Multiple Agency Fiscal Note Summary

Bill Number: 6455 S SB	**Title:** Prof. educator workforce

Estimated Cash Receipts

NONE

Estimated Expenditures

Agency Name	2015-17			2017-19			2019-21		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Caseload Forecast Council	Fiscal note not available								
Department of Retirement Systems	.2	0	31,009	.0	0	0	.0	0	0
Superintendent of Public Instruction	.0	3,337,000	3,337,000	.0	2,180,000	2,180,000	.0	0	0
Employment Security Department	Fiscal note not available								
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total	**0.2**	**$3,337,000**	**$3,368,009**	**0.0**	**$2,180,000**	**$2,180,000**	**0.0**	**$0**	**$0**

Local Gov. Courts *									
Loc School dist-SPI	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Other **									
Local Gov. Total									

Estimated Capital Budget Impact

NONE

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Preliminary 2/ 8/2016

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

** See local government fiscal note

FNPID: 43783

Individual State Agency Fiscal Note

Bill Number: 6455 S SB	Title: Prof. educator workforce	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	0.3	0.0	0.2	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	31,009	0	31,009	0	0
Total $	31,009	0	31,009	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:	Lorrell Noahr	Phone: 786-7708	Date: 02/04/2016
Agency Preparation:	Shawn Merchant	Phone: 360-664-7303	Date: 02/08/2016
Agency Approval:	Marcie Frost	Phone: 360-664-7312	Date: 02/08/2016
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/08/2016

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 substitute bill allows members of Plans 2 and 3 of the Teachers' Retirement System (TRS) who retired under the 2008 Early Retirement Factors to return to work prior to age 65 without suspension of benefits, beginning July 1, 2016 thru June 30, 2018, while working in a substitute teacher position. There is no hour limit attached to this bill.

II. B - Cash receipts Impact

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

No impact.

II. C - Expenditures

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

Administrative Assumptions:

• The bill is prospective in that it only impacts retirees that work after this bill is passed

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

Benefits/Customer Service:

Retirement Specialists (RSs) will support modifications of DRS' automated systems, help update member communications, update internal procedures, training and reference materials, and provide training on the changes to existing procedures.

Retirement Specialist 3 - 124 hours (salaries/benefits) = $4,393

Member Communications:

DRS' Communication Team will need to update the language in publications, forms and the DRS website to inform current retirees of the changes.

Communications Consultant 5 – 100 hours (salaries/benefits) = $4,700

Automated Systems:

Programming updates are needed for Benefits System and Web Services. Updates will be required to the Retiree Return to Work (RRTW) modules, Online Account Access, RRTW letters and RRTW emails. Business requirements will be created and User Acceptance Testing will be performed to support these changes.

Programmer (Info Tech Specialist 5) – 195 hours (salaries/benefits) = $10,016
Information Technology Specialist 4 – 200 hours (salaries/benefits) = $9,400

WaTech* cost of $500 per week for 5 programmer weeks = $2,500

Total Estimated Automated Systems Costs = $21,916

*cost for mainframe computer processing time and resources at WaTech

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL: $31,009

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	0.3		0.2		
A-Salaries and Wages	21,343		21,343		
B-Employee Benefits	7,166		7,166		
C-Professional Service Contracts					
E-Goods and Other Services	2,500		2,500		
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:	$31,009	$0	$31,009	$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 2016	FY 2017	2015-17	2017-19	2019-21
Comm Consult 5	73,644	0.1		0.0		
IT Spec 4	73,644	0.1		0.1		
IT Spec 5	81,264	0.1		0.1		
Retirement Specialist 3	53,424	0.1		0.0		
Total FTE's	281,976	0.3		0.2		0.0

Part IV: Capital Budget Impact

No impact

Part V: New Rule Making Required

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

No impact.

