Multiple Agency Fiscal Note Summary

Bill Number: 1057 E S HB	**Title:** PERS/TRS 1 benefit increase

Estimated Cash Receipts

NONE

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	.0	0	0	5,000	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	0	.0	0	0	0	.0	52,200,000	52,200,000	63,600,000
Total $	**0.0**	**0**	**0**	**5,000**	**0.0**	**0**	**0**	**0**	**0.0**	**52,200,000**	**52,200,000**	**63,600,000**

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**

Estimated Capital Budget Breakout

NONE

Prepared by: Marcus Ehrlander, OFM	**Phone:** (360) 489-4327	**Date Published:** Final 3/13/2023

Individual State Agency Fiscal Note

Bill Number: 1057 E S HB	**Title:** PERS/TRS 1 benefit increase	**Agency:** 124-Department of Retiremen 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
Account					
Department of Retirement Systems Expense Account-State 600-1	5,000	0	5,000	0	0
Total $	5,000	0	5,000	0	0

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 03/06/2023
Agency Preparation:	Candice Myrum	Phone: 360-664-7124	Date: 03/08/2023
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 03/08/2023
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 03/13/2023

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.

Sections 3 and 4 of this bill provide retirees of Plan 1 of the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS), who are receiving a monthly benefit on July 1, 2022, a one-time benefit adjustment of three percent multiplied by their monthly benefit, not to exceed $110, effective July 1, 2023.

The amendment adopted by the House Appropriations Committee inserted new Sections 5 and 6 to delay the impact of the cost on the contribution rate for benefits added to Plan 1 of PERS and TRS. The House floor amendment added that "The rate for benefit improvements that became effective after June 30, 2009, shall not include a rate for the improvements in this act until July 1, 2027." These amendments do not change DRS' cost to implement the bill.

Please note, that due to the effective date, $16,000 in cost will occur before July 1, 2023 (in FY 2023) and only $5,000 will remain in FY 2024 (in the new biennium).

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:

- This will require a one-time process to create a permanent increase to PERS Plan 1 and TRS Plan 1 benefits calculated on their current monthly benefit including eligible adjustments.
- Retirees who have the Auto COLA (Cost of Living Adjustment) or Age 65 COLA will be eligible for this increase.
  - The Auto COLA or Age 65 COLA will be applied first, and the new increase will be calculated after that.
  - Future Auto COLA or age 65 COLA increases will not include this increase.
- The increase will be included when determining future Adjusted Minimum Benefit (AMB) and Minimum Benefit Increase (BMI) eligibility.
  - Eligibility for the July 2023 minimum increase will be determined before this one-time increase is applied.
  - Since AMBs are applied monthly, some customers may be granted an AMB increase after July 1, 2023. In an effort to prevent overpayments, we will continue to apply as normal and a report will be created after applying the new increase. This report will identify accounts who received an AMB adjustment after July 1, 2023 of less than $110. A manual comparison of the two increases will be conducted. If the new increase results in a larger benefit, the account will be manually adjusted.
- The increase will not be given to PERS Plan 1 and TRS Plan 1 accounts that are receiving a minimum increase (AMB/BMI), or temporary disability retirements.
- All prior Uniform COLAs and gain sharing increases will be included in calculating the increase.
- This increase will not apply to future CPI-Based COLAs, so "banking" will not apply because this is an increase, not a COLA.

To implement this legislation DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks
- Conduct business analysis

- Complete systems changes (which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deployment)
- Identify impacted members
- Update member communications
- Train team members

To support this implementation DRS will form a project team that will include a project manager, business analyst, communication consultant and retirement specialist.

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	5,000	0	5,000	0	0
		Total $	5,000	0	5,000	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages	4,000		4,000		
B-Employee Benefits	1,000		1,000		
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 $	5,000	0	5,000	0	0

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.

