Multiple Agency Fiscal Note Summary

Bill Number: 1056 P S HB	Title: Postretirement employment

Estimated Cash Receipts

NONE

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	No fiscal impact					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Retirement Systems	3.7	0	0	1,058,000	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	1,300,000	1,300,000	1,300,000	.0	1,000,000	1,000,000	1,300,000	.0	2,700,000	2,700,000	3,500,000
Total $	3.7	1,300,000	1,300,000	2,358,000	0.0	1,000,000	1,000,000	1,300,000	0.0	2,700,000	2,700,000	3,500,000

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	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
Total $	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

FNPID 67709

Estimated Capital Budget Breakout

NONE

Prepared by: Marcus Ehrlander, OFM	**Phone:** (360) 489-4327	**Date Published:** Final 2/27/2023

Individual State Agency Fiscal Note

Bill Number: 1056 P S HB	Title: Postretirement employment	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	6.4	1.0	3.7	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	970,000	88,000	1,058,000	0	0
Total $	970,000	88,000	1,058,000	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:	David Pringle	Phone: 360-786-7310	Date: 01/20/2023
Agency Preparation:	Amy McMahan	Phone: 360-664-7307	Date: 01/25/2023
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 01/25/2023
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/26/2023

Part II: Narrative Explanation

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

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

This proposed substitute bill removes additional types of employment that would restrict retirees that chose the 2008 Early Retirement Factor (ERF) rather than the 3% ERF at the time of their retirement. Additionally, retirees who selected the 3% ERF at the time of their retirement will have their future benefit payments after the bill's effective date (January 1, 2024) recalculated under the 2008 ERF reductions.

Section 1 declares the intention of this bill, to aid in simplifying the administration of Plans 2 and 3 of the Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), and Public Employees' Retirement System (PERS), along with potentially alleviating some of the difficulties employers are experiencing in recruiting and retaining employees. Additionally, the bill states that the legislature intends to not penalize retirees for their ERF choice at the time of their retirement as employment related benefit restrictions are removed for the 2008 ERF.

Section 2 amends RCW 41.32.765 to remove language that restricted a TRS 2 retiree from working for a DRS covered employer until they reached age 65. Additionally, any TRS 2 retiree who retired on or after September 1, 2008 and chose the 3% ERF shall have their retirement benefit recalculated using the 2008 ERF reductions. This applies strictly to benefits paid on or after January 1, 2024.

Section 3 amends RCW 41.32.802 to remove the 867-hour limit on TRS 2 2008 ERF retirees if they reentered employment more than one calendar month after retirement and they were employed in a non-administrative capacity.

Section 4 amends RCW 41.32.862 to remove the 867-hour limit on TRS 3 2008 ERF retirees if they reentered employment more than one calendar month after retirement and they were employed in a non-administrative capacity.

Section 5 amends RCW 41.32.875 to remove language that restricted a TRS 3 retiree from working for a DRS covered employer until they reached age 65. Additionally, any TRS 3 retiree who retired on or after September 1, 2008 and chose the 3% ERF shall have their retirement benefit recalculated using the 2008 ERF reductions. This applies strictly to benefits paid on or after January 1, 2024.

Section 6 amends RCW 41.35.060 to remove the 867-hour limit on SERS 2 and 3 2008 ERF retirees if they reentered employment more than one calendar month after retirement and they were employed in a non-administrative capacity.

Section 7 amends RCW 41.35.420 to remove language that restricted a SERS 2 retiree from working for a DRS covered employer until they reached age 65. Additionally, any SERS 2 retiree who retired on or after September 1, 2008 and chose the 3% ERF shall have their retirement benefit recalculated using the 2008 ERF reductions. This applies strictly to benefits paid on or after January 1, 2024.

Section 8 amends RCW 41.35.680 to remove language that restricted a SERS 3 retiree from working for a DRS covered employer until they reached age 65. Additionally, any SERS 3 retiree who retired on or after September 1, 2008 and chose the 3% ERF shall have their retirement benefit recalculated using the 2008 ERF reductions. This applies strictly to benefits paid on or after January 1, 2024.