Individual State Agency Fiscal Note

Bill Number: 6455 S SB	Title: Prof. educator workforce	Agency: 350-Supt of Public Instruction

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2016	FY 2017	2015-17	2017-19	2019-21
Account						
General Fund-State	001-1	0	3,337,000	3,337,000	2,180,000	0
	Total $	0	3,337,000	3,337,000	2,180,000	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:

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☐ 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:	Lorrell Noahr	Phone: 786-7708	Date: 02/04/2016
Agency Preparation:	Mike Woods	Phone: 360 725-6283	Date: 02/05/2016
Agency Approval:	JoLynn Berge	Phone: 360 725-6292	Date: 02/05/2016
OFM Review:	Kate Davis	Phone: (360) 902-0570	Date: 02/05/2016

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.

Changes in SSB 6455 compared to the previous version (SB 6455):

SB 6455 makes changes to the list of qualifying endorsements for the purposes of the Pipeline for Paraeducators Conditional Scholarship.

OPSI's original fiscal impact estimate is unchanged.

Sections 101 and 102
Allows members of Teachers Retirement System Plans 2 and 3 to reenter the workforce as substitute teachers without penalty of pension benefits beginning July 1, 2016 until June 30, 2018.

Section 201
Makes changes to the Caseload Forecast Council. No impact to OSPI.

Section 301
Expands the Educator Retooling Conditional Scholarship program.

Section 401
The Professional Educator Standards Board (PESB) shall issue a professional certificate to out-of-state teachers if: The teacher holds a valid teaching certificate issued by the National Board for Professional Teaching Standards (NBPTS) or the teacher has a second-level teacher certificate from another state.

Section 402
The Office of the Superintendent of Public Instruction in partnership with the Employment Security Department is to:
Develop and implement a teacher recruitment campaign that targets individuals with teaching certificates who are not employed as teachers, undergraduate college students who have chosen a major, out of state teachers, military personnel and their spouses, and other groups of individuals who may be interested in teaching in Washington public schools;
Incorporate certificated positions into the Employment Security Department's existing web-based depository for job applications that allows for access by school districts in the state for purposes of hiring and other certificated positions; and
Create or enhance an existing web site that provides useful information to individuals who are interested in teaching in Washington.

This section expires July 1, 2018.

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.

Sections 101 and 102
No impact to OSPI. Minimal indeterminate fiscal impact on school districts. See School District Fiscal Note.

Section 201
No impact to OSPI.

Section 301
OSPI assumes the $1M in additional appropriation authority provided in section 501 would be spent on the Alternative Route and Educator Retooling Programs in RCW 28A.660.

Section 401
No impact.

Section 402
Requires OSPI, in partnership with the Employment Security department to develop a teacher recruitment campaign, incorporate certificated teaching positions into ESD's existing web-based system for job applications, and create or enhance an existing web site that provides useful information to individuals who are interested in teaching in Washington.

(a): Teacher Recruitment Campaign, State Fiscal Years 2017 and 2018.
OSPI assumes a campaign specific to the teaching profession in Washington needs be developed; and that Employment Security would rely on OSPI's expertise in K-12 issues in Washington. To carry out this task OSPI projects the following costs:
OSPI staff (1 FTE Recruitment Program Director and .5 FTE Admin Assistant 3) to administer the program including contracts for media campaign, development of the statewide portal, recruitment assistance, website development, and careers in education training. $172,000 in SFY17, $165,000 SFY18.
Contracts with media/marketing firm(s). $1,765,000 per year. Includes contract for media relations, public relations council, marketing executive ($690K/yr) Outreach to current and recent graduates including paid advertising, career fairs and social media ($725K/yr). Outreach to out-of-state educators including job fairs, social media, and paid advertising ($350K/yr).

(b): Incorporate certificated teaching positions into ESD's job application database. No impact to OSPI.
ESD currently has a database that any employer, including school districts may use to post job openings. This is a voluntary system. OSPI assumes use of the system would be at the discretion of districts.

