

Multiple Agency Fiscal Note Summary

Bill Number: 6458 SB	Title: TERS service credit
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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	1,400,000	1,400,000	.0	3,300,000	3,300,000	.0	3,700,000	3,700,000
Department of Retirement Systems	.2	0	110,546	.0	0	0	.0	0	0
Total	0.2	\$1,400,000	\$1,510,546	0.0	\$3,300,000	\$3,300,000	0.0	\$3,700,000	\$3,700,000

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

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Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Final 1/20/2006
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 12642

Individual State Agency Fiscal Note

Bill Number: 6458 SB	Title: TERS service credit	Agency: 035-Office of State Actuary
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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					
General Fund-State 001-1	0	1,400,000	1,400,000	3,300,000	3,700,000
Total \$	0	1,400,000	1,400,000	3,300,000	3,700,000

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: 01/12/2006
Agency Preparation: Laura Harper	Phone: 360 586-7616	Date: 01/20/2006
Agency Approval: Matthew M. Smith	Phone: 360-753-9144	Date: 01/20/2006
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/20/2006

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	1/20/06	SB 6458/HB 2680

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving a benefit or eligible to receive an unreduced retirement benefit that includes the service to be purchased. To take advantage of this provision, a member must have at least five and less than ten years of service credit in TRS. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost. The service credit purchased is membership service and may be used to qualify the member for retirement.

Effective Date: January 1, 2007

CURRENT SITUATION:

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's monthly benefit is actuarially reduced to recognize the difference between the age the member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

MEMBERS IMPACTED:

We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill if they have qualifying out of state service credit.

We estimate that a typical member impacted by this bill would purchase 1.15 years of out-of-state service. The entry age normal cost rate used to determine the purchase price would vary by the member's entry age. The cost of purchasing 1.15 years of service for a typical member with a salary of \$50,000 would be as follows:

Plan 2 Member: $\$50,000 \times 11.80\% \times (1 + 1.08(.15)) = \$6,856$
Plan 3 Member: $\$50,000 \times 5.90\% \times (1 + 1.08(.15)) = \$3,428$

ASSUMPTIONS:

We estimated that the average member would buy 1.15 years of service based on a sample of out-of-state service for 6,850 members. These members had a total of 10,815 years of out-of-state service, or an average of 1.58 years per member. When the service was limited to seven years, the members in the sample had a total of 7,910 years, or an average of 1.15 years.

Plan 2 members pay both the member and the employer rate. Plan 3 members pay the employer rate only. The contributions to purchase Plan 2 service would be included with the regular and refundable Plan 2 member contributions. The contributions to purchase Plan 3 service would not be refundable but would be used to determine the Plan 3 defined benefit. The purchase of the first year has no interest. The second year interest rate is 8 percent.

We included the out-of-state service for the projected benefit calculation, retirement eligibility, and vesting service. Some of our demographic assumptions such as turnover and step salary increases are service based. Our experience studies to determine these rates are based on TRS service only. For estimating the cost of this bill, we assumed that a member's future turnover and merit increases would be based on service with TRS only.

FISCAL IMPACT:

Description:

The member would pay for the cost of the additional service, but the plan would be partially subsidizing the cost because the interest is based on the date of purchase, not on the adjusted date of hire.

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:

<i>(Dollars in Millions)</i>		Teachers' Retirement System Plan 2/3		
		Current	Increase	Total
Actuarial Present Value of Projected Benefits		\$5,256	\$18	\$5,274
(The Value of the Total Commitment to all Current Members)				
Unfunded Actuarial Accrued Liability		N/A	N/A	N/A
(The Portion of the Plan 1 Liability that is Amortized at 2024)				
Unfunded Liability (PBO)		\$(1,427)	\$14	\$(1,413)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)				

Increase in Contribution Rates: (Effective 09/01/2006)

Current Members

Employee (Plan 2)	0.05%
Employer State	0.05%

New Entrants*

Employee (Plan 3)	n/a
Employer State	0.07%

**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 rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	<u>TRS 2/3</u>
2006-2007	
State:	
General Fund	\$1.4
Non-General Fund	<u>\$0.0</u>
Total State	\$1.4
Local Government	\$0.8
Total Employer	\$2.2
Total Employee	\$0.2
2007-2009	
State:	
General Fund	\$3.3
Non-General Fund	<u>\$0.0</u>
Total State	\$3.3
Local Government	\$1.6
Total Employer	\$4.9
Total Employee	\$0.4
2006-2031	
State:	
General Fund	\$88.9
Non-General Fund	<u>\$0.0</u>
Total State	\$88.9
Local Government	\$44.5
Total Employer	\$133.4
Total Employee	\$2.8

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 Teachers' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.
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 2006 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. Rate increases are based on rates that exclude the cost of gain sharing.

