Multiple Agency Fiscal Note Summary

Bill Number: 6315 SB	**Title:** Retiree benefits

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
Washington State Health Care Authority	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Retirement Systems	.1	0	0	16,000	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	14,600,000	14,600,000	17,800,000	.0	36,900,000	36,900,000	45,000,000	.0	39,700,000	39,700,000	48,400,000
Total $	**0.1**	**14,600,000**	**14,600,000**	**17,816,000**	**0.0**	**36,900,000**	**36,900,000**	**45,000,000**	**0.0**	**39,700,000**	**39,700,000**	**48,400,000**

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Washington State Health Care Authority	.0	0	0	.0	0	0	.0	0	0
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

Prepared by: Marcus Ehrlander, OFM	**Phone:** (360) 489-4327	**Date Published:** Final 2/ 2/2024

FNPID 70353

Individual State Agency Fiscal Note

Bill Number: 6315 SB	**Title:** Retiree benefits	**Agency:** 107-Washington State Health Care Authority

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/01/2024
Agency Preparation:	Molly Christie	Phone: 360-725-5138	Date: 02/02/2024
Agency Approval:	Tanya Deuel	Phone: 360-725-0908	Date: 02/02/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/02/2024

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.

See attached narrative.

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.

See attached narrative.

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.

See attached narrative.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

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.

HCA Fiscal Note

Bill Number: 6315 SB | HCA Request #: 24-126 | Title: Retiree Benefits

Part I: Estimates

☒ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

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.

SB 6315 instructs the Health Care Authority (HCA) to make changes to its coordination provisions for the Uniform Medical Plan (UMP) Classic – Medicare and clarifies the application of the Medicare explicit subsidy.

Section 3 – New Section under RCW 41.05 (Health Care Authority)
Instructs the Health Care Authority to apply savings to any self-insured medical plan offered to retirees as described in 41.05.080(1) resulting from coordination of coverage with Medicare to reduce the plan's overall claims costs.

Section 4 – Amends RCW 41.05.085 (Retired state employee and retired or disabled school employee health insurance subsidy)
Clarifies the application of the retiree health insurance subsidy (known as the explicit subsidy) to reduce an eligible retiree's medical and prescription drug premium; currently, this RCW references a prescription drug premium subsidy only. Language also removes a reference to the Legislature establishing a separate subsidy for members who select a Medicare supplement plan option.

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. Distinguish 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. Distinguish between one time and ongoing functions.

Public Employees Benefits Board (PEBB) and School Employees Benefits Board (SEBB) Program Impacts:

There is no estimated fiscal impact because the proposed bill does not impact the state's contribution to retiree premiums via the Medicare explicit subsidy.

Section 3 requires that HCA apply savings when Medicare pays primary on medical claims for retirees enrolled in the self-insured UMP Classic Medicare plan to offset overall medical expenses.

UMP Classic Medicare is offered to PEBB retirees and coordinates coverage with Medicare as primary payer for Medicare-covered services. UMP Classic Medicare also has a feature that allows members to use savings accrued in their "COB Savings Bank" to cover out-of-pocket costs for the UMP deductible or services not covered by Medicare. The COB Savings Bank transfers the plan's savings (resulting from Medicare primary coverage) to the member, up to the amount of the member's out-of-pocket spending. This results in lower out-of-pocket expenses for many members, but a higher monthly premium.

Under this section, the COB Savings Bank process would be eliminated, and the savings would be applied to offset the plan's medical claims expenses when Medicare pays primary. By reducing medical claims expenses, the resulting member premiums would decrease. According to analysis completed by Milliman for HCA's PEBB Retiree Medicare Benefits legislative report, eliminating the COB Savings Bank could save $9.2 million in retiree medical premium in 2025, or about $27 per member per month (PMPM). These figures do not include any changes to the Medicare explicit subsidy, which in 2024 is set by the legislature at $183 or 50% of premium, whichever is less. In addition, the medical benefit analysis assumed no change to the current UMP Classic Medicare pharmacy benefit.

Section 4 clarifies the application of the Medicare explicit subsidy to the medical and prescription drug health care insurance premiums charged to Medicare-eligible retired and disabled employees and school employees. Current statute refers to the explicit subsidy as a “prescription drug subsidy”. This clarification would align long-standing implementation of state operating budget language that applies the explicit subsidy in the same manner to all PEBB Medicare plans.

