Multiple Agency Fiscal Note Summary

Bill Number: 5521 SB	**Title:** Military service credit

Estimated Cash Receipts

Agency Name	2005-07		2007-09		2009-11	
	GF- State	Total	GF- State	Total	GF- State	Total
Total $						

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2005-07			2007-09			2009-11		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	3,400,000	7,400,000	.0	3,400,000	7,800,000	.0	3,400,000	7,700,000
Department of Retirement Systems	.1	0	61,834	.0	0	0	.0	0	0
Total	0.1	$3,400,000	$7,461,834	0.0	$3,400,000	$7,800,000	0.0	$3,400,000	$7,700,000

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 2/21/2005

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

Individual State Agency Fiscal Note

Bill Number: 5521 SB	Title: Military service credit	Agency: 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

		FY 2006	FY 2007	2005-07	2007-09	2009-11
Fund						
All Other Funds-State	000-1	1,800,000	2,200,000	4,000,000	4,400,000	4,300,000
General Fund-State	001-1	1,700,000	1,700,000	3,400,000	3,400,000	3,400,000
Total $		3,500,000	3,900,000	7,400,000	7,800,000	7,700,000

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/17/2005
Agency Preparation:	Laura Harper	Phone: 360 586-7616	Date: 02/17/2005
Agency Approval:	Matthew M. Smith	Phone: 360-753-9144	Date: 02/17/2005
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/17/2005

Request # -1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/17/05**	**SB 5521/HB 1522**

SUMMARY OF BILL:

This bill impacts the Plans 2 of the Teachers' Retirement System (TRS), School Employees' Retirement System (SERS) and Public Employees' Retirement System (PERS). The bill deletes existing provisions concerning interruptive military service credit and replaces them with the same provisions for both interruptive and non-interruptive military service credit as are currently found in PERS 1. In addition, a provision is added that prevents TRS, SERS and PERS Plan 2 members from receiving military service credit if they are receiving full military retirement benefits.

Effective Date: Ninety days after session.

CURRENT SITUATION:

Currently Plan 2 members can only seek military service credit for service that interrupts public employment (i.e., “Interruptive” military service credit). Generally, Plan 2 members (and their employers) must repay the contributions that would have been paid for the period of military service in order to receive interruptive military service credit.

Currently, members of PERS 1 can seek military service credit for both interruptive and non-interruptive military service. No payments are required for interruptive military service credit. Those PERS 1 members who have completed twenty-five years of creditable service as a public employee may receive up to 5 years of military service credit at no cost, whether or not they have left the employ of an employer to enter the armed forces. PERS 1 members are not currently restricted from receiving military service credit if they are receiving full military retirement benefits, nor are members of the Plans 2.

According to the Attorney General’s Office, PERS 1 members must meet the definition of “veteran” to receive PERS 1 military service credit. Also, the AGO has advised DRS that members cannot be prohibited from receiving military service credit if they are receiving full military retirement benefits.

The Plans 3 are not the subject of this bill.

MEMBERS IMPACTED:

We estimate that 5,681 out of 117,262 PERS 2; 292 out 7,637 TRS 2; and 422 out of 21,504 SERS 2 active members would receive military service credit under this bill.

We estimate that for a typical member receiving 37 months of Vietnam military service under this bill, the increase in monthly benefits would be $143.

ASSUMPTIONS:

We assume that 48% of males and 1% of females over age 46 on the valuation date have 37 and 35 months of military service respectively. We also assume that 17% of males and 1% of females who entered the retirement system after September 1, 1991, and are age 46 or younger on the valuation date, have 37 and 35 months of military service respectively. These rates apply to members projected to earn 25 or more years of service in the retirement system.

These assumptions are based on the experience of PERS 1 members receiving military service for Vietnam and 2000 Census data showing counts of Vietnam and 1990 Gulf War veterans in Washington. We made no assumptions about rates of prior military service for other conflicts listed in the definition of veteran since Vietnam and the 1990 Gulf War will account for the majority of prior military service.

We assume the provisions of this bill would not impact long-term termination or retirement rates.

We further assume the number of members receiving no-cost military service credit for interruptive military service prior to the effective date of this bill would be insufficient to affect contribution rates. We have made no assumptions about interruptive military service for future conflicts.

