Multiple Agency Fiscal Note Summary

Bill Number: 5851 E S SB	Title: Defined contribution plan

Estimated Cash Receipts

Agency Name	2013-15		2015-17		2017-19	
	GF- State	Total	GF- State	Total	GF- State	Total
Washington State Health Care Authority	0	100,000	0	0	0	0
Department of Retirement Systems	0	4,500,000	0	0	0	0
State Investment Board	Non-zero but indeterminate cost. Please see discussion."					
Total $	**0**	**4,600,000**	**0**	**0**	**0**	**0**

Estimated Expenditures

Agency Name	2013-15			2015-17			2017-19		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Washington State Health Care Authority	.0	23,199	100,000	.0	0	0	.0	0	0
Department of Retirement Systems	10.3	0	4,665,736	3.0	0	423,208	3.0	0	423,208
State Investment Board	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Department of Enterprise Services	.0	0	0	.0	0	0	.0	0	0
University of Washington	.4	91,403	91,403	.0	0	0	.0	0	0
Washington State University	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Eastern Washington University	.0	0	0	.0	0	0	.0	0	0
Central Washington University	.0	104,700	104,700	.0	112,400	112,400	.0	112,400	112,400
The Evergreen State College	.0	14,283	14,283	.0	9,482	9,482	.0	9,482	9,482
Western Washington University	.0	0	0	.0	0	0	.0	0	0
Community and Technical College System	.6	78,000	78,000	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	(2,200,000)	(2,300,000)	.0	(4,400,000)	(4,700,000)	.0	(30,400,000)	(37,700,000)
SWF Statewide Fiscal Note - OFM	.0	1,636,873	2,389,121	.0	81,200	81,200	.0	0	0
Total	**11.3**	**$(251,542)**	**$5,143,243**	**3.0**	**$(4,196,918)**	**$(4,073,710)**	**3.0**	**$(30,278,118)**	**$(37,154,910)**

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

** See local government fiscal note

FNPID 35767

Local Gov. Courts *									
Loc School dist-SPI	Fiscal note not available								
Local Gov. Other **	Fiscal note not available								
Local Gov. Total									

Estimated Capital Budget Impact

NONE

OFM Note – The Office of Financial Management considers the overall impact of this legislation to be indeterminate, in light of the Washington State Investment Board's (WSIB) fiscal note that indicates that the impact on investment returns is non-zero but indeterminate. For more information, please see the WSIB fiscal note.

For information on the potential impact on Plan 2 employee contribution rates, please see the actuarial fiscal note from the Office of the State Actuary (pages 26-27 of 33.)

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Preliminary 6/ 6/2013

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

** See local government fiscal note

Individual State Agency Fiscal Note

Bill Number: 5851 E S SB	Title: Defined contribution plan	Agency: 107-Wash State Health Care Authority

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2014	FY 2015	2013-15	2015-17	2017-19
Public Employees' and Retirees Insurance Account-Non-Appropriated 721-6	100,000		100,000		
Total $	100,000		100,000		

Estimated Expenditures from:

	FY 2014	FY 2015	2013-15	2015-17	2017-19
Account					
General Fund-State 001-1	23,199	0	23,199	0	0
General Fund-Federal 001-2	3,270	0	3,270	0	0
General Fund-Private/Local 001-7	415	0	415	0	0
St Health Care Authority Admin Acct-State 418-1	100,000	0	100,000	0	0
Public Employees' and Retirees Insurance Account-Non-Appropriated 721-6	(26,884)	0	(26,884)	0	0
Total $	100,000	0	100,000	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:		Phone:	Date: 04/26/2013
Agency Preparation:	Kim Grindrod	Phone: 360 725-3723	Date: 04/26/2013
Agency Approval:	Janice Baumgardt	Phone: 360-725-9817	Date: 04/26/2013
OFM Review:	Richard Pannkuk	Phone: (360) 902-0539	Date: 04/29/2013

Request # 13-98-1

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.

See attached narrative.

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.

See attached narrative.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years					
E-Goods and Other Services	100,000		100,000		
Total:	$100,000	$0	$100,000	$0	$0

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.

Part II: Narrative Explanation

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

This bill creates the Public Employees' Savings Plan (PESP), a new retirement system option that will be administered by the Department of Retirement Systems (DRS).

Beginning July 1, 2014, new employees hired into an eligible position under Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), and Public Safety Employees Retirement System (PSERS) will have an additional retirement plan choice. These employees will be able to choose participation in the PESP in lieu of participating in a Plan 2 or Plan 3. New employees who do not choose a plan within ninety days will by default become a member of the PESP.

Employees currently participating in PERS, TRS, SERS, and PSERS Plans 2 and 3 will have an opportunity to transfer their retirement benefits into the PESP beginning January 1, 2015 through June 30, 2015.

The bill does not amend chapter 41.05 RCW, so this analysis assumes that members of the PESP are not eligible for enrollment in Public Employees Benefits Board (PEBB) retiree insurance when they leave employment (see *Analysis of PEBB Assumptions*).

In the engrossed substitute version of this bill:

- New employees who do not choose a plan within ninety days will by default become a member of Plan 2 or Plan 3 of the applicable retirement system (this is how the original SB version of the bill handled the issue of a default enrollment).
- Adds a new section (Sec. 308) to address employer errors. If DRS determines that a member in the PESP has suffered an investment loss due to an employer error the employer will be required to pay the amount DRS determines is necessary to correct the error.
- Directs DRS to request confirmation from the IRS that current plan 2 and 3 members who transfer to the new PESP can change their contribution rates.
- A choice to become a member of the PESP is not irrevocable.
- Clarifies that members cannot receive employer contributions to more than one defined contribution plan at the same time.

PEBB Assumptions:

Subsection (2)(a) of section 211 states that a beneficiary of an annuity is not prohibited from authorizing deductions to pay premiums for group insurance issued for the benefit of a group of public employees of the state which has been approved for deduction in accordance with rules that may be adopted by the Health Care Authority (HCA) or DRS. However, since this bill does not amend chapter 41.05 RCW we assume that members of the PESP are not eligible for enrollment in PEBB retiree insurance when they leave employment. It should be noted they would be eligible to continue coverage if eligible under the Consolidated Omnibus Budget Reconciliation Act also known as COBRA for a limited amount of time which is generally 18 months.

The bill does not amend definitions in RCW 41.05.011 to include a reference to the new PESP, so it is assumed that the bill does not intend to authorize participation in PEBB retiree insurance. RCW 41.05.080 authorizes participation in PEBB insurance plans by retired or disabled employees after retirement or disablement. It also authorizes participation by separated employees immediately upon separation. The terms "retired or disabled school employee" and “separated employee” are defined in RCW 41.05.011.

- The term “retired or disabled school employee,” is defined as persons who separated from employment with a school district or educational service district and are receiving a retirement allowance under TRS, SERS, or PERS.

- The term “separated employee” is defined as persons who separate from employment with an employer as defined in TRS, SERS, or PERS who are at least age fifty-five and have at least ten years of service under a Plan 3.

PEBB Impacts:

We assume:

- Employees participating in the PESP will not be eligible for PEBB retiree insurance.
- PEBB rules will be amended to clarify that PESP members are not eligible for PEBB retiree insurance upon separation from employment.
- PEBB communication materials will be amended to clarify that PESP members are not eligible for PEBB retiree insurance, but may be eligible to continue under COBRA.

PEBB Long-term Impacts:

HCA purchases health care benefits for two groups of PEBB members. The two groups are the non-Medicare community rated risk pool (those not enrolled in Parts A and B Medicare) and the Medicare community rated risk pool. Retirees enrolled in the non-Medicare risk pool benefit from lower premiums than they would otherwise pay because they are rated with younger members who generally use fewer services. This is known as an implicit subsidy and is calculated by the HCA’s contracted actuaries. Retirees enrolled in the Medicare risk pool receive an explicit subsidy specified each year in the operating budget. Essentially, the explicit subsidy lowers the premium paid by the subscriber. HCA collects revenue to pay for the implicit subsidy and explicit subsidy from employers and active employees who participate in PEBB. We assume that the cost of the implicit and explicit subsidies will decrease by the number of employees that participate in PESP. However, this impact will not take effect within the time-period measured in this fiscal note.[1]

Additional Impacts:

Statement No. 45 of Governmental Accounting Standards Board (GASB) also known as Other Postemployment Benefits (OPEB) requires governments to report their long-term

[1] An assumption for ESSB 5851 on the number of employees that would join or transfer into PESP was unavailable at this time from the Office of the State Actuary.

liability on its financial statements. OPEB measures the value of the implicit and explicit retiree subsidies long term. In other words, the measurement looks at the subsidies provided to current retirees and estimates the value of all future retirees. We anticipate that this bill will reduce the state's long-term OPEB liability by the number of employees that choose to participate in the PESP. This measurement is outside the scope of this fiscal note.

Employer retirement contribution costs associated with matching rates will impact all agencies; we assume that the Office of the State Actuary, as the lead agency, will be calculating these costs.

PEBB Administrative Budget Impact:

We assume $100,000 will be needed for additional communication materials to clarify that PESP members are not eligible for PEBB retiree insurance, but may be eligible to continue under COBRA.

II. B – Cash Receipts Impact

Cash Receipts	FY14	FY15	FY16	FY17	FY18	FY19
418 Administration	100,000	-	-	-	-	-
Total	**$ 100,000**	$ -	$ -	$ -	$ -	$ -

II. C - Expenditures

The table below reflects the source of revenue and funding rate increase for the cost of additional communication materials.

Expeditures	FY14	FY15	FY16	FY17	FY18	FY19
State Share	$ 51,900	$ -	$ -	$ -	$ -	$ -
Employee Share	8,100	-	-	-	-	-
Other Enrollment	7,800	-	-	-	-	-
Non Medicare Retirees	4,000	-	-	-	-	-
Medicare Retirees	28,200	-	-	-	-	-
Total	**$ 100,000**	$ -	$ -	$ -	$ -	$ -

	Source of State Share	FY14	FY15	FY16	FY17	FY18	FY19
47.5%	GF-State	$ 23,199	$ -	$ -	$ -	$ -	$ -
6.8%	GF-Federal	3,270	-	-	-	-	-
0.7%	GF-Local	415	-	-	-	-	-
20.1%	Other Appropriated	10,484	-	-	-	-	-
24.9%	Non Appropriated	14,532	-	-	-	-	-
100.0%	Total Active revenue	$ 51,900	$ -	$ -	$ -	$ -	$ -

State Share (Funding Rate) Change per subscriber per month					
FY14	FY15	FY16	FY17	FY18	FY19
$ 0.04	$ -	$ -	$ -	$ -	$ -

Part IV: Capital Budget Impact

None

Part V: New Rule Making Required

PEBB rules will be amended in order to clarify that employees in the PESP are not eligible for participation in PEBB retiree insurance upon separation from employment, but that employees may be eligible to continue coverage under COBRA.

Individual State Agency Fiscal Note

Bill Number: 5851 E S SB	Title: Defined contribution plan	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2014	FY 2015	2013-15	2015-17	2017-19
Department of Retirement Systems Expense Account-State 600-1	3,000,000	1,500,000	4,500,000		
Total $	3,000,000	1,500,000	4,500,000		

Estimated Expenditures from:

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	14.5	6.2	10.3	3.0	3.0
Account					
Department of Retirement Systems Expense Account-State 600-1	4,172,222	493,514	4,665,736	423,208	423,208
Total $	4,172,222	493,514	4,665,736	423,208	423,208

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:		Phone:	Date: 04/26/2013
Agency Preparation:	Shawn Merchant	Phone: 360-664-7303	Date: 04/26/2013
Agency Approval:	Marcie Frost	Phone: 360-664-7224	Date: 04/26/2013
OFM Review:	Cherie Berthon	Phone: 360-902-0659	Date: 04/29/2013

Request # 13-040-1

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 a new employee hired in a position eligible for the Public Employees’ Retirement System (PERS), Teachers’ Retirement System (TRS) and School Employees’ Retirement System (SERS) is given a 90-day irrevocable system choice between Plans 2 and 3. New employees hired in a position eligible for participation in the Public Safety Employees’ Retirement System (PSERS) are automatically PSERS members.

This legislation provides a new Retirement System, the Public Employees’ Savings Plan (PESP) to new employees hired in a PERS, TRS, SERS or PSERS eligible position on or after July 1, 2014. A new employee in a PERS, TRS or SERS eligible position will be given a 90-day choice between Plans 2, 3 or PESP. If a choice is not made within the 90-day choice period, the employee defaults to participation in Plan 3. A new employee in a PSERS eligible position will be given a 90-day choice between PSERS and PESP. If a choice is not made within the 90-day choice period, the employee defaults to participation in PSERS Plan 2. Members who choose to participate in PESP may, if eligible, transfer membership to PERS, TRS, or SERS Plan 3 or PSERS Plan 2, these members may establish service credit for periods of PESP time by purchasing the value of the service credit.

