Multiple Agency Fiscal Note Summary

Bill Number: 1722 HB	**Title:** PERS default provisions

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Personnel	0	65,000	0	0	0	0
Total $	**0**	**65,000**	**0**	**0**	**0**	**0**

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

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	100,000	.0	600,000	1,400,000
Department of Personnel	.0	0	65,000	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	27,321	.0	0	0	.0	0	0
Total	**0.0**	**$0**	**$92,321**	**0.0**	**$0**	**$100,000**	**0.0**	**$600,000**	**$1,400,000**

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

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Pending Distribution

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

** See local government fiscal note

FNPID 22747

Individual State Agency Fiscal Note

Bill Number: 1722 HB	Title: PERS default provisions	Agency: 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

		FY 2010	FY 2011	2009-11	2011-13	2013-15
Fund						
All Other Funds-State	000-1	0	0	0	100,000	800,000
General Fund-State	001-1	0	0	0	0	600,000
	Total $	0	0	0	100,000	1,400,000

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:	Lisa McCollum	Phone: 360-786-7155	Date: 01/28/2009
Agency Preparation:	Nelsen Dave	Phone: 360-786-6144	Date: 01/28/2009
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 01/28/2009
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/28/2009

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 2010	FY 2011	2009-11	2011-13	2013-15
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					
9-					
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.

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER
Office of the State Actuary	**035**	**1/28/09**	**HB 1722 / SB 5307**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2009 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This bill changes the Plan 2/3 membership plan default in the Public Employees' Retirement System (PERS) from Plan 3 to Plan 2. This bill doesn't increase the benefits or liabilities of the current PERS Plans 2/3 members, but would change future contribution levels due to assumed changes in plan membership.

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.0	$2.6
Total Employer	$0.1	$0.2	$12.9

See the Actuarial Results section of this fiscal note for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This bill impacts the Plans 2 and 3 of PERS. This bill would change the current plan membership default from Plan 3 to Plan 2. New employees who first become employed by an employer in eligible positions after July 1, 2009, would have 90 days to choose membership in Plan 2 or Plan 3. If the new employee does not make a choice within 90 days, they become a member of Plan 2.

For administrative ease employers report all new employees in Plan 2 until they choose membership in Plan 3. At that point the Department of Retirement Systems (DRS) transfers the member's service credit to their Plan 3 defined benefit accounts and the member's Plan 2 contributions to their Plan 3 defined contribution accounts.

Effective Date: 90 days after session.

What Is The Current Situation?

New employees who first become employed by an employer in PERS eligible positions have 90 days to choose membership in Plan 2 or Plan 3. If the new employee does not make a choice within 90 days, they become a member of Plan 3, contribute at the minimum contribution rate (5 percent), and the Washington State Investment Board invests their contributions.

For administrative ease employers report all new employees in Plan 2 until they <u>choose to join or default into</u> Plan 3. At that point DRS transfers the member's service credit to their Plan 3 defined benefit accounts and the member's Plan 2 contributions to their Plan 3 defined contribution accounts.

Who Is Impacted And How?

This bill will impact all future members of PERS who don't choose a pension plan. This bill does not impact the benefits of the current members of these systems.

This bill potentially impacts all current PERS 2 members through increased contribution rates. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

See the Special Data Needed section of this fiscal note for more details.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill will likely increase the percentage of new entrants that go into Plan 2. Because Plan 3 is the current plan default and some members don't select a retirement plan within the 90 day window, a portion of the population enters Plan 3 by default. Instead if Plan 2 became the default, that portion of new entrants would enter Plan 2. If the cost of Plan 2 equals the cost of Plan 3 this change would not have a cost. But the costs of the plans are not necessarily equal.

The employer costs for Plan 2 and Plan 3 are basically equal. The two areas where differences in contribution rates exist include differences in plan benefit structure and differences in the people in the plans. Another area of difference between the plans that causes this bill to change expected future budget dollars is the salaries that contributions get collected on.

