Multiple Agency Fiscal Note Summary

Bill Number: 1949 HB	**Title:** DSHS competency rest./PSERS

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	.4	0	0	116,000	.1	0	0	19,000	.0	0	0	0
Department of Social and Health Services	.0	120,000	120,000	120,000	.0	454,000	454,000	454,000	.0	454,000	454,000	454,000
Actuarial Fiscal Note - State Actuary	Non-zero but indeterminate cost and/or savings. Please see discussion.											
Total $	**0.4**	**120,000**	**120,000**	**236,000**	**0.1**	**454,000**	**454,000**	**473,000**	**0.0**	**454,000**	**454,000**	**454,000**

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
Department of Social and Health Services	.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

Prepared by: Marcus Ehrlander, OFM	**Phone:** (360) 489-4327	**Date Published:** Final 1/14/2024

FNPID 69034

Individual State Agency Fiscal Note

Bill Number: 1949 HB	Title: DSHS competency rest./PSERS	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
FTE Staff Years	0.0	0.9	0.5	0.1	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	0	116,000	116,000	19,000	0
Total $	0	116,000	116,000	19,000	0

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

☒ 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: 01/09/2024
Agency Preparation:	Amy McMahan	Phone: 360-664-7307	Date: 01/09/2024
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 01/09/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/11/2024

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 bill amends RCW 41.37.010 to include competency restoration workers at the Department of Social and Health Services (DSHS) institutional and residential sites that provide services to a specific population of residents and or patients as members of Public Safety Employees' Retirement System (PSERS) Plan 2.

Section 1(19)(d)(iv) expands the definition of "member" to include any DSHS employee who works in institutions and residential sites that serve civilly committed residents and or patients under Not Guilty by Reason of Insanity findings.

Section 2(1) defines the options available to employees who are currently members of the Public Employees' Retirement System (PERS) Plan 2 or Plan 3 before June 1, 2025 (the effective date identified in Section 3 of this bill). More specifically, these employees can (a) choose to remain in PERS Plan 2 or 3, or (b) become a member of the PSERS Plan 2 prospectively, thereby having membership in both systems (known as "dual membership"). Should the employee choose to enter PSERS Plan 2, all service credit earned prospectively will be earned in PSERS Plan 2 only. No PERS Plan 2 or 3 service credit earned prior can be converted to PSERS service credit.

Section 2(2) calls out an election period, for employees making their plan choice, of June 1, 2025 to September 1, 2025.

Section 2(3) states that during the election period, employees who are employed by any employer defined in RCW 41.37.010 will remain members of their current PERS system until they formally opt into PSERS membership.

Section 2(4) identifies that the employee will remain in their current PERS plan if they do not make an election to join PSERS by September 1, 2025.

Section 2(5) declares employees who were members of PERS Plan 1 on or before June 1, 2019, and on or after June 1, 2025, and work for an employer as defined in RCW 41.37.010, will remain in PERS Plan 1.

Section 2(6) affirms that all new employees hired on or after June 1, 2025, by an employer as defined in RCW 41.37.010 and meets the eligibility requirements outlined above, will enter PSERS Plan 2 membership.

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.

No impact.

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:

- There are an estimated 450 current and potential members that would be impacted by this legislation.
- DSHS is responsible for identifying and providing an information packet regarding their election option to the estimated 450 potential employees who would be eligible for this transfer opportunity.
- DRS will provide DSHS with the contents of the aforementioned information packet, including a letter explaining the employee's options and directing them to online resources via the DRS public website (e.g., information on dual

membership, PSERS Plan 2, and PERS Plans 2 and 3), and an election form.
- Once an eligible member elects to join PSERS 2, they will provide their election form to DSHS, so that DSHS can enroll the member through DRS' employer reporting system.
- DRS will provide information to impacted DSHS employer contacts via an employer notice.
- DRS will create and provide additional specialized training for Retirement Specialists to ensure that they are able to address all questions from these members about their choice, including possible scenarios of dual membership.
- DRS will make available webinar training to educate eligible members on the differences between Plan 2 and 3, as well as the benefits of dual membership so that they can make an informed decision.
- DRS will leverage an already existing type code in its automated systems for this population.
- A member who formally elects to join PSERS 2 will have their PSERS membership begin as of the date of their election form (as long as it's by September 1, 2025).

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 applications, testing, and deployment),
- Identify impacted members,
- Update agency WACs,
- Update member plan guides, the employer handbook, all relevant letters, create a PSERS Enrollment form and a PSERS Election form, communicate to employers, and
- Train team members.

