Multiple Agency Fiscal Note Summary

Bill Number: 1981 E S HB AMS HOBB S3086.1	**Title:** Public & higher ed employees

Estimated Cash Receipts

Agency Name	2011-13		2013-15		2015-17	
	GF- State	Total	GF- State	Total	GF- State	Total
Office of State Treasurer	Non-zero but indeterminate cost. Please see discussion."					
Total $	0	0	0	0	0	0

Estimated Expenditures

Agency Name	2011-13			2013-15			2015-17		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.4	0	0	.1	0	0	.1	0	0
Office of the State Actuary	.0	(1,900,000)	(2,400,000)	.0	(2,000,000)	(2,400,000)	.0	(2,200,000)	(2,600,000)
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
Office of Financial Management	.0	(55,160,336)	4,254,966	.0	(53,640,000)	9,290,000	.0	(53,640,000)	9,290,000
Department of Retirement Systems	.3	0	133,252	.0	0	0	.0	0	0
Higher Education Coordinating Board	Fiscal note not available								
University of Washington	Fiscal note not available								
Washington State University	Fiscal note not available								
Eastern Washington University	Fiscal note not available								
Central Washington University	Fiscal note not available								
The Evergreen State College	Fiscal note not available								
Western Washington University	Fiscal note not available								
Community and Technical College System	Fiscal note not available								
Total	0.7	$(57,060,336)	$1,988,218	0.1	$(55,640,000)	$6,890,000	0.1	$(55,840,000)	$6,690,000

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

** See local government fiscal note

FNPID 30312

Estimated Capital Budget Impact

NONE

This package includes two fiscal notes from the Office of the State Actuary. One is an actuarial fiscal note for the impact on the state pension plans, and the other covers the administrative impact on the Office itself.

Prepared by: Jane Sakson, OFM	Phone:	Date Published:
	360-902-0549	Preliminary

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

** See local government fiscal note

Individual State Agency Fiscal Note

Bill Number: 1981 E S HB AMS HOBB S3086.1	Title: Public & higher ed employees	Agency: 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.0	0.8	0.4	0.1	0.1
Account					
Total $					

Estimated Capital Budget Impact:

NONE

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:	Erik Sund	Phone: 360-786-7454	Date: 05/23/2011
Agency Preparation:	Keri Wallis	Phone: 360-786-6148	Date: 05/26/2011
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 05/26/2011
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 05/26/2011

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.

Section 7(3) of the bill requires the Office of the State Actuary (OSA) to produce an actuarial valuation on the supplemental benefit plans for each institution of higher education. Institutions must contract, via interagency agreement, with the state actuary no later than June 30, 2013, and every two years thereafter. The bill also requires institutions to contract, via interagency agreement, with the state actuary no later than June 30, 2013, and at least once every six years thereafter, for an experience study of the plans. The institutions must provide OSA with data and information required to complete the actuarial valuation and experience study.

OSA will distribute the actuarial valuation report and the experience study report to the institution of higher education, the Select Committee on Pension Policy, and the Pension Funding Council.

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.

Section 7(3) of the bill authorizes the state actuary to charge each institution for the actual cost of the valuation and experience study through an interagency agreement. OSA would charge each institution the full cost of services required under this bill. Please see Section IIC for details on the estimated cost of services.

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.

OSA assumes one actuarial valuation per biennium for each of the five institutions. OSA will incur one-time expenses to establish the initial valuation and on-going expenses to produce biennial valuations thereafter. We provide a summary of functions that produce agency expenditures below.

Establish Initial Valuation (one-time expenses)

•Develop project plan.
•Research and summarize supplemental retirement plan provisions.
•Research historical actuarial valuation reports.
•Meetings/conference calls with institutions and prior actuary.
•Request participant data, assumptions, and methods from all historical actuarial valuations.
•Request participant data for 2012 valuation.
•Process and prepare participant data for valuation.
•Program actuarial valuation model; test and validate (model available for future years).
•Replicate results from last actuarial valuation.
•Set new assumptions and actuarial methods.
•Generate 2012 actuarial valuation results; test and validate.

•Create 2012 actuarial valuation report (template available for future years).

On-Going Biennial Valuations

•Research law changes and update plan benefit summaries if necessary.
•Update actuarial valuation model for any law changes; test and validate.
•Request latest participant data.
•Request latest asset data (if applicable).
•Process and prepare participant and asset data for valuation.
•Review existing actuarial assumptions and methods for reasonableness.
•Run actuarial valuation model on latest data; test and validate results.
•Produce actuarial valuation report.

OSA assumes one experience study every six years for each of the five institutions. OSA will incur expenses to produce the experience study in FY 2013 and every six years thereafter. We provide a summary of functions that produce agency expenditures below.

Experience Study (expenses every six years)

•Develop project plan.
•Develop historical plan data request.
•Research external data sources.
•Compile and analyze experience data.
•Consult with institutions and prior actuary.
•Develop new assumptions.
•Incorporate assumption changes into actuarial valuations.
•Test and validate results.
•Produce experience study report.

The above-listed functions will increase our agency expenditures as detailed in Part III (Expenditure Detail).

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years		0.8	0.4	0.1	0.1
A-Salaries and Wages		96,232	96,232	15,776	15,776
B-Employee Benefits		21,109	21,109	3,537	3,537
C-Personal Service Contracts					
E-Goods and Services		10,677	10,677	1,839	1,839
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements		(128,018)	(128,018)	(21,152)	(21,152)
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$0	$0	$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 2012	FY 2013	2011-13	2013-15	2015-17
Actuary	11,889		0.2	0.1	0.0	0.0
Administrative Assistant	5,185		0.1	0.0	0.0	0.0
Administrative Services Manager	7,628		0.0	0.0	0.0	0.0
Publications Spec/Webmaster	6,575		0.0	0.0	0.0	0.0
Semopr Policy Analyst	8,845		0.1	0.0	0.0	0.0
Senior Actuarial Analyst	8,415		0.4	0.2	0.0	0.0
State Actuary	14,488		0.1	0.1	0.0	0.0
Total FTE's	63,025		0.8	0.4	0.1	0.1

Part IV: Capital Budget Impact

NONE

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: 1981 E S HB AMS HOBB S3086.1	**Title:** Public & higher ed employees	**Agency:** 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2012	FY 2013	2011-13	2013-15	2015-17
Account						
All Other Funds-State	000-1	(200,000)	(300,000)	(500,000)	(400,000)	(400,000)
General Fund-State	001-1	(900,000)	(1,000,000)	(1,900,000)	(2,000,000)	(2,200,000)
	Total $	(1,100,000)	(1,300,000)	(2,400,000)	(2,400,000)	(2,600,000)

Estimated Capital Budget Impact:

NONE

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:

- [X] 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:	Erik Sund	Phone: 360-786-7454	Date: 05/23/2011
Agency Preparation:	Aaron Gutierrez	Phone: 3607866152	Date: 05/27/2011
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 05/27/2011
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 05/27/2011

Request # -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.