(c): Create or enhance website. Contract costs in State Fiscal Years 2017 ($400,000) and 2018 ($250,000).
OSPI assumes a site tailored to the needs of potential teachers would be necessary, and that neither ESD nor OSPI currently has a site meeting the requirements of the bill. Therefore OSPI would contract for the development of a website that provided information on Washington teacher prep programs; careers in teaching; why you should teach in Washington (video testimonials); how to become a teach; blog/social media; and other resources.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years					
A-Salaries and Wages		96,000	96,000	96,000	
B-Employee Benefits		49,000	49,000	49,000	
C-Professional Service Contracts		2,165,000	2,165,000	2,015,000	
E-Goods and Other Services		10,000	10,000	10,000	
G-Travel		10,000	10,000	10,000	
J-Capital Outlays		7,000	7,000		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services		1,000,000	1,000,000		
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$3,337,000	$3,337,000	$2,180,000	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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

SSB 6455 Summary of Impacts
OSPI Impact

	SFY17	SFY18	SFY19	SFY20	SFY21
Section 301 PESB Alt Routes/Educator Retooling					
Alt Routes/Ed Retooling	$1,000,000				
Section 402 Statewide Initiative In Partnership With The Employment Security Department					
(a) Teacher Recruitment					
OSPI Staffing	$172,000	$165,000			
Contracts	$1,765,000	$1,765,000			
Total	$1,937,000	$1,930,000	$0	$0	$0
(b) Incorporate Certificated Positions Into ESD Depository					
No Cost	$0	$0			
c Enhanced Website					
	$400,000	$250,000			
Total OSPI Impact	$3,337,000	$2,180,000	$0	$0	$0

Individual State Agency Fiscal Note

Bill Number: 6455 S SB	Title: Prof. educator workforce	Agency: AFN-Actuarial Fiscal Note - State A

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.

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☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Lorrell Noahr	Phone: 786-7708	Date: 02/04/2016
Agency Preparation:	Aaron Gutierrez	Phone: 360-786-6152	Date: 02/08/2016
Agency Approval:	Luke Masselink	Phone: 360-786-6154	Date: 02/08/2016
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/08/2016

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

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

BRIEF SUMMARY OF BILL: This bill states that until June 30, 2018, retirees in the TRS Plans 2/3 who retire under the 2008 ERFs may return to work as substitute teachers for up to 867 hours per year prior to reaching age 65 without a loss of pension benefits.

COST SUMMARY

Impact on Contribution Rates *(Effective 09/01/2016)*	
Fiscal Year 2017 State Budget	**TRS**
Employee (Plan 2)	0.00%
Total Employer	**0.00%**

This bill does not result in additional contribution requirements during Fiscal Year 2017, but will change the expected long-term experience and cost of TRS Plans 2/3.

Budget Impacts			
(Dollars in Millions)	**2016-2017**	**2017-2019**	**25-Year**
General Fund-State	$0.0	$0.0	$0.5
Local Government	$0.0	$0.0	$0.2
Total Employer	$0.0	$0.0	$0.7

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

- We expect this bill to have a cost because it allows certain retirees who plan to return to work as a substitute teacher to select a more expensive benefit than they otherwise would have selected.
- We expect **some** affected members to change retirement decisions, resulting in higher benefits paid by the system. However, the actual cost of this bill will depend on the actual decisions of affected members.
- If **all** future qualified retirees during the window provided under this bill select a larger benefit at the rate identified in the body of this fiscal note, we estimate a 25-year total employer cost of $2.3 million.
- This bill also contains provisions addressing teacher recruitment. For a discussion on the possible impacts of these provisions, please see **How The Results Change When The Assumptions Change** section.

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:

- ❖ Teachers' Retirement System (TRS) Plans 2/3.

This bill states that from July 1, 2016 to June 30, 2018, teachers who retire under the 2008 Early Retirement Factors (ERFs) may return to work as substitute teachers prior to reaching age 65 without a loss of pension benefits.

This bill also makes other education-related changes that do not impact the pricing of this actuarial fiscal note.

Effective Date: 90 days after session.