Section 9 amends RCW 41.40.630 to remove language that restricted a PERS 2 2008 ERF retiree from working for a DRS covered employer until they reached age 65. Additionally, any PERS 2 2008 ERF retiree who retired on or after September 1, 2008 and chose the 3% ERF shall have their retirement benefit recalculated using the 2008 ERF reductions. This applies strictly to benefits paid on or after January 1, 2024.

Section 10 amends RCW 41.40.820 to remove language that restricted a PERS 3 2008 ERF retiree from working for a

DRS covered employer until they reached age 65. Additionally, any PERS 3 2008 ERF retiree who retired on or after September 1, 2008 and chose the 3% ERF shall have their retirement benefit recalculated using the 2008 ERF reductions. This applies strictly to benefits paid on or after January 1, 2024.

Section 11 identifies that the bill takes effect January 1, 2024.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Administrative Assumptions:

- Due to the effective date of this bill, external facing communications and system changes will be completed by January 1, 2024. Prospective adjustments to eligible 3% ERF retirement benefits may be paid later in 2024.
- DRS processes and systems must still allow the current 1040-hour limit rule through July 1, 2025.
- DRS will request that employers provide data to clearly identify retirees that have returned to work. This will include a new data element.
- Public employers may need to make changes to their payroll systems to report data to DRS, including HRMS.
- All letters associated with the retiree return to work laws will be revised.
- DRS customer notifications concerning return to work will be made available in the customer’s Online Account Access (OAA).
- The 3% ERF option will be removed from any comparison estimates and other member materials. System changes will also be made to accommodate this.
- Any retiree who retired under the 2008 ERF and return to work as a subcontractor through a DRS covered employer must now have their hours reported by the employer towards the 867-hour limit.
- First Class Cities (Seattle, Spokane, Tacoma) must now report the hours of employees who are 2008 ERF retirees, as they are now subject to the 867-hour limit.

To implement this legislation, DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct business analysis and business process design,
- Complete systems changes, which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes,
- Update agency WACs,
- Support employers through updates to their reporting systems,
- Update member guides, all relevant letters and forms, communicate to members and employers, and
- Train employers and team members.

To support this implementation, DRS will form a project team that will include a project manager, retirement specialist, management analyst, business systems analyst, web developer, IT system administrator, and communications consultant. DRS will also hire a contractor to implement changes to Linux applications.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
600-1	Department of Retirement Systems Expense Account	State	970,000	88,000	1,058,000	0	0
		Total $	970,000	88,000	1,058,000	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	6.4	1.0	3.7		
A-Salaries and Wages	624,000	63,000	687,000		
B-Employee Benefits	203,000	25,000	228,000		
C-Professional Service Contracts	137,000		137,000		
E-Goods and Other Services	6,000		6,000		
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 $	970,000	88,000	1,058,000	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 2024	FY 2025	2023-25	2025-27	2027-29
Communications Consultant 4	72,756	0.4		0.2		
IT Application Develop-Journey	96,888	0.6		0.3		
IT Application Develop-Senior/Spec	112,176	0.2		0.1		
IT Business Analyst-Journey	96,888	1.8		0.9		
IT Project Management-Mgr	123,636	1.4		0.7		
IT Systems Admin-Journey	101,748	0.2		0.1		
Management Analyst 3	69,264	0.4		0.2		
Retirement Specialist 3	61,224	1.4	1.0	1.2		
Total FTEs		6.4	1.0	3.7		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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Relevant WACs will be updated accordingly.

Individual State Agency Fiscal Note

Bill Number: 1056 P S HB	Title: Postretirement employment	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

		FY 2024	FY 2025	2023-25	2025-27	2027-29
Account						
All Other Funds-State	000-1	0	0	0	300,000	800,000
General Fund-State	001-1	600,000	700,000	1,300,000	1,000,000	2,700,000
	Total $	600,000	700,000	1,300,000	1,300,000	3,500,000

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:	David Pringle	Phone: 360-786-7310	Date: 01/20/2023
Agency Preparation:	Aaron Gutierrez	Phone: 360-786-6152	Date: 02/24/2023
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 02/24/2023
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/27/2023

