Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
state.actuary@leg.wa.gov

November 28, 2023

TO: Senator Marko Liias, Chair
Senate Transportation Committee
Senator Sharon Shewmake, Vice Chair
Senate Transportation Committee
Senator Curtis King, Ranking Member
Senate Transportation Committee
Senator Jeff Holy, Assistant Ranking Member
Senate Transportation Committee

FROM: Representative Joe Fitzgibbon, Chair
Select Committee on Pension Policy
Senator Drew MacEwen, Vice Chair
Select Committee on Pension Policy

SUBJECT: **SELECT COMMITTEE ON PENSION POLICY WORK ON RETENTION OF WSP SENIOR PERSONNEL**

At your request, the Select Committee on Pension Policy (SCPP) examined short-term pension changes and other options aimed at retaining senior personnel. Committee staff evaluated the potential effectiveness and pension impacts of various options against a set of policy goals identified by the Committee. All options would require key decisions to be made to fully implement, and some would require extensive coordination with other agencies. Ultimately, the SCPP did not select a preferred option or list.

We have attached the staff report for your review.

Sincerely,

Representative Joe Fitzgibbon
Chair

Senator Drew MacEwen
Vice Chair

Attachment: WSP Retention Briefing Paper

O:\SCPP\2023\Recommendation\SCPP.Work.Retention.WSP.Senior.Personnel.docx

Senator John Braun

Senator Steve Conway

Annette Creekpaum
Employers

***Representative Joe Fitzgibbon, Chair**

***Tracy Guerin,** Director
Department of Retirement Systems

***Bev Hermanson**
Retirees

Dan Legard
Employers

***Senator Drew MacEwen, Vice Chair**

***Anthony Murrietta**
Employers

Representative Timm Ormsby

Senator June Robinson

David Schumacher, Director
Office of Financial Management

Mark Soper
Retirees

Representative Drew Stokesbary

***J. Pat Thompson**
Actives

Representative Mike Volz

Wally Watson
Actives

Michael Yestramski
Actives

William Zabelka
Actives

Vacant
Employers

**Executive Committee*

(360) 786-6140
Fax: (360) 586-8135
TDD: 711
leg.wa.gov/JointCommittees/SCPP

Select Committee on Pension Policy

WSP Retention

Issue Summary

At the direction of the Select Committee on Pension Policy (SCPP), this paper is limited to the issue of short-term retention of senior troopers at the Washington State Patrol (WSP). While some understanding of the broader national climate around recruitment and retention is critical to analyzing the issue, this paper is focused on retaining those senior troopers.

Background

Letter from Senate Transportation:

In June of 2023, the SCPP received a letter signed by four members of the Senate Transportation Committee. It noted recruitment and retention issues facing the WSP and asked the SCPP to consider options to improve the immediate retention of senior troopers. The letter included the following initial suggestions for review, but was open to any ideas that the SCPP thinks may be effective:

- A Time Limited Retire-Rehire Program.
- Pension Enhancements After 20 or 25 Years of Service (YOS).
- Longevity Salary Increases.
- Retention Bonuses for Retirement Eligible Individuals.
- Modification to Retirement Eligibility.

Current Situation

Recruitment and retention of police officers is not a new concern across the nation. As noted in this 2002 report from the Justice Policy Center, a survey of 1,270 police agencies across the country showed the following:

> *Over half of small agencies and two-thirds of large agencies reported that a lack of qualified applicants caused difficulties in filling recent vacancies. Close to half of small agencies and over half of large agencies also reported modest staffing problems caused by unanticipated vacancies.*

There has been ample research on this issue. The following examples were the result of a quick Google search:

- National Conference of State Legislatures: Law Enforcement Employment: Significant Trends.
- City of Seattle: Seattle Police Recruitment And Retention Plan.
- United States Department Of Justice: Recruitment and Retention in Tough Times-Voices from the Field.

Aaron Gutierrez, Senior Policy Analyst
360.786.6152 | aaron.gutierrez@leg.wa.gov

- Bureau of Justice Assistance: Blueprint for Law Enforcement Recruitment and Retention in the 21st Century.
- CNN: Why police forces are struggling to recruit and keep officers.
- CBS: First-of-its-kind study seeks to understand police recruiting and retention.

In response to these shortages, a number of organizations, agencies, departments, think tanks, and educational institutions have analyzed, or are in the process of analyzing the problem. Common recommendations include:

- Increasing morale.
- Providing bonuses.
- Increasing engagement in communities.
- Increasing diversity of police.

Here in Washington, WSP recruitment and retention has been studied several times. Here are some samples:

- WSP: Annual Report on Recruitment and Retention Activities (2022).
- WSP: Annual Report on Recruitment and Retention Activities (2021).
- WSP: Post Report: DEI Strategic Recruitment and Retention Plan (2021).
- SCPP: WSP Recruitment and Retention (2016).
- Joint Transportation Committee Study: Washington State Patrol Trooper Recruitment and Retention Study (2016).
- Office of Financial Management (OFM): Pension Concerns Study (2008).
- Joint Legislative Audit and Review Committee (JLARC): Performance Audit (1999).[1]

Earlier this year, the Legislature enacted an expedited recruitment incentive program.[2] While the legislation took effect immediately, it is unlikely that the program's effectiveness can be examined yet.

In July of this year, the SCPP held a panel discussion. The following additional incentive options were identified:

- Subsidized Prior Military Service Credit.
- Removal of the Mandatory Retirement Age (65).
- Remove 75 Percent of AFC Cap on Pension.
- Pre-Medicare Medical Subsidies.

---

[1] *A similarly-named JLARC study, Targeted Performance Audit of the Washington State Patrol, is entirely related to cost allocation processes, and is not relevant to this paper. It is noted here solely to help distinguish the two.*

[2] *Senate House Bill 1638, Chapter 459 (2023).*

It's Not Just Police

State and local governments have also been having problems recruiting other types of employees. For example, the SCPP has talked about recruitment and retention many times in the last 15 years in regard to teachers, local government employees, and other public employees. More to the point, while there have been ups and downs for teachers over the decades, the Legislature began allowing retired teachers to return to work as substitutes in the 1950s,[3] and substitute teacher shortages are a commonly cited reason for needing retired teachers to return to work.

Why Are Troopers Leaving?

The reports and articles above mention several common reasons for troopers (and other public safety officers) leaving their jobs. Parsing that information is beyond the scope of this paper, but it includes a range of things from culture to pay and more.