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

NONE

Part IV: Capital Budget Impact

NONE

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**	**5/27/11**	**ESHB 1981 - HOBB S3086.1**

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 2011 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 limits benefits offered in Higher Education Retirement Plans (HERPs), and access to those benefits. It also limits post-retirement employment opportunities for members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Plan 1. Newly-hired employees in higher education can choose to participate in either a HERP, or in Plan 3 of PERS or TRS.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$74,789	($9.5)	$74,780
Earned Pensions Not Covered by Today's Assets	$5,773	($14.0)	$5,759

Impact on Contribution Rates (Effective 9/1/2011)				
2011-2013 State Budget	**PERS**	**TRS**	**SERS**	**PSERS**
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%
Employer				
Current Annual Cost	0.00%	0.00%	0.00%	0.00%
Plan 1 Past Cost	(0.01%)	(0.02%)	(0.01%)	(0.01%)
Total	(0.01%)	(0.02%)	(0.01%)	(0.01%)

Budget Impacts			
(Dollars in Millions)	**2011-2013**	**2013-2015**	**25-Year**
General Fund-State	($1.9)	($2.0)	($11.4)
Total Employer	($4.3)	($4.1)	($23.2)

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

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

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

The primary focus in this section of the actuarial fiscal note is on changes in the bill that impact the state retirement plans administered by the Department of Retirement Systems (DRS). While this bill amends the higher education statutes, this actuarial fiscal note assesses the fiscal impacts of the bill on the DRS-administered state plans only.

We note that this bill reduces benefits and modifies funding for HERPs. These reductions include setting a prospective cap on state funding for HERPs at 6 percent of salary, and eliminating the supplemental benefit for new hires. The bill also creates a fund to prefund HERP supplemental benefits, and sets employer contribution rates to achieve prefunding. Between January 1, 2012, and June 30, 2013, the rate will be 0.25 percent of salary. After June 30, 2013, the rate will be 0.50 percent of salary. This actuarial fiscal note does not directly address the fiscal impacts to HERPs, as the state actuary does not have statutory responsibilities with respect to these plans.

The bill also proposes changes affecting actuarial services for HERPs. The Office of the State Actuary (OSA) has prepared a separate agency fiscal note to address the impacts of this change on OSA.

Currently, the governing board of an institution can decide which employees can participate in a HERP. The bill introduces two restrictions on this authority. First, the bill would limit HERP participation to faculty and other employees who are exempt from civil service under RCW 41.06.070(1)(cc) and 41.06.070(2). This means that some employees who might have been excluded from PERS by virtue of their participation in a HERP would now be unable to participate in a HERP, and hence would be eligible to participate in PERS.

The second restriction on the institution's authority affects retirees of any state-administered retirement system. The bill prohibits institutions from offering HERPs to employees hired on or after July 1, 2011, who have retired, or are eligible to retire, from a state retirement system administered by DRS. Under current law, this prohibition already applies to the Higher Education Coordinating Board (HECB). The bill extends the prohibition to all of the higher education institutions.

Although future rehired retirees of the DRS-administered system may no longer be offered HERPs, rehired retirees who are participating in HERPs before July 1, 2011, may continue to do so.

Rehired retirees from PERS, TRS 2/3, the School Employees’ Retirement System (SERS) 2/3, and the Public Safety Employees’ Retirement System (PSERS) who are participating in HERPs before July 1, 2011, are limited to working 867 hours per year without a suspension of benefits. For rehired PERS retirees, this closes the so-called higher education "exception" by applying post-retirement employment limitations to PERS retirees who return to work in positions covered by a HERP. For rehired retirees in TRS 2/3, SERS 2/3, and PSERS, this change is consistent with current practice, as noted in the *DRS Employer Handbook*, Chapter 5.

The bill removes options for extended hours that are currently available to PERS 1 and TRS 1 retirees beginning January 1, 2012. These options currently allow Plans 1 retirees to work more than 867 hours per year without a suspension of the retiree's benefits. Specifically, they can work up to 1,500 hours per year (with a lifetime limit of 1,900 hours earned in excess of the 867 yearly limit). Under the bill, all rehired PERS 1 and TRS 1 retirees would be subject to the 867 hour yearly limit beginning January 1, 2012.

The bill creates "plan choice" provisions that could affect the number of persons participating in TRS 3 and PERS 3. Employees hired on or after July 1, 2011, will no longer be eligible for the "supplemental benefit" that provides a minimum lifetime benefit for eligible HERP participants. Instead, a faculty member hired on or after July 1, 2011, into a HERP-covered position will have 30 days to choose to either a) participate in a HERP with no supplemental benefit, or b) participate in TRS 3. Employees other than faculty will have 30 days to choose to either a) participate in a HERP with no supplemental benefit, or b) participate in PERS 3. If no decision is made within 30 days, the member is defaulted into the HERP.

The bill adds the SCPP to the committees responsible for determining how and when periodic review of HERPs will occur and whether to adjust HERP contribution rates. This provision does not affect the funding or benefits for the DRS-administered retirement systems. The bill also requires the SCPP to evaluate the suitability and necessity of HERPs, and to report any findings to the ways and means committees of the Legislature no later than December 31, 2011.

Effective Date: Most provisions are effective July 1, 2011. The 867 hour limits for rehired Plans 1 retirees and retirees working in HERPs take effect January 1, 2012.

What Is The Current Situation?

This section of the fiscal note describes OSA's understanding of current practices as they relate to matters relevant to our pricing exercises. These descriptions are not all-inclusive and are not intended as plan summaries.

Currently, retirees of any DRS-administered system can return to work in higher education positions and participate in a HERP - except for HECB positions. HECB is prohibited from offering a HERP to someone who is receiving or accruing a retirement allowance from a DRS-administered retirement system. The boards of the other institutions have no such prohibition. Still, most state plan retirees who return to work in a HERP-covered position are subject to the normal retire-rehire restrictions in their state plan.

