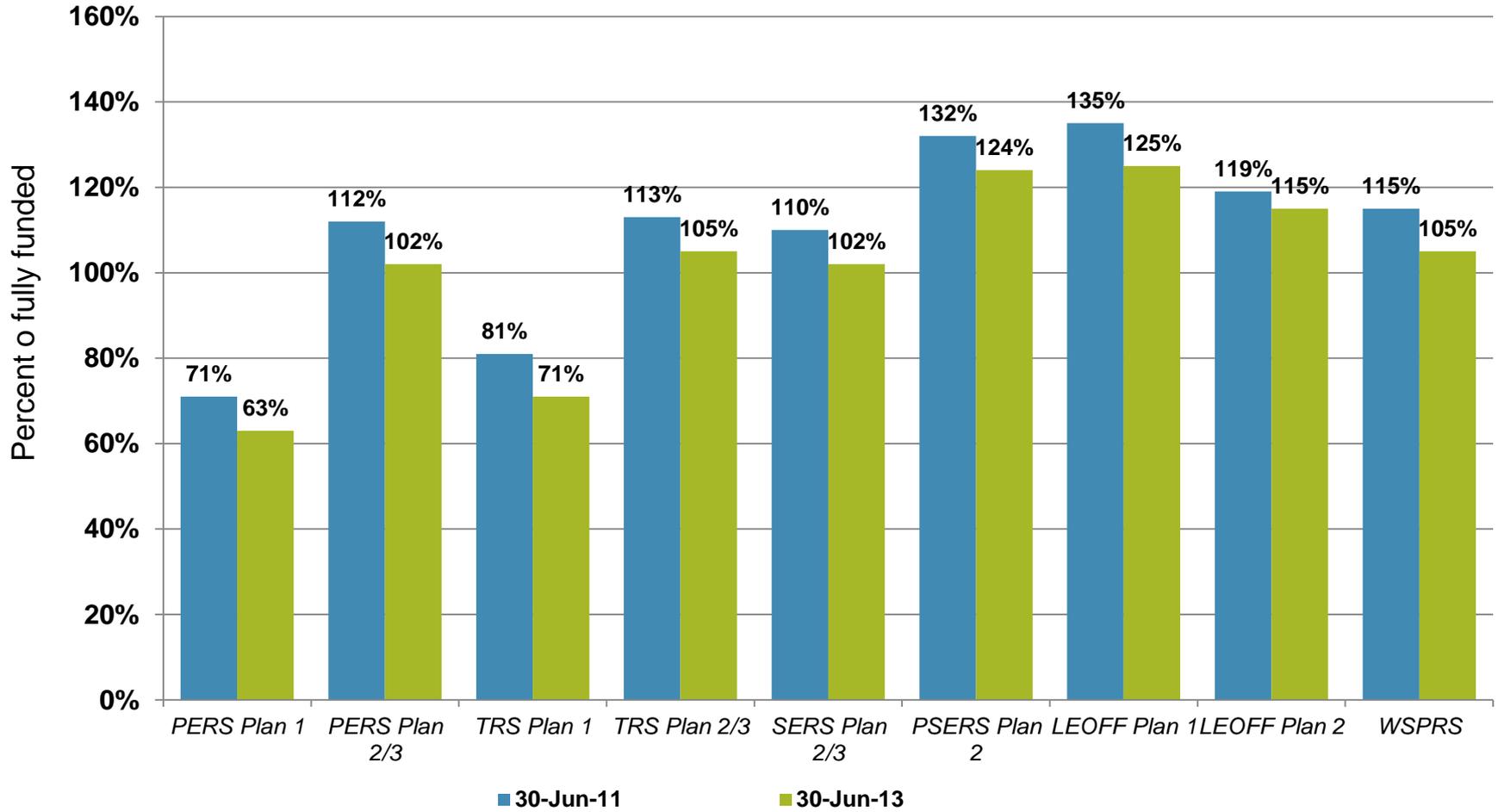
18

	GF-S (millions)	
2013-15 State funding for K-12 employee health benefits		
2013-2014 SY	\$795	\$768/mo certificated FTEs \$885/mo classified FTEs
2014-2015 SY	\$816	(same funding rates as FY 2014)
2015-17 State funding for K-12 employee health benefits (Maintenance Level)		
2015-2016 SY	\$884	(same funding rates as FY 2014-15)
2016-2017 SY	\$890	(same funding rates as FY 2014-15)
Additional cost if funded at level proposed for state employees	\$321	\$913/mo – FY 2016 \$947/mo – FY 2017