To support this implementation DRS will form a project team that will include a project manager, business analyst, web programmers, communication consultant, employer support specialist, 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	0	116,000	116,000	19,000	0
		Total $	0	116,000	116,000	19,000	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		0.9	0.5	0.1	
A-Salaries and Wages		88,000	88,000	14,000	
B-Employee Benefits		28,000	28,000	5,000	
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	116,000	116,000	19,000	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 5	84,396		0.1	0.0	0.0	
Contracts/Rules	86,940		0.0	0.0		
IT Application Development - Journey	96,888		0.1	0.1	0.0	
IT Application Development - Snr/Spec	112,176		0.0	0.0		
IT Business Analyst - Journey	96,888		0.3	0.1	0.0	
IT Project Manager - Mgr	123,636		0.1	0.1	0.0	
Management Analyst 3	69,264		0.2	0.1	0.0	
Retirement Specialist 3	61,224		0.1	0.1	0.0	
Total FTEs			0.9	0.5	0.1	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

No impact.

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 may need to be updated.

Individual State Agency Fiscal Note

Revised

Bill Number: 1949 HB	Title: DSHS competency rest./PSERS	Agency: 300-Department of Social and Health Services

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						
General Fund-State	001-1	60,000	60,000	120,000	454,000	454,000
	Total $	60,000	60,000	120,000	454,000	454,000

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:

[X] 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: 01/09/2024
Agency Preparation:	Sara Corbin	Phone: 360-902-8194	Date: 01/14/2024
Agency Approval:	Dan Winkley	Phone: 360-902-8236	Date: 01/14/2024
OFM Review:	Arnel Blancas	Phone: (360) 000-0000	Date: 01/14/2024

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.

Section 1 (19)(d)(iv) adds Department of Social and Health Services (DSHS) institutions that serve civilly committed residents, and/or serve patients under Not Guilty by Reason of Insanity findings to the definition of "Member" for the Public Safety Employees' Retirement System (PSERS)

Section 2 (1) An employee of an employer as defined in RCW 41.37.010 who was a member of the Public Employees' Retirement System (PERS) Plan 2 or 3 before June 1, 2025, and on June 1, 2025, meets the eligibility requirements in RCW 41.37.010 (19)(f) has the option to become a member of the PSERS.

Section 2 (2) The election period for an employee to become a member of PSERS is the period between June 1, 2025, to September 1, 2025.

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.

None

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.

The forecasted 2024 rates for employer contributions to PERS is 9.33%, and the rate for PSERS is 9.70%. For every $80,950 in salary costs DSHS would pay an additional $300 in retirement contributions.

Combined Rates*

	PERS	PSERS
2024	9.33%	9.70%
2025	8.83%	9.20%
2026	7.80%	9.20%
2027	6.80%	8.20%

*Office of State Actuary forecasted rates.

DSHS is bringing Residential Treatment Facility (RTF) staff online prior to the bill going into effect. Of the approximately 333 eligible staff at the RTF's and SCC, it is estimated that 80 RTF staff and 120 Special Commitment Center (SCC) staff eligible would elect to transfer to PSERS as of the effective date of the bill.

The total fiscal cost if 200 staff elect to transfer to PSERS is determined by calculating the difference between PERS rate and PSERS rate by year, at an average salary of $80,950.

The following is an example of the increased retirement contributions in 2024 for the 200 staff that may elect to transfer to PSERS:

- 330 eligible staff
- 60% elect to transfer to PSERS (200 positions)
- $80,950 average salary of a position
- $16,190,000 in salary costs

- $60,000 increase in employer retirement contributions for 2024.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	60,000	60,000	120,000	454,000	454,000
		Total $	60,000	60,000	120,000	454,000	454,000

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	60,000	60,000	120,000	454,000	454,000
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 $	60,000	60,000	120,000	454,000	454,000

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)

Program	FY 2024	FY 2025	2023-25	2025-27	2027-29
Behavioral Health Administration (BHA) (030	24,000	24,000	48,000	182,000	182,000
Special Commitment Center (SCC) (135)	36,000	36,000	72,000	272,000	272,000
Total $	60,000	60,000	120,000	454,000	454,000

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

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: 1949 HB	Title: DSHS competency rest./PSERS	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 01/09/2024
Agency Preparation:	Melinda Aslakson	Phone: 360-786-6161	Date: 01/13/2024
Agency Approval:	Luke Masselink	Phone: 360-786-6154	Date: 01/13/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/13/2024

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

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

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 expands PSERS to include members who work at facilities serving residents who are civilly committed, or patients considered not guilty by reason of insanity. This bill also provides current eligible PERS 2/3 members with a prospective transfer option to PSERS.