These "normal" rules are currently as follows: After separation from service as required in their plan, retirees may work part-time (up to 867 hours per year) without a suspension of benefits. In addition, PERS 1 and TRS 1 retirees can participate in an expanded retire-rehire program that allows them to work for up to 1,500 hours per year without a suspension of their state pension benefits. There is a lifetime limit of 1,900 hours in excess of the 867 hours per year.

In addition, PERS, TRS, and SERS retirees who are utilizing the enhanced early retirement factors in RCW 41.40.630(3)(b) must wait until age 65 to return to work with the benefit of normal retire-rehire rules.

There is an exception to these "normal" rules. PERS retirees who return to work in higher education and participate in a HERP are not subject to the retire-rehire restrictions in their plan. As a practical matter, they are treated as if they had gone to a private sector employer. They must separate from service, but there is no restriction that would suspend these retirees' pensions based on the number of hours worked.

Currently, institutions may establish supplemental benefits to be paid to HERP participants in addition to their HERP benefits. These supplemental benefits create a minimum level of benefits for HERP recipients. HERP supplemental benefits are not prefunded.

State funding for HERPs is not currently subject to the 6 percent cap proposed in this bill.

The higher education statutes are silent as to whether employees in HERP-covered positions currently have an opportunity to choose which retirement plan they will participate in. Staff at the University of Washington (UW) advise OSA that its current practice is as follows: If an employee has been a member of a DRS-administered system and has not withdrawn his or her contributions, that employee will be given the choice to a) continue to participate in his or her state plan or b) participate in the HERP. If the employee has no prior connection to a DRS-administered plan, he or she must participate in the HERP. OSA has not undertaken a survey of how HERPs are administered by each institution, and practices may vary.

As mentioned above, the bill offers new higher education employees a choice to participate in either a HERP with reduced funding and benefits, or in Plan 3 of PERS or TRS. PERS 3 and TRS 3 are the state's hybrid plans. The Plan 3 design is a defined benefit (one percent benefit-multiplier funded by the employer) with a defined contribution component (individually managed account funded by the member).

Currently, the House and Senate Ways and Means committees and the Public Pension Commission must decide the time and manner of periodic review of HERPs, and whether to change contributions for consistency with legislative policy.

How does Amendment HOBB S3086.1 differ from SUND 001?

Amendment HOBB S3086.1 ("the amendment") reinstates a provision that sets a cap on state funding of HERP supplemental benefits at 6 percent of salary. The amendment also phases in the contribution rates for the prefunding of HERPs (see above for details). For comparison, SUND 001 set a rate of 0.50 percent of salary beginning January 1, 2014.

The amendment still repeals the option for rehired Plans 1 retirees to work more than 867 hours per year, but does so in a different way than SUND 001. The amendment repeals the option for all retired Plans 1 members, beginning on January 1, 2012. SUND 001 repealed this option for Plans 1 members who retire after July 1, 2011.

The amendment reinstates a provision that sets a limit of 867 hours per year for PERS retirees working in HERPs.

The amendment requires the SCPP to study HERPs during the 2011 Interim, and report back to the Legislature.

The only difference between bill versions that affects the expected cost of the SUND 001 is the six-month delayed effective date for the repeal of the Plan 1 retire-rehire program expansion.

Who Is Impacted And How?

We estimate this bill could affect any current or future retiree of a state-administered retirement system by restricting access to post-retirement employment. The table below shows active, terminated vested, and service retiree counts for each state-administered system and plan.

Members Impacted In State-Administered Retirement Systems			
System/Plan	Actives	Terminated Vested	Retirees
PERS 1	10,354	2,125	46,619
PERS 2	121,800	22,824	16,773
PERS 3	27,081	3,125	805
PERS Total	159,235	28,074	64,197
TRS 1	5,204	841	32,653
TRS 2	9,174	2,472	1,923
TRS 3	53,010	5,345	1,617
TRS Total	67,388	8,658	36,193
SERS 2	20,197	4,644	2,570
SERS 3	32,277	4,549	1,638
SERS Total	52,474	9,193	4,208
PSERS 2	4,340	0	1
LEOFF 1	356	2	2,735
LEOFF 2	16,951	672	1,128
LEOFF Total	17,307	674	3,863
WSPRS 1	830	69	708
WSPRS 2	264	4	0
WSPRS Total	1,094	73	708
JRS	9	0	85
Judges	0	0	9

The provision of the bill that prohibits higher education institutions from offering HERPs to those retired or eligible to retire from any DRS-administered system could impact members from all plans above. In addition, effective January 1, 2012, the bill removes the ability of PERS 1 and TRS 1 retirees to work more than 867 hours per year. Further, the bill compels all PERS, TRS, SERS, and PSERS retirees in HERPs to follow the normal retire-rehire rules for their systems, which is only expected to impact members of PERS; members from the other systems are already required to follow the normal retire-rehire rules.

The bill also affects members covered by non state-administered plans in higher education (or HERPs). We did not include HERPs in this fiscal note.

This bill could impact all Plan 2 members of the state-administered systems through potential contribution rate changes. With the exception of WSPRS members, this bill will not affect member contribution rates in Plan 1 since they are fixed in statute. 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 SAVINGS AND WHO RECEIVES IT

Why This Bill Has A Savings

This bill restricts retire-rehire options for future PERS 1 and TRS 1 retirees. We believe some members will elect to delay retirement if their retire-rehire provisions are more limited than under current law.

Please see OSA's *2005 Post-Retirement Employment Report* for additional information on how retire-rehire provisions impact retirement behavior. http://osa.leg.wa.gov/Actuarial_Services/Publications/PDF_Docs/Pension_Studies/2005_Post_Ret_Empl_Rpt.pdf

This bill also contains a provision that closes the HERP exception for future retirees in PERS, which could, by itself, result in a savings to PERS 1 because affected members may elect to delay retirement. However, the repeal of expanded Plan 1 retire-rehire discussed above includes any savings to the plan from this provision, along with any savings for the provisions that limit the offering of HERPs to retirees from DRS-administered plans. See OSA's fiscal note for HB 1262/SB 5162, from the 2011 Legislative Session, for more details.

