Multiple Agency Fiscal Note Summary

Bill Number: 1298 HB	**Title:** Retirement/service vesting

Estimated Cash Receipts

Agency Name						
	GF- State	Total	GF- State	Total	GF- State	Total
Total $						

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

Estimated Expenditures

Agency Name	2003-05			2005-07			2007-09		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	2,300,000	2,300,000	.0	2,600,000	2,600,000	.0	2,900,000	2,900,000
Department of Retirement Systems	.1	0	98,053	.0	0	0	.0	0	0
Total	0.1	$2,300,000	$2,398,053	0.0	$2,600,000	$2,600,000	0.0	$2,900,000	$2,900,000

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

Employee cost impact refers to Plan 2 member impact.

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 2/ 4/2003

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

** See local government fiscal note

Individual State Agency Fiscal Note

Bill Number: 1298 HB	**Title:** Retirement/service vesting	**Agency:** 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

		FY 2004	FY 2005	2003-05	2005-07	2007-09
Fund						
General Fund-State	001-1	1,100,000	1,200,000	2,300,000	2,600,000	2,900,000
	Total $	1,100,000	1,200,000	2,300,000	2,600,000	2,900,000

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/29/2003
Agency Preparation:	Robert Baker	Phone: 586-9237	Date: 01/29/2003
Agency Approval:	Matthew M. Smith	Phone: 360-753-9144	Date: 01/29/2003
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/29/2003

Part II: Narrative Explanation

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

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

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

II. C - Expenditures

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

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	**035**	**1/29/03**	**HB 1298**

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after passage.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

The transfer period for existing PERS Plan 2 members to transfer from PERS Plan 2 to PERS Plan 3 is provided in two separate windows:

- State agency and higher education employees were given a 6-month window that ended September 1, 2002. 12% of eligible employees elected to transfer from PERS Plan 2 to PERS Plan 3.
- Employees of local government and other organizations are given a 9-month window that ends on June 1, 2003.

MEMBERS IMPACTED:

Since the initial transfer date was about five, one and zero years prior to the most recent valuation date for TRS, SERS and PERS respectively, those with less than ten, six and five years may potentially be affected by this bill.

Members who had five years of service before the initial transfer period, or who have five years of service with one year of service earned after age 54 or who have ten years of service are already vested and not affected by this bill.

TRS: There are 28,820 (27,713 under age 55) active members with less than ten years of service who might be affected by this bill out of the 44,193 total TRS 3 members of this system.

SERS: There are 11,475 (10,689 under age 55) active members with less than six years of service who might be affected by this bill out of the 24,284 total SERS 3 members of this system.

PERS: There are 50,159 (46,354 under age 55) active members with less than five years of service out of the 128,955 total PERS Plan 2 members who might be affected by this bill if they opt to transfer to PERS Plan 3.

FISCAL IMPACT:

Actuarial Determinations:

The impact of the bill is insufficient to affect PERS contribution rates. This is based on the assumption that 12% of the total PERS Plan 2 membership will eventually transfer to PERS Plan 3 (the total from both transfer windows). The **estimated** sensitivity of the change in contribution rates to the transfer assumption is displayed below:

Transfer percent to PERS Plan 3	Increase in Required Contribution Rate
16%	0.01%
41%	0.02%
59%	0.03%
74%	0.04%
86%	0.05%
95%	0.06%

The bill will impact the actuarial funding of the TRS and SERS system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

(Dollars in Millions)		**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	**TRS**	$ 4,024	$ 10	$ 4,034
	SERS	$ 1,610	$ 5	$ 1,615
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)		NA	NA	NA
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	**TRS**	$ (1,750)	$ 5	$ (1,745)
	SERS	$ (724)	$ 2	$ (722)
Required Contribution Rate (Employer)	**TRS**	2.22%	**0.03%**	2.25%
	SERS	1.74%	**0.04%**	1.78%