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# Pensions

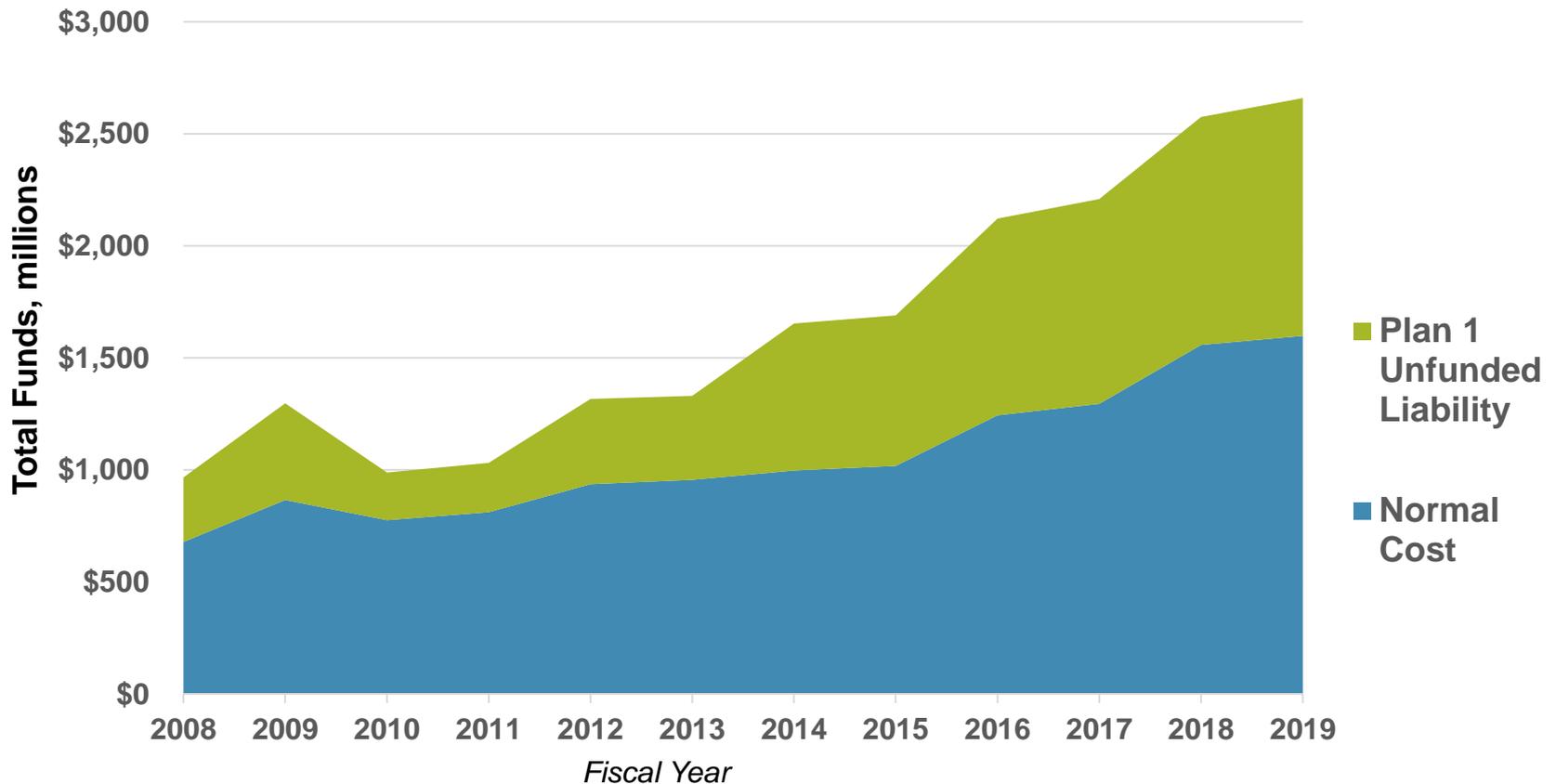
# Funded ratios in the State Retirement Systems declined between the 2011 and 2013 Actuarial Valuations – but much of the decline is attributable to assumption changes that recognize increased life expectancy



