

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 6125 SB	<b>Title:</b> Concerning postretirement work in an elected city or county council position.
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## Estimated Cash Receipts

NONE

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

## Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Retirement Systems	.2	0	108,257	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.2</b>	<b>0</b>	<b>108,257</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

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

## Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

## Estimated Capital Budget Breakout

NONE

<b>Prepared by:</b> Jane Sakson, OFM	<b>Phone:</b> 360-902-0549	<b>Date Published:</b> Preliminary 1/16/2020
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# Individual State Agency Fiscal Note

<b>Bill Number:</b> 6125 SB	<b>Title:</b> Concerning postretirement work in an elected city or county council position.	<b>Agency:</b> 124-Department of Retirement Systems
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Operating Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.5	0.0	0.2	0.0	0.0
<b>Account</b>					
Department of Retirement Systems Expense Account-State 600-1	108,257	0	108,257	0	0
<b>Total \$</b>	108,257	0	108,257	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: Amanda Cecil	Phone: 360-786-7460	Date: 01/13/2020
Agency Preparation: Amy McMahan	Phone: 360-664-7307	Date: 01/14/2020
Agency Approval: Tracy Guerin	Phone: 360-664-7312	Date: 01/14/2020
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/14/2020

## 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 amends RCW 41.40.037 and 41.40.820, allowing retirees from Plans 2 and 3 of the Public Employees' Retirement System (PERS), who have achieved the break in employment requirement, may work up to 1,080 hours per calendar year in an elected city or county council position without having their retirement benefit suspended. The provisions of this bill will be effective 90 days after session and does not apply to statewide elected officials.

### 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.*

#### ADMINISTRATIVE ASSUMPTIONS

- Applies to retirees who retired under the 2008 Early Retirement Factor (ERF)
- Does not apply to members retired under RCW 41.40.023(3)b
- Does not apply to PERS Plan 1 retirees entering elected official positions, who currently do not have return to work restrictions

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 by participating in business requirement development and user acceptance testing activities. RSs will help update member publications as well as internal reference manuals, training materials, and member education. RSs will participate on the project team to implement these changes, and accounts will be tracked and processed manually until system updates are complete.

Retirement Specialist 3 – 186 hours (salaries/benefits) = \$7,414

#### MEMBER COMMUNICATIONS

DRS' Communication Team will need to assist with creating employer notices, developing language for any relevant publications and updating the ERA employer handbook.

Communications Consultant 5 – 80 hours (salaries/benefits) = \$4,232

#### EMPLOYER SUPPORT SERVICES

Employer Support Services (ESS) team members will oversee and coordinate education for impacted employers.

ESS will assist with systems testing, including updates to the Employer Reporting Application (ERA), send a DRS notice, and make updates to the Employer Handbook and website.

Management Analyst 3 – 60 hours (salaries/benefits) = \$2,664

## AUTOMATED SYSTEMS

The agency's system will require updating of the modules used for the Return to Work batch process and interfacing with the agency's Web application.

Contracted programmer time of 390 hours @ \$105 per hour = \$40,950

IT Business Analyst – Journey – 307 hours (salaries/benefits) = \$18,399

WaTech cost\* of \$500 per week for 17 weeks = \$8,500

Total Estimated Automated Systems Costs = \$67,849

\*cost for mainframe computer processing time and resources at WaTech

## PROJECT MANAGEMENT

A project manager will be assigned to lead the project team through the planning, execution, implementation, close out, and monitoring of the business, systems, communications, and administrative rule changes made to meet the provisions of this bill.

Project Manager – 348 hours (salaries/benefits) = \$26,098

## Part III: Expenditure Detail

### III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
600-1	Department of Retirement Systems Expense Account	State	108,257	0	108,257	0	0
<b>Total \$</b>			108,257	0	108,257	0	0

### III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.5		0.2		
A-Salaries and Wages	44,204		44,204		
B-Employee Benefits	14,603		14,603		
C-Professional Service Contracts	40,950		40,950		
E-Goods and Other Services	8,500		8,500		
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-					
<b>Total \$</b>	108,257	0	108,257	0	0

**III. C - Operating FTE 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 2020	FY 2021	2019-21	2021-23	2023-25
Communications Consultant 5	81,936	0.0		0.0		
IT Business Analyst-Journey	94,068	0.2		0.1		
IT Project Manager-Manager	120,036	0.2		0.1		
Management Analyst 3	67,248	0.0		0.0		
Retirement Specialist 3	59,436	0.1		0.1		
<b>Total FTEs</b>		0.5		0.3		0.0

**III. D - Expenditures By Program (optional)**

NONE

**Part IV: Capital Budget Impact**

**IV. A - Capital Budget Expenditures**

NONE

**IV. B - Expenditures by Object Or Purpose**

NONE

**IV. C - Capital Budget Breakout**

*Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods*

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.*

An existing rule may need to be revised.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 6125 SB	<b>Title:</b> Concerning postretirement work in an elected city or county council position.	<b>Agency:</b> AFN-Actuarial Fiscal Note - State Actuary
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Operating 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: Amanda Cecil	Phone: 360-786-7460	Date: 01/13/2020
Agency Preparation: Aaron Gutierrez	Phone: 360-786-6152	Date: 01/16/2020
Agency Approval: Matt Smith	Phone: 360-786-6147	Date: 01/16/2020
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/16/2020

## 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 - Operating Budget Expenditures

NONE

### III. B - Expenditures by Object Or Purpose

NONE

**III. C - Operating FTE Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

### III. D - Expenditures By Program (optional)

NONE

## Part IV: Capital Budget Impact

### IV. A - Capital Budget Expenditures

NONE

### IV. B - Expenditures by Object Or Purpose

NONE

### IV. C - Capital Budget Breakout

*Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods*

NONE

## Part V: New Rule Making Required

## SUMMARY OF RESULTS

**BRIEF SUMMARY OF BILL:** This bill allows retirees who are elected to city and county councils to work up to 1,080 hours per year without a suspension of benefits.