(The TRS rate of 2.22% is composed of the employer normal cost rate of 1.50% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 0.72%. This bill would increase the normal cost rate from 1.50% to 1.53%, the UAAL rate would remain unchanged)

(The SERS rate of 1.74% is composed of the employer normal cost rate of 1.10% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 0.64%. This bill would increase the normal cost rate from 1.10% to 1.14%, the UAAL rate would remain unchanged)

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

Effective September 1, 2003	TRS	SERS
Increase in Contribution Rates:		
Employee	0.03%	0.04%
Employer State	0.03%	0.04%
Costs (in Millions):		
2003-2005		
State:		
General Fund	$ 1.8	$ 0.5
Non-General Fund	0.0	0.0
Total State	**$ 1.8**	**$ 0.5**
Local Government	$ 0.4	$ 0.5
2005-2007		
State:		
General Fund	$ 2.0	$ 0.6
Non-General Fund	0.0	0.0
Total State	**$ 2.0**	**$ 0.6**
Local Government	$ 0.4	$ 0.5
2003-2028		
State:		
General Fund	$45.5	$ 14.9
Non-General Fund	0.0	0.0
Total State	**$45.5**	**$ 14.9**
Local Government	$ 9.3	$ 13.2

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Teachers Retirement System, School Employee's Retirement System, and Public Employee's Retirement System.

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

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

   The number of transfers as of September 30, 2002 to PERS 3 divided by the number of state and higher education employees was used to estimate the percentage of employees who would transfer to Plan 3 during the initial transfer period.

   (8,667 / 70,045 = 12%)

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

5. This fiscal note is intended for use only during the 2003 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

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.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

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.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by Plan assets.

Individual State Agency Fiscal Note

Bill Number: 1298 HB	Title: Retirement/service vesting	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	0.2	0.0	0.1	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	98,053	0	98,053	0	0
Total $	98,053	0	98,053	0	0

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 01/29/2003
Agency Preparation: Jeff Wickman	Phone: (360) 664-7303	Date: 01/31/2003
Agency Approval: John Charles	Phone:	Date: 02/04/2003
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 02/04/2003

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.

To qualify for a guaranteed monthly defined benefit in Plan 3 of the Teachers' Retirement System (TRS), School Employees' Retirement System (SERS) or Public Employees' Retirement System (PERS), a member must meet specific age and service credit requirements, commonly referred to as being "vested" within the plan. There are currently three ways a Plan 3 member can become eligible for an unreduced retirement benefit:

- Be age 65 or older with at least 10 years of service credit;
- Be age 65 or older with at least 5 years of service credit, including 12 months after age 54; or
- Be age 65 or older and transferred from TRS, SERS or PERS Plan 2 to TRS, SERS or PERS Plan 3 with at least 5 years of service credit in Plan 2 at the time of the transfer.

This bill simplifies the vesting requirements, creating a single vesting rule for each of the Plan 3 systems administered by DRS:

- Be age 65 or older with at least 5 years of service credit.

Because service credit is a fundamental component of the benefit formula, this change will impact DRS' Member Information and Benefit Systems, and Web-based applications, including the TRS, SERS and PERS Plan 3 Financial Modeling Software and Online Retirement Benefit Estimator. In addition, modifications to member publications will be required.

II. B - Cash receipts Impact

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

No Impact.

II. C - Expenditures

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

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	0.2		0.1		
A-Salaries and Wages	11,217		11,217		
B-Employee Benefits	2,804		2,804		
C-Personal Service Contracts					
E-Goods and Services	84,032		84,032		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$98,053	$0	$98,053	$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 2004	FY 2005	2003-05	2005-07	2007-09
Info Tech Apps Spec 4	57,252	0.1		0.1		
Public Information Officer 2	45,816	0.1		0.1		
Total FTE's		0.2		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.

II. C - Expenditures

Administrative Assumptions

- All TRS, SERS and PERS Plan 3 members will have the same vesting requirement of 5 years, whether newly hired or transferred from Plan 2 to Plan 3.
- This change affects Plan 3 members of TRS, SERS and PERS.