Part II: Narrative Explanation

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

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

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
000-1	All Other Funds	State	0	0	0	300,000	800,000
001-1	General Fund	State	600,000	700,000	1,300,000	1,000,000	2,700,000
		Total $	600,000	700,000	1,300,000	1,300,000	3,500,000

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits	600,000	700,000	1,300,000	1,300,000	3,500,000
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 $	600,000	700,000	1,300,000	1,300,000	3,500,000

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals 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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill allows 2008 ERF recipients in PERS, TRS, and SERS, to return to work with a DRS employer up to 867 hours before reaching age 65 and increases benefits for recipients of the 2000 ERFs hired on or after September 1, 2008.

It also removes the provision on contract work after age 65.

COST SUMMARY

During the 2023-25 Biennium, a supplemental contribution rate is collected to fund the cost of this bill and that cost is shared equally between members and the employer. The original bill did not contain supplemental contribution rate impacts. The impact on contribution rates for each plan for the amended portion of this bill is shown in the following table.

Impact on Contribution Rates			
FY 2023-2025 State Budget	PERS	TRS	SERS
Employee (Plan 2)	0.00%	0.01%	0.00%
Total Employer	**0.00%**	**0.01%**	**0.00%**

The expected budget impacts are shown in the following table.

Budget Impacts			
(Dollars in Millions)	2023-2025	2025-2027	25-Year
General Fund-State	$1.3	$1.0	$22.9
Local Government	$0.2	$0.6	$13.7
Total Employer	**$1.6**	**$1.8**	**$42.0**

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

- This bill has a cost because it prospectively increases benefits for members who chose the 2000 ERFs over the 2008 ERFs and encourages future retirees to select a larger benefit (2008 ERFs) than they otherwise may have chosen under current law.
- To determine the impact of annuitants who previously selected 2000 ERFs receiving larger benefits, we relied on data from DRS.
- We relied on historical data to set our assumption of future eligible retirees who will now select the more favorable ERF. We set the assumption at 1.5 percent in PERS and TRS, and 3.5 percent in SERS.
- The liabilities increased by 0.04 percent in PERS and SERS and 0.06 percent in TRS.
- The best estimate results can vary under a different set of assumptions. If we assumed 25 percent more/fewer retirees select the larger benefit in the future, the long-term total employer fiscal costs increase/decrease to approximately $48/$36 million for the bill.

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

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

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.

This bill allows 2008 Early Retirement Factor (ERF) recipients in PERS, TRS, and SERS, to return to work under the same conditions as other retirees. Some return-to-work restrictions remain; the bill removes restrictions that are unique to the 2008 ERF recipients. See the **What Is the Current Situation** section, below, for a full list of existing restrictions.

The bill prospectively increases the benefits for recipients of the 2000 ERFs (often called the 3 percent ERFs, see below for more). Specifically, anyone who had the option at retirement to choose either the 2000 or 2008 ERFs (i.e., retired on or after Sept. 1, 2008) will have their benefits increased to match what they would have received if they'd chosen the 2008 ERFs.

Effective Date: January 1, 2024.

In this summary, we only include changes pertinent to our Actuarial Fiscal Note (AFN). See the legislative bill report for a complete summary of the bill.

HOW PROPOSED SUBSTITUTE HOUSE BILL 1056 (H-0602.1) DIFFERS FROM THE ORIGINAL VERSION

The following list includes only the changes that 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.

- Prospectively increases benefits for eligible retirees receiving the 2000 ERFs.
- Fully strikes current statutory language about return-to-work restrictions for 2008 ERF recipients.

What Is the Current Situation?

Return-To-Work Rules

Generally, after a bona fide separation of service, retirees in the Plans 2/3 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 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 (C 233 L 2016). Among other provisions, section 7 of E2SSB 6455 allowed teachers in TRS 2/3 who have retired early under the 2008 ERFs to temporarily return to work under certain conditions.

In 2019, the Legislature enacted Engrossed Second Substitute House Bill (E2SHB) 1139 (C295 L 2019). This bill removed the expiration date of E2SSB 6455 and refined the criteria to say that the person only needs to be working for a school in a non-administrative capacity. It also created a similar provision for SERS employees who retired under the 2008 ERFs to work up to 867 hours per year at a school in a non-administrative position.