Current active members of PSERS, PERS, TRS and SERS (Plans 2 and 3) will be given the opportunity to transfer their contributions and service during a transfer window period (between January 1, 2015 and July 1, 2015.) Members who elect to transfer during this transfer window, and are continuously employed through June 30, 2017, will be provided an additional transfer payment on July 1, 2017. The transfer payment represents their employer provided portion of the member’s accrued retirement benefit and is equal to the actuarial equivalent value of the member’s accrued retirement benefit on June 30, 2015. Members who transfer to PESP forfeit all service and benefits from all transferable plans.

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.

The implementation costs of this bill will require DRS to increase its administrative fee by 0.02 percent (from 0.18% to 0.20%) in FY 2014 and by 0.01 percent (to 0.19%) in FY 2015.

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

This fiscal note estimates implementation costs assuming the necessary changes could be complete by July 1, 2014. The Department has significant concerns about the ability to make the necessary changes to our internal automated systems, the systems of our record keeper, and the ability of more than 1,300 public employers to modify their payroll systems to accommodate the changes necessary to implement this by July 1, 2014.

- To meet the July 1, 2014 implementation date the department will negotiate to amend the existing record keeper contract with ICMA to include administration of PESP
- PESP will be classified as a IRC 401(a) plan and will not be subject to the Employee Retirement Income Security Act (ERISA)
- PESP will need to be submitted to the Internal Revenue Service (IRS) for approval
- There are approximately 265,000 active PERS, TRS, SERS and PSERS members who will have the option to transfer to PESP
- Approximately 5 percent of the 265,000 members will transfer to PESP
- DRS will need a record keeper to track member accounts, facilitate member investments(including the employer portion contributed to the member account), make distributions, ensure IRS compliance and maintain a website
- There will approximately 15,000 new members each year who will have the choice of Plan 2, Plan 3 or PESP
- DRS will contract with an outside company to develop and provide transfer education deliverables
- Employers will be required to modify current automated systems to report member data, transmittal and employer contribution information to DRS
- PESP information will be provided to the Office of the State Actuary (OSA) for actuarial reporting
- DRS will use the web as the primary communication vehicle to members and employers. The communication will be supplemented with reminder mailings and email notifications sent directly to members and employers.
- PESP is not portable with any existing retirement plan administered by DRS
- DRS will provide a direct mailing to approximately 3,000 Plan 1 and LEOFF Plan 2 dual members to advise them of the impacts of their dual membership if they transfer to PESP
- New employees will be reported in Plan 2 until an election is made (as they are today)
- Members who choose to transfer to PESP, who have any break in service between time of transfer and the date of the transfer payment, will no longer be eligible to receive the transfer payment
- Members who withdraw contributions prior to being vested will not lose accrued service, only the accrued employer contributions at the time of withdrawal.
- A member’s beneficiary will not receive the transfer payment, if the member dies after transferring to PESP, but before July 1, 2017
- Employers will report compensation and hours for PESP members
- A members contribution rate will remain the same at the time of transfer between PESP and Plan 3 or PSERS Plan 2
- Once a member makes the election to transfer from PESP to Plan 3 they will not be given another opportunity to transfer to PESP

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

BENEFITS/CUSTOMER SERVICE

Retirement Services Analysts (RSAs) will support modifications of DRS’ automated systems, help update member communication materials, modify internal procedures to support this legislation and verify record keeper procedures. Team members will serve as a dedicated resource to provide ongoing customer service regarding general plan features and benefits, transfer decisions, and requests for additional information. RSAs will develop and provide training for team members in order to ensure that eligible transfer members are fully informed. Education and Outreach team members will develop seminar presentations, and provide customized training and education to eligible transfer members. Tasks and resources to implement this bill include:

- Support user acceptance testing for the automated systems
- Review and update appropriate forms, publications, letters and seminar materials
- Review and update the Retirement Services Division Online Operations Manual
- Review and update the training materials for RSAs
- Respond to increased customer questions generated by the new legislation
- Create policies and procedures
- Develop and deliver seminar presentations

Retirement Services Analyst 2 – on-going (salaries/benefits) = $129,840
Retirement Services Analyst 2 – two positions for 8 months (salaries/benefits) = $86,560
Retirement Services Analyst 2 – 300 hours of overtime (salaries/benefits) = $11,344
Retirement Services Analyst 3 – 4,386 hours (salaries/benefits) = $145,379
Benefit Marketing Representative – 510 hours (salaries/benefits) = $19,212
Seminar expenses (travel and facilities costs) = $8,183
Total Estimated Benefits/Customer Service Costs in 2013-15 = $400,518

FISCAL SUPPORT

Fiscal Office team members will participate on the project to establish appropriate procedures to receipt, deposit, transfer and invest member and employer contributions. Ongoing fiscal tasks and resources would include:

- Daily receipting of and reconciliation of contributions; processing corrections; and transfers of funds to the record keeper for investment
- Monthly reconciliation of transactions with employers, the State Treasurer's Office (OST), and the record keeper
- Daily and monthly cash flow projections for the State Investment Board (SIB)
- Researching and initiating adjustments to employer or member accounts
- Researching and verifying fund balances and reconciliations with the record keeper
- Posting general ledgers and any adjustments to the state's accounting system
- Verifying, approving and processing of fees

Fiscal Analyst 3 – 1,000 project hours (salaries/benefits) = $35,345
One Fiscal Analyst 2 – effective 04/1/2014 and on-going (salaries/benefits) = $81,150
One Fiscal Analyst 3 – effective 04/1/2014 and on-going (salaries/benefits) = $92,205
Total Estimated Fiscal Support Costs in 2013-15 = $208,700

EMPLOYER SUPPORT SERVICES

Employer Support Services team members will oversee and coordinate education and training for approximately 1,320 employers and the associated materials. Tasks and resources include:

- Create training and materials for PESP
- Deliver statewide trainings

- Update employer handbook
- Provide employer support via phone, email, webinars etc.
- Provide business requirements and test upgrades of the transmittal system and web applications
- Test and process PESP transmittals

Info Tech Specialist 2 – four positions for 12 months (salaries/benefits) = $321,552
Travel expenses to conduct statewide training = $50,000
Total Estimated Employer Support Services Costs = $371,552

MEMBER COMMUNICATIONS

DRS communication team will oversee and coordinate with the record keeper the creation and updates of all necessary publications, forms and the plan's website. This includes working with the transfer education vendor to draft communications for 265,000 members and the development of a new PESP handbook, Choice Handbook and forms updates.

Printing and mailing cost = $51,336
Communication Consultant 5 – 1,500 hours (salaries/benefits) = $67,357
Communication Consultant 3 – 1,180 hours (salaries/benefits) = $41,677
Webmaster (ITS 4) – 588 hours (salaries/benefits) = $27,006
Total Estimated Member Communications Costs = $187,376

TRANSFER EDUCATION

Given the implementation date of this bill, DRS will work with a vendor for transfer education. This includes, RFP development, identifying qualified vendors and evaluation of bids. DRS team members will work with the vendor to develop, print and mail education materials for members eligible to transfer to PESP; this includes development of a website and a transfer education packet.

Project Coordinator – 280 hours (salaries/benefits) = $11,961
Rules and Contracts Coordinator – 120 hours (salaries/benefits) = $5,533
Development of materials and website by vendor = $175,000
Print and mail Welcome/Transfer letter = $180,730
Print and mail Transfer Education Packet = $47,435
Print and mail Transfer Reminder Post card = $93,054
Total Estimated Transfer Education Costs = $513,713

PROJECT MANAGEMENT

Introducing a new mandatory retirement system permanently impacts all aspects of the agency's operations. New processes, materials and services will be incorporated into DRS' existing infrastructure. These new operational requirements increase the administrative complexity and require team members to develop and implement the new services and features. Consistent with knowledge and experience of other DRS projects of similar size and complexity, the following resourcing requirements are anticipated to implement this bill:

Project Manager – 3,120 hours (salaries/benefits) = $161,047
Office Assistant 3 – 3,120 hours (salaries/benefits) = $74,786
Project Coordinator – 3,120 hours (salaries/benefits) = $128,307
Quality Assurance Consultant = $25,000
Contracts and Rules Specialist – 870 hours (salaries/benefits) = $40,095
Office furniture and equipment for the entire project team = $140,000
Facility Lease costs for the entire project team = $111,300
Total Estimated Project Management Costs = $680,535

AUTOMATED SYSTEMS

DRS automated systems need to be updated to process a new defined contribution system. Updates are required to the Employer Information System, Member Information System, Financial Reporting systems, Web Applications and the interface between DRS and the record keeper.

Programmer hours – 13,105 at $95 per hour = $1,244,975
Info Tech Specialist 4 – 2,545 hours (salaries/benefits) = $116,867
Computer costs* - 377 weeks @ $500 per week = $188,500
Total Estimated Automated Systems Costs = $1,550,342

*cost for mainframe computer processing time and resources at the Dept of Enterprise Services

RECORD KEEPER STARTUP AND TRANSITION

A record keeper will provide record keeping services for members' accounts (including tracking and crediting employer contributions and earnings/losses), fund investments and liquidations; produce quarterly statements, welcome letters and confirmation letters to members; work with DRS team members to develop the PESP website; develop and deliver member education seminars, and develop, print and mail publications and forms.

Record Keeper startup programming costs = $500,000
Record Keeper startup marketing, communications and web = $25,000
Record Keeper printing and marketing annual costs = $8,000
Defined Contribution Consultant = $120,000
Total Estimated Record Keeper Startup/Transition Costs in 2013-15 = $653,000

PLAN QUALIFICATION

As a part of our standard practice, DRS will seek a plan qualification determination from the Internal Revenue Service (IRS) for PESP. Special tax counsel familiar with IRS plan qualification issues would be contracted, through the state's Attorney General's Office, for this effort. This process is estimated to take approximately six months.

One-time cost for tax counsel to lead plan determination effort = $100,000
Total Estimated Plan Qualification Costs = $100,000

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	14.5	6.2	10.3	3.0	3.0
A-Salaries and Wages	857,059	331,909	1,188,968	296,784	296,784
B-Employee Benefits	291,750	116,505	408,255	110,424	110,424
C-Professional Service Contracts	670,000	8,000	678,000	16,000	16,000
E-Goods and Other Services	2,155,230	37,100	2,192,330		
G-Travel	58,183		58,183		
J-Capital Outlays	140,000		140,000		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$4,172,222	$493,514	$4,665,736	$423,208	$423,208

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 2014	FY 2015	2013-15	2015-17	2017-19
Benefits Marketing Rep	58,668	0.2		0.1		
Communications Consultant 3	54,480	0.6		0.3		
Communications Consultant 5	71,496	0.7		0.4		
Contracts/Rules Coordinator	73,584	0.5		0.2		
Fiscal Analyst 2	46,968	0.3	1.0	0.6	1.0	1.0
Fiscal Analyst 3	54,480	0.7	1.0	0.9	1.0	1.0
Info Tech Specialist 2	60,120	2.0	2.0	2.0		
Info Tech Specialist 4	73,284	1.5		0.8		
Office Assistant 3	34,308	1.5		0.8		
Project Coordinator	64,776	1.6		0.8		
Project Manager	83,412	1.5		0.8		
Retirement Services Analyst 2	46,968	2.3	1.1	1.7	1.0	1.0
Retirement Services Analyst 3	50,604	1.1	1.1	1.1		
Total FTE's	773,148	14.5	6.2	10.4	3.0	3.0

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 rules will be required.

Individual State Agency Fiscal Note

Bill Number: 5851 E S SB	Title: Defined contribution plan	Agency: 126-State Investment Board

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

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:		Phone:	Date: 04/26/2013
Agency Preparation:	Celina Verme	Phone: (360) 956-4740	Date: 05/21/2013
Agency Approval:	Celina Verme	Phone: (360) 956-4740	Date: 05/21/2013
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 05/21/2013

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.

Based on the participation estimates of the Office of the State Actuary (OSA) and analysis by the Washington State Investment Board (WSIB) and its consultant, Pension Consulting Alliance (PCA), ESSB 5851 is not expected to materially impact long-term returns of the overall Commingled Trust Fund (CTF) portfolio, nor the CTF's long-term asset allocation policy. However, the WSIB notes that if the member participation rate in PESP is materially higher than the OSA estimates, it could cause the CTF to realize lower earnings because the asset allocation to private markets may have to be reduced due to liquidity concerns. Private market investments in the CTF have historically been the portfolio's best performing asset classes.

Given demographic shifts in the workforce over the next 25 years, the behavior of new and current employees regarding their pension benefit choices is difficult, at best, to predict. Estimating the level of participation in the proposed new Public Employees Savings Plan (PESP) creates a broad range of outcomes.