Benefits Unit

The proposed legislation changes business and system rules currently used to determine a member's eligibility for retirement. To implement this change, staff will need to complete the following tasks:

- Define business requirements for the Member Information and Benefits Systems
- Define business requirements for Plan 3 Financial Modeling Software and Online Retirement Benefit Estimator
- Update policies and procedures
- Update the Retirement Services Division (RSD) Online Operations Manual
- Develop and deliver staff training
- Create test cases and conduct user acceptance testing of system modifications

Info Tech Application Specialist 4 – 201 hours (salaries/benefits)	$6,890
Technical Writer @ $90 per hour – 32 hours	$2,880
Total Estimated Benefits Unit Costs	**$9,770**

Member Communications

References to the vesting requirements are included in all written, video and Internet-based TRS, SERS and PERS Plan 3 member communications. In addition, Internet-based planning tools were developed specifically to assist members with making an informed plan choice and projecting current and future benefits.

Written Communications
The primary written publications are the TRS, SERS and PERS Plan 3 Member Handbooks and the New Member Plan Choice Packet. These will be updated and a limited supply produced. A one-time communication will also be developed to inform Plan 3 employers of this change. For other key written publications, an insert will be developed that can be included in the document when it is sent out in paper form to a member.

PERS Plan 3 New Member Plan Choice Packets (printing and postage)	$16,337
TRS, SERS and PERS Plan 3 Member Handbook (printing and postage)	$20,000
Employer update (printing and postage)	$1,315
Inserts for the following TRS, SERS and PERS publications:	$750
- Dual Membership, Request For Payment Booklet, Plan Highlights, Division of Benefits	
Public Information Officer (PIO) 2 – 140 hours (salaries/benefits)	$3,840

Video Communications
The video for new members who have 90 days to choose PERS Plan 2 or Plan 3 will be modified to include the new vesting requirement.

PERS Plan 3 New Member Plan Choice Video	$10,000

Internet-Based Communications and Financial Planning Tools
All Internet-based publications will be updated, including the DRS Internet site and the site maintained by the third party record keeper for TRS, SERS and PERS Plan 3. The Internet-based Financial Modeling Software application, used to compare Plan 2 and Plan 3 benefits, will be updated. DRS will also modify a separate Online Retirement Benefit Estimator, to include the new vesting requirement.

DRS Public Internet Site: PIO 2 – 80 hours (salaries/benefits)	$2,194
Third Party Record Keeper Plan 3 Internet Site	$2,000
Financial Modeling Software	$3,500
Online Retirement Benefit Estimator: PIO 2 – 40 hours (salaries/benefits)	$1,097
Total Estimated Member Communications Costs	**$61,033**

Automated Systems

The following tasks will be performed to complete the necessary modifications to the Member Information and Benefits Systems:

- Identify business requirements and conduct system analysis
- Modify the system to remove the capability for staff to manually set the "vested at transfer" flag
- Change annual statement process to reflect correct eligibility rules
- Modify the Benefits System to include the new vesting rules
- Modify the benefit estimate letters and process to include the new vesting rules
- Revise portability rules for Plan 3 members to ensure proper alignment with other retirement systems
- Conduct integration and regression testing
- Create test plans and conduct user acceptance testing
- Create system documentation
- Provide post-implementation system support

Programmer time of 250 hours @ $95 per hour	$23,750
DIS cost* of $500 per week per programmer (for 7 weeks)	$3,500
Total Estimated Systems Modifications Costs	**$27,250**

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

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	2003-05	2005-07	2007-09
BENEFITS UNIT	**$9,770**		
MEMBER COMMUNICATIONS	**$61,033**		
AUTOMATED SYSTEMS	**$27,250**	**$0**	**$0**
TOTAL ESTIMATED COSTS	**$98,053**	**$0**	**$0**