We could see a potential savings from provisions of this bill that restrict post-retirement employment for DRS-administered plans other than PERS 1 and TRS 1. However, we don't currently assume changes in retirement behavior for those members due to the presence of post-retirement employment opportunities. This bill eliminates or restricts some of those opportunities and theoretically removes or reduces any change in future retirement behavior that would have occurred as future Plan 1 retire-rehires are replaced with Plan 2/3 retire-rehires. We have not included this potential savings in our analysis.

This bill limits which employees can enter HERPs and offers a choice between HERPs and PERS 3 or TRS 3 in the future. These provisions will increase the number of members covered under PERS or TRS. An increase in PERS or TRS membership can affect both the on-going "normal cost" rates of the plan and the employer contributions to the Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS 1.

Normal cost rates in PERS and TRS could increase or decrease depending on the demographic make-up of the newly covered population. The closer the new population matches the existing population, the smaller the impact and vice versa.

Expanding the covered population in PERS or TRS will increase the salaries available to amortize the Plan 1 UAAL. This will serve to lower the overall Plan 1 UAAL rate for all employers when the UAAL rates are above their statutory minimum levels. When the UAAL rates are at their statutory minimums, the affected systems will collect additional UAAL contributions on the expanded salary base and employers will amortize the UAAL earlier than currently projected under current law. Please see the How the Results Change When the Assumptions Change section for an example of how the UAAL rates could be impacted.

The net effect of a potential change in future retirement behavior and an increase in the number of members covered under PERS or TRS produces an indeterminate impact on the affected retirement systems. Either a cost or savings will emerge and may vary over time. We have identified the impact of an assumed change in Plan 1 retirement behavior in this fiscal note.

Who Will Receive These Savings?

The costs or savings from this proposal will be divided between members, local employers, and the state according to standard funding methods that vary by plan:

- ❖ LEOFF 2: 50 percent member, 30 percent employer, and 20 percent state.
- ❖ Plan 1: 100 percent employer.
- ❖ Plan 2: WSPRS: 50 percent member and 50 percent employer.
- ❖ Plan 3: 100 percent employer.

All employers of PERS, SERS, and PSERS members would pay lower PERS Plan 1 UAAL contribution rates. Similarly, all employers of TRS members would pay lower TRS Plan 1 UAAL contribution rates.

HOW WE VALUED THESE SAVINGS

Assumptions We Made

We believe the provisions of this bill that restrict post-retirement employment for the Plans 1 will result in a savings to PERS and TRS because some members will delay retirement when faced with more restrictive retire-rehire rules. This assumption is based on the findings from the *2005 Post-Retirement Employment Report* and 2007 legislation (Chapter 50, Laws of 2007) to partially restrict TRS 1 retire-rehire rules. Delayed retirement generally results in a savings to the retirement system. To estimate the savings from these provisions, we changed the assumed retirement behavior in PERS 1 and TRS 1.

We further assumed that existing retire-rehires in PERS 1 and TRS 1 who utilize the expanded hours option under current law would curtail the number of hours they currently work in an eligible position during retirement to avoid a suspension of their pension benefits. If they do not, we would see additional savings from this proposal.

Please see Appendix A, Assumptions We Made, for additional detail.

How We Applied These Assumptions

To estimate the savings in PERS 1 and TRS 1 from the provisions of the bill that restrict post-retirement employment in those plans, we changed the assumed PERS 1 and TRS 1 retirement rates and measured the resulting change in liability. Because these provisions have a delayed effective date of January 1, 2012, we applied a six-month interest discount to the liability change. We did not identify the potential impact in any other plans.

Otherwise, we developed these costs using the same methods as disclosed in the *June 30, 2009, Actuarial Valuation Report* (AVR).

Special Data Needed

We developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding of PERS and TRS by decreasing the present value of future benefits payable under the systems as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,215	($4)	$14,211
PERS 2/3	24,472	$0	24,472
PERS Total	**$38,687**	**($4)**	**$38,684**
TRS 1	$10,956	($6)	$10,950
TRS 2/3	8,661	$0	8,661
TRS Total	**$19,617**	**($6)**	**$19,611**
Unfunded Actuarial Accrued Liability			
*(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
PERS 1	**$4,208**	**($6)**	**$4,202**
TRS 1	**$2,676**	**($8)**	**$2,668**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)			
PERS 1	$4,169	($5)	$4,164
PERS 2/3	(2,560)	$0	(2,560)
PERS Total	**$1,609**	**($5)**	**$1,604**
TRS 1	$2,692	($7)	$2,685
TRS 2/3	(947)	$0	(947)
TRS Total	**$1,745**	**($7)**	**$1,738**

Note: Totals may not agree due to rounding.

** PERS 1 and TRS 1 are amortized over a ten-year period.*

How The Present Value of Future Salaries (PVFS) Changed

This bill does not change the PVFS used to amortize the UAAL of PERS 1 or TRS 1 so there is no impact on the actuarial funding of either plan due to the PVFS.

How Contribution Rates Changed

The rounded decrease in the required actuarial contribution rates result in the supplemental contribution rates shown on page one that apply in the current biennium. However, we will use the un-rounded rate decreases shown below to measure the budget changes in future biennia.

Impact on Contribution Rates (Effective 9/1/2011)				
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**
Current Members				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Employer				
Normal Cost	0.000%	0.000%	0.000%	0.000%
Plan 1 UAAL	(0.006%)	(0.021%)	(0.006%)	(0.006%)
Total	(0.006%)	(0.021%)	(0.006%)	(0.006%)
New Entrants*				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Employer				
Normal Cost	0.000%	0.000%	0.000%	0.000%
Plan 1 UAAL	(0.006%)	(0.021%)	(0.006%)	(0.006%)
Total	(0.006%)	(0.021%)	(0.006%)	(0.006%)