In addition, OFM prepares exit surveys of employees. Unfortunately, the exit surveys for the Washington State Patrol Retirement Systems (WSPRS) don't appear to have asked the same questions year by year, so responses may not be easily comparable over the long term. However, despite the limitations in data, it may be helpful to note that in the most recent data, 57 percent of departing WSP employees (which may include more than just commissioned troopers) reported being satisfied with their benefits. In contrast, the other rankings were as follows:

- Engagement: 18 percent.
- Pay: 27 percent.
- Resources and training: 30 percent.
- Manager Effectiveness: 44 percent.
- Support and Innovation: 26 percent.
- Diversity Efforts: 35 percent.
- Growth and Development: 26 percent.

While the exit surveys presented on the OFM website do not provide details, we can see that troopers citing a desire to return to the job is trending downward. Also, while "Changing Careers" has been the most-cited reason for leaving over the last ten years, the other categories (such as "Relocating" or "Pay") have fallen off the list altogether.

About WSPRS

WSPRS was created in 1947 and is composed of commissioned troopers. Any WSP employees who are not commissioned troopers cannot participate in WSPRS. Trooper cadets earn service in the Public Employees' Retirement System (PERS) but are allowed to transfer that service to WSPRS upon commissioning.

---

[3]*See Appendix 1 of this SCPP report from 2018, and Session Laws 1955 Chapter 274.*

Originally, WSPRS was all one plan (or benefit tier). Plan 1 was retroactively established by the creation of Plan 2. Plan 2 consists of troopers commissioned on or after January 1, 2003. Benefits are largely similar to Plan 1, but with a few differences. The changes included some items that were first brought to light by the JLARC performance audit (linked above). More specifically, the JLARC audit did not note any wrongdoing, but did identify areas where policy changes like the ones enacted may have been beneficial.

For example, the audit noted that voluntary overtime hours had increased by 42 percent in the member's last 24 months (i.e., in their Final Average Salary [FAS] period). Two years later the legislation that created WSPRS 2[4] eliminated the inclusion of voluntary overtime in a member's pension (i.e., made the salary earned during voluntary overtime non-pensionable). In 2020,[5] this was further modified to allow WSPRS 2 members to include up to 70 hours of voluntary overtime per year in their FAS.

Retirement Eligibility/Mandatory Retirement

Members of both WSPRS 1 and 2 can retire under either of the following circumstances:

- Age 55 with 5 YOS.
- Any age with 25 YOS.

In other words, a trooper hired at age 20 could retire with full benefits at age 45. This is lower than all other retirement systems in Washington. While eligibility details vary a bit, in general members of the other retirement systems are eligible for full benefits at:

- Age 53 in the Law Enforcement Officers and Fire Fighters (LEOFF) Plans 1/2.
- Age 65 in all other plans.

Members of the other systems can retire earlier than that, but in exchange for a reduction in benefits.

WSP troopers are also subject to mandatory retirement at age 65 unless they are serving as chief. WSPRS is the only system in Washington with that provision.

Benefit Calculation

Like most plans in Washington, WSPRS benefits are calculated as follows:

FAS x YOS x 2%

Final Average Salary

FAS for WSPRS 1 members is their highest 24 months (or two years). FAS for WSPRS 2 members is the highest 60 months (or five years).

---

[4] *Engrossed Substitute Senate Bill 5143 passed into law in 2001, but the changes to new hires began as of January 1, 2003.*
[5] *Session Laws of 2020 Chapter 97.*

Benefit Cap

WSPRS 1 and 2 are the only plans capped at 75 percent of the member's pay (see the Revised Code of Washington [RCW] 43.43.260(4)). However, PERS 1 and the Teachers' Retirement System (TRS) Plan 1 are capped at 60 percent.

There is also a federal cap on benefits that applies to all plans, but it is based on a flat dollar amount rather than a percentage of salary.

Military Service Credit

In this context there are two types of military service: interruptive and uninterruptive (or "prior"). Stakeholders have requested allowing WSPRS 2 members to receive subsidized credit for prior military service, but since the SCPP has addressed interruptive service quite a few times in the last five or so years, it's probably worth briefly explaining both types.

Interruptive military service credit is when a current state or local employee is called up to active duty for a time, and then returns to their job. All members of all state plans who are called up to interruptive duty are eligible to receive up to five YOS credit for interruptive service, though they may or may not qualify for subsidized[6] credit.[7]

Uninterruptive, or prior military service is service that takes place before the member was employed as a state or local employee. In 1973, the Legislature granted WSPRS members the ability to receive up to five years of WSPRS credit at no cost[8] if they had served in the military prior to working for the WSP.[9]

When WSPRS 2 was created, the new plan did not include this option for members. To be clear, WSPRS 2 members can get *interruptive* military service credit, but not *uninterruptive* military service credit.

Retire-Rehire (i.e., Post-Retirement Employment)

Retire-rehire laws don't stop employees from returning to work. They do, however, control whether a retiree can return to work *and keep receiving pension checks* at the same time. Retirees who go to work in the private sector are not impacted by the retire-rehire rules.[10]

Separation from Service

Both federal and state law require a separation from service before a retiree can return to work. Washington law for all plans requires a minimum separation of 30 consecutive days. Further, there must not be a prior agreement in place for that retiree to return.

---

[6]*Subsidized, meaning that the state pays the entire cost of the increase instead of the member.*
[7]*See this 2022 SCPP issue paper for more information.*
[8]*This was the same bill that created the 75 percent benefit cap, though it's not clear whether the two were intended to be related (e.g., the one being a tradeoff for the other).*
[9]*Originally, members could not qualify for this if they were receiving full retirement benefits from the military. However, a bill from 2002 that extended interruptive military service credit removed the limit on receiving uninterruptive service credit and full military benefits at the same time.*
[10]*Note for future researchers: a limited exception in other state plans that impacted private sector workers was recently eliminated via legislation.*

Other Conditions

The retire-rehire rules for police and fire are exceptions to the normal rules for public employees in Washington. For contrast, retirees from most of the Department of Retirement Systems (DRS)-covered systems who return to work in DRS-covered employment are limited to working part time (generally up to 867 hours per year; some exceptions apply). Retirees who work more than the allowed hours will have their benefits suspended until the end of the calendar year when the clock starts again. See this 2022 report for more information.