In 2022, the Legislature enacted Engrossed Substitute House Bill 1699 (C 223 L 2022). This bill temporarily allowed retirees from PERS (all plans), TRS (all plans), and SERS (all plans) to work up to 1,040 hours if working for a school district in a non-administrative position.

For more information, please see the Department of Retirement Systems' (DRS) website.

Contract Work

Most of the retire-rehire rules are about returning to work in a qualified position; meaning a position in which an employee would be qualified for retirement benefits in one of the state retirement systems.

In other words, there are generally no rules for members who return to work in a non-qualified position. For example, a retiree who goes to work in the private sector can work as many hours as their employer allows without a suspension of benefits.

However, there is an exception for 2008 ERF recipients. In their case, the rules apply when working in qualified positions, **and** any position that is with a DRS employer even if it is a contract or temporary position. According to public testimony by DRS, this prohibition can apply to temporary and one-time jobs like a judge at a county fair.

Subsidized Early Retirement/ERFs

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 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 (YOS) 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 YOS who were hired before May 1, 2013, may choose either the 2000 ERFs or the 2008 ERFs. Members with at least 30 YOS who were hired on or after May 1, 2013, are eligible for the 2012 ERFs only.

Detailed Description of ERFs

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

Reduction to Benefits				
Age	Full Actuarial Reduction*	2000 ERFs	2008 ERFs	2012 ERFs**
55	59%	30%	20%	50%
56	56%	27%	17%	45%
57	52%	24%	14%	40%
58	47%	21%	11%	35%
59	42%	18%	8%	30%
60	37%	15%	5%	25%
61	31%	12%	2%	20%
62	25%	9%	0%	15%
63	17%	6%	0%	10%
64	9%	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 website.*
***Members hired on or after May 1, 2013, are only eligible for the 2012 ERFs or a full actuarial reduction.*

Who Is Impacted and How?

We estimate the amendment will affect 407 current, annuitant members out of the total 118,640 Plan 2/3 annuitant members of these systems through benefit increases as of our June 30, 2021, measurement date. These members selected the 2000 ERF at retirement and will receive an increase in their future benefit payments. As an example of the benefit increase, an annuitant who retired 3 years and 6 months before normal retirement eligibility and selected a 2000 ERF, would have had their benefit reduced by a factor of 0.895. Under this bill, their ongoing pension benefit would be increased by the ratio of the corresponding 2008 ERF to the 2000 ERF that they selected. In this example, the corresponding 2008 ERF would be 0.990 and the pension benefit would increase by 10.6 percent (= 0.990 ÷ 0.895)

Impacted Members from Amendment				
	PERS	TRS	SERS	Total
Impacted Members	164	182	61	407
Plan 2/3 Annuitants	70,638	23,463	24,539	118,640

In addition, we estimate this bill could affect 91,080 active members under the age of 65 out of the total 304,245 active Plan 2/3 members of these systems upon retirement. It could also impact 6,285 inactive members who either terminated with over 30 YOS and have yet to retire or retirees under age 65 who selected the 2008 ERFs. These members will now be able to return to work up to 867 hours per year without a suspension of pension benefits.

Impacted Members				
	PERS	TRS	SERS	Total
Active	47,178	34,744	9,158	91,080
Inactive	4,062	1,787	436	6,285

Further, we estimate this bill will increase benefits for approximately 22 members annually that we assume would select the lower retirement benefits under current law but will now select the higher retirement benefits under this bill.

This bill impacts all Plan 2 members and employers of these systems through increased contribution rates. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

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 because of a lower reduction factor. As a result, retirees selecting the 2008 ERFs represent a greater cost to the system than members selecting the 2000 ERFs. This bill expands benefits for those who take 2008 ERFs by removing suspension-of-benefit provisions that apply when those members return to work in certain positions under the age of 65. As such, we expect all future eligible retirees to select the 2008 ERF benefit.