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

Budget Impacts					
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2011-2013					
General Fund	($0.4)	($1.4)	($0.2)	($0.0)	($1.9)
Non-General Fund	(0.5)	0.0	0.0	(0.0)	(0.5)
Total State	**($0.9)**	**($1.4)**	**($0.2)**	**($0.0)**	**($2.5)**
Local Government	(1.0)	(0.7)	(0.2)	(0.0)	(1.9)
Total Employer	**($1.9)**	**($2.1)**	**($0.3)**	**($0.1)**	**($4.3)**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2013-2015					
General Fund	($0.3)	($1.6)	($0.1)	($0.0)	($2.0)
Non-General Fund	(0.4)	0.0	0.0	(0.0)	(0.4)
Total State	**($0.6)**	**($1.6)**	**($0.1)**	**($0.0)**	**($2.4)**
Local Government	(0.7)	(0.8)	(0.1)	(0.0)	(1.7)
Total Employer	**($1.3)**	**($2.4)**	**($0.2)**	**($0.0)**	**($4.1)**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2036					
General Fund	($1.6)	($9.0)	($0.6)	($0.2)	($11.4)
Non-General Fund	(2.3)	0.0	0.0	(0.0)	(2.3)
Total State	**($3.9)**	**($9.0)**	**($0.6)**	**($0.2)**	**($13.7)**
Local Government	(4.1)	(4.6)	(0.8)	(0.0)	(9.5)
Total Employer	**($8.0)**	**($13.6)**	**($1.4)**	**($0.2)**	**($23.2)**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

The analysis of this bill does not consider any other proposed changes to the systems. 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 presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

How the Risk Measures Changed

We have not analyzed this bill using the risk assessment model. We chose not to use the risk assessment model because we believe the impact would be minor and we do not have the resources to run the risk assessment model on every bill.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The table below shows the impact if we decrease our TRS 1 retirement assumption by 50 percent of the change we made in our best estimate pricing. The difference between our "best estimate pricing" and the "sensitivity pricing" below demonstrates how much our cost estimate changes if only half of the assumed TRS 1 members impacted change their retirement behavior as a result of this bill.

Please see Appendix A, Assumptions We Made, for the retirement rates we used in this sensitivity pricing.

How Results Change When Retirement Assumptions Change		
(Dollars in Millions)	**Best Estimate Pricing**	**Sensitivity Pricing**
Liability Increase	($6)	($3)
UAAL Rate Increase	(0.02%)	(0.01%)
25 Year Budget Impacts (2010-2035)		
General Fund - State	($9.0)	($4.6)
Total Employer	($13.6)	($6.9)

We expect a similar change in PERS 1 costs if we decreased our best-estimate retirement assumption change in PERS by 50 percent as well.

We may also see a UAAL rate decrease through an increase in active PERS or TRS membership because fewer higher education employees can join HERPs and those who are offered HERPS may elect to join PERS 3 or TRS 3 instead. We were unable to obtain adequate data to determine an expected UAAL rate impact. Instead, we calculated the increase in annual PERS salary that would lead to a UAAL rate decrease. We provide this information to give the reader a general sense of the amount of additional salary required to decrease UAAL rates. It does not represent a best-estimate assumption.

The minimum salary required to decrease the PERS 1 UAAL rate by 1.0 basis point (0.01 percent) is approximately $12.3 million. This equates to about 225 additional members in PERS with an average annual salary of $55,000. In order for the UAAL rate to decrease by 2.0 basis points, it would require three times the salary increase for PERS ($36.9 million) or three times as many members (675). We expect the number of additional members covered under PERS or TRS to exceed these amounts in the long-run. However, it will take time for the new covered population to emerge as new hires in higher education replace existing members.

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 and assumptions may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2011 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 one 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.

Lisa Won, ASA, MAAA
Actuary

APPENDIX A – ASSUMPTIONS WE MADE

To estimate savings for the provisions in this bill that restrict post-retirement employment in PERS 1 and TRS 1, we assumed retirement rates for the affected population would change in line with previous analysis we performed on post-retirement employment for PERS 1 and TRS 1.

In our *2005 Post-Retirement Employment Report* we identified the change in retirement behavior due to the presence of partially restricted post-retirement employment in PERS 1 and TRS 1. We found the presence of partially restricted post-retirement employment increased PERS 1 retirement rates for members age 62 and younger by an average of 2.6 percent. The retirement assumptions we used for the 2005 study appear below.

PERS 1 Retirement Assumption Changes, 2005 Study						
	Current		Pricing		Percent Increase	
Age	Male	Female	Male	Female	Male	Female
50	0.64	0.40	0.6621	0.4138	3.46%	3.46%
51	0.57	0.43	0.5887	0.4441	3.28%	3.28%
52	0.52	0.37	0.5362	0.3816	3.12%	3.12%
53	0.52	0.33	0.5367	0.3406	3.21%	3.21%
54	0.52	0.52	0.5355	0.5355	2.97%	2.97%
55	0.22	0.26	0.2268	0.2680	3.07%	3.07%
56	0.22	0.18	0.2266	0.1854	3.00%	3.00%
57	0.22	0.18	0.2258	0.1848	2.65%	2.65%
58	0.22	0.22	0.2253	0.2253	2.39%	2.39%
59	0.22	0.37	0.2244	0.3774	2.00%	2.00%
60	0.22	0.18	0.2240	0.1833	1.83%	1.83%
61	0.22	0.22	0.2239	0.2239	1.79%	1.79%
62	0.40	0.37	0.4065	0.3760	1.63%	1.63%
			Average Change		2.6%	2.6%

This bill reverses the impact identified above. We used our previous retire-rehire analysis to develop new retirement assumptions for this pricing. We *reduced* our current PERS 1 retirement assumptions by the percent increase shown above. We show our current PERS 1 retirement rates and the rates from this pricing below.

PERS 1 Retirement Assumption Changes, This Proposal						
	Current		Pricing		Percent Increase	
Age	Male	Female	Male	Female	Male	Female
47	0.50	0.60	0.4833	0.5799	(3.34%)	(3.34%)
48	0.60	0.45	0.5799	0.4350	(3.34%)	(3.34%)
49	0.55	0.40	0.5316	0.3866	(3.34%)	(3.34%)
50	0.55	0.35	0.5316	0.3383	(3.34%)	(3.34%)
51	0.45	0.35	0.4357	0.3389	(3.17%)	(3.17%)
52	0.45	0.35	0.4364	0.3394	(3.03%)	(3.03%)
53	0.45	0.31	0.4360	0.3003	(3.11%)	(3.11%)
54	0.45	0.48	0.4370	0.4661	(2.89%)	(2.89%)
55	0.22	0.23	0.2134	0.2231	(2.98%)	(2.98%)
56	0.18	0.18	0.1748	0.1748	(2.91%)	(2.91%)
57	0.18	0.18	0.1754	0.1754	(2.58%)	(2.58%)
58	0.18	0.17	0.1758	0.1660	(2.33%)	(2.33%)
59	0.22	0.33	0.2157	0.3235	(1.96%)	(1.96%)
60	0.15	0.17	0.1473	0.1669	(1.80%)	(1.80%)
61	0.23	0.21	0.2259	0.2063	(1.76%)	(1.76%)
62	0.33	0.29	0.3247	0.2853	(1.61%)	(1.61%)
			Average Change		(2.6%)	(2.6%)

The TRS 1 retire-rehire provisions have changed since our *2005 Post-Retirement Employment Report* was published. SHB 1262 (Chapter 50, Laws of 2007) placed restrictions on TRS 1 retirees that were similar to those in place for PERS 1 retirees. The table below shows the TRS 1 retirement assumption change for the current retire-rehire program.