Individual State Agency Fiscal Note

Bill Number: 1057 E S HB	Title: PERS/TRS 1 benefit increase	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	0	11,400,000
General Fund-State	001-1	0	0	0	0	52,200,000
	Total $	0	0	0	0	63,600,000

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 03/06/2023
Agency Preparation:	Melinda Aslakson	Phone: 360-786-6161	Date: 03/10/2023
Agency Approval:	Luke Masselink	Phone: 360-786-6154	Date: 03/10/2023
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 03/13/2023

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	0	11,400,000
001-1	General Fund	State	0	0	0	0	52,200,000
		Total $	0	0	0	0	63,600,000

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					63,600,000
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 $	0	0	0	0	63,600,000

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: For all eligible PERS 1 and TRS 1 annuitants, this proposal enacts a one-time, permanent benefit increase of 3 percent on their first $44,000 of annual pension income (i.e., $110 per month cap). The bill also specifies the contribution rates to fund this benefit improvement are collected starting July 1, 2027.

COST SUMMARY

Impact on Contribution Rates *(Effective 7/1/2027)*				
	PERS	TRS	SERS	PSERS
Plan 1 UAAL	0.12%	0.23%	0.12%	0.12%

Consistent with RCW 41.45.060, contribution rates to fund benefit improvements are determined over a fixed, ten-year period and paid by PERS, TRS, SERS, and PSERS, employers. There is no impact to employee rates as a result of this bill.

Budget Impacts			
(Dollars in Millions)	2023-2025	2025-2027	2027-2037
General Fund-State	$0.0	$0.0	$302.1
Local Government	$0.0	$0.0	$172.8
Total Employer	**$0.0**	**$0.0**	**$540.2**

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- This bill results in a cost to the retirement systems and an increase to the UAAL. Larger benefits would be provided to eligible PERS 1 and TRS 1 annuitants than under current law, and these benefits were not anticipated or funded during impacted members' careers.
- Approximately 70 percent of PERS 1 annuitants and 90 percent of TRS 1 annuitants are expected to receive a benefit increase under this bill. Of those eligible, approximately 85 percent will receive a 3 percent increase in benefits, while the remaining 15 percent will receive the $110 per month cap. Annuitants not expected to receive a benefit increase are those currently receiving a COLA as part of the Basic or Alternate Minimum benefit. Please see **Who Is Impacted and How** for estimated impacted headcounts.
- This bill is expected to:
  - Increase the PERS 1 UAAL by $163 million (6 percent increase) and the TRS 1 UAAL by $157 million (8 percent increase) on a present value basis.
  - Immediately decrease the PERS 1 and TRS 1 funded ratios by 1 percent each.
- We assumed the additional contribution rates to fund this benefit improvement are collected for a full ten-year period starting July 1, 2027.

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).
- Teachers' Retirement System (TRS).
- School Employees' Retirement System (SERS).
- Public Safety Employees' Retirement System (PSERS).

This bill provides retirees in PERS and TRS Plans 1 with a 3 percent increase in benefits (up to a maximum increase of $110 per month) beginning July 1, 2023.

To be eligible, retirees must already be receiving a monthly benefit on July 1, 2022. Annuitants receiving Basic Minimum, Alternate Minimum, or temporary disability benefits are not eligible for the benefit increase under this bill.

This bill also requires the Select Committee on Pension Policy (SCPP) to study an ongoing Cost-Of-Living Adjustment (COLA) for PERS and TRS Plans 1 during the 2023-25 Biennium. Any recommendations from the SCPP would be analyzed by the Office of the State Actuary and could have an actuarial impact, depending upon the study results.

Effective Date: This bill has an emergency clause and is effective July 1, 2023.

In this summary, we only include changes pertinent to our actuarial fiscal note. See the legislative bill report for a complete summary of the bill.

How the Engrossed Substitute Bill Differs from the Original

The engrossed substitute house bill delays until July 1, 2027, the collection of contribution rates for the PERS and TRS Plans 1 benefit improvement provided in this bill. The bill also specifies a supplemental contribution rate will not be charged for the benefit improvement granted within the bill.