Factors which will affect future pension fund earnings include which members elect to participate in PESP. The OSA assumes PESP will attract younger members of the workforce. Younger members are associated with growing contributions, while older workers are closer to drawing benefits. As the demographics of the CTF participants change, it can have a material impact on the cash flows in and out of the fund, with the ratio of contributions to benefit payments declining over time, requiring an adjustment to holding a more liquid portfolio. Further, the size of assets transferred out of the CTF to PESP will depend on which members move to the new plan. Older workers with longer service periods will require higher transfer amounts due to the higher accrued benefits associated with their service.

Scenario Analysis

The WSIB engaged PCA to assist in analyzing the impact of legislative action creating a strictly defined contribution plan as proposed under SSB 5851. PCA was specifically asked to look at plan design as outlined in SSB 5851, using the OSA's fiscal note analysis of the same bill. Subsequently, the bill was amended to remove the PESP as the default plan for newly hired employees, and OSA revised its participation assumptions. While PCA did not perform additional analysis on the engrossed substitute, reasonable assumptions can be extrapolated from their original analysis.

PCA relied upon certain key assumptions provided by the OSA on adoption rates by new members of the prospective plan. (See OSA's fiscal note for assumptions regarding the transfer rates of current employees.) The OSA assumed that under SSB 5851, new hires will enter specified plans as follows:

•2/3rds of new hires will enter Plan 2 (under ESSB 5851, OSA assumes the same rate of take up for new hires)
•1/9th of new hires will enter Plan 3 (under ESSB 5851, OSA assumes 1/6th of new hires will enter Plan 3)
•2/9th of new hires will enter the PESP (under ESSB 5851, 1/6th of new hires will enter PESP)

As can be seen, due to the elimination of the default into the new DC Plan, OSA assumes fewer new enrollees will enter the PESP than assumed under SSB 5851, while the transfer rates remains the same.

Under current OSA assumptions, ESSB 5851 is not expected to materially impact long-term returns of the overall CTF portfolio, nor the CTF's long-term asset allocation policy. However, the WSIB notes that if the member participation rate in PESP is materially higher than the OSA estimates, it could cause the CTF to realize lower earnings because the asset allocation to private markets may have to be reduced due to liquidity concerns. Private market investments in the CTF have historically been the portfolio's best performing asset classes. The market value of the CTF was $65,403,564,631 as of December 31, 2012. By way of example, an increase or decrease in investment earnings of 10 basis points would be an investment gain or loss of $65.4 million the following year.

Potential Operational Costs

The level of participation from current members will determine whether or not the WSIB incurs transition management costs to move assets from the CTF into PESP. These one-time costs would be negligible under the OSA's participation assumptions, but if actual experience differs from their assumptions, costs could become more significant as detailed below:

Up to $250,000 one-time costs to hire a transition manager and advisors to perform the transfer of assets.

Up to $75,000 one-time cost for legal counsel to review the investment program for fiduciary issues.

Up to $200,000 one-time costs to hire a consultant for an asset allocation study.

Any additional operational costs, long term reorganization of current staff, or of hiring additional staff to assist in the management of this new retirement plan, would be looked at based on the results of the asset allocation study.

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.

See discussion - Part II. A

II. C - Expenditures

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

See discussion - Part II. A

Part III: Expenditure Detail

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: 5851 E S SB	Title: Defined contribution plan	Agency: 179-Department of Enterprise Services

Part I: Estimates

☒ **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/26/2013
Agency Preparation:	Michael Rush	Phone: 407-8773	Date: 05/06/2013
Agency Approval:	Lynne McGuire	Phone: (360) 407 8063	Date: 05/06/2013
OFM Review:	Chris Stanley	Phone: (360) 902-9810	Date: 05/06/2013

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.

This bill creates an optional public employee defined contribution retirement plan for public employees called the Public Employees Savings Plan (PESP), eligible new employees hired on or after July 1, 2014 may join the PESP in lieu of a state defined benefit (DB) plan after 90 days Sec. 204(3), they would automatically be enrolled in the PESP and eligible existing employees may transfer their DB membership into the PESP. And places responsibility on the department of retirement systems for the administration and management of the savings plan.

Takes effect July 1, 2014, however, the legislature retains the right to alter or abolish these benefits any time before July 1, 2014.

This would require some modification of HRMS to facilitate the change and work would be re-prioritized by the agency to accomplish this task and therefore the agency expects no fiscal impact.

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.

NA

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.

NA

Part III: Expenditure Detail

Part IV: Capital Budget Impact

NONE

NA

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.

NA

Individual State Agency Fiscal Note

Bill Number: 5851 E S SB	Title: Defined contribution plan	Agency: 360-University of Washington

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	0.8	0.0	0.4	0.0	0.0
Account					
General Fund-State 001-1	91,403	0	91,403	0	0
Total $	91,403	0	91,403	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:		Phone:	Date: 04/26/2013
Agency Preparation:	Becka Johnson	Phone: 206-616-7203	Date: 05/24/2013
Agency Approval:	Becka Johnson	Phone: 206-616-7203	Date: 05/24/2013
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 06/06/2013

Request # 2013-82-1

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.

ESSB 5851 establishes the public employee defined contribution retirement plan act, creates a public employees' savings plan for employees of the state and its political subdivisions, and places responsibility on the Department of Retirement Systems (DRS) for the administration and management of the savings plan. If passed, the bill will take effect July 1, 2014, however, the legislature retains the right to alter or abolish these benefits any time before July 1, 2014.

The DRS has provided the following description of what will be required of employers:

Implementation of the new system by 7/2014 would require all employers to modify their current retirement programs to report, at least, the following:

- New retirement plan codes
- New retirement "type" and "status" codes
- Transfer codes for existing members to transfer to the PESP
- Member and Employer contribution rates based upon member's age
- New member choice information for the PESP

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.

Per OFM's request, this fiscal note covers only the possible implementation costs of this bill, not the fiscal impact of changes in contribution rates or DRS administrative fees. Implementation of the new system by 7/2014 would require all employers to modify their current retirement programs to report, at least, the following:

- New retirement plan codes
- New retirement "type" and "status" codes
- Transfer codes for existing members to transfer to the PESP
- Member and Employer contribution rates based upon member's age
- New member choice information for the PESP

To accomplish these tasks, the UW would need one "Benefits Consultant" with a full time salary of $53,604 would be required for six months in FY2014 (in other words, 0.5 FTE) This would be a professional staff position, for which the FY2014 benefits load rate would be 31.40%.

In addition, one "Senior Application Systems Engineer" with a full time salary of $171,035 would be required for about 500 hours in FY2014, this translates to approximately 0.25 FTE. This would be a professional staff position, for which the FY2014 benefits load rate would be 31.40%. 500 hours are required because the UW's system is relatively old and, therefore, challenging to update.

No additional FTE would be required past FY2014.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	0.8		0.4		
A-Salaries and Wages	69,561		69,561		
B-Employee Benefits	21,842		21,842		
C-Professional Service Contracts					
E-Goods and Other 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:	$91,403	$0	$91,403	$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 2014	FY 2015	2013-15	2015-17	2017-19
Benefits Consultant	53,604	0.5		0.3		
Senior Application Systems Engineer	171,035	0.3		0.1		
Total FTE's	224,639	0.8		0.4		0.0

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: 5851 E S SB	**Title:** Defined contribution plan	**Agency:** 365-Washington State University

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

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:		Phone:	Date: 04/26/2013
Agency Preparation:	Kelley Westhoff	Phone: 5093350907	Date: 05/23/2013
Agency Approval:	Kelley Westhoff	Phone: 5093350907	Date: 05/23/2013
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 05/24/2013

Request # 2013-93-1

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.

The bill establishes a new defined contribution retirement plan for state employees known as the Public Employees' Savings Plan (PESP). The PESP would be available to eligible individuals hired on or after July 1, 2014, and current Plan 2 or 3 members will have an option to transfer to the PESP between January 1, 2015 and July 1, 2015. There is also an option for PESP members to transfer to Plan 3 of the system they are eligible for.

Employee contribution rates are 5% up to age 35 and 7.5% thereafter. Employer contributions are 80% of the employee rates (4% & 6%). Employers of PESP members will also make contributions to Plan 1 of the PERS system to fund the PERS Plan 1 unfunded liability, as specified in RCW 41.45.060.

DRS will administer the PESP.

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.

Per OFM request, the fiscal note is to address only the implementation costs of the bill. The impact of contribution rate changes and DRS administrative fees will be provided separately for all agencies.

One-time costs anticipated by WSU include system modifications to reflect and incorporate the new retirement plan, web and print material updates, education and training of HRS, Payroll, and general university fiscal staff, and training and notification of employees. These one-time costs would likely occur in FY14 and are indeterminate until the implementation details are known, however they are estimated to be at least $50K.

On-going costs include orientation and education of new employees as well as expanded reporting, reconciling, and transmission of data to DRS. The bill states that the change to the PESP is not irrevocable; therefore, WSU will need to be prepared to administer future plan changes. On-going costs could be incorporated into current processes and absorbed within exiting personnel.

Part III: Expenditure Detail

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: 5851 E S SB	Title: Defined contribution plan	Agency: 370-Eastern Washington University

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

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:		Phone:	Date: 04/26/2013
Agency Preparation:	Tammy Felicijan	Phone: (509) 359-2480	Date: 05/24/2013
Agency Approval:	Tammy Felicijan	Phone: (509) 359-2480	Date: 05/24/2013
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 05/24/2013

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.

The impact to Eastern Washington University of ESSB 5851 regarding establishing a defined contribution retirement plan is indeterminate, but less than $50,000.

Based on requirements to report new retirement plan codes, new type and status codes, transfer codes for existing members to the PESP, track member and employer contribution rates based on member age, and provide new member choice information for PESP, fiscal impact would consist primarily of staff time to modify to our current retirement reporting system. However, if the new plan's reporting or calculating requirements are significantly different from existing plans, the fiscal impact to comply would increase significantly.

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: 5851 E S SB	Title: Defined contribution plan	Agency: 375-Central Washington University

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2014	FY 2015	2013-15	2015-17	2017-19
Account						
General Fund-State	001-1	48,500	56,200	104,700	112,400	112,400
	Total $	48,500	56,200	104,700	112,400	112,400

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:		Phone:	Date: 04/26/2013
Agency Preparation:	Shelly Baird	Phone: (509) 963-2340	Date: 05/24/2013
Agency Approval:	Shelly Baird	Phone: (509) 963-2340	Date: 05/24/2013
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 05/24/2013

Request # 1-1

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.

The following is a list of fiscal impacts if the bill were to pass. The fiscal impact associated with the contribution rates and administrative fees is not part of this computation as they are being provided by OFM and DRS.

- System and Reporting updates and modifications:

o Significant CWU systems modification to reflect and incorporate the new retirement plan (one time)

o Addressing DRS reporting, reconciling and transmission processes (ongoing)

· Education and Training of HRS Benefits staff in order to administer the new plan offering (one time)

· Education and Training of Payroll Staff since new reduction and contribution will be added to Payroll processes (one time)

· Education of AFO and fiscal staff about new contribution rates for budgeting purposes (one time)

· Education of existing DRS participants in regards to ability to switch retirement plans (one time)

· Orientation and education of new employees on their retirement plan choices: Plan 2, Plan 3 and PESP (ongoing)

· Updating of CWU materials and website (one time)

· The law states that the change to the PESP is not irrevocable; therefore, will need to be prepared to administer future plan changes (ongoing)

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.

The following is a list of fiscal impacts if the bill were to pass. The fiscal impact associated with the contribution rates and administrative fees is not part of this computation as they are being provided by OFM and DRS.

- System and Reporting updates and modifications:

o Significant CWU systems modification to reflect and incorporate the new retirement plan (one time)

o Addressing DRS reporting, reconciling and transmission processes (ongoing)

· Education and Training of HRS Benefits staff in order to administer the new plan offering (one time)

· Education and Training of Payroll Staff since new reduction and contribution will be added to Payroll processes (one time)

· Education of AFO and fiscal staff about new contribution rates for budgeting purposes (one time)

· Education of existing DRS participants in regards to ability to switch retirement plans (one time)

· Orientation and education of new employees on their retirement plan choices: Plan 2, Plan 3 and PESP (ongoing)

· Updating of CWU materials and website (one time)

· The law states that the change to the PESP is not irrevocable; therefore, will need to be prepared to administer future plan changes (ongoing)

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years					
A-Salaries and Wages	30,000	36,000	66,000	72,000	72,000
B-Employee Benefits	8,500	10,200	18,700	20,400	20,400
C-Professional Service Contracts					
E-Goods and Other Services	10,000	10,000	20,000	20,000	20,000
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:	$48,500	$56,200	$104,700	$112,400	$112,400

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: 5851 E S SB	Title: Defined contribution plan	Agency: 376-The Evergreen State College

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2014	FY 2015	2013-15	2015-17	2017-19
Account						
General Fund-State	001-1	9,542	4,741	14,283	9,482	9,482
	Total $	9,542	4,741	14,283	9,482	9,482

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:		Phone:	Date: 04/26/2013
Agency Preparation:	Steve Trotter	Phone: (360) 867-6185	Date: 05/24/2013
Agency Approval:	Steve Trotter	Phone: (360) 867-6185	Date: 05/24/2013
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 05/24/2013

Request # TESC0047-1

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.