We can focus on the contribution rate differences caused by plan design by comparing the cost of the same group of members valued in Plan 2 and Plan 3 separately. The employer contribution rates we calculated for PERS rounded to the same rate for both Plan 2 and Plan 3. The rates were not identical, but they were very close. The main benefit structure differences in Plan 3 include:

- Ten-year vesting. The stricter vesting requirement leads to lower retirement costs.
- Early retirement eligibility at age fifty-five with only ten years of service. A less strict early retirement standard tends to provide incentive to retire earlier. This could either increase or decrease the cost for a specific member, but the actuarial equivalence of the early retirement reduction factors tends to average the cost changes out to zero.
- Pre-retirement AFC increases for terminated members with more than twenty years of service. Increasing a member's Average Final Compensation (AFC) after they quit working in an eligible position increases costs.

The members in the plans also affect the cost of the plans. Some demographic factors impacting the cost of a plan include – average:

- Age. Older members closer to retirement generally cost more.
- Service. Higher service members tend to leave service less frequently and generally cost more.
- Salary. Higher salary members tend to receive higher pension benefits and tend to cost more.

PERS 2 members are older, have more service, and higher average salaries than PERS 3 members.

If new entrants into PERS tend to reflect similar demographic characteristics as the current active population we can expect the cost of PERS 2 to increase slightly as a result

of this bill. In PERS different demographics tend to cause the cost difference, not the benefit structure of the plans.
The change in salaries from Plan 3 to Plan 2 causes most of the budget dollar changes we observed. Higher Plan 2 salaries cause all the budget dollar changes we see in the first biennium. They also tend to make any change in budget dollars, due to contribution rate changes in later biennia, larger.

Who Will Pay For These Costs?

To the extent the combined cost of PERS changes because of this bill, the employers and Plan 2 members will fund those changes using the same funding method as the other costs of the plan. Employers will pay the defined benefit costs for Plan 3 members and half the cost for Plan 2 members. Plan 2 members pay for the other half of their costs.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed the portion of new entrants going into Plan 2 would increase for PERS from two-thirds to three-quarters. We also assumed future new entrants would have the same demographic characteristics as the new entrants in the 2007 valuation data.

To value the impact of this bill on member contributions – Plan 2 member defined benefit contributions and Plan 3 member defined contribution contributions – we assumed Plan 3 members contribute at an average of 6.50 percent. We also assumed the average Plan 3 member contribution rate would remain constant in the future.

For more detail please see Appendix A.

How We Applied These Assumptions

We used our liability projection system to project the current group of active members into the future. Using the new entrant assumptions described above in combination with the system's 1.25 percent membership growth assumption, we replaced the current active members as they left active service, and allowed the active populations to increase each year. We compared the results of this new projection to our existing projections to isolate future contribution rate differences.

Special Data Needed

DRS provided us with new entrant data for PERS. Data for PERS included new entrants from March 2002 through October 2008. The data included – the:

- Total number of new entrants into the system.
- Number of members opting into Plan 2.
- Number of members opting into Plan 3.
- Number of members defaulting into Plan 3.

Otherwise, we developed these costs using the same assets and data as disclosed in the 2007 Actuarial Valuation Report (AVR).

For more detail please see Appendix B.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill does not impact the liabilities for the current active members of PERS.

How Contribution Rates Changed

This bill does not impact the contribution rates for the current active members of PERS in the 2009-11 Biennium. But this bill does change contribution rates for PERS 2/3 in future biennia. We used these rate changes to measure the budget changes in future biennia.

How This Impacts Budgets And Employees

Since contribution rates generally increase under this bill, we expect higher employer contributions. Since PERS 3 members' elected contribution rates average 6.50% and we don't project PERS 2 contribution rates to ever exceed that level, the more members we expect to enter Plan 2 the lower the total member contributions we expect will be paid.

Budget Impacts	
(Dollars in Millions)	**PERS**
2009-2011	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	0.0
Total Employer	**$0.1**
Total Employee	**($5.3)**
2011-2013	
General Fund	$0.0
Non-General Fund	0.1
Total State	**$0.1**
Local Government	0.1
Total Employer	**$0.2**
Total Employee	**($9.0)**
2009-2034	
General Fund	$2.6
Non-General Fund	3.7
Total State	**$6.2**
Local Government	6.7
Total Employer	**$12.9**
Total Employee	**($166.0)**

Note: Totals may not agree due to rounding.