This bill also affects all current PERS, TRS, and SERS Plans 2/3 retirees under the age of 65 that selected a subsidized early retirement option with a 2008 ERF. These retired members could return to work for up to 867 hours in a qualifying position without a suspension of their retirement benefit and without an expiration date of this provision. However, this does not impact the funding of the pension systems for these members, because their retirement benefit will not change.

The amended bill has an additional cost because it prospectively increases benefits for members who choose the 2000 ERFs over the 2008 ERFs.

Who Will Pay for These Costs?

The costs that result from this bill will 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.

The costs that arise from this bill will be divided according to the standard funding method of 50 percent member and 50 percent employer. The statutory maximum member contribution rate in TRS will correspondingly increase as well.

HOW WE VALUED THESE COSTS

We modeled the current law cost of the retirement systems using our most recent Actuarial Valuation Report (AVR) (June 30, 2021, AVR) as well as the assumptions and methods found on our Projections webpage. To analyze the impact of this bill, we then adjusted the following assumptions, methods, or data.

Assumptions We Made

Under this bill, we assume all members who are eligible for subsidized early retirement will select the 2008 ERFs instead of the 2000 ERFs due to the higher benefit and removed incentive to retire with 2000 ERFs.

Since the 2008 ERFs were first offered, experience shows a small percentage of eligible early retirees selected the 2000 ERFs instead of the 2008 ERFs. Based on experience and reflecting the current return-to-work provision expanded under E2SHB 1139 (C295 L 2019), we estimate the following percentages of eligible early retirees would select 2000 ERFs instead of the 2008 ERFs without this bill:

- 1.5 percent for PERS.
- 1.5 percent for TRS.
- 3.5 percent for SERS.

If this bill passes, we expect all future eligible early retirees would now select the 2008 ERFs. Put another way, we assume 1.5 percent of PERS and TRS eligible retirees and 3.5 percent of SERS eligible retirees would now select a higher lifetime benefit. The actual cost of this bill will be based on the future decisions of eligible retirees and the actual benefits they are ultimately paid.

For our best estimate, we assumed no change in early retirement behavior, however this bill could result in retirement behavior changes of those eligible for subsidized early retirement.

We relied on data provided by DRS to identify who selected 2000 ERFs and the benefit increase ratio they would receive if eligible under the bill.

For more detail, please see **Appendix A**.

How We Applied These Assumptions

To determine the estimated change in future benefits, we prepared two separate actuarial valuations that measure the costs of the different ERFs:

1. All eligible early retirements will select the 2008 ERFs.
2. All eligible early retirements will select the 2000 ERFs.

We then applied the best estimate percentages (the percentage of retirees who selected the 2000 ERFs instead of the 2008 ERFs) to the liability differences between (1) and (2) for PERS, TRS, and SERS Plans 2/3. The resulting contribution rate impacts were multiplied by future payroll to determine the fiscal impacts.

To value the amendment, we updated the annuity benefits of members in our model who selected 2000 ERFs on or after September 1, 2008, to reflect the increased benefit amounts supplied by DRS.

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

For more detail, please see **Appendix B**.

Special Data Needed

We relied on DRS to identify the specific members who have selected the 2000 ERFs and their new benefits under this bill to determine the present value of providing improved benefits, excluding members who retired prior to September 1, 2008. We reviewed the data for reasonableness and excluded certain members based on the criteria of the bill.

Additionally, we used historical data provided by DRS for the number of members who have selected the 2000 and 2008 ERFs to verify the assumptions we used to determine the impact of future members selecting 2008 ERFs instead of 2000 ERFs.

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 PERS, TRS, and SERS Plans 2/3 by increasing the present value of future benefits payable to the members.

The impact of the increasing present value of future benefits payable for current members for the bill is shown in the following table.

Impact on Pension Liability *(As of 6/30/2021)*			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits *(The Value of the Total Commitment to All Current Members)*			
PERS 2/3	$63,347	$24.5	$63,371
TRS 2/3	$29,256	$16.8	$29,273
SERS 2/3	$9,906	$4.1	$9,910
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)*			
PERS 2/3	$2,588	$22.1	$2,610
TRS 2/3	$2,214	$14.2	$2,228
SERS 2/3	$701	$3.7	$704

Note: Totals may not agree due to rounding.