ESSB 5851 provides a new Retirement System, the Public Employees' Savings Plan (PESP) to new employees hired in a PERS, TRS, SERS or PSERS eligible position on or after July 1, 2014. A new employee in a PERS, TRS or SERS eligible position will be given a 90-day choice between Plans 2, 3 or PESP. If a choice is not made within the 90-daychoice period, the employee defaults to participation in Plan 3. A new employee in a PSERS eligible position will be given a 90-day choice between PSERS and PESP. If a choice is not made within the 90-day choice period, the employee defaults to participation in PSERS Plan 2. Members who choose to participate in PESP may, if eligible, transfer membership to PERS, TRS, or SERS Plan 3 or PSERS Plan 2, these members may establish service credit for periods of PESP time by purchasing the value of the service credit.

Members of PSERS, PERS, TRS and SERS (Plans 2 and 3) will be given the opportunity to transfer their contributions and service during a transfer window period (between January 1, 2015 and July 1, 2015.) Members who elect to transfer du ring this transfer window, and are continuously employed through June 30, 2017, will be provided an additional transfer payment on July 1, 2017. The transfer payment represents their employer provided portion of the member's accrued retirement benefit and is equal to the actuarial equivalent value of the member's accrued retirement benefit on June 30, 2015. Members who transfer to PESP forfeit all service and benefits from all transferable plans.

Implementation of the new system by 7/2014 would require all employers to modify their current retirement programs to report, at least, the following:

- New retirement plan codes
- New retirement "type" and "status" codes
- Transfer codes for existing members to transfer to the PESP
- Member and Employer contribution rates based upon member's age
- New member choice information for the PESP

Complete reporting requirements would be available to employers as early as possible, but perhaps not until November or December of 2013.

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.

Although we are unable to reasonably predict the choices staff will make regarding their retirement plan options in advance we do know that with any change of retirement plan options plans we will experience additional institutional overhead costs particularly associated the implementation phase of offering a new option. After the initial implementation there will be additional on-going fiscal impact due to additional tracking and administration of another retirement plan.

We anticipated that we may need additional IT specialist support to re-program our Banner system and AFRS interface. We anticipate that we would need a half-time effort for approximately 1 months to accomplish this programming work. This one-time cost would be about $8,375 in the first year of implementing systems changes that this new retirement option would demand.

Evergreen's doesn't have a benefits office or a dedicated employee benefit specialist. Instead we handle our benefit program through our small 3 person payroll operation. Increasingly these staff are doing more benefit work than payroll work and this change could likely result in their work shifting to a ratio that would cause a reclassification of two staff positions from their current fiscal specialist classification to a benefits specialist position. This reclassification would amount to a $4,741 increased annual salary and benefit cost for those employees who would have to learn a new retirement option, understand, maintain appropriate benefit records/systems to effectively explain new retirement options to new employees.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years					
A-Salaries and Wages	8,301	4,128	12,429	8,256	8,256
B-Employee Benefits	1,241	613	1,854	1,226	1,226
C-Professional Service Contracts					
E-Goods and Other 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:	$9,542	$4,741	$14,283	$9,482	$9,482

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: 5851 E S SB	Title: Defined contribution plan	Agency: 380-Western Washington University

Part I: Estimates

[X] **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

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

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

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/26/2013
Agency Preparation:	Kirk England	Phone: 360-650-4694	Date: 05/24/2013
Agency Approval:	Linda Teater	Phone: 360-650-4762	Date: 05/24/2013
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 05/24/2013

Request # -1

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.

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.

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 IV: Capital Budget Impact

NONE

Individual State Agency Fiscal Note

Bill Number: 5851 E S SB	**Title:** Defined contribution plan	**Agency:** 699-Community/Technical College System

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	1.1	0.0	0.6	0.0	0.0
Account					
General Fund-State 001-1	78,000	0	78,000	0	0
Total $	78,000	0	78,000	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:	Phone:	Date: 04/26/2013
Agency Preparation: Arnel Blancas	Phone: 360-704-4384	Date: 06/05/2013
Agency Approval: Nick Lutes	Phone: (360) 704-1023	Date: 06/05/2013
OFM Review: Marc Webster	Phone: 360-902-0650	Date: 06/06/2013

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.

This bill creates the Public Employee Defined Contribution retirement plan.

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.

This bill creates the Public Employee Defined Contibution retirement plan. Implementation of the new system by 7/2014 would require modification to PPMS to report:
-New retirement plan codes
-New retirement “type” and “status” codes
-Transfer codes for existing members to transfer to the PESP
-Member and Employer contribution rates based upon member’s age
-New member choice information for the PESP

Implementation of the new retirement program, including notifying employees, informational meetings, answering questions, and assisting in transfer paperwork is estimated to require 2,000 hours across the 34 community and technical college campuses and the State Board office. In addition, updates to PPMS would require approximately 200 hours of programming. Staff that would be responsible for the reprogramming of PPMS are currently working on the ctcLINK project. Having them cease work on the ctcLINK project to do PPMS updates would likely delay ctcLINK implementation. One-time cost is estimated to be $78,000 in SFY14.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	1.1		0.6		
A-Salaries and Wages	60,000		60,000		
B-Employee Benefits	18,000		18,000		
C-Professional Service Contracts					
E-Goods and Other 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:	$78,000	$0	$78,000	$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 2014	FY 2015	2013-15	2015-17	2017-19
Human resources specialist	50,000	1.0		0.5		
IT specialist	100,000	0.1		0.1		
Total FTE's	150,000	1.1		0.6		0.0

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: 5851 E S SB	Title: Defined contribution plan	Agency: AFN-Actuarial Fiscal Note - State A

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2014	FY 2015	2013-15	2015-17	2017-19
Account						
All Other Funds-State	000-1	300,000	(400,000)	(100,000)	(300,000)	(7,300,000)
General Fund-State	001-1	(700,000)	(1,500,000)	(2,200,000)	(4,400,000)	(30,400,000)
	Total $	(400,000)	(1,900,000)	(2,300,000)	(4,700,000)	(37,700,000)

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:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/26/2013
Agency Preparation:	Darren Painter	Phone: 360-786-6155	Date: 05/20/2013
Agency Approval:	Troy Dempsey	Phone: 360-786-6154	Date: 05/20/2013
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 05/21/2013

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.

SUMMARY OF RESULTS

This bill creates an optional Defined Contribution (DC) retirement plan for public employees called the Public Employees' Savings Plan (PESP). Eligible new employees may join the PESP in lieu of a state Defined Benefit (DB) plan, and eligible existing employees may transfer their DB membership into the PESP.

The following changes in this engrossed version of the bill have impacted the costs or actuarial analysis shown for the substitute version of the bill.

- Change the default plan to Plan 3.
- Provide an option for members to transfer, on an actuarially equivalent basis, from PESP to Plan 3.

This version of the bill changes the default plan back to the same default plan in the original version of the bill. We further assume the ability for eligible PESP members to transfer to Plan 3 on an actuarial equivalent basis would not impact the pricing relative to the original bill. As a result, the results of this fiscal note are identical to the results for SB 5851 from the 2013 Session.

Budget Impacts			
(Dollars in Millions)	**2013-2015**	**2015-2017**	**25-Year**
General Fund-State	($2.2)	($4.4)	($240.3)
Local Government	($1.2)	($2.9)	($163.0)
Total Employer	($3.5)	($7.5)	($436.2)

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.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

Over the 25-year period, we expect a long-term savings because employers would contribute less to the PESP than they would, under current law, to a DB plan for the affected members. We expect a 25-year total employer net savings of $436 million as a result of this bill. TRS accounts for approximately 75 percent of the expected savings. The DC contribution rates are expected to exceed the DB contribution rates for PERS and SERS beginning in 2032 and beyond.

The results of our analysis are sensitive to the number of members joining the PESP and the assumed long-term difference between the costs of the DB and DC plans. Our analysis shows that varying these two key assumptions could result in the bill ranging from cost neutral to saving almost $900 million over the 25-year period. Actual experience could lead to results outside this range, potentially leading to a net cost. Please see the **How The Results Change When The Assumptions Change** section of this fiscal note for more detailed information.

We do not expect the option for PESP members to transfer into the DB plans on an actuarially equivalent basis to have a cost to the affected systems. However, any option in a pension plan has the potential for anti-selection risk (a risk where members with above average costs select the option resulting in higher costs for others). The selection of actuarial assumptions and methods that anticipate this risk, through the future administration of this benefit option, can help manage this anti-selection risk.

Plan 2/3 employers and Plan 2 members remaining in the DB plans are expected to contribute higher contribution rates over the 25-year period than we assume under current law. Please see the **How Contribution Rates Changed** section of the fiscal note for more detailed information.

Overall, we found this bill increases risks as measured under the Pension Score Card. Please see the **How the Risk Measures Changed** section for more detailed information.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This bill impacts the following systems:

- ❖ Public Employees' Retirement System (PERS) Plans 2/3.
- ❖ Teachers' Retirement System (TRS) Plans 2/3.
- ❖ School Employees' Retirement System (SERS) Plans 2/3.
- ❖ Public Safety Employees' Retirement System (PSERS).

This bill creates the PESP. The PESP is an optional DC retirement plan open to most public employees. Eligible newly hired employees may join the PESP in lieu of the state DB plan they would otherwise participate in. Eligible current Plan 2 and Plan 3 members may transfer their DB plan membership into the PESP during a one-time transfer window.

Public Employees' Savings Plan

The PESP is a tax-qualified DC retirement plan that provides members an individual retirement account instead of a guaranteed benefit. The account is funded by member and employer contributions and the investment earnings on the account. Members may invest their accounts in a variety of investment funds provided by the plan. Upon retirement or separation from service, members may withdraw their account balances as a lump sum or under other options provided by the plan. The plan administrator for the PESP is the Department of Retirement Systems (DRS) and the Washington State Investment Board (WSIB) is the investment manager for member accounts.

Under this bill, new hires in PERS 2/3, TRS 2/3, SERS 2/3, and PSERS eligible positions may choose to join the PESP instead of a Plan 2/3. Employees who do not make a plan choice within 90 days are placed in the default plan of the DB system for which they are otherwise eligible—Plan 3 for PERS, TRS, and SERS; Plan 2 for PSERS.

New members contribute 5 percent of salary until age 35 and 7.5 percent thereafter. Employers match 80 percent of new member contributions, which equals 4 percent of salary until age 35 and 6 percent thereafter. Contribution rates for members transferring from an existing plan are contingent upon Internal Revenue Service (IRS) approval. If required by the IRS for favorable tax qualification, contribution rates for transferring members will be locked at each member's prior plan contribution rate. Employer contributions for members with a locked rate will equal 4 percent of salary until age 35 and 6 percent thereafter. Members must have five years of service to vest in the employer contributions. Non-vested employer contributions are credited back to the employer if the member withdraws their account.

Members may self-direct the investment of their accounts under options provided by WSIB. Members who do not choose an investment option are defaulted into a target-date retirement strategy fund. DRS must adopt rules that will allow members to roll over moneys from other tax qualified accounts.

Upon retirement or separation from service, members may withdraw their member account balance as a lump sum or under other options provided by DRS. DRS must develop rules that will allow members to purchase an annuity from a state administered fund.

Transfer Options

Under this bill, PERS 2/3, TRS 2/3, SERS 2/3, and PSERS members have a one-time option to transfer their DB plan membership into the PESP. Members may elect to transfer between January 1, 2015, and July 1, 2015. For those electing to transfer, service and member contributions are transferred to the PESP on July 1, 2015. Transferred member contributions consist of savings funds for Plan 2 members and Plan 3 account balances for Plan 3 members. Members electing to transfer, must transfer all PESP-eligible service from PERS 2/3, TRS 2/3, SERS 2/3, and PSERS, and forfeit all service and benefits in any transferred plan.

Eligible transferring members will also receive a transfer payment from each plan transferred to the PESP. The transfer payment represents the employer provided value of their accrued defined benefit and is equal to the actuarial equivalent value of member's accrued retirement benefit on June 30, 2015, less the amount of the transferred savings fund for Plan 2 members. The calculation of the actuarial equivalent value includes both expected future salary increases and expected future service credit for benefit eligibility. However, only service credit earned as of June 30, 2015, is used to determine the portion of the present value of future benefits accrued at the transfer date. The transfer payment may not be negative.