To illustrate, say a teacher retires from TRS, and a year later decides to go back to work as a school bus driver, which is a School Employees' Retirement System (SERS) position. That person will be limited to working part-time.

For a retired trooper (as well as a police officer or fire fighter in the LEOFF system[11]), the impact to their benefits will depend on the position they're hired into.

Say, for example, that a trooper retires at age 46. A year later, this hypothetical trooper decides to return to work (and meets all requirements to do so). The impact to that retired trooper's benefits will depend on the type of position they take. For example:

- If the retired trooper returns to work *as a trooper*, the law requires that their pension checks stop. The trooper must rejoin the WSPRS as an active member, and resume paying contributions. Benefit checks will resume once the trooper retires again in the future.
- If, instead, the trooper goes to work in a position *other than as a trooper* (say, for example, as a teacher, or as a police officer in LEOFF 2), the retire-rehire rules may not be triggered.[12,13] In other words, the retiree may be able to return to work full time and keep receiving their WSPRS benefit checks.

The following table shows the likely impact to a WSPRS retiree under four scenarios, followed by four LEOFF 2 scenarios and three PERS 2 scenarios for contrast. Please note that these are typical impacts. Individuals may be impacted differently, and members are encouraged to contact DRS about their options rather than relying on the following table:

[11]In LEOFF literature, this exception is referred to as "career change."
[12]Please consult DRS before making any decisions that may impact your retirement benefits.
[13]Note for future researchers: neither the RCW nor the Washington Administrative Code set out the rules. See this page from the DRS employer handbook for reference.

Retired Trooper Rehired	Limit on Hours?	YOS*	WSPRS Benefits Stop?	Must Make Contributions?	Dual Member?
As a Trooper	N/A	N/A	Yes	Yes	No
Ineligible Position *(Or Private Sector)*	N/A	N/A	No	No	No
PERS/TRS/SERS/ PSERS/LEOFF	No	< 15	Yes	Yes	Yes
PERS/TRS/SERS/ PSERS/LEOFF	No	> 15	No	No	No
LEOFF 2 Officer/ Fire Fighter Rehired	**Limit on Hours?**	**YOS***	**LEOFF 2 Benefits Stop?**	**Must Make Contributions?**	**Dual Member?**
In a LEOFF position	N/A	N/A	Yes	Yes	No
Ineligible position *(Or Private Sector)*	N/A	N/A	No	No	No
PERS/TRS/SERS/ PSERS/WSPRS	No	< 15	Yes	Yes	Yes
PERS/TRS/SERS/ PSERS/WSPRS	No	> 15	No	No	No
PERS 2 Retiree Rehired	**Limit on Hours?**	**YOS***	**PERS 2 Benefits Stop?**	**Must Make Contributions?**	**Dual Member?**
Any DRS-Covered Position					
Full Time	N/A	< 15	Maybe	Maybe	Maybe
Full Time	N/A	> 15	Yes	Maybe	Maybe
Part Time	867 per year	N/A	No	No	No

**Under RCW 41.04.270, retirees cannot join a second retirement system if they are qualified to retire from a DRS-covered position and have more than 15 YOS credit.*

Preliminary Considerations

Setting Goals for the Incentives

The details of how an option is designed will be critical. Nearly any option can be designed in such a way that it *could* impact retention, but it doesn't necessarily follow that it will do so without careful design. As noted below, an incentive may also have unintended effects such as incentivizing senior troopers to retire even earlier.

While this paper is centered on near-term incentives aimed at retaining senior troopers, it's also worth noting that if the Committee is looking for long-term options for retention, then some common benefit improvements like early retirement are moot.

Further, the incentives are not mutually exclusive. Enacting more than one may increase the overall effectiveness, but some of the identified options may work at cross purposes and may also increase the complexity of any analysis of potential impacts.

Please note that this paper does not take into consideration employee health and the ability to pass the medical exams needed to be a trooper. While people are living longer and staying healthy longer in general, that will not always hold true for individuals. Any of the headcounts of potentially eligible employees could be smaller than it appears due to the health of individuals.

With that in mind, the following table may help establish a starting framework for choosing an option:

Incentive	Can Be Designed			
	One-Time	Multi-Year or Permanent	Without Impact to Pension Benefits	With Impact to Pension Benefits
Cash Incentive	√	√	√	√
Longevity Salary Increase	√	√		√
Time-Limited Retire-Rehire Program	√	√	√	√
Longevity Pension Enhancement		√	√	√
Modification to Retirement Eligibility	√	√		√
Subsidized Prior Military Service Credit		√		√
Removal of Mandatory Retirement Age (65)		√		√
Remove 75% of AFC Cap on Pension		√		√
Pre-Medicare Medical Subsidies	*	*	*	*

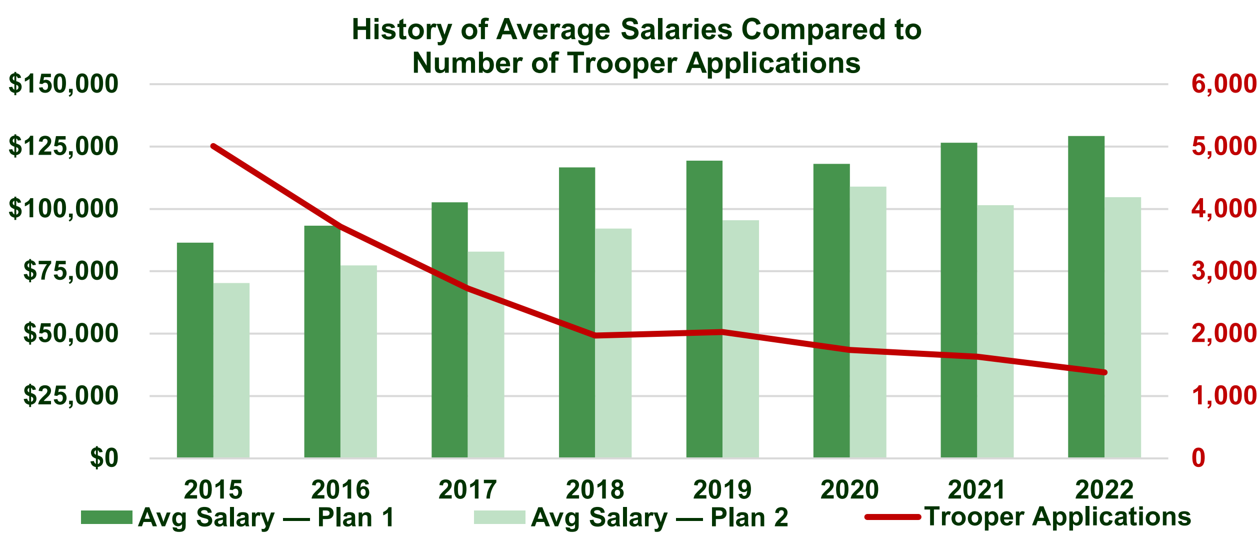
No direct impact.