HOW THE SUBSTITUTE DIFFERS FROM THE ORIGINAL VERSION

The substitute version makes several changes that do not impact the pricing of the bill. For a complete list of changes to the current version of the bill, please refer to the bill reports prepared by legislative staff.

What Is The Current Situation?

Return-To-Work Rules

Generally, after a *bona fide* separation of service, retirees can return to work in a qualified position for up to 867 hours per year without a suspension of benefits. However, members who retire early under the 2008 ERFs are not eligible for the return-to-work provisions until they reach age 65. This restriction does not apply to members who retire early under the other two sets of ERFs, as detailed below.

For more information, please see the Department of Retirement Systems (DRS) publication *Thinking About Working After Retirement*.

Subsidized Early Retirement/Early Retirement Factors

The normal retirement age for members in TRS Plans 2/3 is age 65. Early retirement benefits are available to members who have attained age 55 and meet the minimum service requirements of 20 years in Plan 2 or ten years in Plan 3. Under early retirement, pensions are actuarially reduced for each year the member retires prior to attaining age 65.

Alternate early retirement benefits are available to Plans 2/3 members who have attained age 55 and have at least 30 years of service credit. Alternate early retirement is considered a subsidized form of early retirement because benefits are not actuarially reduced. In other words, pensions are reduced for alternate early retirement, but not as much as under a full actuarial reduction.

There are three different sets of alternate early retirement provisions: 2000 ERFs, 2008 ERFs, and 2012 ERFs. Each set differs in pension reductions, retire-rehire restrictions, and eligibility.

In brief, members with at least 30 years of service **who were hired before May 1, 2013, may choose either** the 2000 ERFs or the 2008 ERFs. Members with at least 30 years of service **who were hired on or after May 1, 2013, are eligible for the 2012 ERFs only**.

<u>Detailed Description Of ERFs</u>

2000 ERFs – Eligible members may retire and receive a pension reduced by 3 percent for each year the member retires prior to attaining age 65.

- This option is available to members hired before May 1, 2013.
- Members retiring under this provision may return to work in an eligible position for a covered public employer prior to age 65 and, subject to certain restrictions, still receive their full pension.

2008 ERFs – Eligible members may retire with unreduced pensions beginning at age 62. Members retiring between ages 55 and 62 have their pension reduced by a specified percentage that is less than the reduction provided under the 2000 ERFs.

- This option is available to members hired before May 1, 2013.
- Members retiring under this provision are generally prohibited from receiving their full pension if they return to work in any capacity for a covered public employer before they reach age 65.

2012 ERFs – Eligible members may retire and receive a pension reduced by 5 percent for each year the member retires prior to attaining age 65.

- This option is the only option available to members hired on or after May 1, 2013.
- Members retiring under this provision may return to work in an eligible position for a covered public employer prior to age 65 and, subject to certain restrictions, still receive their full pension.

For more detail on the ERFs, please see **Appendix A**.

Who Is Impacted And How?

This bill could affect all TRS Plans 2/3 active and terminated vested members of this system who were hired before May 1, 2013, and will be eligible for subsidized early retirement between the effective date of this bill and June 30, 2018.

Additionally, this bill could affect approximately 1,100 TRS Plans 2/3 retirees under the age of 65 who retired under the 2008 ERFs.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

Pension benefits received by retirees under the 2008 ERFs are greater than benefits under the 2000 ERFs. Since benefits are greater under the 2008 ERFs, retirees selecting these ERFs represent a greater cost to the system than members selecting the 2000 ERFs.

Experience showed that 4.0 percent of eligible early retirees selected the 2000 ERFs and returned to work as a substitute teacher.

If this bill passes, we believe more retirees will choose the 2008 ERFs instead of the 2000 ERFs. For these retirees, the larger retirement benefit they will earn under the 2008 ERFs, in addition to the ability to return to work as a substitute teacher, is a sufficient financial incentive to change behavior regardless of the eligibility window ending on June 30, 2018.

Who Will Pay For These Costs?