What Is the Current Situation?

Before it was repealed in 2011, the primary COLA provided in the Plans 1 was the Uniform COLA (UCOLA). The UCOLA was a fixed dollar amount multiplied by the member's total Years Of Service (YOS) and increased annually by 3 percent every July 1. The UCOLA was payable on the first calendar year in which the recipient turned age 66 and had been retired for one year. By July 1, 2010, the UCOLA was $1.88 per month per YOS. This amounted to an annual increase of $677 for a recipient with 30 YOS.

Statute specified that future increases to the UCOLA were not a contractual right, and the Legislature exercised the option to discontinue the UCOLA for most plan members during the 2011 Legislative Session.

Currently, the PERS and TRS Plans 1 provide automatic COLAs under two types of minimum retirement benefits only: The Basic Minimum and the Alternate Minimum. The Basic Minimum is a fixed dollar amount per month multiplied by the member's total YOS and increases on July 1 every year by the dollar amount of the UCOLA.

The Basic Minimum is currently $70.18[1]. If a member's benefit falls below this amount, they receive the UCOLA annual increase, which is $2.69 per month per YOS as of July 1, 2022.

The Alternate Minimum is a fixed dollar amount per month (currently $2,138.63[1]) that increases by 3 percent each year. Eligible members must have at least:

- 20 YOS and be retired for at least 25 years, or
- 25 YOS and be retired for at least 20 years.

An optional Consumer Price Index (CPI)-based COLA is available to the Plans 1 members who elect it at retirement. The optional COLA was first made available in 1990 and provides an annual percentage increase in the retirement allowance. The increase is based on changes in the CPI for Urban Wage Earners and Clerical Workers for the Seattle area, up to a maximum of 3 percent per year. The optional COLA begins one year after retirement—regardless of age or service—and is in addition to any other COLAs received. Members who elect the optional COLA receive an actuarially reduced retirement allowance to offset the expected cost of the COLA over their lifetime.

In the 2018 Legislative Session, the Legislature passed Substitute Senate Bill 6340 (Chapter 151, Laws of 2018), which provided a 1.5 percent COLA capped at $62.50 per month for Plans 1 members not receiving a Minimum benefit who had been retired for a year as of July 1, 2018. This one-time COLA went into effect on July 1, 2018.

In the 2020 Legislative Session, the Legislature passed Engrossed House Bill 1390 (Chapter 329, Laws of 2020) which provided a 3 percent COLA capped at $62.50 per month for Plans 1 members not receiving a Minimum benefit who had been retired for a year as of July 1, 2020. This one-time COLA went into effect on July 1, 2020.

In the 2022 Legislative Session, the Legislature passed Senate Bill 5676 (Chapter 52, Laws of 2022) which provided a 3 percent COLA capped at $110.00 per month for Plans 1 members not receiving a Minimum benefit who had been retired for a year as of July 1, 2022. This one-time COLA went into effect on July 1, 2022.

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[1]*As of July 1, 2022: The Alternate and Basic Minimum amounts are adjusted if the member elects voluntary payment options upon retirement. Throughout this fiscal note, we refer to the Basic and Alternate Minimum amounts prior to any voluntary reductions.*

Who Is Impacted and How?

As of June 30, 2021, we expect this bill would increase the retirement benefits for approximately 56,100 out of the total 73,400 PERS 1 and TRS 1 annuitants (76 percent). Annuitants receiving Basic Minimum, Alternate Minimum, or temporary disability benefits are not eligible for the benefit increase under this bill.

This bill will increase the benefits for a typical annuitant by providing a one-time COLA during retirement. The table below shows the number of annuitants expected to receive the full 3 percent increase and the $110 per month cap. Most eligible annuitants are expected to receive a 3 percent COLA on their entire pension benefit. Annuitants receiving more than approximately $3,670 per month ($44,000 per year) would receive the $110 per month cap.