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

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

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate from the amendment results in the supplemental contribution rate shown on page one that applies in the 2023-25 Biennium. The supplemental contribution rate applies for the amendment because those costs arise immediately with the increase in benefits.

We expect costs for provisions of the original bill to arise gradually as members retire and select the more favorable ERFs. As such, supplemental rates do not apply.

The combination of these costs results in the contribution rate impacts outlined in the following table. We will use these un-rounded rate increases to measure the budget changes in future biennia.

Impact on Contribution Rates			
System/Plan	**PERS**	**TRS**	**SERS**
Current Members			
Employee (Plan 2)	0.013%	0.015%	0.013%
Employer			
Normal Cost	0.013%	0.015%	0.013%
Plan 1 UAAL	0.000%	0.000%	0.000%
Total Employer	**0.013%**	**0.015%**	**0.013%**

While the return-to-work provisions of this bill will not impact new entrant members since they are not eligible for the 2008 ERFs, any contribution rate changes will affect both current and new entrant members because they pay the same contribution rate.

How This Impacts Budgets and Employees

Budget Impacts				
(Dollars in Millions)	PERS	TRS	SERS	Total
2023-2025				
General Fund	$0.0	$1.3	$0.0	$1.3
Non-General Fund	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$1.3**	**$0.0**	**$1.3**
Local Government	0.0	0.2	0.0	0.2
Total Employer	**$0.0**	**$1.6**	**$0.0**	**$1.6**
Total Employee	**$0.0**	**$0.5**	**$0.0**	**$0.5**
2025-2027				
General Fund	$0.2	$0.7	$0.1	$1.0
Non-General Fund	0.3	0.0	0.0	0.3
Total State	**$0.4**	**$0.7**	**$0.1**	**$1.2**
Local Government	0.4	0.1	0.1	0.6
Total Employer	**$0.8**	**$0.8**	**$0.1**	**$1.8**
Total Employee	**$0.6**	**$0.2**	**$0.1**	**$1.0**
2023-2048				
General Fund	$3.6	$17.4	$1.9	$22.9
Non-General Fund	5.5	0.0	0.0	5.5
Total State	**$9.1**	**$17.4**	**$1.9**	**$28.3**
Local Government	9.1	3.1	1.5	13.7
Total Employer	**$18.2**	**$20.5**	**$3.4**	**$42.0**
Total Employee	**$13.7**	**$7.3**	**$1.6**	**$22.6**

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

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

Comments on Risk

Our office performs annual risk assessments to help us demonstrate and assess the effect of unexpected experience on pension plans. The risk assessment allows us to measure how affordability and funded status can change if investment experience, expected state revenue growth, and inflation do not match our long-term assumptions. Our annual risk assessment also considers past practices, for funding and benefit enhancements, and their impact on pension plan risk if those practices continue.

The following table displays our latest risk measurements as of June 30, 2021. The figures in this table were not reproduced for this bill. For more information, please see our Risk Assessment, Commentary on Risk, and Glossary webpages.

Select Measures of Pension Risk as of June 30, 2021		
	FY 2022-41	FY 2042-71
Affordability Measures		
Chance of Pensions Double their Current Share of GF-S*	1%	2%
Chance of Pensions Half their Current Share of GF-S*	44%	42%
Solvency Measures		
Chance of PERS 1, TRS 1, in Pay-Go**	<1%	2%
Chance of Open Plan in Pay-Go**	<1%	1%
Chance of PERS 1, TRS 1, Total Funded Status Below 60%	5%	1%
Chance of Open Plans Total Funded Status Below 60%	20%	31%

**Pensions approximately 4.9% of current General Fund-State budget; does not include higher education.*
***When today's value of annual pay-go cost exceeds $50 million.*

While this bill would lead to larger benefits for some retirees, we do not expect it to have a material impact on the results shown above given the size of the 25-year estimated cost relative to all state retirement system costs.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results can vary under a different set of assumptions. To determine the sensitivity of the actuarial results to the best estimate assumptions or methods selected for this pricing, we varied the percentage of eligible retirees who would select the 2008 ERFs instead of the 2000 ERFs in the future.