Goals and Effectiveness

Because we're talking about future retirement behavior, it's not possible to predict with accuracy which incentives, if any, would be effective. That's especially true if more than one is enacted. Thus, it may be helpful for the SCPP to determine its overall goals first before digging into the details of incentives and incentive design.

For example, is your goal to retain a specific number of troopers? If so, for how long? Alternatively, is your goal to hit a point on the cost spectrum that balances maximum retention with cost?

As noted above, troopers appear to be leaving (or not applying) for multiple reasons, only one of which is money. In fact, WSP's biggest salary increase coincided with the biggest drop in applications (see next table). Further, troopers just received a $3,500 retention incentive payment, and are scheduled to receive a second $3,500 payment in July of 2024.



Sources: OSA Actuarial Valuations and WSP.

None of this means that a cash incentive will not be effective, but it is worth considering to what extent money is the only issue to be managed.

Ultimately, WSP may be in the best position to speak to its senior employees directly and ask what it would take for them to stay.

Wide or Narrow — Who Should Receive the Incentive?

Generally, not everyone who is eligible to retire will do so, and in any organization there will be some employees that management will want to keep more than others. Also, the choice to retire requires an individual to assess many factors, such as their age, health, life and career goals, finances, and retirement benefits.

In other words, incentives are only one small part of the decision to retire, and an incentive designed to retain employees may end up being granted to those who were already planning to continue working. Similarly, if there are no enforceable criteria (e.g., the member has to work X years to keep the incentive), then the state may end up paying more for the same service it was already getting. There is also the risk that an employee who is disengaged or unhappy with the job will be incentivized to stay.

That said, incentives are typically offered in groups. Depending on the circumstances, it's possible that if an incentive were offered to a group, and most of that group was already planning to stay, the incentive may still be considered a worthwhile investment if one or two members of that group who were planning to leave change their mind and decide to stay.

Ultimately, there are at least three different approaches to enacting a retention incentive. Using a cash incentive as an example, it could be enacted:

- Payable now, with the hope that troopers stay.
- Payable now, in exchange for a commitment to stay.
- Payable later, after they've stayed.

Here's a somewhat extreme example for illustration. As noted, WSP benefits are capped at 75 percent of FAS. For this illustration imagine a member currently has 39 YOS. Assume the service cap is removed in an effort to retain that individual. Then, despite the incentive, that person retires 30 days after the cap removal goes into effect. The result is that this hypothetical member's retirement benefits would increase from 75 percent to 78 percent in exchange for retaining the trooper for one month. In fact, the increase to benefits may have made that individual more likely to retire.

Ultimately, it's up to policymakers to weigh the costs and benefits, and decide what policy makes the most sense. Depending on your goals, that extreme scenario above could be seen as either effective or ineffective. Thus, policymakers may wish to clarify their goals before selecting an option, as well as the metric(s) for determining if such an option would be successful.

Stopgap Versus Long-Term Change

While this paper is centered on short-term actions, recruitment and retention have both been long-term issues for the WSP. Pensions themselves are intended to be long-term and are not generally well-suited to fixing short-term problems.

At the risk of stating the obvious, a stopgap is merely a stopgap. While it may be needed in the short term, it is by definition not a long-term solution. No matter what short-term solution is presented or adopted, WSP will still need to consider longer term solutions and impacts.

Also, an emphasis on retention should not blind us from impacts to recruitment since the two things are often at odds with each other. Here are two contrasting examples:

- Early retirement options may be enticing for recruitment but will also negatively impact retention. If someone can retire early, they will often do so. That may be especially true if they have several options to return to work or start a second career while receiving their retirement benefits.
- If the WSP were at full capacity, then the longer any retiree is retained (or rehired) would mean a longer time before a position would open for a new recruit. Given that WSP currently has around 80 unfilled positions for troopers, this is not an immediate problem. However, policymakers may still want to consider long-term implications of any option.

Pensionable Versus Not Pensionable

As noted above, member benefits hinge on the member's FAS. Compensation that counts toward FAS (and therefore permanently increases a member's benefits) is considered pensionable. Compensation that does not count toward FAS is considered not pensionable.

Since the rules in this area can be complex and situation specific, it may be easier to assume that any increase to member pay (in any form) is pensionable unless clearly stated otherwise.

Here is an example of the impact of a cash incentive as both pensionable and not pensionable:

Cash Incentive: Pensionable Versus Non-Pensionable				
Example	**Baseline: No Incentive**	**One-Time Payment: Not Pensionable**	**One-Time Payment: Pensionable**	**Two-Year Payment: Pensionable**
Incentive	$0	$20,000	$20,000	$20,000
Final Average Salary	$125,000	$125,000	$135,000	$145,000
Yearly Benefit	$62,500	$62,500	$67,500	$72,500
Estimated Lifetime Benefits (to Age 83)	$3,140,000	$3,140,000	$3,390,000	$3,640,000
Lifetime Difference (Compared to Base)		$0	$250,000	$500,000

Note: Based on average WSPRS 1 demographics, mortality assumptions (life expectancy), and 2.75 percent annual COLA from the 2021 Actuarial Valuation Report (AVR).

Legislation Versus Executive Discretion

Incentives that change pension statutes require legislation. Assuming a bill passes in its first session, the soonest it could be enacted is roughly June of 2025.[14]

[14] *Presuming a typical session pattern for illustration. This could be sped up by special session, emergency clauses, etc.*

Aaron Gutierrez, Senior Policy Analyst
360.786.6152 | aaron.gutierrez@leg.wa.gov

While SCPP staff are not experts in budget and collective bargaining, we do note that state agencies generally have the ability to provide retirement incentives subject to OFM guidelines. This authority is included in the biennial budget, and likely intended to help manage workforce reductions.