The transfer payment is credited to PESP member accounts on July 1, 2017, and is increased by two years of interest, as determined by DRS. Members must remain continuously employed until July 1, 2017, to receive the transfer payment.

Members are immediately and fully vested in all amounts transferred to their PESP member account when the amount is credited to their account.

The bill also provides an option for PESP members to transfer their membership to the Plan 3 for which they are eligible. This option is available for members choosing the PESP upon hire, and those choosing to transfer their DB plan membership to the PESP. PESP members who elect to transfer may purchase Plan 3 service credit by paying the actuarially equivalent value of the service. According to DRS, PESP members in PSERS-eligible positions will not be able to transfer under this provision since PSERS does not have a Plan 3.

Plan 1 UAAL

The bill requires employers to contribute to the Plans 1 Unfunded Actuarial Accrued Liability (UAAL) on the salaries of PESP members. School and educational service districts contribute to the TRS 1 UAAL for teachers and to the PERS 1 UAAL for classified employees. All other employers contribute to the PERS 1 UAAL. This is consistent with the current practice for PERS, TRS, SERS, and PSERS members.

Effective Date: July 1, 2014.

What Is The Current Situation?

Currently the state does not provide a pure DC retirement plan for public employees. New employees in PERS, TRS, and SERS have the option of choosing between a pure DB (Plan 2) or a DB/DC hybrid (Plan 3). Employees who do not choose a plan upon hire, are placed in Plan 3. PSERS only provides a Plan 2, which all new PSERS employees join.

The Plans 2 provide a guaranteed retirement allowance calculated as 2 percent multiplied by the member's average final compensation and years of service. Plan 2 employers and Plan 2 members share in the costs of the DB plan.

The Plans 3 consist of both an employer-funded DB and a member funded DC. The Plan 3 DB provides a guaranteed retirement allowance calculated as 1 percent multiplied by the member's average final compensation and years of service. The Plan 3 DC provides a member account funded by member contributions and investment earning on those contributions. Members may choose their contribution rate from a list of options ranging from 5 percent to 15 percent. WSIB invests member accounts as directed by members. Members may self-direct their investments in a variety of options provided by WSIB, or may invest with WSIB in the Plans 2/3 Commingled Trust Fund under the Total Allocation Program. Members who do not choose an investment option are invested in a target-date retirement strategy fund. Plan 3 members may purchase an annuity from the Total Allocation Portfolio upon retirement.

The Plans 2 and Plans 3 are tax-qualified plans under Internal Revenue Code Section 401(a). Plan qualification generally allows plan participants to defer paying federal income taxes on contributions or investment earnings until retirement or withdrawal.

PERS and TRS Plans 1 have an unfunded liability for past service called the UAAL. Employers contribute to the UAAL on the salaries of all members of the system, including Plan 2/3 members. PERS, SERS, and PSERS employers contribute to the PERS 1 UAAL and TRS employers contribute to the TRS 1 UAAL.

Who Is Impacted And How?

We estimate this bill could affect all current and future Plan 2/3 members of PERS, TRS, SERS, and PSERS through a change in plan provisions. An active member participating in Plans 2 or 3 of the impacted systems may elect to join the PESP during the designated transfer window. We expect approximately 16,650 currently active members will elect to transfer to the PESP during the designated transfer window. Please see the **Assumptions We Made** section for more details on how we developed the expected number of currently active members transferring to the PESP.

All future new entrants of the impacted systems will be given the option of Plan 2, Plan 3, or PESP. Eligible PESP members will be granted a one-time transfer option to Plan 3. This option is available to all impacted systems with a Plan 3.

This bill impacts all 152,352 Plan 2 members of PERS 2, TRS 2, SERS 2, and PSERS 2 through changed contribution rates. This bill will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this bill will not affect remaining DB members' contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

IRS rules may restrict transferring members from changing their contribution rates when they transfer. Should this occur, a member who transfers (either from DB to PESP or from PESP to DB) will contribute the same as before transferring. However, these IRS restrictions will not impact employer contribution rates. All employers of PESP members are set to contribute either 4 percent or 6 percent depending on the member's age. Additionally, employers of members who transfer from PESP to Plan 3 will contribute the rate adopted for the plan.

WHY THIS BILL HAS A COST/SAVINGS AND WHO PAYS FOR/RECEIVES IT

This bill will have a cost or savings for different groups of stakeholders as follows.

- **Current Plan 2 Members** – Consistent with the asset smoothing method in law, currently deferred asset losses will be recognized over the next seven years. As these losses are recognized, member and employer contribution rates will increase above their expected long-term levels. Future entrants join the plan without past asset losses associated with their pension benefits. The pooling of future new entrants with current members serves to dampen the rate increases for current members. Since some current members and future entrants will opt to join the DC plan in the future instead of the DB plan, these members will no longer dampen these increasing rates for current Plan 2 members. As a result, Plan 2 members who remain in their DB plans will pay higher future contribution rates than currently expected.

- **Members in PESP** – Members in PESP will generally pay set age–based contribution rates into their DC accounts. These amounts may be more or less than they would have contributed into their Plan 2 DB or Plan 3 DC account depending on many factors.
- **Employers of Current Members** – Employers of Plan 2/3 members within the DB plans are expected to pay increasing contribution rates consistent with current Plan 2 members, as discussed earlier.
- **Employers of PESP** – Employers of members in PESP will pay a contribution rate between 4 and 6 percent of pay depending on the age of the member. If this employer contribution rate is higher than the DB rate, then this results in a cost to the PESP employers. On an expected basis this is a net savings for all impacted systems.

The actual cost (or savings) will depend on the actual number of current (and future) members transferring to (or electing to join) the PESP. Future plan experience could also vary from our expectations. Please see **How The Results Change When The Assumptions Change** section for additional details.

HOW WE VALUED THESE COSTS

Assumptions We Made

<u>Active Member Population</u>

We do not have information on who will be employed between January 1, 2015, and July 1, 2015, so we assumed the active member population will be comparable to the active member population as of June 30, 2011.

<u>Transfer Assumptions</u>

We assumed 5 percent of the total active Plan 2 population and 10 percent of the total active Plan 3 population would transfer to the PESP for PERS, TRS, and PSERS. Additionally, we assumed 2.5 percent of the total active Plan 2 population and 5 percent of the total active Plan 3 population would transfer to the PESP for SERS. We based these assumptions off research from other pensions systems offering a voluntary transfer from a DB to a DC plan. Please see the linked NASRA report for more information. We note that this type of data might not be directly applicable to the transfer option provided in this bill. In particular, actual member behavior may vary greatly based on the benefit levels in the DB versus the DC plans, as well as based on the members' perceptions of the economy at the time that the transfer window is offered.

Furthermore, we assumed that of this specified percentage of the active population transferring, 80 percent of those would be less than 45 years old and the remaining 20 percent of the transfers would be between 45 and 55 years old.

We assumed retirement eligible members would elect to remain in their current plans.

We further assumed that two-thirds of all future entrants who enter into PERS, TRS, and SERS will choose to join Plan 2, one-sixth will join Plan 3, and one-sixth will join the PESP. We expect six-sevenths of future PSERS new entrants to join Plan 2 while the remaining one-seventh joins the PESP.

We assumed the option for PESP members to transfer to Plan 3 would not impact our assumed transfer rates. Please see **How the Results Change When Assumptions Change** for more details.

<u>PESP Employer Match Contribution Rates</u>

In order to determine expected average annual employer contribution rates for the PESP, we had to assume what percentage of the population is over the age of 35 in each of the plans for each future year. In other words, the employer contribution rate in the PESP is an average of the 4 percent and 6 percent match based on the number of members above and below age 35.

We based the age, and therefore the employer DC contribution rate, in year one on the age of the assumed transferee population. Over the 25-year period, we assumed the population would get older and ultimately reflect the current active population for each system. We developed the following average employer contribution rates for the PESP.

- **PERS** – 5.27 percent in year one and increasing to 5.67 percent in year 25 and beyond.
- **TRS** – 5.33 percent in year one and increasing to 5.60 percent in year 25 and beyond.
- **SERS** – 5.46 percent in year one and increasing to 5.82 percent in year 25 and beyond.
- **PSERS** – 5.18 percent in year one and increasing to 5.67 percent in year 25 and beyond.

We developed the above contribution rates in the following way: if, for example, 60 percent of the population was over age 35 in a future year, the employer's PESP contribution rate would effectively be 5.20 percent of salary in that future year (i.e. 4.00 percent * 40 percent + 6.00 percent * 60 percent).

Please see **Appendix A** for more details.

<u>Additional Assumptions</u>

We assumed all employers will continue to pay Plan 1 UAAL contributions as they do under current law.

Consistent with DRS' interpretation of the bill, we assumed PESP members will not be able to transfer to PSERS.

We assumed no collection of a supplemental rate in the 2013-15 Biennium for the affected DB plans because the bill does not provide a benefit improvement in those plans.

We assume the actuarially equivalent transfer amount from DB plans outlined in this bill will be calculated using the Projected Unit Credit (PUC) liability (or accrued liability) for each member. Below we provided our best estimate for total PUC Liabilities transferred for each system, during the transfer window for current active members, based on our transfer assumptions outlined above.

Expected Actuarially Equivalent Transfer Amounts from DB Plans (PUC Liability)	
(Dollars in Millions)	
PERS	$331
TRS	$229
SERS	$21
PSERS	$4

For members who transfer from PESP to Plan 3, we assume DRS will require the member to pay the full actuarial value of the service credit received. This is consistent with current practice for members restoring withdrawn service. Otherwise, we developed these costs using the same assumptions as disclosed in our *June 30, 2011, Actuarial Valuation Report* (AVR).

How We Applied These Assumptions

Defined Benefit Contributions Under Current Law (DB-Before)

We calculated the projected contribution rates in each affected system under current law. We multiplied the contribution rate and the total payroll in each future year to obtain the DB fiscal impact for the year under current law.

Defined Benefit Contributions After Transfers (DB-After)

We randomly selected current members to transfer based on the **Assumptions We Made** section. We removed the expected transferees from our database – resulting in a liability decrease. We then removed assets from the DB trust funds equal to the transferees PUC liability. We recalculated the projected contribution rates required to fund the liabilities of the remaining population. We multiplied the contribution rate and the payroll in each future year to obtain the DB fiscal impact for the year under this bill.

PESP Contributions

We calculated the assumed salaries of the transferees and new entrants that choose the PESP.

The PESP employer contribution rates were split into two components.

1. **PESP Employer Contribution Rate Paid:** This is the total DC rate that the employer pays on average.
2. **PESP Employer Contribution Rate Returned**: This component accounts for the annual employer contributions that get returned to the employer if the member terminates before vesting.

We multiplied the net annual PESP employer contribution rate (contribution rate paid – contribution rate returned) and the PESP payroll in each future year to obtain the annual PESP employer fiscal impact.

We added the DB fiscal impact and the net PESP fiscal impact in each year to obtain the total fiscal impact for the year under the bill. We compared the fiscal impacts by year under current law and this bill to determine the cost/savings by year.

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

Special Data Needed

We developed these costs using the same assets and data as disclosed in the AVR. In addition, we recognized investment returns of 1.39 percent through June 30, 2012, when estimating projected asset values.

ACTUARIAL RESULTS

How The Liabilities Changed

The present value of future benefits (PVFB) payable for active members who remain in the DB plans is not impacted, however members who transfer to the PESP will reduce the PVFB of each system as shown in the table below.

Change in PVFB From Assumed DB to DC Transfer	
(Dollars in Millions)	
PERS	($839)
TRS	($577)
SERS	($62)
PSERS	($22)

The PUC liabilities of each system are expected to decrease by the same amount as the assumed asset transfer from the DB plans. The table below shows the impact for each system.

Change in PUC Liabilities From Assumed DB to DC Transfer	
(Dollars in Millions)	
PERS	($331)
TRS	($229)
SERS	($21)
PSERS	($4)

How The Present Value of Future Salaries (PVFS) Changed

The PVFS of each system are expected to decrease by the amounts shown in the table below due the assumed transfer of current members.

Change in PVFS	
(Dollars in Millions)	
PERS	($5,093)
TRS	($4,760)
SERS	($590)
PSERS	($132)

How Contribution Rates Changed

We expect the bill to impact DB contribution rates in the future. We demonstrate the employer contribution impacts in the following two tables. The tables display the expected employer DB rates before this bill, employer DB rates after this bill, and the employer DC rates in the PESP.

PESP rates reflected in this table are the PESP employer match contribution rates. These rates show how the PESP rates are expected to increase over time to match expected demographic aging within the PESP plan. A portion of these PESP rates will be returned to employers due to members leaving before the five-year vesting requirement. This returned portion is reflected in the budget impact tables.

NC stands for "normal cost" and excludes the Plan 1 UAAL rate that we assumed does not change due to this bill.