Estimated Headcounts *(As of June 30, 2021)*			
	PERS 1	**TRS 1**	**Total**
Total Annuitants	**42,700**	**30,700**	**73,400**
Annuitants Not Receiving Minimum Benefit	29,200	26,900	56,100
Annuitants to Receive 3.0% COLA	23,500	23,700	47,200
Annuitants to Receive $110 Per Month Cap	5,700	3,200	8,900

This bill impacts all PERS, TRS, SERS, and PSERS employers through increased Unfunded Actuarial Accrued Liability (UAAL) contribution rates starting July 1, 2027. This bill will not affect member contribution rates.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has a Cost

This bill has a cost because it provides larger benefits for eligible PERS and TRS Plans 1 annuitants than the benefits provided under current law.

Who Will Pay for These Costs?

The costs that result from this bill will be paid by employers of PERS, TRS, SERS, and PSERS according to the standard funding method and starting July 1, 2027. PERS, SERS, and PSERS employers make PERS 1 UAAL payments, whereas TRS employers make TRS 1 UAAL payments.

HOW WE VALUED THESE COSTS

We modeled the current law cost of the retirement systems using our most recent actuarial valuation report (*June 30, 2021, Actuarial Valuation Report* [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

We made an adjustment for assumed demographic changes from the valuation date, June 30, 2021, to the effective date of this bill, July 1, 2023. Based on projections of the 2021 AVR, which account for expected mortality and new retirements, and our professional judgment, we estimate the total annuitant population on July 1, 2023, will be approximately 6 percent smaller in both PERS 1 and TRS 1 than it is on the June 30, 2021, measurement date.

Consistent with current law, we assumed the contribution rate increases to fund this benefits improvement will be collected for the full ten-year period. However, the bill delays collection of the contribution rate increases until July 1, 2027. Therefore, we assume the additional contribution rates are collected for Fiscal Years (FY) 2028 through 2037.

How We Applied These Assumptions

The fiscal impact of this bill represents the change in projected contributions. To estimate the fiscal impact of this bill, we compared projected pension contributions under current law to the projected contributions we expect under this bill. The projected pension contributions reflect contributions from the current members as well as future hires.

To determine the projected costs under this bill, we modified the programming to reflect the increased benefits from the one-time COLA under this bill. We adjusted our valuation such that all currently retired members not already receiving a COLA through the Basic or Alternate Minimum monthly benefit, receive a one-time 3 percent COLA subject to a $110 monthly cap.

To reflect the impact of assumed demographic changes to the Plans 1 populations, we reduced the liability impact from this bill by 6 percent for both plans.

Lastly, we amortized the cost of this benefit improvement over a fixed ten-year period, consistent with PERS and TRS Plan 1 funding policy for benefit improvements. Based on the requirements under the bill, we multiplied the respective new contribution rates reflecting these changes by future payroll starting on July 1, 2027, for the next ten years.

Special Data Needed

There was no special data needed for this pricing.

ACTUARIAL RESULTS

How the Liabilities Changed

This bill will impact the actuarial funding of PERS 1 and TRS 1 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 is shown in the following table.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits *(The Value of the Total Commitment to All Current Members)*			
PERS 1	$11,393	$162.8	$11,556
TRS 1	$8,263	$157.0	$8,420
Unfunded Actuarial Accrued Liability *(The Portion of the Plan 1 Liability That Is Amortized According to Funding Policy)**			
PERS 1	$2,884	$162.8	$3,047
TRS 1	$1,848	$157.0	$2,005
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 1	$3,303	$162.8	$3,466
TRS 1	$2,256	$157.0	$2,413

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

How the Assets Changed

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

How the Present Value of Future Salaries (PVFS) Changed

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 results in the contribution rate shown on page one. We assume this fixed rate is collected for a ten-year period consistent with how benefit improvements are funded in PERS 1 and TRS 1 under the [Revised Code of Washington (RCW) 41.45.070](#).