The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.
As with the costs developed in the actuarial valuation the emerging costs of the systems will vary from those we presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions selected for this pricing we varied the following assumptions:

- The proportion of new entrants becoming Plan 2 members by default. We looked at the budget impacts of assuming the following percentages of new entrants becoming Plan 2 members:
  - 70 percent.
  - 80 percent.
  - 78 percent.

Since the PERS 2 member contribution rate does not reach 6.50 percent, the average PERS 3 contribution rate, the higher the portion of new entrants who become PERS 2 members, the lower the total member contributions we expect. The table below shows the sensitivity of the budget impacts to the various new entrant splits.

Budget Impacts				
PERS 2 / PERS 3 New Entrant Split	**75/25**	**70/30**	**80/20**	**78/22**
(Dollars in Millions)	**PERS**	**PERS**	**PERS**	**PERS**
2009-2011				
General Fund	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.1	0.1
Total State	**$0.0**	**$0.0**	**$0.1**	**$0.1**
Local Government	0.0	0.0	0.1	0.1
Total Employer	**$0.1**	**$0.0**	**$0.2**	**$0.2**
Total Employee	**($5.3)**	**($2.1)**	**($8.4)**	**($7.1)**
2011-2013				
General Fund	$0.0	$0.0	$0.1	$0.1
Non-General Fund	0.1	0.0	0.1	0.1
Total State	**$0.1**	**$0.0**	**$0.2**	**$0.2**
Local Government	0.1	0.0	0.2	0.2
Total Employer	**$0.2**	**$0.0**	**$0.5**	**$0.4**
Total Employee	**($9.0)**	**($3.7)**	**($14.3)**	**($12.2)**

Budget Impacts

PERS 2 / PERS 3 New Entrant Split	**75/25**	**70/30**	**80/20**	**78/22**
(Dollars in Millions)	**PERS**	**PERS**	**PERS**	**PERS**
2009-2034				
General Fund	$2.6	$1.5	$7.3	$5.3
Non-General Fund	3.7	2.1	10.4	7.6
Total State	**$6.2**	**$3.5**	**$17.7**	**$13.0**
Local Government	6.7	3.8	18.9	13.9
Total Employer	**$12.9**	**$7.3**	**$36.5**	**$26.8**
Total Employee	**($166.0)**	**($64.7)**	**($253.8)**	**($218.9)**

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2009 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this fiscal note.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Matthew M. Smith, FCA, EA, MAAA
State Actuary

APPENDIX A – ASSUMPTIONS WE MADE

In general we assume that two-thirds of all future entrants into PERS will choose to join Plan 2, and that the remaining one-third will enter Plan 3. The data provided by DRS, shown in Appendix B, shows the portion of new entrants who defaulted into Plan 3. We converted the proportions shown into values corresponding to our one-third/two-thirds assumption in the following manner for each system. The example below shows the calculations for PERS:

(1) Portion of new entrants we assume enters Plan 3 = 33 percent.
(2) Portion of new entrants who actually entered Plan 3 = 36 percent.
(3) Portion of new entrants who actually entered Plan 3 by default = 19 percent.
(4) Portion of (1) we assumed entered Plan 3 by default = (1) * (3) / (2) = 17 percent.
(5) Portion of members who defaulted into Plan 3 who we assumed did not specifically want to be in Plan 3 = 67 percent.
(6) Portion of (4) we assume would default into Plan 2 under this bill = (4) * (5) = 12 percent.
(7) Portion of new entrants we assume enters Plan 3 under this bill = (1) – (6) = 22 percent.

The above process led to 22 percent of new entrants becoming PERS 3 members. We assumed 75 percent of new entrants would enter Plan 2 and 25 percent would enter Plan 3.

To accurately value the impact on member contributions we had to determine what Plan 3 members currently contribute to their defined contribution accounts. DRS provided data on the current portion of Plan 3 members who selected each contribution option. The data, shown in Appendix B, provided enough information for us to determine the average PERS 3 contribution rate as of November 25, 2008. We determined that average rate to be 6.48 percent. We assumed 6.50 percent. We applied this rate to our projected PERS 3 salary streams to determine the change in member contributions caused by this bill.

Otherwise, we developed these costs using the same assumptions as disclosed in the AVR.