The costs from this bill would be divided between members and employers according to standard funding methods that vary by plan:

- Plan 1: 100 percent employer.
- Plan 2: 50 percent member and 50 percent employer.
- Plan 3: 100 percent employer.

All employers of TRS members would pay any change in TRS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) contribution rates.

HOW WE VALUED THESE COSTS

Assumptions We Made

As a result of this bill, we assume members who are eligible for subsidized early retirement and plan to substitute teach will select the 2008 ERFs instead of the 2000 ERFs if the member has at least 30 years of service and will turn 65 prior to June 30, 2018. The members are therefore able to take advantage of the bill provisions for the entire period they are under the age of 65.

We relied on data provided by DRS to determine the percentage of early retirees receiving benefits under the 2000 ERFs who returned to work in substitute teaching positions. This was 4.0 percent. We assumed these members chose the 2000 ERFs in order to avoid the suspension of benefits required under the 2008 ERFs if they returned to work before age 65. We reduced this percentage to reflect the number of members who would be able to take advantage of the bill provisions for the entire period they are under the age of 65. This was 1.1 percent and represents our Best Estimate assumption. The Best Estimate is an assumption about future retirements that would now choose the 2008 ERFs, instead of the 2000 ERFs, under the bill. For more detail please see **Appendices A, B, and C**.

We do not believe the impact from TRS Plan 1 UAAL contribution rates is material to this pricing.

This bill also includes provisions addressing teacher recruitment. Please see the **How the Results Change When the Assumptions Change** section for a discussion on the possible impacts of these provisions.

Otherwise, we developed these costs using the same assumptions disclosed in the *June 30, 2014, Actuarial Valuation Report* (AVR).

How We Applied These Assumptions

To determine the estimated change in future benefits, we applied the behavioral assumption (outlined in the previous section) to two separate valuations:

1. All eligible early retirements will select the 2008 ERFs (AVR assumption).
2. All eligible early retirements will select the 2000 ERFs (alternate subsidized early retirement factors at 30 or more years of service).

We determined the benefits that would be paid to members who retired during the window created by this bill. We then applied 1.1 percent, the **percentage of retirees expected to change their behavior because they meet the criteria in the prior section,** to the difference in new benefit payments between (1) and (2). We estimated the present value of these additional benefit payments to determine the increase in liability. For more detail please see **Appendix B**.

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

Special Data Needed

We relied on DRS to identify the number of members who have selected 2000 or 2008 ERFs since July 1, 2008, the effective date of the 2008 ERFs. Of the retirees selecting the 2000 ERFs, DRS also identified those who returned to work in substitute teaching positions.

TRS 2/3 Early Retirement Factor Selection Data*	
Total Eligible Early Retirements	1,921
Members Selecting 2000 ERFs and Returning to Substitute	76
Percent of Total (Best Estimate)	4.0%

**Data provided by DRS for members retiring early between July 2008 and January 2016.*

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding of TRS Plans 2/3 by increasing the present value of future benefits payable under the system as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
TRS 1	$9,297	$0.0	$9,297
TRS 2/3	13,131	0.5	13,131
TRS Total	**$22,427**	**$0.5**	**$22,428**
Unfunded Actuarial Accrued Liability			
*(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
TRS 1	**$2,838**	**$0.0**	**$2,838**
Unfunded Entry Age Accrued Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)			
TRS 1	$2,897	$0.0	$2,897
TRS 2/3	626	0.4	626
TRS Total	**$3,523**	**$0.4**	**$3,524**

Note: Totals may not agree due to rounding.
**TRS 1 are amortized over a ten-year period.*

How The Assets Changed

This bill does not change asset values so there is no impact on the actuarial funding of the affected plans due to asset changes.

How The Present Value of Future Salaries (PVFS) Changed

We do not expect this bill to impact the actuarial funding of TRS Plans 2/3 by changing the PVFS of the members of the system.