Contractual Rights

Contractual rights may be relevant depending on which incentive, if any, is enacted. More specifically, some improvements to retirement benefits have been determined by the courts to be contractual rights of plan members. In other words, once enacted such improvements may be difficult or impossible to repeal for current members if policymakers later change their minds. SCPP staff typically considers contractual rights in the analysis of every proposal since contractual rights can have a significant impact on a retirement plan's affordability and flexibility.

Here are two contrasting examples for illustration:

1. One-time cash incentive.
   a. This proposal seems unlikely to have any contractual rights implications.
2. Increased benefit multiplier for a subset of members.
   a. This proposal would likely have contractual rights implications for members of that subset. If the Legislature were to decide at a later date to repeal this incentive, the courts may forbid it without some sort of offsetting benefit improvement.

If SCPP members are concerned about these implications, they may wish to request additional guidance from the Committee's assigned Assistant Attorney General.

Analysis

The following sections will analyze each of the incentive proposals in detail. However, before digging in, it may help to review some goals and general considerations.

Committee Goals

At the October meeting, the SCPP provided the following guidance to staff regarding goals for the incentive(s). Depending on how they're designed, some goals may conflict. Thus, staff looked for ways to make all the guidance work together.

Here are the Committee's goals:

- Focus on retention in the next two biennia.
- Focus on options within in the pension system (and thus in the SCPP's purview.
- Avoid things that can be negotiated between troopers and their employer.
- Hear more from troopers directly.
- Try to avoid large, long-term costs.

- ❖ Avoid things that could cause more shortages.

With that in mind, the following analysis emphasizes these items:

- ❖ Committee feedback:
  - ☐ Is it likely to increase retention of senior troopers?
  - ☐ Is it a pension system change?
  - ☐ Could it be enacted (relatively) quickly?
  - ☐ Does it avoid (comparatively) large, or long-term costs?
- ❖ General policy considerations (always included in staff policy analysis):
  - ☐ Likely outcomes.
  - ☐ Similar/consistent benefits.
  - ☐ Contractual rights.
  - ☐ Overall cost (not available yet).

General Considerations

Complexity

Combining two or more incentives would combine their benefits, but also bring increased complexity. While any of the proposed incentives may increase short-term retention, the more complex the proposal, the more important the individual details will be. If not constructed correctly, some incentives could work at cross purposes, and exacerbate the shortage.

Similarly, some incentives allow more flexibility than others. For example, cash incentives offer the most flexibility, while removing the mandatory retirement age is a binary yes/no proposition. However, increased flexibility also means more details that must be decided, and, as above, possible unintended consequences from those details.

Here's an example of how those unintended consequences can occur. Assume the Legislature enacts a two-year pensionable cash incentive. That would likely increase retention over those two years. However, if a WSPRS 1 trooper wants to include both years in their FAS, they must retire as soon as the incentive stops. With a five-year FAS, a WSPRS 2 trooper wishing to have both years counted in their FAS may stay a few years longer but would still want to retire relatively quickly.

Similar Benefits

Washington statutes contain a goal of providing similar benefits to retirement system members unless a difference is warranted. Common examples of differences in the plans are in the public safety plans; the Public Safety Employees' Retirement System (PSERS), LEOFF, and WSPRS all have benefits that differ from each other as well as the other retirement systems (PERS, TRS, and SERS). Similarly, different benefit tiers exist within each of those plans.

In this case, there is a potential for retention incentives to create separate cohorts within a benefit tier that are paid substantially different amounts. It will ultimately be up to the Legislature to decide if those differences are warranted.

Member Maximum Contribution Rate

Washington's retirement plans generally have equal cost sharing, meaning that any new cost to the plan will be split 50/50 between the member and the employer. However, for WSPRS[15] member contribution rates are subject to a cap. In other words, both the members and employers share costs equally up to a point, and then any cost beyond that is paid 100 percent by the employer.

More specifically, RCW 41.45.0631 states that:

> *. . . [T]he required member contribution rate for members of the Washington state patrol retirement system shall be the lesser of the following: (a) One-half of the adjusted total contribution rate for the system; or (b) seven percent, plus fifty percent of the contribution rate increase caused by any benefit improvements effective on or after July 1, 2007.*

Thus, the only time the member maximum changes is as a result of benefit improvements. To the extent that any incentive is considered a benefit improvement, it may result in raising the member maximum.

This provision leads to the disparity in the rates currently in effect, where employer rates are more than double that of member rates:

	WSPRS 1	WSPRS 2
Member Contribution Rate	8.74%	8.74%
Employer (State) Contribution Rate	17.99%	17.99%

What If It Doesn't Work?

What if the new incentive, or combination of incentives doesn't work? Say, for example, despite the SCPP's best efforts in recommending (and the Legislature ultimately enacting) incentives, what if several years down the road the incentives have not been effective?

As discussed above, recruitment and retention are already long-term concerns. It may be worth considering whether other short-term ideas fully outside of the SCPP's purview may also be helpful.

Review of Proposed Options

Please read the following sections as a whole. To help manage the length of this report, some of the repetitive details were pared down or omitted. However, it is important to understand that there is substantial overlap between the various options, and aspects that apply to one often apply to others.

[15] *TRS has a similar provision.*

Cash Incentives

Cash incentives provide the most flexibility. They can be done one time, or multiple times, and they can be made pensionable or not. However, cash incentives may also be subject to collective bargaining and OFM rules and are generally outside of the retirement system.

It may be hard to determine the right amount in light of budget constraints, current compensation levels, and post-retirement options.

Imagine, for example, a trooper who is considering retiring and taking a job as a police officer in LEOFF. In order to stay employed at the WSP, this trooper would be giving up the following yearly pay:

- Average yearly police salary $129,107.[16]
- Average yearly WSP retirement $62,500.[17]

The WSP has recently received retention payments of $3,500, with an additional incentive of $3,500 due next year. If this hypothetical trooper were leaving solely for financial reasons, it is unlikely a one-time (or even two or three time) cash incentive would be big enough to change their mind.

Preliminary Actuarial Considerations

The impacts from a cash incentive will depend heavily on the design. In particular, it depends on whether or not the incentive is pensionable. If it is not pensionable, then there is likely no impact to the retirement system.

The following example shows how the system might be impacted by a pensionable cash incentive. Assuming the following:

- $20,000 retention bonus per year.
- Paid during Fiscal Years (FY) 2025-2028.
- Considered pensionable compensation.
- Paid to all members who are eligible to retire.