We did not consider any potential restrictions on receiving military service credit for members receiving full military retirement benefits.

FISCAL IMPACT:

Description:

Providing prior military service, which is not available to Plan 2 members under current law, directly increases the liabilities of the retirement system by increasing the benefits paid out to members. Members may already purchase interruptive military service credit under Federal law. Providing interruptive military service at no cost will impact the funded status of the retirement system by reducing the amount of assets available to pay benefits.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)	System	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 2/3	$14,278	$107	$14,385
	TRS 2/3	$5,220	$7	$5,227
	SERS 2/3	$2,138	$5	$2,143
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	$2,620	($3)	$2,617
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 2/3	($3,184)	$61	($3,123)
	TRS 2/3	($1,397)	$4	($1,393)
	SERS 2/3	($425)	$3	($422)

Increase in Contribution Rates:
(Effective 09/01/2005)

Current Members		
Employee	PERS 2	0.10%
	TRS 2	0.02%
	SERS 2	0.04%
Employer State	PERS	0.10%
	TRS	0.02%
	SERS	0.04%
New Entrants		
Employee	PERS 2	0.02%
	TRS 2	0.00%
	SERS 2	0.01%
Employer State	PERS	0.02%
	TRS	0.00%
	SERS	0.01%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2005-2007				
State:				
General Fund	$2.2	$0.8	$0.4	$3.4
Non-General Fund	$4.0	$0.0	$0.0	$4.0
Total State	**$6.2**	**$0.8**	**$0.4**	**$7.4**
Local Government	$5.5	$0.5	$0.6	$6.6
Total Employer	$11.7	$1.3	$1.0	$14.0
Total Employee	$9.1	$0.2	$0.3	$9.6
2007-2009				
State:				
General Fund	$2.2	$0.9	$0.4	$3.5
Non-General Fund	$4.3	$0.0	$0.0	$4.3
Total State	**$6.5**	**$0.9**	**$0.4**	**$7.8**
Local Government	$5.9	$0.4	$0.6	$6.9
Total Employer	$12.4	$1.3	$1.0	$14.7
Total Employee	$9.8	$0.2	$0.3	$10.3
2005-2030				
State:				
General Fund	$27.7	$8.6	$5.2	$41.5
Non-General Fund	$53.6	$0.0	$0.0	$53.6
Total State	**$81.3**	**$8.6**	**$5.2**	**$95.1**
Local Government	$73.7	$4.4	$7.8	$85.9
Total Employer	$155.0	$13.0	$13.0	$181.0
Total Employee	$109.5	$1.2	$2.6	$113.3

State Actuary's Comments:

This fiscal note is based on the current definition of "veteran". If the definition of a veteran is amended, then the fiscal impact of this bill could change.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2005 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Individual State Agency Fiscal Note

Bill Number: 5521 SB	Title: Military service credit	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.3	0.0	0.1	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	61,834	0	61,834	0	0
Total $	61,834	0	61,834	0	0

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/17/2005
Agency Preparation:	Dorothy Bailey	Phone: (360) 664-7069	Date: 02/17/2005
Agency Approval:	John Charles	Phone:	Date: 02/21/2005
OFM Review:	Doug Jenkins	Phone: 360-902-0563	Date: 02/21/2005

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill awards Plan 2 members of the Teachers' Retirement System (TRS), School Employees' Retirement System (SERS) and Public Employees' Retirement System (PERS) up to five years of interruptive no-cost military service credit under the following conditions:

- The member must have left employment on an authorized leave of absence for active federal service and meet the definition of a veteran.
- The member must resume or initiate employment with a DRS employer within one year after active service discharge, or within 10 years if reemployment is petitioned within one year, but they are not reemployed.
- The member must restore all withdrawn service for this period before service credit can be awarded, unless the member has completed 25 years of service credit.
- If the member has attained at least 25 years of service credit within the retirement system, interruptive or non-interruptive, the member may be awarded up to five years of no-cost service military credit.

