

Halverson, Beth

From: Dixon-Ross, Jeff (HCA) <jeff.dixon-ross@hca.wa.gov>
Sent: Wednesday, August 1, 2018 9:55 AM
To: Office State Actuary, WA
Subject: Contribution Rate Concerns

Hello,

I just received notice of the Sept 1 increase in contribution rates for the state retirement plans.

I feel the need to address a few realities associated with the PERS 2 contribution rate:

- Since my membership in Pers 2 in 2006 I will have experienced over a 300% increase in my contribution rate (from 2.25 to what will be 7.41% in Sept). This increase in contribution rate has/will result in a benefit increase of zero/nothing for me....as I will not get to retire with 30 or more years of service prior to age 65. The pension calculation has not changed...it's still $2\% \times \text{years of service} \times \text{AFC} = \text{pension}$.
- My colleagues who joined PERS 3 at the same time in 2006 have experienced a 0% increase in their cost for their pension (as their employer is the one paying for the cost of the pension – not the employee). If I had joined Pers 3 I also would not be seeing a benefit increase for myself (again, since I won't reach 30 yrs of service prior to age 65) – but at least I wouldn't be paying a 300% increase. I could have however increased my contribution to say DCP by 300% - which would have produced a savings/benefit increase.
- What is perhaps more startling to me is that the contribution rate for PERS 2 is now higher than the rate for PSERS 2. Why is this startling? Because PSERS 2 provides a much richer benefit than PERS 2. PSERS 2 allows for a younger full retirement age (60 with 10 yrs of PSERS service) and a much, much better early retirement with 20+ yrs of service. A PSERS 2 member retiring at age 53 will face a 21% reduction to their monthly benefit, while a PERS 2 member is not even eligible to retire at age 53, the earliest age is 55. Even at age 55, with 20+ yrs of service, the reduction is over 61% in PERS 2. PSERS 2 has the same pension calculation as PERS 2 ($\text{AFC} \times 2\% \times \text{SCY}$).

I am aware of and understand the following:

- Part of the increase in contribution rates are the result of people living longer
- Part of the increase in contribution rate is because the anticipated Rate of Return (ROR) from investments on the contributions was lowered a few years ago – and the subsequent rate increase associated with that decision is being incrementally implemented over several years.
- Neither of the two preceding bullets change the facts I have identified in the previous section of my message.

A concern:

- At some point someone is going to determine that PERS 2 is over funded (due to increased contribution rates by both the employer and employee – and the returns of the market outpacing the anticipated ROR)...this will probably come from employers who will now be paying a 500% increase since 2006 (2.44% to 12.83%) and won't be able to afford paying that cost – putting pressure on the legislature/actuary to reduce the rate. If this occurs – the question becomes, what will happen? Will there be an increase in the PERS 2 benefit (maybe a change to the calculation to something like: $\text{AFC} \times 2.5\% \times \text{SCY}??$) or will there be a reduction in rates (perhaps due to *increasing* the anticipation ROR as a result of the great returns over the last number of years). If the former happens, then I would have ended up paying for some sort of increase to my benefit (which I could accept), however, if the rates are reduced, then I would have simply ended up paying additional costs for nothing – or for the betterment of those retiring with 30+ years prior to age 65.

I believe I have pointed out a clear inequity between what members of PERS 2 have experienced in relation to those in PERS 3 and PSERS 2 (not to mention between PERS 2 members who will retire under the 30yrs rules vs. those that

won't). I suppose I should point out that PERS 1 members have not seen an increase in member contributions either during the same time period.

Thank you for your time in reviewing my concerns.

Jeff Dixon-Ross

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