APPENDIX B – SPECIAL DATA NEEDED

DRS provided the following data:

Department of Retirement Systems - Plan 3 Choice Data
October 29, 2008

PERS Choice Data – March 2002 through October 2008		
New Members	85,106	
New Members Opting Into Plan 2	54,067	64%
New Members Opting Into Plan 3	14,882	17%
New Members Defaulting Into Plan 3	16,157	19%

PERS Plan 3 Contribution Rate Data

PERS Plan 3 membership by contribution rate option through November 25, 2008, (Actively Contributing Members Only):

Age	Option A	Option B	Option C	Option D	Option E	Option F	***No Option	Total By Age
	(5%)	(*)	(**)	(7%)	(10%)	(15%)		
0-34	$5,610	$1,312	$867	$350	$391	$198		8,728
35-44	3,576	1045	760	336	555	299		6,571
45-54	4,827	510	507	850	938	747		8,379
55-65	1,769	90	106	355	438	440		3,198
66-99	111	1	8	6	28	21		175
Total	**$15,893**	**$2,958**	**$2,248**	**$1,897**	**$2,350**	**$1,705**	**$63**	**$27,114**
%	59%	11%	8%	7%	9%	6%	0%	100%

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 on 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.
- 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.

Projected Unit Credit (PUC) Liability: 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 PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method 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

Revised

Bill Number: 1722 HB	Title: PERS default provisions	Agency: 111-Department of Personnel

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND	FY 2010	FY 2011	2009-11	2011-13	2013-15
Data Processing Revolving Account-Non-Appropriated 419-6	65,000		65,000		
Total $	65,000		65,000		

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
Fund					
Data Processing Revolving Account-Non-Appropriated 419 -6	65,000	0	65,000	0	0
Total $	65,000	0	65,000	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:	Lisa McCollum	Phone: 360-786-7155	Date: 01/28/2009
Agency Preparation:	Kelly Moore	Phone: 360-664-6314	Date: 02/20/2009
Agency Approval:	Kelly Moore	Phone: 360-664-6314	Date: 02/20/2009
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 02/20/2009

Request # 17-2

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 change the retirement plan membership default provisions in the public employee's retirement system so that employees hired prior to July 1, 2009 who do not make a choice to become a member of retirement plan 2 or retirement plan 3 within ninety days default to retirement plan 3. Employees hired on or after July 1, 2009 who do not make a choice within ninety days would default to retirement plan 2.

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.

Since DOP's costs are incurred in the Data Processing Revolving Account (Fund 419), they must be recovered through increased billings to agencies or from a single source outside DOP.

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.

This bill will impact the Human Resource Management System (HRMS) under the responsibility of the Department of Personnel (DOP). The HRMS system will need to be changed so that employees hired on or after July 1, 2009 who do not make a choice between retirement plan 2 or retirement plan 3 would automatically default to retirement plan 2 rather than the current default retirement plan 3. DOP would need to report them appropriately to the Department of Retirement Systems (DRS).

Changing the default from retirement plan 3 to retirement plan 2 would require system configuration and programming changes in the HRMS system. The retirement automatic default programs and the retirement transmittal process would have to be changed. The system changes would also need to be tested, and the changes communicated to agencies. DOP would also need to update the HRMS training packages to reflect these changes.

It is estimated a total of 260 contractor hours would be needed to make changes to the HRMS system at a cost of $250 per hour.

Cost Impact: 260 hours X $250 = $65,000

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services	65,000		65,000		
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					
9-					
Total:	$65,000	$0	$65,000	$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.

Individual State Agency Fiscal Note

Bill Number: 1722 HB	Title: PERS default provisions	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.1	0.0	0.0	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	27,321	0	27,321	0	0
Total $	27,321	0	27,321	0	0

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

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:	Lisa McCollum	Phone: 360-786-7155	Date: 01/28/2009
Agency Preparation:	Chris Lamb	Phone: 360-664-7282	Date: 02/02/2009
Agency Approval:	Cathy Cale	Phone: 360-664-7305	Date: 02/02/2009
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 02/02/2009

Request # 09-010-1

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.

Currently, new members to the Public Employees' Retirement System (PERS) have a 90-day window to make an irrevocable decision to choose to participate in Plan 2 or Plan 3. If a decision is not made within the 90-day window, the member is defaulted into Plan 3. This bill would change the default from Plan 3 to Plan 2 for new PERS members employed on or after July 1, 2009.