This bill amends the definition of "veteran" in RCW 41.04.005 (and 28B.15.628) to add service as a part of Operation Enduring Freedom and Operation Iraqi Freedom.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.3		0.1		
A-Salaries and Wages	11.094		11,094		
B-Employee Benefits	3.440		3,440		
C-Personal Service Contracts					
E-Goods and Services	47.300		47,300		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$61,834	$0	$61,834	$0	$0

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2006	FY 2007	2005-07	2007-09	2009-11
Public Information Officer 2	45,816	0.1		0.0		
Retirement Services Analyst 3	42,588	0.2		0.1		
Total FTE's		0.3		0.1		0.0

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

New rules will be required.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Administrative Assumptions

- **Based on advice from the Office of the Attorney General, military service credit cannot be denied for a military retiree receiving full benefits pursuant to Title 10 of the United States Code (USC), which is contrary to bill language at the end of Section 3(6).**
- This bill affects only TRS, SERS and PERS Plan 2 members.
- This bill does not affect the current provisions for recovering non-military authorized leave of absence service credit.
- A member on active federal military service leave must resume or initiate re-employment with a DRS employer within the same system within one year of discharge from active service to receive up to five years of no-cost service for the interruptive period.
- A maximum of five years can be awarded.
- Members who resume employment within one year of discharge from active service are eligible to receive up to five years of no-cost service for the interruptive period, provided they restore all withdrawn accumulated contributions within five years of resumption of employment.
- Members who resume employment within 10 years of discharge from active service are eligible to receive up to five years of no-cost service for the interruptive period, provided they initiated re-employment but did not attain DRS-covered reemployed within one year and they restore all withdrawn accumulated contributions within five years of resumption of employment.
- If a member has 25 years of service credit in the plan, he or she can be awarded up to five years of service credit for any active federal military service that meets the definition of veteran.
- Members who fail to restore withdrawn periods can receive military service credit if they have 25 years of service credit.
- Refunds will not be provided to members who have purchased interruptive military service.
- Members do not need to be active to apply for service credit.
- Retirees are not affected by this bill and cannot apply for service credit.
- Retirees with 25 years of service credit who return to membership and stop benefit payments may apply for no-cost military service credit.
- Active federal service means those ordered to active federal military service for any branch of the uniformed services, including National Guard reserve duty, authorized by Title 10 USC.

Benefits/Customer Service

Staff will respond to member inquiries, in writing and by telephone. Benefits staff will also support the modification of DRS' automated systems, the review of member communications, and the creation or modification of policies, procedures and rules to support the new legislation. The tasks associated with implementing this bill are as follows:

- Respond to member inquires
- Define business requirements for the automated systems
- Participate in user acceptance testing
- Review and edit communications materials
- Create policies and procedures, and develop staff training modules
- Update the Retirement Services Division Online Operations Manual
- Develop WACs to clarify issues

Retirement Services Analyst 3 – 381 hours (salaries/benefits)	$10,180
Total Estimated Benefits/Customer Service Costs	**$10,180**

Member/Retiree Communications

Members and employers will receive notification of the law change via standard agency communications. DRS will update the paper and Web versions of affected publications. The updates to the Web version will be done upon the signing of the bill, while the paper versions will be updated as part of the regular printing cycle. The communications tasks associated with implementing this bill are as follows:

- Update appropriate member handbooks
- Update Military Service Credit publications
- Update Recovery of Withdrawn or Optional Service Credit publication
- Draft Retirement Outlook newsletter articles
- Update retirement seminar and pension workshop materials

Public Information Officer 2 – 144 hours (salaries/benefits)	$4,140
Retirement Services Analyst 3 – 8 hours (salaries/benefits)	$214
Total Estimated Member/Retiree Communications Costs	**$4,354**

Automated Systems

The Department of Retirement Systems' (DRS) automated Member Information System (MIS) will require some modifications to allow TRS, SERS and PERS Plan 2 members up to five years of military service credit at no cost. A new system-generated letter to members, indicating service that has been credited, will also be created.

Programmer time of 440 hours @ $95 per hour	$41,800
DIS* cost of $500 per week for 11 weeks	$5,500
Total Estimated Automated Systems Costs	**$47,300**

**cost for mainframe computer processing time and resources at the Department of Information Services*

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	2005-07	2007-09	2009-11
BENEFITS/CUSTOMER SERVICE	**$10,180**	**$0**	**$0**
MEMBER COMMUNICATIONS	**$4,354**	**$0**	**$0**
AUTOMATED SYSTEMS	**$47,300**	**$0**	**$0**
ESTIMATED TOTAL COSTS	**$61,834**	**$0**	**$0**