COST SUMMARY

This bill has an **Indeterminate Cost**. Employees transferring from PERS to PSERS will lead to higher contribution rates paid by their employers because PSERS contribution rates currently exceed PERS contribution rates. The indeterminate component is additional costs, through a supplemental rate, that can arise if the transfer group is more expensive, on average, than current PSERS members. We will analyze data on eligible transfers and submit a revised determinate fiscal note.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- In total, DSHS expects 333 members would be eligible to transfer based on the bill provisions. If all identified members transfer, the PSERS active population would increase by approximately 4 percent measured on June 30, 2022.
- Based on this headcount, and looking at prior, similar legislation, we prepared a hypothetical example of what the supplemental rate would be if the group eligible to transfer under this bill had similar demographic characteristics as the prior group. As noted in the **Hypothetical Example** section of this note, we estimated a supplemental rate of 0.04 percent. Once we analyze the data on eligible transfers, the actual supplemental rate could be more or less than this example.
- We plan to submit an updated fiscal note with a determinant cost and supplemental rate.
- The actual long-term cost of this bill depends on the number and demographics of members electing to immediately transfer to PSERS and the new hires who replace PERS members that did not transfer. Once the transfer window is complete, the data will be incorporated into our next rate-setting valuation and contribution rates will adjust accordingly.

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

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

This bill impacts the following systems:

- Public Employees' Retirement System (PERS) Plans 2/3.
- Public Safety Employees' Retirement System (PSERS).

This bill expands PSERS membership to include eligible staff working in institutions or residential sites that serve civilly committed residents or serve patients under not guilty by reason of insanity findings. Based on information provided by the Department of Social and Health Services (DSHS), the effect of this change is that eligible staff working in Residential Treatment Facilities (RTFs) and the Special Commitment Center (SCC) employed by DSHS would be eligible for PSERS. This bill provides a transfer option for current PERS 2/3 members in PSERS-eligible positions to transfer to PSERS for future service only.

Under this bill, eligible new employees hired on or after June 1, 2025, will automatically become members of PSERS. Current PERS 2/3 members meeting the PSERS eligibility requirements are allowed to transfer to PSERS between June 1, 2025, and September 1, 2025. This includes PERS 2/3 members who declined the opportunity to transfer to PSERS when the plan was first opened. If an employee elects to transfer, they will become a dual member and no PERS service credit may be transferred.

Effective Date: June 1, 2025.

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.

What Is the Current Situation?

PSERS membership has changed over the years, and initially began with limited authority law enforcement. The plan has evolved to include other jobs with a high degree of physical risk, such as nurses working with offenders or patient populations. More recently the plan was expanded to include certain positions with exposure to other workplace risks.

Current law requires a DSHS employee to meet certain job duty requirements **and** work location requirements in order to be PSERS eligible. See the Revised Code of Washington 41.37.010 for definitions of "member" and "employer". Current law does not expressly include the SCC or RTFs as eligible work locations, therefore while employees may meet certain job duty requirements, they are PERS eligible, instead of PSERS eligible.

Who Is Impacted and How?

This bill will affect certain active PERS members at SCC and RTFs through an option of prospectively changing their plan membership to PSERS (with no transfer of prior service credit). Additionally, these members and their employers may pay higher or lower contribution rates in PSERS than PERS.

This bill could impact all employers and Plan 2 members in PERS and PSERS through changes in contribution rates due to changes in plan membership. Additionally, this bill will not affect member contribution rates in PERS 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

Future new hires in positions identified by this bill will join PSERS instead of PERS. Adding these members to PSERS may change future contribution rates if their demographics or behavior is materially different than current PSERS members.

PSERS provides more valuable benefits than PERS 2/3 in terms of retirement eligibility and unreduced benefits at an earlier age. This bill would benefit a typical member by making at least part of their retirement benefit available earlier than under current law, resulting in a higher lifetime retirement benefit for that member.