How Contribution Rates Changed

We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members. We applied the change in the Aggregate rates to projected current member payroll to determine the fiscal impact. Those rates are summarized in the table below. **Please note these are used for budget purposes only. No supplemental contribution rate will be charged as a result of this bill.** Costs that may arise from behavior changes associated with this bill **will not** cause an immediate impact on contribution rates. If member behavior matches our estimate, rates will change as experience emerges.

Impact on Contribution Rates	
System/Plan	**TRS**
Current Members	
Employee (Plan 2)	0.001%
Employer	
Normal Cost	0.001%
Plan 1 UAAL	0.000%
Total	**0.001%**

Note: This plan provision change does not apply to new entrants. Current members and new entrants pay the same contribution rate.

How This Impacts Budgets And Employees

Budget Impacts	
(Dollars in Millions)	**TRS**
2016-2017	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	0.0
Total Employer	**$0.0**
Total Employee	**$0.0**
2017-2019	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	0.0
Total Employer	**$0.0**
Total Employee	**$0.0**
2016-2041	
General Fund	$0.5
Non-General Fund	0.0
Total State	**$0.5**
Local Government	0.2
Total Employer	**$0.7**
Total Employee	**$0.1**

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

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

How The Risk Measures Changed

We do not expect this bill to change the financial risks of the state pension systems.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine how our best estimate pricing would change under different assumptions ("sensitivity analysis"), we modified the assumption about retirement decisions.

- **Best Estimate** – We assumed 1.1 percent of future eligible retirees in the two year window provided under this bill would select the larger annual benefit from the 2008 ERFs instead of the 2000 ERFs.
- **High Estimate** – We assumed 4.0 percent of future eligible retirees in the two year window provided under this bill would select the larger annual benefit from the 2008 ERFs instead of the 2000 ERFs.

The results of our sensitivity analysis are summarized in the table below.

TRS Budget Impact (2016-2041)		
(Dollars in Millions)	**Best Estimate**	**High Estimate**
General Fund-State	$0.5	$1.6
Local Government	$0.2	$0.7
Total Employer	$0.7	$2.3

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.

The high estimate budget impact shown above is for illustrative purposes only. The actual cost of this bill could be higher or lower than either scenario.

Members may also retire earlier during the eligibility window of this bill. We believe the selection of ERFs to be the key assumption for this bill and any additional impact due to members retiring earlier is still expected to lead to total fiscal costs similar to the ones described in the table above.

Other than the changes listed above, we relied on the same data, assumptions and methods as disclosed in the AVR to perform the sensitivity analysis.

Additionally, fiscal impacts to the pension system could arise under other provisions of this bill. The bill stipulates the implementation of a statewide initiative to increase the number of qualified teachers. We believe these provisions indicate an intention to add additional teachers and may increase the number of newly hired teachers in future years above our current long-term assumption.

We are not changing our long-term TRS growth assumption based on the provisions of this bill. However, if the TRS growth is greater than we currently expect, higher than expected UAAL contributions would be collected which could ultimately lead to a savings to the total dollars necessary to pay down the UAAL.

Further, as the pension system grows both in terms of headcounts and total salary, additional budget dollars will be required to fund the benefits of new hires. Any change to TRS Plans 2/3 contribution rates would depend on the actual experience of the plans.

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 2016 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 methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2016 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown 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 extra advice and explanations as needed.

Luke Masselink

Luke Masselink, ASA, EA, MAAA
Actuary

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APPENDIX A – ASSUMPTIONS WE MADE

Our current actuarial valuation assumes all eligible retirees will select the more valuable 2008 ERFs. The assumptions used to price this bill include a reversion back to the 2000 ERFs during the period after the effective date of this bill and before June 30, 2018. This assumption change is applied to TRS Plans 2/3 members hired before May 1, 2013. We used this assumption change to estimate the impact on the Present Value of Future Benefits (PVFB).

For reference, the following table details early retirement factors under full actuarial reduction and each alternate early retirement provision.