Employer Contribution Rate Summary						
	PERS			TRS		
Fiscal Year	DB NC-Before	DB NC After	PESP	DB NC-Before	DB NC-After	PESP
2014	5.03%	5.03%	5.27%	5.73%	5.73%	5.33%
2015	5.03%	5.03%	5.29%	5.73%	5.73%	5.34%
2016	6.17%	6.15%	5.30%	6.94%	6.81%	5.35%
2017	6.17%	6.15%	5.32%	6.94%	6.81%	5.36%
2018	7.62%	7.71%	5.34%	7.87%	7.98%	5.37%
2019	7.59%	7.71%	5.35%	7.76%	7.80%	5.39%
2020	7.80%	8.01%	5.37%	7.73%	7.94%	5.40%
2021	7.80%	7.95%	5.39%	7.40%	7.87%	5.41%
2022	7.29%	7.44%	5.40%	7.13%	7.15%	5.42%
2023	7.29%	7.44%	5.42%	7.13%	7.15%	5.43%
2024	6.73%	6.85%	5.43%	6.88%	6.90%	5.44%
2025	6.73%	6.85%	5.45%	6.88%	6.90%	5.45%
2026	6.26%	6.36%	5.47%	6.69%	6.71%	5.47%
2027	6.26%	6.36%	5.48%	6.69%	6.71%	5.48%
2028	5.91%	5.98%	5.50%	6.54%	6.57%	5.49%
2029	5.91%	5.98%	5.52%	6.54%	6.57%	5.50%
2030	5.64%	5.70%	5.53%	6.44%	6.46%	5.51%
2031	5.64%	5.70%	5.55%	6.44%	6.46%	5.52%
2032	5.45%	5.50%	5.57%	6.36%	6.38%	5.53%
2033	5.45%	5.50%	5.58%	6.36%	6.38%	5.54%
2034	5.30%	5.35%	5.60%	6.29%	6.31%	5.56%
2035	5.30%	5.35%	5.62%	6.29%	6.31%	5.57%
2036	5.20%	5.23%	5.63%	6.24%	6.26%	5.58%
2037	5.20%	5.23%	5.65%	6.24%	6.26%	5.59%
2038	5.11%	5.14%	5.67%	6.20%	6.22%	5.60%

Employer Contribution Rate Summary						
	SERS			PSERS		
Fiscal Year	DB NC-Before	DB NC-After	PESP	DB NC-Before	DB NC-After	PESP
2014	5.64%	5.64%	5.46%	6.36%	6.36%	5.18%
2015	5.64%	5.64%	5.47%	6.36%	6.36%	5.20%
2016	6.96%	6.96%	5.49%	6.44%	6.41%	5.22%
2017	6.96%	6.96%	5.50%	6.44%	6.41%	5.24%
2018	7.66%	8.23%	5.52%	6.73%	6.70%	5.26%
2019	7.47%	7.57%	5.53%	6.73%	6.70%	5.28%
2020	7.68%	7.84%	5.55%	6.74%	6.72%	5.30%
2021	7.68%	7.84%	5.56%	6.74%	6.72%	5.32%
2022	7.07%	7.21%	5.58%	6.68%	6.66%	5.34%
2023	7.07%	7.21%	5.59%	6.68%	6.66%	5.36%
2024	6.45%	6.55%	5.61%	6.65%	6.62%	5.38%
2025	6.45%	6.55%	5.62%	6.65%	6.62%	5.40%
2026	5.98%	6.04%	5.64%	6.69%	6.64%	5.42%
2027	5.98%	6.04%	5.65%	6.69%	6.64%	5.44%
2028	5.66%	5.70%	5.67%	6.77%	6.71%	5.46%
2029	5.66%	5.70%	5.68%	6.77%	6.71%	5.48%
2030	5.46%	5.47%	5.70%	6.89%	6.82%	5.50%
2031	5.46%	5.47%	5.71%	6.89%	6.82%	5.52%
2032	5.32%	5.32%	5.73%	7.04%	6.96%	5.54%
2033	5.32%	5.32%	5.74%	7.04%	6.96%	5.56%
2034	5.23%	5.22%	5.76%	7.22%	7.13%	5.58%
2035	5.23%	5.22%	5.77%	7.22%	7.13%	5.60%
2036	5.16%	5.15%	5.79%	7.38%	7.27%	5.63%
2037	5.16%	5.15%	5.80%	7.38%	7.27%	5.65%
2038	5.12%	5.10%	5.82%	7.49%	7.39%	5.67%

Please see **Appendix B** for a summary of the Plan 2 member contribution rate changes.

How This Impacts Budgets

Budget Impacts					
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2013-2015					
General Fund	($0.0)	($1.8)	($0.2)	($0.3)	($2.2)
Non-General Fund	(0.0)	0.0	0.0	(0.0)	(0.1)
Total State	**($0.1)**	**($1.8)**	**($0.2)**	**($0.3)**	**($2.3)**
Local Government	(0.1)	(0.9)	(0.2)	(0.1)	(1.2)
Total Employer	**($0.1)**	**($2.7)**	**($0.3)**	**($0.4)**	**($3.5)**
2015-2017					
General Fund	($0.2)	($3.4)	($0.5)	($0.3)	($4.4)
Non-General Fund	(0.3)	0.0	0.0	(0.1)	(0.3)
Total State	**($0.4)**	**($3.4)**	**($0.5)**	**($0.4)**	**($4.7)**
Local Government	(0.4)	(1.7)	(0.6)	(0.1)	(2.9)
Total Employer	**($0.9)**	**($5.1)**	**($1.1)**	**($0.5)**	**($7.5)**
2013-2038					
General Fund	($19.5)	($205.4)	($0.4)	($15.0)	($240.3)
Non-General Fund	(30.4)	0.0	0.0	(2.4)	(32.9)
Total State	**($49.9)**	**($205.4)**	**($0.4)**	**($17.5)**	**($273.2)**
Local Government	(53.4)	(104.4)	(0.5)	(4.8)	(163.0)
Total Employer	**($103.3)**	**($309.8)**	**($0.9)**	**($22.2)**	**($436.2)**

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.

Over the 25-year period, TRS accounts for approximately 75 percent of the total employer savings. This occurs partially because TRS is the second largest impacted system. However, the main reason for this is because TRS had the largest expected decrease between DB contribution rates and DC rates in the PESP.

If this bill creates a lower (or higher) difference in rates between the DB and PESP plan then we could see significantly different results. Please see **How the Results Change When Assumptions Change** section for more details.

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

This bill will affect the overall risk and affordability of the pension systems as shown below. Overall, the Pension Score Card changes from a 44 to 41. The Affordability scores decrease whereas the Risk scores increase on average. A lower score means the proposed changes under this bill negatively affect risk and affordability risk measures.

Affordability

When we refer to "Affordability", we are generally measuring the most expensive year in the 50-year projection period, where contribution rates are most likely to spike up to their highest levels under pessimistic scenarios. This is the point where the plans face the highest risk of reaching unaffordable levels and risk of funding shortfalls. The Affordability risk measure is not intended to capture long-term Affordability to the systems as a whole. In other words, expected long-term savings, as we expect under this bill, does not always translate into lower Affordability risk.

Under this bill, the Affordability risk (the risk of spiking contribution consumption of GF-S) increases because DB contribution rates are expected to increase above current expected levels during the period where we see Affordability risks most likely to occur under current law. Generally we observe Affordability risks (spiking contributions) occurring in 2024. The DB contribution rates are expected to increase under this bill because of the "partial expected closure" of the DB plans since we assume one-sixth of future new entrants will elect to join the PESP.

The continuation of past funding shortfalls (or underfunding) is another factor that impacts future DB contribution rates. We model underfunding by applying an assumption for the percent of actuarially required contributions made. For this bill, we assumed the employer PESP contribution is made first, in full (before the DB contribution rate), and does not vary from the PESP rates described in the bill. As a result, under pessimistic scenarios we see more underfunding for the DB plan under this bill than we do under current law. As an example, consider under current law a $1.0 billion recommended DB contribution. If 70 percent of contributions are made that year then 70 percent of the DB contribution is made. Under this bill, if, for example, the DB plan and PESP contributions are equal in size, then the $1.0 billion recommended contribution would be $0.5 billion DB and $0.5 billion PESP. If 70 percent of contributions are made that year, then $0.5 billion goes to the PESP first and the remaining $0.2 billion goes to the DB. This results in 40 percent funding of the DB contribution instead of 70 percent under current law. This additional underfunding results in higher DB contribution rates in the future. These higher rates increase the affordability risk in the Pension Score Card as shown below.

Risk

When we refer to "Risk", we are generally measuring the probability of the plans running out of assets, and the amount of pay-go costs if that were to occur.

Under this bill, the changes in the Risk measures vary. The probability of closed plan pay-go increases whereas the probability of open plan pay-go and chance of funded status below 60 percent decrease.

The increased probability of closed plan pay-go is linked to the affordability risks mentioned above occurring during the 2020's. In other words, higher contribution requirements during this period lead to higher assumed funding shortfalls in our model which results in a higher chance of pay-go in PERS 1 and TRS 1.

On the other hand, the decreased probability of open plan pay-go and funded status below 60 percent are more indicative of the long-term expected savings due to this bill. Our model assumes a portion of the membership being in PESP increases the amount of contributions that can go into the DB plans during bad economic times. For instance, under scenarios where we expect very pessimistic outcomes, the open plan pay-go risk of the impacted retirement systems improves because the employers will be paying a relatively lower contribution rate for PESP members than if all members were in the DB plans. In our model, this lower contribution to PESP allows a larger contribution to be made for the DB plans which decreases the likelihood of open plan pay-go scenarios.

Likewise, under current law benefits, pay-go risks are higher for TRS 2/3 than other open plans due the member maximum rate in that plan. During pessimistic scenarios under current law benefits, contribution requirements above the member maximum are transferred to the employer leading to higher assumed funding shortfalls in our model for the TRS 1 UAAL and TRS 2/3. During these same pessimistic scenarios under this bill, the lower employer match in the PESP (relative to the DB rate) for TRS members provides additional available dollars for the TRS 1 UAAL and TRS 2/3 leading to lower assumed funding shortfalls than under current law. This serves to reduce pay-go risk in TRS 1 and TRS 2/3 as reflected in the Pension Score Card. However, the reduction in pay-go risk in TRS 1 does not fully offset the increase in pay-go risk from the affordability risks discussed above.

Lastly, while the score card shows that pay-go amounts in the open plans increase due to this bill, that result is merely a consequence of the particular risk metric. The "5 percent chance annual pay-go costs in open plans exceed" measure represents the 95th percentile of non-zero pay-go amounts. When the chance of open plan pay-go decreases, as we see in this bill, we typically see the removal of smaller pay-go amounts from our simulations leaving fewer but higher remaining pay-go amounts. As a result, the 95th percentile of pay-go amounts increases. Considering both the amount and the probability of pay-go together can help provide a more complete picture of the overall risk.

	Base		Pricing	
Category (Dollars in Billions)	**Value**	**Score**	**Value**	**Score**
Affordability				
Chance Pensions will Consume More than 8% of GF-S[1]	10%	64	12%	58
5% Chance GF-S1 Consumption will Exceed	9.2%	48	9.5%	44
5% Chance Employer Contribution Rate will Exceed	18.3%	51	21.0%	41
Risk				
Chance of PERS 1, TRS 1 in Pay-Go[2]	26%	34	27%	33
Chance of Open Plan in Pay-Go[2]	5%	56	3%	57
5% Chance Annual Pay-Go Cost[3] in PERS 1, TRS 1 Exceed	$1.9	35	$1.8	36
5% Chance Annual Pay-Go Cost[3] in Open Plans Exceed	$8.2	0	$9.4	0
Chance of Total Funded Status Below 60%	24%	39	23%	42
Total Weighted Score		**44**		**41**

[1] *Approximately 3% of current GF-S budget; does not include higher education.*
[2] *When today's value of annual cost exceeds $25 million.*
[3] *Pay-Go costs on top of normal pension costs.*

Please see the *2010 Risk Assessment Report* for additional background on the development and use of the Pension Score Card.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions or methods selected for this pricing we priced the impact of changing two different assumptions and methods separately.

1. The long-term cost difference between the PESP and DB plans.
2. The long-term cost (or savings) if more (or less) active members transferred to the PESP.

The long-term cost difference between the PESP and DB plans

The long-term cost difference between the PESP and DB plans could change for some of the following reasons (not an exhaustive list).

- The assumed transfers into the PESP are younger or older than we assumed for the best-estimate pricing. The new entrant population could also age faster or slower than we assumed for the best-estimate pricing. This changes the long-term cost of both the PESP and DB plans and the associated cost differences. For example, if the new entrant population ages slower than we assumed, the DB plans may become less expensive, making the PESP plan more expensive in comparison.
- The introduction of the proposed PESP plan changes the demographic make-up of future new entrants. For example, the new retirement plan may attract younger

workers. This outcome would make the PESP plan less expensive in comparison to the DB plans. The opposite is true if older workers are attracted.

