

THREE: APPENDICES

MISCELLANEOUS ASSUMPTIONS

continued

Portability with First-Class Cities

What is the Portability with First-Class Cities Assumption and How Do We Use it?

Upon retirement from a DRS-administered pension plan, a member who has earned service in a first-class city (i.e., Seattle, Spokane, or Tacoma) may apply to have that service recognized in the calculation of their pension benefit. Typically, service earned outside of a DRS covered position is not eligible to include in a member's pension calculation, but first-class city service is eligible to include. Such a member is said to have dual membership, also known as portability. Members with portability may combine their DRS service with their first-class city service to determine benefit eligibility, and DRS uses the higher salary of the member's two positions, as applicable, to calculate their Average Final Compensation.

Members who wish to include their portability service must submit a claim at retirement. DRS does not maintain data for members working at a first-class city, so we do not know if a member has portability service while the member is active or terminated in the DRS system. In order to pre-fund the cost associated with the increase in a member's benefit due to first-class city portability, we apply an adjustment factor, or load, to future retiree benefits. This load is the focus of the Portability with First-Class Cities assumption.

High Level Takeaways

We studied the Portability with First-Class Cities assumption by plan. The data we analyzed suggests that PERS 2 is the only plan where enough members retire with first-class city portability to have a material impact on the liabilities. Based on the data we studied, we estimate a load of 1.009 will capture the increased portability salary and service of these members. We applied this load to the retirement benefits applicable for this group.

Data

To develop this assumption, we studied valuation data by plan for members who retired with first-class city portability from 1994 to 2018.

General Methodology

For each retirement plan, we first studied the historical trend of members retiring with first-class city portability. We placed special focus on the last five years of data and on our expectations for the future to ensure our analysis best reflects the population moving forward. If we determined that members retiring with first-class city portability had a material impact on the liabilities of a plan, we developed a load for our model to apply to the applicable retirement benefits. This load reflects the expected percentage of annual retirements with first-class city portability and the expected benefit increase as a result of this portability. The load also reflects the potential for members to become newly eligible for (1) standard retirement from DRS and (2) subsidized early retirement from DRS due to the addition of first-class city service.

Law Changes

Since the last study, no law changes have impacted our analysis of this assumption.

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Analysis and Results

We looked at each plan and determined how many members increased their benefit when including first-class city salary and service. We found that the more recent data (past five years) provided consistent headcounts for setting an assumption regarding future expectations.

The data shows that the majority of members receiving an increase to their benefit due to first-class city portability are those who first terminated from a DRS plan and then earned service at a first-class city. For this reason, we develop and apply a load to the retirement benefits linked to terminated vested members.

The following table summarizes the average number of terminated vested members who retire from DRS each year (“Exposures per Year”), the average number of members retiring with first-class city portability (“Observations per Year”), and the average increase in their average final compensation (AFC) over the past five years. A member is included in these counts only if their retirement benefit increased due to portability.

Portability with First-Class Cities Over the Past Five Years				
Plan*	Exposures per Year	Observations per Year**	Percent of Members Receiving Portability	Average AFC Percent Increase
PERS 1	330	1.8	0.55%	95%
PERS 2	1,290	12.4	0.96%	62%
PERS 3	360	0.4	0.11%	59%
TRS 2	320	0.4	0.13%	27%
SERS 2	630	0.2	0.03%	283%

*Plans not displayed above had no observations over the past five years.

**Only includes members that received an increase in their AFC from first-class city portability service.

Based on this data, PERS 1 and 2 are the most prevalent plans for portability with first-class cities. The combined PERS 1 and 2 portability members represent what we expect will be the trend for the future. However, given the decline in the overall Plan 1 population and the decline in Plan 1 portability members, from three in 2015 to zero in 2018, we expect future portability members will be in Plan 2.

For PERS 2, we calculated the load for our model using the following steps.

- ❖ First, we looked at how much an average member increases their benefit when we include their first-class city salary. To come up with this figure, we multiplied the expected percentage of annual PERS 2 retirements from terminated vested status who have first-class city portability (approximately 0.96 percent) by the expected AFC increase as a result of this portability (approximately 62 percent). This yielded a benefit load of 1.006.
- ❖ Next, we looked at how many members become eligible for subsidized early retirement due to the addition of their first-class city service. In PERS 2, this count is approximately six members a year. We analyzed retirement age data and the difference between subsidized and non-subsidized early retirement factors at these ages to increase our load to 1.008.
- ❖ Finally, we looked at how many members were terminated prior to earning a retirement benefit but now become eligible for a standard DRS retirement due to the addition of their first-class city service. In PERS 2, this count is approximately four members annually over the last five years. We estimated the annual liability impact of these members at about \$200,000, which increased our benefit load to 1.009.