For example, a future PERS 2 member who enters at age 30 could retire as early as age 55 under current law, with a total of 25 Years Of Service (YOS) at retirement. The benefit would be actuarially reduced to recognize retirement before age 65. If the member's Average Final Compensation (AFC) is $50,000, their retirement benefit would be as follows:

$$\$50{,}000 \times 25 \times 2\% \times 0.4092 = \$10{,}230 \text{ per year}$$

The same future member who starts service in PSERS could retire as early as age 53, with a more favorable early retirement factor. To keep this example consistent, the PSERS retirement benefit at age 55 with 25 YOS and a $50,000 AFC is calculated as follows:

$$\$50{,}000 \times 25 \times 2\% \times 0.85 = \$21{,}250 \text{ per year}$$

The PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) contribution rate paid by employers is the same for members of PERS 2/3 and PSERS. Therefore, there is no expected change in UAAL contributions.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has an Indeterminate Cost

For the following reasons, we expect this bill could impact all Plan 2 members and employers in PERS and PSERS.

- **PERS Impact (All PERS 2 Members and PERS 2/3 Employers):** The removal of PERS members can have a cost or savings in PERS depending on the demographics of the group removed. Recent, similar past legislation providing a transfer window to PSERS resulted in a cost because removing future salaries had a greater impact than removing future benefit accruals.[1]
- **PSERS Impact (All PSERS Members and Employers):** Providing a transfer option for PERS members into PSERS can have a cost due to employees transferring to PSERS who are more experienced and are more likely to receive a retirement benefit than current PSERS members.
- **Affected Employers Impact:** Moving employees from PERS to PSERS will result in a cost or savings to employers based on the difference between employer contribution rates in PSERS and PERS for the affected transfer group

[1] *House Bill (HB) 1055 passed in the 2023 Legislative Session.*

and future new hires. As of the date of this bill, PSERS employer contribution rates exceed PERS employer contribution rates.

Who Will Pay For These Indeterminate Costs?

The costs to the affected retirement systems 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.

HYPOTHETICAL EXAMPLE IMPACTS UNDER THIS BILL

For illustrative purposes only, we provide an example contribution rate impact for this bill by relying on analysis from our fiscal note on HB 1055 from the 2023 Legislative Session. HB 1055 provided a transfer option for Public Safety Telecommunicators (PSTs) from PERS to PSERS. For this example, we assumed eligible members under this bill have similar demographics to PSTs and applied the same transfer assumption. Based on information provided by DSHS, we assumed 333 active PERS members are eligible to transfer to PSERS under this bill.

Example Calculations	
HB 1055 – PSTs Transfer Option	
(A) Total Eligible PSTs	1120
(B) Assumed Transfer Group	974
(C) Transfer Rate (B) / (A)	87%
(D) Employer Supplemental Rate	0.13%
This Bill	
(E) Total Eligible SCC and RTF Employees	333
(F) Assumed Transfer Group (C) x (E)	290
Example Employer Supplemental Rate (D) x (F) / (B)	0.04%

In HB 1055, the PSTs assumed to transfer were more expensive than the average PSERS member because they had higher average benefit service and salary. Shifting that group to PSERS led to a supplemental rate of 0.13 percent. If the SCC and RTF employees have similar demographic qualities to the assumed PST transfers, we would estimate a supplemental rate of 0.04 percent.

The example supplemental rate for this bill is lower than the supplemental rate for HB 1055 due to fewer members assumed to transfer under this bill. However, the supplemental rate calculated with complete data may look different than the example displayed here depending on the actual population. Ultimately, the actual transfer group will be reflected in the valuation data and PSERS rates will adjust accordingly.

HB 1055 also included a cost to PERS that did not result in a rounded supplemental rate. We assume this bill would also not include a PERS supplemental rate impact given the smaller eligible population.

Comments on Risk

Our office performs 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 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 risk measurements as of June 30, 2021. The figures in this table were not reproduced for the 2022 valuation or for this bill, as we are in the process of revisiting how we convey these risk metrics. For more information, please see our Risk Assessment, Commentary on Risk, and Glossary webpages.

Select Measures of Pension Risk *(As of 6/30/2021)**		
	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%

**Prior to law changes from the 2023 Legislative Session.*
***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.*

In terms of risk, we expect this bill would worsen the affordability and solvency risk measures relative to PSERS. However, we expect the changes in financial risks to be minor in the context of all the state pensions systems but could be material to PSERS.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, data, and models used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods, data, and models 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.
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 2024 Legislative Session. This AFN may not be appropriate for other purposes.

We intend to revise this AFN once we receive additional data. Please replace this AFN with the revised AFN when available.

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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