- ❖ Investment returns are higher or lower than our long-term assumption. For example, if investment returns are higher than our long-term assumption, the DB plans will be less expensive than we currently assume in the long term. This could mean that the DC contribution rates end up being higher than the ultimate DB contribution rates, which could lead to an ultimate cost for this bill. The opposite is true if investment returns are lower than our long-term assumption.

We show how the cost/savings of this bill could change if the long-term cost comparison between PESP and DB plans changed by 50 basis points (0.50 percent), in either direction, as a percentage of payroll.

Total Budget Impacts - Comparison of Long-Term DB and DC Costs			
(Dollars in Millions)	**0.50% Decrease in Long-Term DB Rates**	**Best-Estimate**	**0.50% Increase in Long-Term DB Rates**
2013-2015			
General Fund	$1.6	($2.2)	($6.1)
Non-General Fund	1.3	(0.1)	(1.5)
Total State	**$2.9**	**($2.3)**	**($7.5)**
Local Government	2.9	(1.2)	(5.3)
Total Employer	**$5.8**	**($3.5)**	**($12.9)**
2015-2017			
General Fund	$0.9	($4.4)	($9.6)
Non-General Fund	1.7	(0.3)	(2.3)
Total State	**$2.5**	**($4.7)**	**($11.9)**
Local Government	2.9	(2.9)	(8.6)
Total Employer	**$5.4**	**($7.5)**	**($20.5)**
2013-2038			
General Fund	($71.0)	($240.3)	($409.6)
Non-General Fund	35.8	(32.9)	(101.6)
Total State	**($35.2)**	**($273.2)**	**($511.2)**
Local Government	33.2	(163.0)	(359.3)
Total Employer	**($2.0)**	**($436.2)**	**($870.4)**

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.

<u>The long-term cost (or savings) if more (or less) active members transferred to the PESP</u>

To see how sensitive the results are to the assumed number of active members transferring from the DB plans, we compared our best-estimate pricing to the following two scenarios.

- **Lower (than Expected) Number of Transfers from DB Plans:** In this scenario, we assumed no transfer rate to the PESP for active members.
- **Higher (than Expected) Number of Transfers from DB Plans:** In this scenario, we assumed double the transfer rates for active members of the impacted retirement systems. Specifically, we assumed 10 percent of the total active Plans 2 and 20 percent of the total active Plans 3 populations would transfer to the PESP for PERS, TRS, and PSERS. Additionally, we assumed 5 percent of the total active population and 10 percent of the Plans 3 total active population would transfer to the PESP for SERS.

The table below shows the results of our sensitivity analysis. We found that the results were sensitive to the number of active members who transferred to the PESP. The savings due to the transfers approximately doubles when the number of transfers doubles.

This sensitivity was created to give the reader an idea of the potential magnitude of the savings if a lower (or higher) number of active members transferred.

Please see **Appendix C** for more details on the assumptions used for this sensitivity analysis.

Total Budget Impacts - Transfer Assumption			
(Dollars in Millions)	Lower Transfer Rate	Best-Estimate	Higher Transfer Rate
2013-2015			
General Fund	($0.5)	($2.2)	($3.2)
Non-General Fund	(0.2)	(0.1)	0.6
Total State	**($0.7)**	**($2.3)**	**($2.6)**
Local Government	(0.6)	(1.2)	(0.6)
Total Employer	**($1.4)**	**($3.5)**	**($3.2)**
2015-2017			
General Fund	($2.7)	($4.4)	($6.4)
Non-General Fund	(1.0)	(0.3)	0.3
Total State	**($3.7)**	**($4.7)**	**($6.1)**
Local Government	(3.0)	(2.9)	(3.0)
Total Employer	**($6.7)**	**($7.5)**	**($9.1)**
2013-2038			
General Fund	($85.9)	($240.3)	($398.9)
Non-General Fund	(3.3)	(32.9)	(63.4)
Total State	**($89.2)**	**($273.2)**	**($462.3)**
Local Government	(46.4)	(163.0)	(287.5)
Total Employer	**($135.6)**	**($436.2)**	**($749.7)**

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.

Other Considerations For Sensitivity Analysis

Cost Impact Due to Change in the Commingled Trust Fund (CTF)

The cost of this bill could also change if the bill impacts the expectations on future investment returns. WSIB may seek higher liquidity to accommodate current members transferring to the PESP. In particular, more and/or younger members choosing to transfer than we've assumed could leave older members with higher liquidity requirements in the remaining DB plans. On the other hand, transfers to the PESP could reduce the growth of Plan 3 TAP assets invested in the CTF. TAP assets have higher liquidity needs than DB assets because Plan 3 members can move funds in their individual accounts between the TAP and self-directed programs. Reducing the future growth of the TAP could reduce a source of higher liquidity needs in the CTF. This could possibly improve future returns on CTF assets.

Should a change in asset allocation occur (or a shift in asset holdings within the target ranges of the current allocation), the emergence of the cost (through higher or lower contributions) would depend on when the change begins, the number of years of transition from the current to the ultimate asset allocation, and whether the Legislature changes the currently prescribed assumed rate of investment return. Given these unknown factors and the uncertain future actions of WSIB and the Legislature in response to this bill, we were unable to make an assumption in this area. For the purposes of this pricing, we did not change the assumed rate of future investment return due to this bill.

However, if future rates of investment return change due to this bill, the actual cost of this bill will likely vary from our best-estimate pricing. For example, we estimate that if the actual rate of return on the remaining DB assets decreases by 10 basis points in all future years then the expected total employer savings of $436 million could change to a total employer cost of $300 million. On the other hand, if this bill results in an increase in the rate of return of 10 basis points, then the total employer savings could increase from $436 million to over $1.2 billion.

<u>Cost Impact Due to Option to Transfer from PESP to Plan 3</u>

As demonstrated above, the cost of the bill changes when we assume different transfer rates from the DB plans to the PESP. We considered increasing our assumed transfer rates due to the addition of the option for PESP members to transfer to Plan 3 (transfer back to a DB plan in the future). For example, more members may initially elect to transfer from the DB plans to the PESP because they have the option to transfer back to a DB plan in the future.

However, we see the following two reasons why we would not change the assumed initial transfer rates:

- Any initial increase in transfers will likely be offset by future transfers out resulting in a similar long-term net transfer rate as before the transfer option; and
- If more members initially transfer to the PESP and then transfer back to a DB plan, the expected cost of the bill would not change due to the second transfer because the members that transfer back would pay the full actuarial value of the service transfer.

For these reasons, we decided to retain our original transfer rate assumptions.

<u>Cost Impact Due to Change in Retirement and Termination Behavior</u>

We assumed the retirement behavior would not change between the DB plans and the PESP under this bill. However, if the PESP plan experiences different retirement behavior then we may consider revisiting the retirement behavior assumptions. Changes in assumed retirement behavior could present a cost or savings to the impacted retirement systems relative to the costs shown in this fiscal note.

Termination rates could alter the expected savings of this bill as well. We could see a greater savings if we assume higher termination rates in the PESP. If we assume more members will not reach vesting status in the PESP then the employers could experience a plan savings. Comparatively, if we assume that more future Plan 2 or Plan 3 members will have lower termination rates than currently assumed then we could see less savings for the retirement systems.

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 in the footer. We intend this fiscal note to be used by the Legislature during the 2013 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.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost and asset valuation 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. The risk analysis summarized in this fiscal note involves the interpretation of many factors and the application of professional judgment. We believe that the data, assumptions, and methods used in our risk assessment model are reasonable and appropriate for the purposes of this pricing exercise. The use of another set of data, assumptions, and methods, however, could also be reasonable and could produce materially different results.
6. We prepared this fiscal note for the Legislature during the 2013 Legislative Session.
7. 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 in the footer of this fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

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

Troy Dempsey

Troy Dempsey, ASA, EA, MAAA
Actuary
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APPENDIX A – ASSUMPTIONS WE MADE

System Growth Assumption

We altered our plan-specific growth rates for this pricing. In particular, we adjusted the growth rates for all plans to account for the transferees. We then also lowered our expected Plan 3 growth rates to account for half of its assumed future entrants opting into the DC plan instead. For PSERS 2, we assumed one-seventh of the new entrants would opt into the DC plan.

In total, we still assume the same total number of members entering the systems.

Probability of Reaching Vested Status

This bill applies a five-year vesting period for members in PESP. Members will return their accumulated employer DC matches if they terminate with less than five years of total service.

In order to calculate the expected savings due to the vesting provision, we needed to create two assumptions that calculate the likelihood of employees reaching vesting status.

- **Percent of Transfers**: Represents the percent of transferees who we assume will keep their employer DC match because they work at least five years. We calculated the probability that these members will reach vested status.
- **Percent of New Entrants**: Represents the percent of new entrants in the PESP who will keep their employer DC match because they work at least five years. We calculated the probability that a typical cohort of new entrants will reach vested status.

Probability of Member Keeping Employer DC Match During Vesting Period		
	% of Transfers	% of New Entrants
PERS	91%	68%
TRS	97%	81%
SERS	90%	71%
PSERS	88%	69%

To create these two sets of assumptions, we found the "percent of employer contributions returned" based on termination assumptions from our AVR. The percent of contributions returned represents the amount of the employer DC matches in the first five years times the probability of terminating.

The probability of vesting for transferees will only be applied for the first five years since the transfer window is a one-time occurrence. The probability of vesting for new entrants will be applied to the PESP payroll each year since we expect new entrants to enter the retirement system in each year.

Note the probability of vesting is higher for transferees than for new entrants because all assumed transferees already have service credit and some already meet the vesting requirements of the PESP.

Demographics of Emerging PESP Population

We developed an assumption that measures the percent of the PESP employees by year who are newly employed called Annual Percent of New Entrants.

Please note that the first year doesn't have 100 percent for each system since we expect each system to have transfers from Plan 2/3.

Annual Percent of New Entrants				
Val Year	**PERS**	**TRS**	**SERS**	**PSERS**
2011				
2012	23%	13%	33%	16%
2013	22%	12%	28%	16%
2014	21%	12%	25%	15%
2015	20%	11%	23%	15%
2016	19%	10%	21%	14%
2017	17%	9%	19%	14%
2018	16%	9%	18%	14%
2019	16%	9%	17%	13%
2020	15%	8%	16%	13%
2021	15%	8%	15%	13%
2022	14%	7%	14%	13%
2023	13%	7%	13%	13%
2024	12%	7%	12%	12%
2025	12%	7%	12%	12%
2026	11%	6%	11%	11%
2027	11%	6%	10%	11%
2028	10%	6%	9%	11%
2029	10%	6%	9%	10%
2030	9%	5%	8%	11%
2031	9%	6%	8%	10%
2032	8%	5%	7%	9%
2033	8%	5%	7%	9%
2034	8%	5%	6%	9%
2035	7%	5%	6%	8%
2036	7%	5%	6%	8%

The product of the "Annual Percent of New Entrants" and the "Probability of Not Reaching Vesting" represents the amount of employer DC match assumed to be returned to employers in a given year. For example, in PERS in 2020, 15 percent of the PESP is assumed to be new entrants. In addition 32 percent (100 percent – 68 percent) of employer contributions in the first five years are assumed to be returned. In total, 4.8 percent (32 percent times 15 percent) is the total amount of DC contributions made by employers in 2020 that are expected to be returned due to vesting requirements.

For purposes of calculating the present value of future salaries and benefits when determining projected contribution requirements, we assumed a 7.9 percent discount rate effective July 1, 2013, a 7.8 percent discount rate effective July 1, 2015, and a 7.7 percent discount rate effective July 1, 2017. For purposes of projecting the growth of invested assets, we assumed a 7.7 percent rate of investment return each year.

APPENDIX B – HOW THE CONTRIBUTION RATES CHANGED

We expect the bill to impact Plan 2 member and Plan 2/3 employer contribution rates for members who remain in the DB plans. We demonstrate the Plan 2 member contribution rate impacts in the following two tables. The tables display the expected Plan 2 member DB rates before this bill, the expected Plan 2 member DB rates after this bill, and the expected employee DC rates in the PESP.

The Plan 2 remaining member DB rates may not match our remaining employer DB rates because employers make additional contributions for past gain-sharing costs.

PESP rates reflected in this table are 25 percent larger than the PESP employer match contribution rates because employers match 80 percent of the expected employee contributions.