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.

ADMINISTRATIVE ASSUMPTIONS

- AS THE CHANGE IN THE MEMBER DEFAULT TAKES EFFECT JULY 1, 2009, THERE WILL BE IMPLEMENTATION COSTS FOR DRS IN FISCAL YEAR 2009 (BEFORE THE END OF THE 2007-09 BIENNIUM).
- Materials and publications for both members and employers will be updated and available online via the agency web site by July 1, 2009. Printing of updated materials will take place after July 1, 2009.
- DRS automated systems must be modified to change the default when a member does not make an election in the 90 -day window.

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

BENEFITS/CUSTOMER SERVICE

The benefits unit staff will support the modification of DRS' automated systems, the creation of member communications, and the modification of internal policies, procedures and rules to support this legislation. The tasks associated with implementing this bill are:

- Support user acceptance testing for the automated systems
- Review and update appropriate forms and publications
- Review and update existing WACs
- Review and update the online operations manual
- Conduct staff training on changes

Prior to July 1, 2009

Retirement Services Analyst 3 – 69 hours (salaries/benefits) = $2,121

After July 1, 2009
Retirement Services Analyst 3 – 35 hours (salaries/benefits) = $1,116

Total Estimated Benefits/Customer Service Costs = $3,237

EMPLOYER SUPPORT SERVICES
Employers will be notified of the changes, including new reporting procedures. Email notifications, publications and the Employer Handbooks will require updating.

Prior to July 1, 2009
Information Technology Specialist 4 – 12 hours (salaries/benefits) = $517
Forms and Records Analyst 3 – 3.5 hours (salaries/benefits) = $106

Total Estimated Employer Services Support Costs = $623

MEMBER COMMUNICATIONS
Several member publications and forms will be updated. The communication tasks associated with implementing this bill include:

- Design a new Plan 2 default letter
- Update Member Handbooks
- Update Plan Choice Booklet materials
- Update agency web site

Prior to July 1, 2009
Communications Consultant 5 – 86 hours (salaries/benefits) = $3,621

After July 1, 2009
Communications Consultant 5 – 20 hours (salaries/benefits) = $864

Total Estimated Member Communications Costs = $4,485

AUTOMATED SYSTEMS
DRS' Member Information, Employer Information, Web Base Employer Transmittal and Member Verification Systems will require significant modifications and testing.

Prior to July 1, 2009
Information Technology Specialist 4 – 189 hours (salaries/benefits) = $8,142
Programmer time of 397 hours @ $95 per hour = $37,715
DIS* cost of $500 per week for 12 programmer weeks = $6,000

After July 1, 2009
Information Technology Specialist 4 – 60 hours (salaries/benefits) = $2,651

Programmer time of 202 hours @ $95 per hour = $19,190
DIS* cost of $500 per week for 7 programmer weeks = $3,500

Total Estimated Automated Systems Costs = $77,198

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

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

Prior to July 1, 2009
BENEFITS/CUSTOMER SERVICE = $2,121
EMPLOYER SUPPORT SERVICES = $623
MEMBER COMMUNICATIONS = $3,621
AUTOMATED SYSTEMS = $51,857

ESTIMATED TOTAL COSTS = $58,222

After July 1, 2009
BENEFITS/CUSTOMER SERVICE = $1,116
EMPLOYER SUPPORT SERVICES = $0
MEMBER COMMUNICATIONS = $864
AUTOMATED SYSTEMS = $25,341

ESTIMATED TOTAL COSTS = $27,321

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.1		0.0		
A-Salaries and Wages	3,549		3,549		
B-Employee Benefits	1,082		1,082		
C-Personal Service Contracts					
E-Goods and Services	22,690		22,690		
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					
9-					
Total:	$27,321	$0	$27,321	$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 2010	FY 2011	2009-11	2011-13	2013-15
Communications Consultant 5	69,756	0.0		0.0		
Information Tech Specialist 4	71,496	0.0		0.0		
Retirement Services Analyst 3	49,368	0.0		0.0		
Total FTE's	190,620	0.1		0.0		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.

Current rules will require updating.