TRS 1 Retirement Assumption Changes, 2005 Study and Chapter 50, Laws of 2007												
	Current				Pricing				Percent Increase			
	Service not equal to 30		Service = 30		Service not equal to 30		Service = 30		Service not equal to 30		Service = 30	
Age	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
50	0.25	0.20	0.40	0.30	0.2600	0.2100	0.4200	0.3100	4.00%	5.00%	5.00%	3.33%
51	0.25	0.20	0.40	0.30	0.2600	0.2100	0.4200	0.3100	4.00%	5.00%	5.00%	3.33%
52	0.25	0.20	0.40	0.30	0.2600	0.2100	0.4200	0.3200	4.00%	5.00%	5.00%	6.67%
53	0.25	0.20	0.40	0.30	0.2600	0.2100	0.4200	0.3200	4.00%	5.00%	5.00%	6.67%
54	0.25	0.20	0.40	0.30	0.2600	0.2100	0.4200	0.3200	4.00%	5.00%	5.00%	6.67%
55	0.25	0.20	0.40	0.30	0.2600	0.2100	0.4200	0.3200	4.00%	5.00%	5.00%	6.67%
56	0.20	0.20	0.35	0.30	0.2100	0.2100	0.3700	0.3200	5.00%	5.00%	5.71%	6.67%
57	0.20	0.20	0.35	0.30	0.2100	0.2100	0.3700	0.3100	5.00%	5.00%	5.71%	3.33%
58	0.20	0.20	0.40	0.30	0.2100	0.2100	0.4200	0.3100	5.00%	5.00%	5.00%	3.33%
59	0.20	0.25	0.45	0.30	0.2100	0.2600	0.4700	0.3100	5.00%	4.00%	4.44%	3.33%
60	0.20	0.25	0.45	0.30	0.2100	0.2600	0.4700	0.3100	5.00%	4.00%	4.44%	3.33%
61	0.20	0.20	0.60	0.35	0.2100	0.2100	0.6200	0.3600	5.00%	5.00%	3.33%	2.86%
62	0.45	0.35	0.60	0.55	0.4700	0.3600	0.6200	0.5700	4.44%	2.86%	3.33%	3.64%
						Average Change			4.5%	4.7%	4.8%	4.6%

Similar to our process for PERS 1 retirement assumptions, we *reduced* our current TRS 1 retirement assumptions by the percent increase shown above. We show our current TRS 1 retirement rates and the rates from this pricing below.

TRS 1 Retirement Assumption Changes, This Proposal												
	Current				Pricing				Percent Increase			
	Service not equal to 30		Service = 30		Service not equal to 30		Service = 30		Service not equal to 30		Service = 30	
Age	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
50	0.00	0.00	0.00	0.00	0.0000	0.0000	0.0000	0.0000	-	-	-	-
51	0.00	0.00	0.00	0.30	0.0000	0.0000	0.0000	0.2903	-	-	-	(3.23%)
52	0.00	0.20	0.40	0.35	0.0000	0.1905	0.3810	0.3281	-	(4.76%)	(4.76%)	(6.25%)
53	0.25	0.20	0.40	0.35	0.2404	0.1905	0.3810	0.3281	(3.85%)	(4.76%)	(4.76%)	(6.25%)
54	0.25	0.20	0.40	0.35	0.2404	0.1905	0.3810	0.3281	(3.85%)	(4.76%)	(4.76%)	(6.25%)
55	0.25	0.22	0.40	0.35	0.2404	0.2095	0.3810	0.3281	(3.85%)	(4.76%)	(4.76%)	(6.25%)
56	0.25	0.22	0.35	0.35	0.2381	0.2095	0.3311	0.3281	(4.76%)	(4.76%)	(5.41%)	(6.25%)
57	0.25	0.22	0.35	0.35	0.2381	0.2095	0.3311	0.3387	(4.76%)	4.76%)	(5.41%)	(3.23%)
58	0.25	0.23	0.40	0.35	0.2381	0.2190	0.3810	0.3387	(4.76%)	(4.76%)	(4.76%)	(3.23%)
59	0.25	0.28	0.45	0.35	0.2381	0.2692	0.4309	0.3387	(4.76%)	(3.85%)	(4.26%)	(3.23%)
60	0.25	0.23	0.45	0.35	0.2381	0.2212	0.4309	0.3387	(4.76%)	(3.85%)	(4.26%)	(3.23%)
61	0.25	0.25	0.50	0.45	0.2381	0.2381	0.4839	0.4375	(4.76%)	(4.76%)	(3.23%)	(2.78%)
62	0.40	0.30	0.60	0.60	0.3830	0.2917	0.5806	0.5789	(4.26%)	(2.78%)	(3.23%)	(3.51%)
						Average Change			(3.4%)	(3.7%)	(3.8%)	(4.1%)

In order to test sensitivity of the expected cost of this proposal to our retirement assumption change, we adjusted the TRS 1 retirement assumptions by 50 percent of our best estimate adjustment, using the retirement rates below. Please the section How The Results Change When The Assumptions Change for the results of this analysis.

TRS 1 Retirement Assumptions, Sensitivity Analysis				
	Service not equal to 30		Service = 30	
Age	Male	Female	Male	Female
50	0.0000	0.0000	0.0000	0.0000
51	0.0000	0.0000	0.0000	0.2951
52	0.0000	0.1951	0.3902	0.3387
53	0.2451	0.1951	0.3902	0.3387
54	0.2451	0.1951	0.3902	0.3387
55	0.2451	0.2146	0.3902	0.3387
56	0.2439	0.2146	0.3403	0.3387
57	0.2439	0.2146	0.3403	0.3443
58	0.2439	0.2244	0.3902	0.3443
59	0.2439	0.2745	0.4402	0.3443
60	0.2439	0.2255	0.4402	0.3443
61	0.2439	0.2439	0.4918	0.4437
62	0.3913	0.2958	0.5902	0.5893

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 actuarial accrued 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 actuarial accrued 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 that 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

Bill Number: 1981 E S HB AMS HOBB S3086.1	Title: Public & higher ed employees	Agency: 090-Office of State Treasurer

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

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:	Erik Sund	Phone: 360-786-7454	Date: 05/23/2011
Agency Preparation:	Dan Mason	Phone: 360-902-9090	Date: 05/25/2011
Agency Approval:	Dan Mason	Phone: 360-902-9090	Date: 05/25/2011
OFM Review:	Matthew Bridges	Phone: (360) 902-0575	Date: 05/25/2011

Request # 207-1

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.