For this example, please keep in mind that the majority of members who are at or near retirement eligibility are in WSPRS 1. As of June 30, 2022, WSPRS Plan 1 has 242 active members.

Under this scenario, the actuaries estimate about a 60 basis point total rate increase.

	Current		Estimated Impact	
	WSPRS 1	WSPRS 2	WSPRS 1	WSPRS 2
Member Contribution Rate	8.74%	8.74%	9.34%	9.34%
Employer (State) Contribution Rate	17.99%	17.99%	18.59%	18.59%

---

[16] *As of June 30, 2022, AVR.*
[17] *Average WSPRS 1 retirement benefit.*

These results would not be scalable, and as an additional reminder would be dependent on the bonus amount, eligibility to receive a bonus, and the number of years of awarded bonuses. Retirement behavior can significantly impact expected results.

This estimate assumes the bonus is paid from the budget, as opposed to coming from retirement system funds.

Valuation software cannot target certain service levels for this retention bonus, so simplifications were made to estimate the impacts.

Please also see the full actuarial disclosures for this estimate in the Appendix.

Longevity Salary Increases

Like cash incentives, longevity salary increases bring a lot of design flexibility, and their impacts will be based in how they're designed and whether or not they are pensionable.

To provide one example, it could be designed so that between July 1, 2024, and June 30, 2028, troopers in service years 25-30 have their pay increased by X percent.

As with cash incentives, salary increases are largely outside of the pension system, and this incentive option may require additional coordination around budget constraints, collective bargaining, and OFM requirements.

Preliminary Actuarial Considerations

The impacts will depend heavily on the design. In particular, whether or not the incentive is pensionable. If it is not pensionable, then there is likely no impact to the retirement system.

If the incentive is designed so that a comparable group of troopers is paid roughly the same amount and over a similar time period as shown in the example for cash incentives, then the actuaries expect the impacts would be comparable.

Longevity Pension Enhancements

Once again, the impacts will depend heavily on the design. However, in this case one design aspect in particular can help this incentive meet the Committee's goals. Specifically, whether or not the incentive is applicable only after the trooper has worked a specific number of additional years after the bill is enacted. This ensures troopers stay as long as desired in order to receive the incentive.

There is a lot of flexibility in how this could be designed. Here are two examples to help start the conversation:

- Service years 25-30 each have a 2.5 percent multiplier instead of 2 percent.
  - In other words, a trooper in year 24 would receive an increased multiplier for each of the next five years.
- Upon completing service year 30, years 25-30 retroactively receive a 2.5 percent multiplier.

- In other words, a trooper in year 24 would have to stay an additional five years to receive the incentive. Service years 25-29 would receive the standard 2 percent multiplier unless they complete the year 30.[18]

Preliminary Actuarial Considerations

Similar to the prior incentives, the long-term impacts could vary significantly depending on how the incentive is structured. However, this type of incentive has the potential to be one of the costliest options.

For a roughly similar comparison, please see the actuarial fiscal note for longevity pension enhancements for LEOFF 2 recently enacted via 2022 c 125. Please note that this actuarial fiscal note shows a savings due to offsets in the bill. However, the longevity pension incentives in isolation had a sizeable cost.

Time-Limited Retire Rehire

This option has the largest pool of eligible troopers. However, it is unclear how many of those eligible would want to return. For example, here are some sample reasons a retired trooper could be uninterested in returning to work:

- Moved to another state.
- Not healthy enough to meet the physical requirements.
- Unhappy with the job.
- Working another job.

Staff have been advised by DRS that there could be potential federal tax law issues if active members were made eligible. In other words, if enacted, it should only be available to those who were retired before the enacting bill goes into effect. We'll defer to DRS for the details, but it has to do with ensuring a bona fide separation of service and the requirement that any member who retires cannot have an agreement in place to come back to work.

Preliminary Actuarial Considerations

Assuming only current retirees are eligible to be rehired, the actuaries report that there is no expected cost. This is because cost, in this context, would derive from changes to retirement behavior. If everyone eligible has already retired, then there is no change to retirement behavior.

That said, if current active members were to be included in the proposal, any resulting change to retirement behavior could have an impact on the cost.

Modification to Retirement Eligibility

This proposal seems unlikely to meet any of the identified goals. As a general rule, modifying retirement eligibility could basically go either of two ways: increased requirements, or decreased requirements.

---

[18] This could also include contingencies, such as allowing members to qualify for the multiplier increase if they receive a disabling injury in those service years and can't make it to the end of their year 30.

Reducing the retirement age or requirements would likely lead to more retirements, and less retention, while increasing the retirement age or requirements would be problematic due to contractual rights. To avoid potential issues with contractual rights, a change could be enacted for new hires only, but that would take roughly 25 years to see the benefits of the change.

Preliminary Actuarial Considerations

Increasing retirement age/service requirements for new hires typically results in an expected long-term savings to the system.

Subsidized Prior Military Service Credit

While this may be more effective as a future recruitment tool, it does not seem to meet the Committee's goals.

As noted above, WSPRS 1 members can already receive up to five years of subsidized prior military service credit. Thus, if this were chosen as an incentive, it would only apply to WSPRS 2 members. Similarly, while there could be a lot of flexibility in how it's enacted, it seems likely that it would be enacted under the same terms as in WSPRS 1.

WSPRS 2 is a relatively young plan, with few members at or near retirement age. Thus, this incentive would only impact a small group. Since this provision is effective at retirement, there are currently only nine people that would be eligible. Of those nine, we don't know how many have prior military service.

It is also possible that this provision could increase the likelihood that those members would retire. In general, higher pensions can be an incentive to leave. For an eligible member with five or more years of military service, their pension would be worth an additional 2.5 percent (with no additional cost to the trooper) on the day the bill goes into effect.

Preliminary Actuarial Considerations

The actuaries have not calculated a specific cost for this incentive yet. However, while WSPRS 2 may have different military service than WSPRS 1, it may be helpful to compare the two. Please see the *Demographic Experience Study* for historical data and assumption selected for WSPRS 1.

Removal of Mandatory Retirement Age (65)

The group of active employees who are near age 65 is small; roughly ten total. However, mandatory retirement ages are rare outside of public safety positions. In Washington, only WSPRS has one. Further, as noted above Washington statutes include a goal of providing similar benefits unless a difference is warranted. While physical health is a requirement for WSRPS troopers, the same can be said for LEOFF positions, and neither LEOFF 1 nor 2 has a mandatory retirement age.