Please note that this fiscal note was revised to remove references to PERS 1.

## COST SUMMARY

- ❖ We do not expect an impact on contribution rates or budgets during the current biennium.
- ❖ However, the long-term cost to the impacted retirement systems that could arise from this bill is indeterminate.

## HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ This bill results in a cost to the retirement systems because it would increase the total amount of benefits we expect to be paid from the systems.
- ❖ We relied on data from the Association of Washington Cities (AWC) and the Washington State Association of Counties (WSAC) to estimate the maximum potential impacts of this bill.
- ❖ We are unable to provide a best estimate assumption on how many members may be impacted by this bill. However, given the small number of potentially impacted members, we do not expect an impact on contribution rates or budgets during the current biennium.
- ❖ We may submit a revised fiscal note at a later date that quantifies the long-term impact of the bill under an illustration.
- ❖ We do not expect this bill to materially impact affordability or solvency risk measures.

*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).

The bill allows retirees who are elected members of city or county councils to work up to 1,080 hours per year without a reduction of benefits. This provision applies to all PERS Plans 2 and 3 members.

The bill also states that the retire-rehire restriction of the 2008 Early Retirement Factors (ERFs) (see the **Subsidized Early Retirement/ERFs** section for details) do not apply to PERS 3 retirees if the retiree is serving in a city or county council. In other words, 2008 ERF recipients from PERS 3 may return to work prior to age 65 without a suspension of benefits if they are elected to a city or county council but are limited to 1,080 hours. We understand the bill may be amended to extend this change of benefit provisions to PERS 2. If so, the findings in this version of our actuarial fiscal note would remain unchanged.

Effective Date: 90 days after session

### What Is The Current Situation?

#### **Return-To-Work Rules**

Generally, after a *bona fide* separation of service, retirees in the Plans 1, 2, and 3 can return to work in a qualified position for up to 867 hours per year without a suspension of benefits. However, members of PERS 1 who return to work as local elected officials are not subject to the yearly hour limit (see the [DRS publications](#) for more information).

Members of PERS 2/3 who retire early under the 2008 ERFs are not generally 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.

In 2016, the Legislature enacted [Engrossed Second Substitute Senate Bill \(E2SSB\) 6455 \(2016 c 233\)](#). Among other provisions, there are two sections relevant to return-to-work rules:

- ❖ Section 7 of E2SSB 6455 allowed teachers in the Teachers' Retirement System (TRS) 2/3 who have retired early under the 2008 ERFs to return to work under the following conditions:
  - ◇ They may work up to 867 hours a year (prior to reaching age 65).

- ◇ They must return to work no sooner than one month after their accrual date, or the effective date of the bill.
- ◇ They must be employed exclusively as a substitute teacher in an instructional capacity as defined in the bill.
- ◇ The employing district compensates the substitute at a rate that is at least 85 percent of the full daily amount allocated by the state for substitutes.
- ◇ This provision is only available from the effective date of the bill until August 1, 2020.
- ❖ Section 19 of E2SSB 6455 states that Section 7 expires July 1, 2021.

In 2019, the Legislature enacted [Engrossed Second Substitute House Bill 1139](#) which, among other things, modified the prior expansion for teachers as follows. Teachers in TRS 2/3 who have retired early under the 2008 ERFs to return to work under the following conditions:

- ❖ They may work up to 867 hours a year (prior to reaching age 65).
- ❖ They must be employed in a non-administrative capacity.
- ❖ This expansion is made permanent.

For more information, please see the Department of Retirement Systems' publication [Thinking About Working After Retirement](#).

### **Subsidized Early Retirement/ERFs**

The normal retirement age for members in 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 10 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.**

Please see **Appendix A** for a list of the reduction amounts.

### **Who Is Impacted And How?**

Based on data from AWC and WSAC, we estimate a total of 1,650 elected officials serve on city or county councils in Washington State. We do not have data at this time on how many of these current council members have past PERS service credit or are currently retired from PERS. We are also unable to provide a best estimate assumption on how many PERS members may be impacted by this bill.

## **WHY THIS BILL HAS A COST AND WHO PAYS FOR IT**

### **Why This Bill Has A Cost**

This bill results in cost to the retirement systems because it would increase the total amount of benefits we expect to be paid from the systems. The long-term cost to the impacted retirement systems that could arise from this bill is indeterminate. However, given the small number of potentially impacted members, we do not expect an impact on contribution rates or budgets during the current biennium.

We may submit a revised fiscal note at a later date that quantifies the long-term impact of the bill under an illustration.

### **Who Will Pay For These Costs?**

The long-term cost that could result from this bill would be divided between members and employers according to standard funding methods that vary by plan:

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

## **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 2020 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.

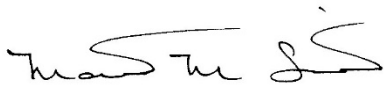
**ACTUARY'S CERTIFICATION**

The undersigned hereby certifies that:

1. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
2. Use of another set of data may also be reasonable and might produce different results.
3. We prepared this fiscal note for the Legislature during the 2020 Legislative Session.
4. 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.



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

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## APPENDIX A

### Detailed Description Of ERFs

**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.