Sensitivity to Best Estimate			
	PERS	TRS	SERS
-25% of Best Estimate	1.1%	1.1%	2.6%
Assumed Percentage (Best Estimate)	1.5%	1.5%	3.5%
+25% of Best Estimate	1.9%	1.9%	4.4%

The expected costs under these varied assumptions change the 25-year budget impacts for the bill as follows.

Total Employer 25-Year Budget Impacts				
	PERS	TRS	SERS	Total
-25% of Best Estimate	$15.2	$17.6	$2.8	**$35.6**
Assumed Percentage (Best Estimate)	$18.2	$20.5	$3.4	**$42.0**
+25% of Best Estimate	$21.2	$23.3	$4.0	**$48.5**

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 actual cost of this bill may vary from our best estimate and may fall outside the range of cost identified in this section. Furthermore, given this bill will allow eligible retirees to select the 2008 ERFs and return to work without a suspension of pension benefits, future retirees may retire earlier than they would have otherwise given their larger retirement benefit. This could increase the costs shown above. We expect any increase associated with earlier retirement to have costs that fall between our best estimate and the +25 percent sensitivity shown in the table above.

Additionally, if members live longer than expected, they will receive higher than expected benefits under the amended bill which would increase costs.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, and data used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods, and data may also be reasonable and might produce different results.
2. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment. We believe that the assumptions, methods, and data used in our risk assessment model are reasonable for the purposes of this pricing exercise. However, the use of another set of assumptions, methods, and data could also be reasonable and could produce different results.
3. We prepared this AFN based on our current understanding of the bill as of the date shown in the footer. If the bill or our understanding of the bill changes, the results of a future AFN based on those changes may vary from this AFN. Additionally, the results of this AFN may change after our next annual update of the underlying actuarial measurements.
4. We prepared this AFN 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 AFN.

We prepared this AFN to support legislative deliberations during the 2023 Legislative Session. This AFN may not be appropriate for other purposes.

We advise readers of this AFN to seek professional guidance as to its content and interpretation, and not to rely on this communication without such guidance. Please read the analysis shown in this AFN as a whole. Distribution of, or reliance on, only parts of this AFN could result in its misuse and may mislead others.

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

While this AFN is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

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APPENDIX A

Assumptions We Made

The current valuation assumes all eligible members will select the more valuable 2008 ERFs at retirement. The assumptions used to price this bill include a reversion back to the 2000 ERFs. This assumption change is applied to PERS, TRS, and SERS 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.

We relied on historical experience to estimate how many retirees selected the 2000 ERFs or the 2008 ERFs. We identified 1.5 percent of PERS-, 3.8 percent of TRS-, and 5.1 percent of SERS-eligible retirees selected the 2000 ERFs instead of the 2008 ERFs. Further, we observed a reduction in TRS to 1.4 percent and in SERS to 3.6 percent since the codification of E2SHB 1139 (C295 L 2019). Taking this recent legislation into account we assumed a lower percentage of members in TRS and SERS would select 2000 ERFs in the future than indicated by the full historical experience.

For the analysis under this bill, we assumed the following percentages of eligible early retirees would select 2000 ERFs instead of the 2008 ERFs without this bill:

- 1.5 percent for PERS.
- 1.5 percent for TRS.
- 3.5 percent for SERS.

We assumed the same percentage of historical retirees selecting the 2000 ERFs would occur in each system for future active and terminated vested retirees.

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 suspension of benefits provision for retirees returning to work in eligible positions prior to age 65, we assume there will no longer be an incentive for these retirees to select the 2000 ERFs. This change in behavior will eliminate 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 retirements would select the 2000 ERFs. Since our current valuation assumes everyone selects the 2008 ERFs, the actual impact after removing this restriction will fall somewhere between these two valuation results.

Under current law, we expect a percentage of members in PERS, TRS, and SERS Plans 2/3 would select 2000 ERFs instead of the 2008 ERFs. We applied this percentage respective to each plan to the corresponding fiscal impact between the valuation runs described above to estimate the long-term impact of this bill.