Removal of the mandatory retirement age could also increase the pool available for a time-limited retire-rehire program if options are combined.

Preliminary Actuarial Considerations

The actuaries have not calculated a specific cost for this incentive yet. However, working beyond normal retirement age/service typically results in a savings to the system.

Removal of 75 Percent Benefit Cap

Like the mandatory retirement age, this incentive would impact a small group. Roughly seven active members are at or near the cap. In Washington, only WSPRS and PERS 1 have a benefit cap (PERS 1 is capped at 60 percent). As noted, Washington statute has a goal of providing similar benefits unless a difference is warranted.

Like the longevity increases, Committee members may also want to consider making a change to the cap apply only for service earned after the effective date of the bill. Otherwise, it could result in increasing retirements and/or paying more for the same service.

To illustrate, the 75 percent benefit cap is effective once a member reaches 37.5 YOS. Any service after that does not count toward their benefit. Imagine, then, that a trooper already has 39 YOS. That trooper could retire immediately after enactment of the incentive with a larger benefit.

However, this outcome could be avoided if the incentive required the member to work additional years after enactment, or if only service earned after enactment counted beyond the cap.

Preliminary Actuarial Considerations

According to the actuaries, this would result in a cost to the system for any service credit earned in excess of 37.5 years. That cost could be partially offset if members continue to work beyond normal retirement eligibility.

Pre-Medicare Medical Subsidies (or Gap Health Insurance Coverage)

There are essentially two approaches to this:

- 401(h).
- Coordinate with entities (like health care committees, the Health Care Authority [HCA], etc.) outside the retirement system.

This could increase retirements instead of retention. That's because continuation of health care benefits is a commonly cited reason for staying on the job, and greater access to health insurance after retirement may incentivize members to retire.

However, as with some other incentives, there may be ways to structure this to ensure members stay. For example, if members are only eligible if they stay fully employed for X years after enactment of the incentive.

401(h)

Section 401(h) of the Internal Revenue Code allows the payment of some retiree health benefits from the pension plan. See this IRS document for more information about the rules and limitations.

Due to the complexity and the role of 401(h) rules in plan qualification, a 401(h) provision would require thorough study before enacting.

Since the purpose of a 401(h) is to use pension assets to pay for retiree medical care, it seems certain there would be a cost to the plan. The cost will depend on how much in medical benefits is actually paid out by the plan.

Coordination Outside the Retirement System

This approach would require working with health care committees, HCA, and possibly others, to enact some sort of coverage. For example, after reaching X YOS, the state pays a portion of health care premiums until the member reaches age 65.

The reason for coordinating with outside entities is that those type of benefits have no direct impact on retirement benefits, and pension staff are not as well versed on health care benefits. While there would be no direct impact to the pension system, there could be long-term impacts if a new provision changes retirement behavior.

Summary Table

Incentive	Short or Long Term?	Is It a Pension Change?	Can Be Enacted (Relatively) Quickly?	Does It Have a (Comparatively) Large Cost?	Likely Difficult or Impossible to Repeal?*	Members Immediately Eligible
Cash Incentive	Either	Optional	Yes	Maybe	No	110
Longevity Salary Increase	Either	Optional	Yes	Maybe	No	110
Longevity Pension Enhancement	Long	Yes	Yes	TBD	Yes	**
Time-Limited Retire-Rehire Program	Short	Yes	Yes	TBD	Yes	467
Modification to Retirement Eligibility	Long	Yes	Maybe	TBD	Maybe	**
Subsidized Prior Military Service Credit	Long	Yes	Yes	TBD	Yes	9
Removal of Mandatory Retirement Age (65)	Long	Yes	Yes	TBD	Yes	10
Remove 75% of AFC Cap	Long	Yes	Yes	TBD	Yes	7
Pre-Medicare Medical Subsidies	Long	Optional	No	Yes	***	109

**Please see the discussion of Contractual Rights, above.*
***Depends on details of design.*
****No direct impact.*

Conclusion

Some pension options seem to meet the Committee's goals generally, but the design details will be critical. If not designed correctly, any of the incentives intended to retain senior troopers could have the opposite effect. Further, if the incentives are not lucrative enough, they may not be sufficient to change retirement behavior. To that end, the SCPP can design those precise details, or work with WSP to do so based on feedback from troopers.

Cash incentives might be most effective at retention since they can be enacted more quickly and without statutory changes. They also have no inherent long-term design limitations or implications. However, cash incentives are outside the pension system, and are only related to pensions to the extent that the pay is considered pensionable.

Based on the analysis above, the incentive proposals that are fully within the SCPP's purview and seem most likely to meet the SCPP's goals are these:

1. Longevity pension enhancements.
2. Limited time retire-rehire.
3. Removal of mandatory retirement age.

In addition, the SCPP may wish to consider two additional options:

A. Recommend the fiscal committees consider additional short-term cash incentives.

B. Recommend health care committees consider gap health insurance coverage as a long-term recruitment and retention incentive.

As a final reminder, this report is talking about future retirement behavior. Retirement decisions are made for myriad reasons, and only some of those can be managed or incentivized by the system. Thus, staff cannot predict with any accuracy what incentives, if any, will be effective in retaining senior troopers. WSP may be in the best position to speak to its senior employees directly and ask what it would take for them to stay.

O:\SCPP\2023\11.14-Full\5.WSP.Retention-Briefing.Paper.docx

Appendix A: Actuarial Disclosures

For the Cash Incentives Estimate on Pages 14 and 15

We modeled the impacts to the WSPRS of the example proposal using our most recent actuarial valuation report (*June 30, 2022, AVR*). We adjusted the following assumptions and methods:

- To simplify the pricing methodology, we assumed all WSPRS Plan 1 members are impacted by benefit enhancements but no impact to the retirement benefits of WSPRS Plan 2 members.
  - Some Plan 1 members may not be retirement eligible within the next five years while some Plan 2 members will be eligible. We estimated the impacts of this proposal by applying the new salary assumption to all Plan 1 members only.
- Retirement Rates:
  - We assume fewer than expected retirements would occur during the period that the retention bonus is disbursed. For this pricing exercise, we assumed approximately half the number of Plan 1 retirements during FYs 2025 through 2028 compared to current law.
  - In FY 2029, we increased retirement rates such that the plan would have the same expected number of active Plan 1 members as under current law.
- Retention Bonus:
  - Using the average Plan 1 member salary, projected to FY 2025, we modeled how salary will increase in each of FY 2025 through FY 2028 with the general salary increase percentage in current law (3.25 percent) plus the addition of $20,000 in each of those years. This provided a new general salary increase assumption for FY 2025 through FY 2028. Following FY 2028, we modeled salaries reverting to the same level as under current law. These modifications to the general salary increase assumption were applied to all Plan 1 actives in our valuation software.