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: 6458 SB	Title: TERS service credit	Agency: 124-Department of Retirement Systems
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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	0.0	0.4	0.2	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	0	110,546	110,546	0	0
Total \$	0	110,546	110,546	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: 01/12/2006
Agency Preparation: Jeff Wickman	Phone: (360) 664-7303	Date: 01/13/2006
Agency Approval: Sandra J. Matheson	Phone: (360) 664-7312	Date: 01/13/2006
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/14/2006

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 would allow Plan 2 and Plan 3 members of the Teachers' Retirement System (TRS) to purchase up to seven years of service credit for public education experience earned outside TRS. To be eligible, the experience must have occurred while teaching in a state, a political subdivision or a federal government institution covered by a retirement or pension plan. The member must have at least 5, but less than 10 years creditable service in TRS and may not purchase more service credit than the member's total years of creditable service in TRS.

This bill has an effective date of January 1, 2007.

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		0.4	0.2		
A-Salaries and Wages		20,161	20,161		
B-Employee Benefits		5,433	5,433		
C-Personal Service Contracts					
E-Goods and Services		84,952	84,952		
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	\$110,546	\$110,546	\$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
Communication Consultant 3	48,036		0.1	0.0		
Info Tech Specialist 3	54,376		0.1	0.0		
Info Tech Specialist 4	60,033		0.1	0.0		
Retirement Services Analyst 3	44,659		0.1	0.1		
Retirement Services Analyst 4	48,036		0.1	0.1		
Total FTE's			0.4	0.2		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

Administrative Assumptions

- Public education experience must be equivalent to teaching in a state, political subdivision or a federal government institution covered by a retirement or pension plan and purchased in full month increments.
- Public education experience in Washington State, but outside of eligible TRS service, may qualify.
- Only active members may purchase service under this bill and they can only make one such purchase.
- Once purchased, the service credit will count toward retirement eligibility, benefit calculation and early retirement qualification.
- The salary used to determine the cost of the service credit will be the members' annualized salary at the time of the purchase. No projection or inflation component will be applied.
- The Office of the State Actuary (OSA) will provide a new contribution rate table to determine the member and employer contribution rates for calculating the cost to purchase the service credit allowed under this bill.
- Payments made by TRS Plan 3 members will be considered employer contributions and will not be credited to the member's DC account nor are they refundable to the member.
- Payments made by TRS Plan 2 members will be part of their taxed and/or non-taxed contributions. The TRS Plan 2 member may withdraw these contributions.
- If a TRS Plan 2 member transfers to TRS Plan 3, only member contributions and interest on member contributions will be transferred to the TRS Plan 3 member account. Payments made by a member for employer contributions and interest on employer contributions will not be transferred to the TRS Plan 3 member account.
- Optional invoices created for the purchase of public education service credit will have a deadline date. If payment is not received by that time, the invoice will be cancelled and any partial payment refunded.

The assumptions above were used in developing the following workload impacts and cost estimates.

Benefits/Customer Service

Staff time will be required to answer member questions. The Benefits Unit will also need to support the modification of DRS' automated systems, the creation of member communications and the creation/modification of policies, procedures and rules to support the new legislation. The tasks associated with implementing this bill are as follows:

- Respond to member inquiries
- Define business requirements for the automated systems
- Participate in user acceptance testing
- Review communications materials
- Update the Retirement Services Division Online Operations Manual
- Create the supporting rules through the development of Washington Administrative Codes (WACs)

Retirement Services Analyst 3 – 260 hours (salaries/benefits)	\$7,154
Retirement Services Analyst 4 – 196 hours (salaries/benefits)	<u>\$5,748</u>
Total Estimated Benefits/Customer Service Costs	\$12,902

Member/Retiree Communications

Member handbooks and out-of-state service credit publications will be updated, placed on the web site and printed. Members will also be notified of the changes via the *Retirement Outlook* newsletter.

Printing and distribution costs (10,000 copies)	\$1,352
Communications Consultant 3 – 120 hours (salaries/benefits)	<u>\$3,520</u>
Total Estimated Member/Retiree Communications Costs	\$4,872

Automated Systems

Implementation of this bill will require modification of DRS' integrated information systems. An Information Technology Specialist (ITS) will work with the program staff to identify system-related business requirements and participate in user acceptance testing of the required system changes. Other tasks for the ITS include conducting staff training, updating the Retirement Services Division (RSD) Online Operations Manual and assisting with the update of member information and development of agency WACs.

Major tasks in the necessary modifications to the benefits system include developing a new optional service screen to create and print a public education experience service invoice. Programming to track cumulative limit prospectively and modify the TRS Plan 2 to TRS Plan 3 transfer process, to avoid transferring payments for employer contributions and interest on these new optional bills, will also be needed. A calculator will be developed to allow members to estimate the cost of purchasing the service credit.

Information Technology Specialist 4 – 110 hours (salaries/benefits)	\$3,935
Information Technology Specialist 3 – 160 hours (salaries/benefits)	\$5,237
Programming, testing and verification – 780 hours @ \$95 per hour	\$74,100
DIS cost* of \$500 per week for 19 weeks	<u>\$9,500</u>
Total Estimated Automated Systems Costs	\$92,772

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

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	<u>2005-07</u>	<u>2007-09</u>	<u>2009-11</u>
BENEFITS/CUSTOMER SERVICE	\$12,902	\$0	\$0
MEMBER COMMUNICATIONS	\$4,872	\$0	\$0
AUTOMATED SYSTEMS	<u>\$92,772</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED TOTAL COSTS	\$110,546	\$0	\$0