ESHB 1981 AMS HOBB S3086.1 creates the higher education retirement plan supplemental benefit fund.

Assumption: Earnings from investments will be credited to the higher education retirement plan supplemental benefit fund even though RCW 43.79A.040 is not amended.

Earnings from investments:
Estimated earnings from investments are indeterminable because projected cash flows are needed to make the estimate and are currently unavailable. Earnings for an account are a function of the average daily balance of the account and the earnings rate of the investment portfolio. The average daily balance is a function of the beginning balance in the account and the timing & amount of receipts, disbursements, & transfers during the time period in question. Accordingly, even with a beginning balance of zero, two accounts with the same overall level of receipts, disbursements, and transfers can have different average daily balances, and hence different earnings.

For illustrative purposes, assume based on the March 2011 Revenue Forecast that the net rate for estimating earnings for FY 11 is 0.50%, FY 12 is 0.25%, and FY 13 is 1.63%. Approximately $5,000 in FY 11, $2,500 in FY 12, and $16,300 in FY 13 in net earnings and $5,000 in fees would be gained or lost annually for every $1 million increase or decrease in average daily balance.

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.

ESHB 1981 AMS HOBB S3086.1 creates the higher education retirement plan supplemental benefit fund.

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

NONE

Part IV: Capital Budget Impact

NONE

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:	1981 E S HB AMS HOBB S3086.1	**Title:**	Public & higher ed employees	**Agency:**	105-Office of Financial Management

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
Account					
General Fund-State 001-1	(27,906,168)	(27,254,168)	(55,160,336)	(53,640,000)	(53,640,000)
Education Legacy Trust Account-State 08A-1	(402,849)	(389,349)	(792,198)	(532,000)	(532,000)
Institutions of Higher Education - Grant and Contracts Account-Non-Appropriated 145 -6	19,362,500	19,150,500	38,513,000	40,977,000	40,977,000
Institutions of Higher Education - Dedicated Local Account-Non-Appropriated 148 -6	9,243,500	9,339,000	18,582,500	19,101,000	19,101,000
Institutions of Higher Education - Data Processing Account-Non-Appropriated 443 -6	729,500	736,500	1,466,000	1,482,000	1,482,000
University of Washington Hospital-Non-Appropriated 505 -6	901,500	880,000	1,781,500	2,020,000	2,020,000
Accident Account-State 608-1	(33,000)	(34,000)	(67,000)	(58,000)	(58,000)
Medical Aid Account-State 609 -1	(34,000)	(34,500)	(68,500)	(60,000)	(60,000)
Total $	1,860,983	2,393,983	4,254,966	9,290,000	9,290,000

Estimated Capital Budget Impact:

NONE

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:

- [X] 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:	Erik Sund	Phone: 360-786-7454	Date: 05/23/2011
Agency Preparation:	Jane Sakson	Phone: 360-902-0549	Date: 05/24/2011
Agency Approval:	Pam Davidson	Phone: 360-902-0550	Date: 05/24/2011
OFM Review:	Tristan Wise	Phone: (360) 902-0538	Date: 05/25/2011

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.

Section 7(2) - State funding for higher education annuity and retirement plans would be capped at 6% of pay, beginning July 1, 2011. The State Board for Community and Technical Colleges (SBCTC) and the Higher Education Coordinating Board (HECB) are excluded from the 6% state funding cap. Employer contributions to these plans range from 5% to 10% of pay. It is assumed that employer funding for contributions greater than 6% will be shifted from state funds to local funds. For purposes of this fiscal note, the cost impact to local funds is shown in proportion to the amounts of compensation budgeted to those funds, but agencies may opt to allocate the cost to local funds differently.

The amounts shown on this Office of Financial Management fiscal note include the impact of the 6% cap on state funding to higher education institutions statewide, excluding the SBCTC and the HECB. All estimates are based on data submitted to the Office of Financial Management by agencies and institutions in preparation for development of the 2011-13 Biennial Budget.

Section 7(4)(b) establishes an employer contribution rate of 0.25% of salary to begin pre-funding the cost of supplemental benefits in Higher Education Retirement Plans, effective January 1, 2012 through June 30, 2013. Section 7(4)(c) sets the employer contribution rate at 0.5% of pay, beginning July 1, 2013. In subsequent years, the employer contribution rate may be adjusted by the Pension Funding Council, subject to revision by the Legislature (Section 7(4)(e)). For purposes of this fiscal note, the 0.5% contribution rate is used from July 1, 2013 on.

Cost estimates in this fiscal note are the net impact of both the 6% state funding cap and the 0.5% employer contribution.

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

NONE

Part IV: Capital Budget Impact

NONE

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: 1981 E S HB AMS HOBB S3086.1	Title: Public & higher ed employees	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.5	0.0	0.3	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	133,252	0	133,252	0	0
Total $	133,252	0	133,252	0	0

Estimated Capital Budget Impact:

NONE

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:	Erik Sund	Phone: 360-786-7454	Date: 05/23/2011
Agency Preparation:	George Pickett	Phone: 360-664-7950	Date: 05/24/2011
Agency Approval:	Marcie Frost	Phone: 360-664-7224	Date: 05/24/2011
OFM Review:	Heather Matthews	Phone: (360) 902-0543	Date: 05/26/2011

Request # 11-054-1

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.

This bill updates laws governing higher education employers and the laws regarding employment of prior members of Department of Retirement Systems (DRS) covered retirement plans. The following is a narrative of the updates as they pertain to DRS.