The analysis shown in this presentation is based off an example proposal only. If a bill is introduced in the next legislative session, we will price the specifics of that bill and the results will vary from what is presented here. In addition, our assumption regarding retirement behavior may be refined which will also impact the results.

Lisa A Won, ASA, FCA, MAAA, is the responsible actuary for this analysis and meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions provided.

Select Committee on Pension Policy

For All Other Actuarial Insights in This Paper

Each statement applies to the individual option and in isolation of any other option; the cost/savings for a combination of options may not equal the sum of the individual options due to potential interactive effects.

Michael T. Harbour, ASA, MAAA, served as the reviewing and responsible actuary for these high-level takeaways (except for the Cash Incentive analysis).

These statements are intended to provide a basic understanding of the likely directional cost/savings impacts, and should only be used as context for potential further study. Please replace this with future actuarial analysis for final decision-making on which options you may wish to pursue during session.

Appendix B: Age and Service Distributions for WSPRS

Age and Service Distribution of Active Members

(Number of Actives and Average Annual Salary)

WSPRS Plan 1

Attained Years of Service

Attained Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over	Total
Under 25	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
25-29	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
30-34	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
35-39	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
40-44	0	0	0	0	0	0	0	3	35	0	0	0	0	**38**
	$0	$0	$0	$0	$0	$0	$0	$133,248	$125,409	$0	$0	$0	$0	**$126,027**
45-49	0	0	0	0	0	0	0	11	107	10	0	0	0	**128**
	$0	$0	$0	$0	$0	$0	$0	$117,258	$125,326	$134,373	$0	$0	$0	**$125,339**
50-54	0	0	0	0	0	0	0	4	65	23	5	3	0	**100**
	$0	$0	$0	$0	$0	$0	$0	$116,791	$120,639	$139,876	$138,004	$151,864	$0	**$126,715**
55-59	0	0	0	0	0	0	0	0	24	6	9	2	0	**41**
	$0	$0	$0	$0	$0	$0	$0	$0	$120,285	$140,774	$136,494	$147,429	$0	**$128,165**
60-64	0	0	0	0	0	0	0	0	6	1	2	1	0	**10**
	$0	$0	$0	$0	$0	$0	$0	$0	$116,952	$133,004	$148,616	$132,446	$0	**$126,439**
65-69	0	0	0	0	0	0	0	0	0	0	0	0	1	**1**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$207,864	**$207,864**
70 & Over	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**18**	**237**	**40**	**16**	**6**	**1**	**318**
	$0	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$119,819**	**$123,330**	**$138,463**	**$138,481**	**$147,149**	**$207,864**	**$126,512**
Average:	Age	50.4	**Number of Participants:**			Vested	318		Males	284	**Early Retirement Eligible:**			N/A
	Service	23.6				Not Vested	0		Females	34	**Normal Retirement Eligible:**			101

Note: Numbers of participants eligible for early and normal retirement are estimates only.

Age and Service Distribution of Active Members

(Number of Actives and Average Annual Salary)

WSPRS Plan 2

Attained Years of Service

Attained Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over	Total
Under 25	15	5	14	7	4	0	0	0	0	0	0	0	0	**45**
	$69,064	$75,087	$81,033	$84,318	$89,131	$0	$0	$0	$0	$0	$0	$0	$0	**$77,613**
25-29	14	10	33	30	35	66	0	0	0	0	0	0	0	**188**
	$69,957	$75,068	$80,674	$85,543	$92,142	$100,445	$0	$0	$0	$0	$0	$0	$0	**$89,430**
30-34	9	7	8	12	11	99	22	0	0	0	0	0	0	**168**
	$66,334	$74,805	$81,394	$81,838	$93,139	$105,844	$112,468	$0	$0	$0	$0	$0	$0	**$99,590**
35-39	3	2	3	2	4	44	70	24	0	0	0	0	0	**152**
	$68,818	$82,434	$83,190	$85,237	$92,878	$108,650	$113,897	$123,367	$0	$0	$0	$0	$0	**$111,034**
40-44	2	1	1	2	2	12	33	55	1	0	0	0	0	**109**
	$65,000	$71,341	$78,313	$82,199	$98,101	$105,359	$111,468	$122,276	$109,859	$0	$0	$0	$0	**$113,927**
45-49	1	0	3	1	0	4	16	25	0	0	0	0	0	**50**
	$71,967	$0	$85,453	$80,557	$0	$104,850	$109,984	$117,674	$0	$0	$0	$0	$0	**$110,597**
50-54	0	0	0	0	0	2	3	10	0	0	0	0	0	**15**
	$0	$0	$0	$0	$0	$100,048	$115,888	$124,529	$0	$0	$0	$0	$0	**$119,537**
55-59	0	0	0	0	0	1	2	3	0	0	0	0	0	**6**
	$0	$0	$0	$0	$0	$162,576	$117,751	$101,209	$0	$0	$0	$0	$0	**$116,950**
60-64	0	0	0	0	0	0	1	1	0	0	0	0	0	**2**
	$0	$0	$0	$0	$0	$0	$97,651	$102,807	$0	$0	$0	$0	$0	**$100,229**
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
70 & Over	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**
Total	**44**	**25**	**62**	**54**	**56**	**228**	**147**	**118**	**1**	**0**	**0**	**0**	**0**	**735**
	$68,654	**$75,438**	**$81,163**	**$84,333**	**$92,388**	**$104,977**	**$112,695**	**$121,013**	**$109,859**	**$0**	**$0**	**$0**	**$0**	**$101,438**
Average:	Age	34.7	**Number of Participants:**			Vested	494		Males	666	**Early Retirement Eligible:**			N/A
	Service	8.6				Not Vested	241		Females	69	**Normal Retirement Eligible:**			9

Note: Numbers of participants eligible for early and normal retirement are estimates only.