Impact on Contribution Rates *(Effective 7/1/2027)*				
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**
Current Members				
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%
Employer				
Normal Cost	0.00%	0.00%	0.00%	0.00%
Plan 1 UAAL	0.12%	0.23%	0.12%	0.12%
Total	**0.12%**	**0.23%**	**0.12%**	**0.12%**
New Entrants*				
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%
Employer				
Normal Cost	0.00%	0.00%	0.00%	0.00%
Plan 1 UAAL	0.12%	0.23%	0.12%	0.12%
Total	**0.12%**	**0.23%**	**0.12%**	**0.12%**

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets and Employees

Budget Impacts					
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2023-2025					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2025-2027					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2027-2037					
General Fund	$42.6	$222.1	$26.8	$10.5	$302.1
Non-General Fund	64.0	0.0	0.0	1.4	65.3
Total State	**$106.6**	**$222.1**	**$26.8**	**$11.9**	**$367.4**
Local Government	106.6	39.2	22.0	5.1	172.8
Total Employer	**$213.2**	**$261.3**	**$48.8**	**$16.9**	**$540.2**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

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.

Consistent with the provisions of the bill, there are no budget impacts in the 2023-25 and 2025-27 Biennia. The additional contributions to fund this benefit improvement covers the ten-year period for FYs 2028 through 2037. The ten-year budget impacts from our fiscal note on the original bill, [House Bill 1057](), resulted in total employer costs of $463.9 million. The total budget impacts for this bill are larger when the ten-year period is delayed because we assume the contribution rate stays the same, however it is applied against larger future salaries.

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

In recent years, the Legislature has provided several, one-time, permanent increases in benefits for eligible PERS 1 and TRS 1 annuitants. This bill also requires the SCPP to study options for an ongoing COLA. An ongoing COLA could have a significant impact to short-term budgets, projected Plan 1 pay-off dates, and the pension risk measures. We will provide additional commentary on risk related to an ongoing COLA as part of that study, as appropriate.

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 GF-S budget; does not include higher education.*
***When today's value of annual pay-go cost exceeds $50 million.*

Increasing PERS 1 and TRS 1 annuitant benefits will increase the chance of those plans entering pay-go status as well as increase the required cost of benefits if the plan enters pay-go. We expect the short-term impact to funded status from this bill to be an immediate reduction of the PERS and TRS Plans 1 funded status by approximately 1 percent each.

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 selected for this pricing we varied the following assumptions:

- Future Investment Return.
- Mortality.

If the plan realizes investment returns higher/lower than the prescribed long-term investment return assumption, then the costs of this bill will be lower/higher than the costs shared on page one of this fiscal note. More specifically, we expect a 1 percent increase/decrease to the long-term investment return assumption of 7 percent per year will decrease/increase the pension liability impact shared on page one by approximately 5 percent.

Similarly, we also analyzed the impact of assuming higher or lower rates of future mortality, as compared to our best estimate, for annuitants. If we assumed members experience mortality as if they were one year older/younger than their current age, the pension liability impact would decrease/increase by approximately 2 percent.

If the liability increase from this bill is more or less than expected, it will be funded through higher/lower UAAL contributions as defined in RCW 41.45.010. This can occur up to and beyond the ten-year rate period as required. Under current law, neither the additional contribution rate described on page one, nor for how long that rate is collected, will change if the liability increase from this bill is more or less than expected.

So, for example, if future investments return less than 7 percent per year, the costs associated with this bill will increase for PERS 1 and TRS 1 on a present value basis. Therefore, the ten-year funding of the additional rate, under this example, would fall short of collecting the full cost of this bill and the remaining unfunded costs from this bill would be funded through higher UAAL contributions.

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 Actuarial Fiscal Note (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.

Luke Masselink

Luke Masselink, ASA, EA, MAAA
Senior Actuary

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