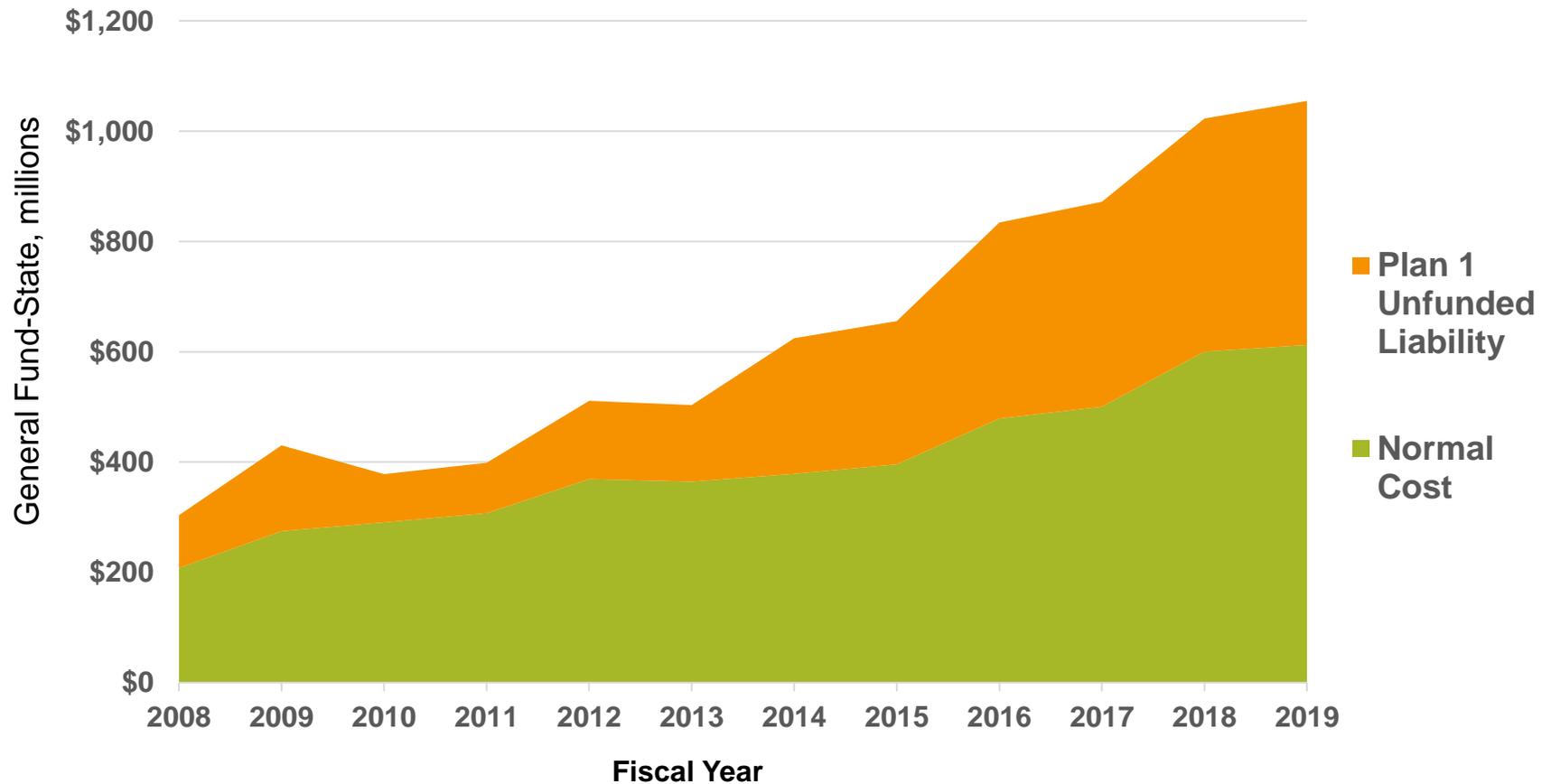
# Actuarial valuation studies indicate employer and plan 2 member contribution rates should increase in 2015-17.

<b>State Retirement System Contributions</b>					
	<b>2013-2015 Rates</b>		<b>2015-2017 (PFC Adopted Rates)</b>		
	<b>Plan 2</b>		<b>Plan 2</b>		
	<b><u>Employer</u></b>	<b><u>Member</u></b>	<b><u>Employer</u></b>	<b><u>Member</u></b>	
<i>PERS</i>	9.03	4.92	11.00	6.12	
<i>TRS</i>	10.21	4.96	12.95	5.95	
<i>SERS</i>	9.64	4.64	11.40	5.63	
<i>PSERS</i>	10.36	6.36	11.36	6.59	
<i>WSPRS</i>	7.91	6.59	8.01	6.69	
Excludes DRS administrative fee of 0.18%					

# Both the cost of current benefits (Normal Cost) and the cost of amortizing the Unfunded Actuarial Liability in TRS and PERS Plans 1 have increased in recent fiscal years



# By FY 2019, the DRS-administered State Retirement Systems are expected to need about \$1 billion GF-S per fiscal year in contributions – over 40 percent of that for the UAAL



# Major reason for rise in required contribution rates

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- Recognition of improvements in mortality (longer lives)
  - Average life expectancy has increased by about 2 year every decade – approximately 10 years improvement since Plan 2 created in 1977
- Increased payments for PERS & TRS Plan 1 unfunded liabilities
  - Statute requires rate increases to provide for funding over rolling 10 year period. In FY 2013 the two Plans paid over \$2 billion in benefits and had approximately \$13.5 billion in assets.
- Reduction in assumed average rate of investment earnings from 7.9% per year to 7.8% per year
  - Statute reduces the rate to 7.8% for 2015-17 and to 7.7% beginning in 2017-19. The State Investment Board has recommended a 7.5% assumption.
- Recognition of deferred investment losses from FY 2008, FY 2009, & FY 2012
  - The recognition of large investment gains and losses is deferred for up to eight years.

## Two benefit reductions enacted by the Legislature in recent years were recently upheld by the State Supreme Court

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- The repeal in 2007 of future “gain-sharing” benefits for PERS 1 and TRS 1 retirees and Plan 3 active members.
- The repeal in 2011 of future uniform COLA increases for PERS 1 and TRS 1 retirees.
- The court held that when providing new benefits the legislature may reserve the right to modify or repeal the benefits on a prospective basis.
- The potential 2015-17 GFS impact of overturning the repeals was approximately \$600 million.