Reduction To Benefits				
Age	Full Actuarial Reduction*	2000 ERFs	2008 ERFs	2012 ERFs**
55	64%	30%	20%	50%
56	60%	27%	17%	45%
57	56%	24%	14%	40%
58	51%	21%	11%	35%
59	46%	18%	8%	30%
60	41%	15%	5%	25%
61	34%	12%	2%	20%
62	27%	9%	0%	15%
63	19%	6%	0%	10%
64	10%	3%	0%	5%
Can Use Retire-Rehire Before Age 65	Y	Y	N	Y

**Factors are rounded to the nearest percent. For more details, see the DRS document "Thinking About Retiring Early?"*

***Members hired on or after May 1, 2013, are only eligible for the 2012 ERFs or a full actuarial reduction.*

APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

The results in the AVR assume that all eligible retirees select the more valuable 2008 ERFs. That means when a retiree does select the 2000 ERFs, the subsequent valuation will experience a data gain from that decision since the retirement benefit will be less than assumed. By removing the retire-rehire suspension of benefits provision for retirees returning to work as substitute teachers prior to age 65 before June 30, 2018, we assume there will be less of an incentive for certain retirees to select the 2000 ERFs. This change in behavior will reduce data or experience gains from members who would have otherwise selected the 2000 ERFs.

To estimate the long-term budget impact, we created a new valuation assuming all eligible early retirees would select the 2000 ERFs. Our current valuation assumes everyone selects the 2008 ERFs. The actual value will be somewhere in between, and based on the experience gains that would have occurred during the eligibility window.

We relied on historical experience provided by DRS. Of all eligible retirees, 4.0 percent selected the 2000 ERFs and returned to work in substitute teaching positions. We assumed the same percentage of historical retirements selecting the 2000 ERFs, and returning to work in substitute teaching positions, would occur for future active and terminated vested retirements. Because this bill allows for 867 hours of substitute teaching a year through June 30, 2018, along with higher retirement benefits, we expect a portion of the 4.0 percent would now instead select the 2008 ERFs during the eligibility window. We assume some members would still select 2000 ERFs since return-to-work prohibitions reactivate once the window ends for members selecting 2008 ERFs.

To calculate the Best Estimate percentage, we determined the number of historical retirements that would have retired within two years of reaching age 65. We applied this condition to the information we had on the historical retirements to determine what proportion we would now expect to select the 2008 ERFs under this bill. This percentage is 1.1 percent and is our Best Estimate.

We also applied this percentage to the difference in benefit payments during the eligibility window between the two valuation runs described above. To estimate the PVFB impact, we multiplied the new benefits by an annuity factor assuming all new retirees were 62 years old, the mid-point of the early retirement eligible population that we expect will change their behavior if this bill passes (see condition 1 under the **Assumptions We Made** section).

We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members. We applied the change in the Aggregate rates to projected current member payroll to determine the fiscal impact.

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. Under this method, all plan costs (for past and future service credit) are included under the normal cost. Therefore, the method does not produce an unfunded actuarial accrued liability outside the normal cost. It's most common for the normal cost to be determined for the entire group rather than on an individual basis for this method.

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 most commonly 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 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 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.

Unfunded EAN Liability: The excess, if any, of the present value of benefits calculated under the EAN cost method over the valuation assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Individual State Agency Fiscal Note

Bill Number: 6455 S SB	**Title:** Prof. educator workforce	**Agency:** SDF-School District Fiscal Note - SPI

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.

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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 changes in SSB 6455 compared to SB 6455 do not impact school districts.

Sections 101 and 102
Allows members of Teachers Retirement System Plans 2 and 3 to reenter the workforce as substitute teachers without penalty of pension benefits beginning July 1, 2016 until June 30, 2018.

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.

Sections 101 and 102 allows teachers in Teachers Retirement System plan 2 and 3 who have retired under the alternate early retirement options to be employed in certain circumstances. OSPI assumes this will increase the number of substitute teachers available and increase district expenditures because districts will be able to find the necessary substitutes rather than redirecting current staff to cover classes. Actual increased payments for substitutes is indeterminate.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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