Section 2: Prohibits the higher education boards from offering a purchased annuity or retirement plan to any employee hired on after July 1, 2011 who has retired or is eligible to retire from a system covered under DRS as described in RCW 41.50.320 including the: Public Employees' Retirement System (PERS); Teachers' Retirement System (TRS); Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF); Washington State Patrol Retirement System (WSPS); Judicial Retirement System (JRS); School Employees' Retirement System (SERS); and the Public Safety Employees' Retirement System (PSERS).

Section 7(4): Creates a Higher Education Retirement Plan Supplemental Benefit Fund which will be invested by the Washington State Investment Board. It establishes an employer contribution rate of 0.25% to be collected by DRS from January 1, 2012 through June 30, 2013. Beginning July 1, 2013, that rate will increase to 0.50%. DRS will account for the contributions and earnings by employer. It also grants authority to the Pension Funding Council (PFC) to adopt future rates for the new fund after the State Actuary completes a valuation and experience study, and identifies that the PFC may recommend future legislation to transfer the responsibility of supplemental benefit payments from the fund to DRS.

Sections 9 and 18: Add new sections to 41.32 (TRS) and 41.40 (PERS) stating that new faculty members (section 9) and all employees not qualified under section 9 (section 18) who are hired into a position eligible for a higher education retirement plan on or after July 1, 2011, will have 30 days to make an irrevocable choice to either participate in the higher education plan offered by the institution, or become a member of PERS Plan 3 or TRS Plan 3. If a member has not made an election at the end of 30 days, they default into the higher education retirement plan.

Sections 10 and 19: Eliminate provisions from TRS 1 and PERS 1 laws related to hours worked in excess of 867. All PERS and TRS plans would only allow 867 hours before the retiree's pension is suspended.

Sections 11 thru 17, and 19: Add positions covered by annuity and retirement income plans, offered by higher education institutions, under the laws governing post-retirement employment for PERS, SERS, TRS and PSERS.

Section 20: Provides an effective date of July 1, 2011; except for sections 10 and 19, which take effect January 1, 2012.

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

- DRS will suspend the benefit of any working retiree who has exceeded the 867 hour limit for calendar year 2012.
- Employers will begin reporting return to work hours on higher education retirement plan employees.
- All retirees currently working will be subject to the new rules regardless of retirement date.
- The higher education institution will be responsible for verifying the employee's retirement status and eligibility with DRS prior to offering a higher education retirement plan.
- When verifying an employee's status, DRS will look at whether the employee is retired or eligible to retire on the date the member is hired by the higher education institution.
- An employee is considered "eligible to retire" when the member has reached both service credit and age requirements for their specific plan.
- "Eligible to retire" also includes early and alternate early retirement options.
- A new method will be created to have employers report the appropriate salary and contribution information for the HERP supplemental benefit.
- DRS will use existing collection methods to collect employer contribution payments for the HERP supplemental benefit fund.
- Community colleges will report collectively as one entity. WSIB will provide DRS a monthly valuation report of the fund's investments.
- The earnings (gains/losses/interest) for each entity will be allocated separately based on the total account balance for that entity.
- DRS will separately account for contributions made to the HERP supplemental benefit fund and earnings on those contributions by entity.

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

BENEFITS/CUSTOMER SERVICE

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

- Review and edit the online operations manual
- Provide staff training
- Review existing rules for modification
- Review and edit existing publications (e.g., Return To Work brochures, retirement packets, applications, member handbooks)
- Review and edit system-generated letters
- Coordinate the development of a DRS notice to employers regarding the need for verification of hours
- Develop and test new reports

Retirement Services Analyst 3 – 327 hours (salaries/benefits) = $10,639
Total Estimated Benefits/Customer Service Costs = $10,639

MEMBER COMMUNICATIONS

The following member communication tasks have been identified as necessary to implement the bill:

- Review and edit member handbooks and related brochures
- Develop Frequently Asked Questions for internal staff
- Develop an Outlook article to communicate changes to active and retired members

Communications Consultant 5 – 44 hours (salaries/benefits) = $1,934
Total Estimated Member Communications Costs = $1,934

EMPLOYER SERVICES

The following employer support tasks have been identified as necessary to implement this bill:

- Update the employer handbook and associated retiree return to work charts
- Develop Frequently Asked Questions for employers
- Develop employer newsletter to communicate changes to public employers
- Provide staff training

Information Technology Specialist 3 – 41 hours (salaries/benefits) = $1,687
Total Estimated Employer Services Costs = $1,687

FISCAL SERVICES

Fiscal staff will be responsible for the following tasks as it pertains to implementation of this bill:

- Preparation and testing of new system updates and accounting/reconciliation processes
- Edits to the Comprehensive Annual Financial Report
- Testing and review of the updated AFRS interface
- Coordination with OST and WSIB regarding reporting of contributions to the new HERP supplemental benefit fund
- Staff training

Fiscal Analyst 3 – 230 hours (salaries/benefits) = $7,971
Total Estimated Fiscal Services Costs = $7,971

AUTOMATED SYSTEMS

The Department will be required to modify its Employer Information Systems for higher education employers. Modifications will also be required for the Member Retirement Verification employer self-service application and the

Defined Benefit Access member self-service application. The following resources will be required for this effort:

Information Technology Specialist 4 – 465 hours (salaries/benefits) = $20,896
Programming, testing and verification – 875 hours @ $95 per hour = $83,125
DIS Computer Costs – 14 weeks @ $500/week = $7,000
Total Estimated Automated Systems Costs = $111,021

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

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

2011-13
BENEFITS/CUSTOMER SERVICE = $10,639
MEMBER COMMUNICATIONS = $1,934
EMPLOYER SERVICES = $1,687
FISCAL SERVICES = $7,971
AUTOMATED SYSTEMS = $111,021

ESTIMATED TOTAL COSTS = $133,252

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.5		0.3		
A-Salaries and Wages	32,247		32,247		
B-Employee Benefits	10,880		10,880		
C-Personal Service Contracts					
E-Goods and Services	90,125		90,125		
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:	$133,252	$0	$133,252	$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 2012	FY 2013	2011-13	2013-15	2015-17
Communications Consultant 5	69,756	0.0		0.0		
Fiscal Analyst 3	53,148	0.1		0.1		
Info Tech Specialist 3	64,740	0.0		0.0		
Info Tech Specialist 4	71,496	0.2		0.1		
Retirement Services Analyst 3	49,368	0.2		0.1		
Total FTE's	308,508	0.5		0.3		0.0

Part IV: Capital Budget Impact

NONE

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 and/or updated rules will be required.