Plan 2 Member Rate Summary						
	PERS			TRS		
Fiscal Year	DB NC-Before	DB NC-After	PESP	DB NC-Before	DB NC-After	PESP
2014	4.92%	4.92%	6.59%	4.96%	4.96%	6.66%
2015	4.92%	4.92%	6.61%	4.96%	4.96%	6.67%
2016	6.06%	6.04%	6.63%	6.17%	6.04%	6.69%
2017	6.06%	6.04%	6.65%	6.17%	6.04%	6.70%
2018	7.51%	7.60%	6.67%	7.24%	7.21%	6.72%
2019	7.51%	7.60%	6.69%	7.24%	7.21%	6.73%
2020	7.80%	7.95%	6.71%	7.40%	7.42%	6.75%
2021	7.80%	7.95%	6.73%	7.40%	7.42%	6.76%
2022	7.29%	7.44%	6.75%	7.13%	7.15%	6.77%
2023	7.29%	7.44%	6.77%	7.13%	7.15%	6.79%
2024	6.73%	6.85%	6.79%	6.88%	6.90%	6.80%
2025	6.73%	6.85%	6.81%	6.88%	6.90%	6.82%
2026	6.26%	6.36%	6.83%	6.69%	6.71%	6.83%
2027	6.26%	6.36%	6.86%	6.69%	6.71%	6.85%
2028	5.91%	5.98%	6.88%	6.54%	6.57%	6.86%
2029	5.91%	5.98%	6.90%	6.54%	6.57%	6.87%
2030	5.64%	5.70%	6.92%	6.44%	6.46%	6.89%
2031	5.64%	5.70%	6.94%	6.44%	6.46%	6.90%
2032	5.45%	5.50%	6.96%	6.36%	6.38%	6.92%
2033	5.45%	5.50%	6.98%	6.36%	6.38%	6.93%
2034	5.30%	5.35%	7.00%	6.29%	6.31%	6.95%
2035	5.30%	5.35%	7.02%	6.29%	6.31%	6.96%
2036	5.20%	5.23%	7.04%	6.24%	6.26%	6.97%
2037	5.20%	5.23%	7.06%	6.24%	6.26%	6.99%
2038	5.11%	5.14%	7.08%	6.20%	6.22%	7.00%

Plan 2 Member Rate Summary						
	SERS			PSERS		
Fiscal Year	DB NC-Before	DB NC-After	PESP	DB NC-Before	DB NC-After	PESP
2014	4.64%	4.64%	6.82%	6.36%	6.36%	6.47%
2015	4.64%	4.64%	6.84%	6.36%	6.36%	6.50%
2016	5.96%	5.96%	6.86%	6.44%	6.41%	6.52%
2017	5.96%	5.96%	6.88%	6.44%	6.41%	6.55%
2018	7.47%	7.57%	6.90%	6.73%	6.70%	6.57%
2019	7.47%	7.57%	6.92%	6.73%	6.70%	6.60%
2020	7.68%	7.84%	6.94%	6.74%	6.72%	6.62%
2021	7.68%	7.84%	6.95%	6.74%	6.72%	6.65%
2022	7.07%	7.21%	6.97%	6.68%	6.66%	6.68%
2023	7.07%	7.21%	6.99%	6.68%	6.66%	6.70%
2024	6.45%	6.55%	7.01%	6.65%	6.62%	6.73%
2025	6.45%	6.55%	7.03%	6.65%	6.62%	6.75%
2026	5.98%	6.04%	7.05%	6.69%	6.64%	6.78%
2027	5.98%	6.04%	7.07%	6.69%	6.64%	6.80%
2028	5.66%	5.70%	7.09%	6.77%	6.71%	6.83%
2029	5.66%	5.70%	7.10%	6.77%	6.71%	6.85%
2030	5.46%	5.47%	7.12%	6.89%	6.82%	6.88%
2031	5.46%	5.47%	7.14%	6.89%	6.82%	6.90%
2032	5.32%	5.32%	7.16%	7.04%	6.96%	6.93%
2033	5.32%	5.32%	7.18%	7.04%	6.96%	6.96%
2034	5.23%	5.22%	7.20%	7.22%	7.13%	6.98%
2035	5.23%	5.22%	7.22%	7.22%	7.13%	7.01%
2036	5.16%	5.15%	7.24%	7.38%	7.27%	7.03%
2037	5.16%	5.15%	7.25%	7.38%	7.27%	7.06%
2038	5.12%	5.10%	7.27%	7.49%	7.39%	7.08%

APPENDIX C – HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

This appendix describes the assumptions used for the **How the Results Change When Assumptions Change** section when we assume fewer or more members transfer.

In a manner similar to how we developed the best-estimate, we needed to determine the expected annual PESP employer contribution rates for the lower and higher transfer sensitivity scenarios.

Lower Transfer Sensitivity

We based the age, and therefore the employer DC contribution rates, in year one on the age of our assumed new entrant population for Plan 3 new entrants (Plan 2 for PSERS). Over the 25-year period, we assumed the population would get older and reflect the current active population for each system. We developed the following average employer contribution rates for the PESP.

- ❖ **PERS** – 4.88 percent (instead of 5.27 percent - best estimate) in year one and increasing to 5.67 percent in year 25 and beyond.
- ❖ **TRS** – 4.98 percent (instead of 5.33 percent – best estimate) in year one and increasing to 5.60 percent in year 25 and beyond.
- ❖ **SERS** – 5.38 percent (instead of 5.46 percent – best estimate) in year one and increasing to 5.82 percent in year 25 and beyond.
- ❖ **PSERS** – 4.93 percent (instead of 5.18 percent – best estimate) in year one and increasing to 5.67 percent in year 25 and beyond.

Probability of Member Keeping Employer DC Match During Vesting		
	% of Transfers	% of New Entrants
PERS	N/A	68%
TRS	N/A	81%
SERS	N/A	71%
PSERS	N/A	69%

Annual Percent of New Entrants				
Year	**PERS**	**TRS**	**SERS**	**PSERS**
2011				
2012	100%	100%	100%	100%
2013	60%	53%	57%	59%
2014	45%	38%	42%	44%
2015	37%	29%	34%	36%
2016	32%	24%	29%	30%
2017	27%	21%	26%	27%
2018	25%	18%	23%	25%
2019	23%	16%	21%	23%
2020	21%	14%	19%	21%
2021	19%	14%	18%	20%
2022	18%	12%	16%	19%
2023	16%	11%	15%	18%
2024	15%	10%	14%	16%
2025	14%	10%	13%	15%
2026	13%	9%	12%	15%
2027	12%	8%	11%	14%
2028	12%	8%	10%	13%
2029	11%	7%	9%	12%
2030	10%	7%	9%	12%
2031	10%	7%	8%	11%
2032	9%	7%	8%	11%
2033	9%	6%	7%	10%
2034	8%	6%	7%	10%
2035	8%	5%	6%	9%
2036	7%	5%	6%	8%

Higher Transfer Sensitivity

We based the age, and therefore the employer DC contribution rates, in year one on the age of our assumed active population who transferred to the PESP. Over the 25-year period, we assumed the population would get older and reflect the current active population for each system. We developed the following average employer contribution rates for the PESP.

- **PERS** – 5.28 percent (instead of 5.27 percent - best estimate) in year one and increasing to 5.67 percent in year 25 and beyond.
- **TRS** – 5.32 percent (instead of 5.33 percent – best estimate) in year one and increasing to 5.60 percent in year 25 and beyond.
- **SERS** – 5.46 percent (instead of 5.46 percent – best estimate) in year one and increasing to 5.82 percent in year 25 and beyond.
- **PSERS** – 5.20 percent (instead of 5.18 percent – best estimate) in year one and increasing to 5.67 percent in year 25 and beyond.

Probability of Member Keeping Employer DC Match During Vesting Period		
	% of Transfers	% of New Entrants
PERS	91%	68%
TRS	97%	81%
SERS	91%	71%
PSERS	88%	69%

We assumed approximately double the total PUC liabilities would be transferred to the PESP plan under this scenario.

Expected Actuarially Equivalent Transfer Amounts from DB Plans (PUC Liability)	
(Dollars in Millions)	
PERS	$668
TRS	$450
SERS	$45
PSERS	$8

Annual Percent of New Entrants				
Year	PERS	TRS	SERS	PSERS
2011				
2012	13%	7%	19%	9%
2013	14%	7%	18%	9%
2014	14%	7%	18%	9%
2015	13%	7%	17%	9%
2016	13%	6%	16%	9%
2017	13%	6%	15%	9%
2018	12%	6%	14%	9%
2019	12%	6%	14%	10%
2020	12%	6%	13%	10%
2021	12%	6%	13%	10%
2022	11%	5%	12%	10%
2023	11%	5%	12%	10%
2024	10%	5%	11%	10%
2025	10%	5%	10%	9%
2026	10%	5%	10%	9%
2027	9%	5%	9%	9%
2028	9%	5%	9%	9%
2029	9%	5%	8%	9%
2030	8%	4%	8%	9%
2031	8%	5%	7%	8%
2032	8%	5%	7%	8%
2033	7%	4%	7%	8%
2034	7%	4%	6%	8%
2035	7%	4%	6%	8%
2036	6%	4%	5%	7%

Under our higher transfer sensitivity, we assumed the closed current active population for PERS, TRS, PSERS Plans 2 and Plans 3 are 10 percent and 20 percent (5 percent and 10 percent for SERS) smaller in total member size for the current valuation year, respectively. As a result, the new entrant growth rates for Plans 2 will be larger for the high transfer sensitivity run since we are adding the same number of new entrants over a smaller active population. This is not always the case for Plans 3 since we assume half of the Plans 3 new entrants will elect to join the PESP.

All other assumptions are consistent with the **Assumptions We Made** section.

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 actuarial accrued 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) based on the PUC method.

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.

GLOSSARY OF RISK TERMS

Affordability: Measures the affordability of the pension systems. Affordability risk measures the chance that pension contributions will cross certain thresholds with regards to the General-Fund and contribution rates.

"Current Law": Scenarios in which assumptions about Legislative behavior are excluded. These scenarios show projections regarding the current state of Washington statutes.

Optimistic: A measurement of the pension system under favorable conditions (above expected investment returns, for example). Optimistic refers to the 75th percentile, where there is a 25 percent chance of the measurement being better and 75 percent chance of the measurement being worse. Very optimistic refers to the 95th percentile.

"Past Practices": Scenarios in which assumptions regarding Legislative behavior are introduced. These assumptions include actual contributions below what are actuarially required and improving benefits over time. These scenarios are meant to project past behavior into the future.

Pay-Go: The trust fund runs out of assets, and payments from the General-Fund must be made to meet contractual obligations.

Pessimistic: A measurement of the pension system under unfavorable conditions (below expected investment returns, for example). Pessimistic refers to the 25th percentile, where there is a 75 percent chance of the measurement being better and 25 percent chance of the measurement being worse. Very pessimistic refers to the 5th percentile.

Premature Pay-Go: Pay-go payments, measured in today's value, which might be considered "significant" in terms of the potential impact on the General-Fund.

Risk: Measures the risk metrics of the pension systems, including the chance that the pension systems will prematurely run out of assets, the amount of potential pay-go contributions, and the chance that the funded status will cross a certain threshold.

Risk Tolerance: The amount of risk an individual or group is willing to accept with regards to the likelihood and severity of unfavorable outcomes.

Individual State Agency Fiscal Note

Bill Number: 5851 E S SB	Title: Defined contribution plan	Agency: SWF-SWF Statewide Fiscal Note - OFM

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2014	FY 2015	2013-15	2015-17	2017-19
Account						
All Other Funds-State	000-1	442,016	310,232	752,248	0	0
General Fund-State	001-1	942,184	694,689	1,636,873	81,200	0
	Total $	1,384,200	1,004,921	2,389,121	81,200	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:		Phone:	Date: 04/26/2013
Agency Preparation:	Jane Sakson	Phone: (360) 902-0549	Date: 05/28/2013
Agency Approval:	Pam Davidson	Phone: (360) 902-0550	Date: 05/28/2013
OFM Review:	Tristan Wise	Phone: (360) 902-0538	Date: 05/28/2013

Request # 018-1

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.

The implementation cost shown in the fiscal note from the Department of Retirement Systems would require a temporary increase in the Department of Retirement Systems' administrative fee. The increase would be 0.02%, beginning September 2013, for twelve months, and 0.01% for the remainder of the fiscal biennium.

The administrative fee is paid by employers on the pay of pension plan members. This fiscal note provides a cost estimate of the effect of that fee increase on state agencies and institutions, as well as state funding for the fee increase for K-12 employers. The other fiscal impacts of the legislation are shown in fiscal notes submitted by the Office of the State Actuary and others.

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.

Approximately one-third of the General Fund - State cost estimate represents state agency and higher education institutional expenses. The remaining two-thirds of the General Fund - State cost reflects state funding for K-12 expenses, based on March caseload, and includes Initiative 732 in the calculation. Expenditures in Fiscal Year 2016 are due to the differences in school years and state fiscal years.

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.