We used the Aggregate Funding Method to determine the fiscal impacts for current plan members. We applied the change in the Aggregate contribution rates to projected current member payroll to determine the fiscal impact. This plan provision change does not apply to future new entrants.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1056 P S HB	Title: Postretirement employment

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [ ] Cities:
- [ ] Counties:
- [ ] Special Districts:
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [x] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Kristine Williams	Phone: (564) 669-3002	Date: 01/25/2023
Leg. Committee Contact: David Pringle	Phone: 360-786-7310	Date: 01/20/2023
Agency Approval: Alice Zillah	Phone: 360-725-5035	Date: 01/25/2023
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/26/2023

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

CHANGES BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

This bill version removes certain postretirement restrictions for members who are not employed by a state retirement system employer in order to align with postretirement rules applied to other members. Also, retired members that chose the 3 percent ERF without postretirement employment restrictions will have future benefits recalculated after the effective date of January 1, 2024. These changes do not create any fiscal impacts for local governments.

SUMMARY OF CURRENT BILL:

This legislation will repeal certain postretirement restrictions on employment in RCWs to allow current and future retirees within the state's retirement systems the option to work up to 867 hours per calendar year without suspension of their retirement benefits. The legislation establishes an effective date of January 1, 2024.

Section 2 would amend RCW 41.32.765 to remove language for retired teachers who have exercised early retirement one month after their accrual date and are employed in a nonadministrative capacity. This section is also now states that retired members that chose the 3 percent reduction for postretirement employment will have their benefits recalculated.

Section 3 would amend RCW 41.32.802 to remove the work hour limitation of 867 hours per calendar year for retired teachers employed in a nonadministrative capacity.

Section 4 would amend RCW 41.32.862 to remove the work hour limitation of 867 hours per calendar year for retired teachers employed in a nonadministrative capacity.

Section 5 would amend RCW 41.32.875 to remove language specific to retired school employees who have exercised early retirement one calendar month after their accrual date and are employed in a nonadministrative capacity. This section is also amended to require that retired members that chose the 3 percent reduction for postretirement employment will have their benefits recalculated.

Section 6 would amend RCW 41.35.060 to remove the work hour limitation of 867 hours per calendar year for future retirees of the school employees' retirement system employed in a nonadministrative position.

Section 7 would amend RCW 41.35.420 to allow members of the Washington school employee's retirement system the option to work up to 867 hours per calendar year for certain employers without suspension of his or her retirement benefits. This section is also amended to require that retired members that chose the 3 percent reduction for postretirement employment to have their benefits recalculated.

Section 8 would amend RCW 41.35.680 to remove the 867 hours per calendar year limitation on postretirement employment with certain employers. This section is also amended to require that retired members that chose the 3 percent reduction for postretirement employment to have their benefits recalculated.

Section 9 would amend RCW 41.40.630 to remove the 867 hours per calendar year limitation on postretirement employment with certain employers. This section is also amended to require that retired members that chose the 3 percent reduction for postretirement employment to have their benefits recalculated.

Section 10 would amend RCW 41.40.820 to require that retired members that chose the 3 percent reduction for postretirement employment to have their benefits recalculated.

Section 11 would add a new section establishing an effective date of January 1, 2024.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

CHANGES IN EXPENDITURE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:
The 1056 P S HB version of this bill does not change the expenditure impact this bill would have on local governments.

This legislation would have no impact on local government expenditures.

The proposed amendments to Secs. 8 and 9 apply to members of the Public Employees' Retirement System (PERS) which includes city and county government employees and retirees. As stated in the June 21, 2022, Select Committee on Pension Policy (SCPP) briefing paper, early retirement creates a cost to the state's system which is offset by an actuarial reduction. This legislation would address administrative difficulties and provide consistency between retirement plans but would not impose a cost to local governments.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

CHANGES IN REVENUE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:
The 1056 P S HB version of this bill does not change the revenue impact this bill would have on local governments.

This legislation would have no impact on local government revenues.

SOURCES
SB 5349
Association of Washington Cities
Washington State Association of Counties
Joint Legislative Select Committee on Pension Policy