While this legislation clarifies the application of the subsidy, it does not change the value of the subsidy; therefore, there are no expected fiscal impacts as a result of this legislation. Currently, HCA applies the explicit subsidy to all Medicare-eligible retiree premiums, regardless of plan selection. This legislation will not result in a change to current practices.

Medicaid:
No fiscal impact.

Part III: Expenditure Detail

III. A - Operating Budget Expenditure

NONE

III. B - Expenditures by Object or Purpose

NONE

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

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.

NONE

Individual State Agency Fiscal Note

Bill Number: 6315 SB	**Title:** Retiree benefits	**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	0.1	0.0	0.1	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	12,000	4,000	16,000	0	0
Total $	12,000	4,000	16,000	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:	Amanda Cecil	Phone: 360-786-7460	Date: 02/01/2024
Agency Preparation:	Candice Myrum	Phone: 360-664-7124	Date: 02/02/2024
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 02/02/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/02/2024

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.

Sections 1 and 2 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, 2023, a one-time benefit adjustment of three percent multiplied by their monthly benefit, not to exceed $125, effective July 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.

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:

- 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 2024 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, 2024. 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, 2024 of less than $125. 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	12,000	4,000	16,000	0	0
		Total $	12,000	4,000	16,000	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.0	0.1		
A-Salaries and Wages	9,000	3,000	12,000		
B-Employee Benefits	3,000	1,000	4,000		
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 $	12,000	4,000	16,000	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	0.0		0.0		
IT Application Develop - Snr/Spec	112,176	0.0	0.0	0.0		
IT Business Analyst - Journey	96,888	0.0		0.0		
IT Project Manager - Mgr	123,636	0.0		0.0		
Retirement Specialist 3	61,224	0.1	0.0	0.0		
Total FTEs		0.1	0.0	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.

Individual State Agency Fiscal Note

Bill Number: 6315 SB	Title: Retiree benefits	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	3,200,000	3,200,000	8,100,000	8,700,000
General Fund-State	001-1	0	14,600,000	14,600,000	36,900,000	39,700,000
	Total $	0	17,800,000	17,800,000	45,000,000	48,400,000

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:	Amanda Cecil	Phone: 360-786-7460	Date: 02/01/2024
Agency Preparation:	Melinda Aslakson	Phone: 360-786-6161	Date: 02/02/2024
Agency Approval:	Michael Harbour	Phone: 360-786-6151	Date: 02/02/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/02/2024

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

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
000-1	All Other Funds	State	0	3,200,000	3,200,000	8,100,000	8,700,000
001-1	General Fund	State	0	14,600,000	14,600,000	36,900,000	39,700,000
		Total $	0	17,800,000	17,800,000	45,000,000	48,400,000

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		17,800,000	17,800,000	45,000,000	48,400,000
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	17,800,000	17,800,000	45,000,000	48,400,000

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 $50,000 of annual pension income (i.e., $125 per month cap). The bill also clarifies language in current law related to the explicit subsidy for retiree health care provided by the Public Employees' Benefits Board.

COST SUMMARY

Impact on Contribution Rates *(Effective 9/1/2024)*				
	PERS	TRS	SERS	PSERS
Plan 1 UAAL	0.09%	0.17%	0.09%	0.09%

Consistent with RCW 41.45.070, PERS, TRS, SERS, and PSERS employers will fund the cost of this benefit improvement through a supplemental contribution rate starting September 1, 2024, and collected over a 10-year period. There is no impact to employee rates as a result of this bill.

Budget Impacts			
(Dollars in Millions)	2024-25	2025-27	10-Year
General Fund-State	$14.6	$36.9	$203.2
Local Government	$8.5	$21.4	$116.9
Total Employer	**$26.4**	**$66.5**	**$364.5**

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.

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 65 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 $125 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 $129 million (6 percent increase) and the TRS 1 UAAL by $123 million (12 percent increase) on a present value basis.
  - Immediately decrease the PERS 1 and TRS 1 funded ratios by 1 percent each.
- Consistent with current law, we assume the supplemental rate calculated under this bill would be collected for a full 10-year period.

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).
- ❖ 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 $125 per month) beginning July 1, 2024.

To be eligible, retirees must already be receiving a monthly benefit on July 1, 2023. Annuitants receiving Basic Minimum, Alternate Minimum, or temporary disability benefits are not eligible for the benefit increase under this bill.

Effective Date: July 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.

What Is the Current Situation?

Before it was repealed in 2011, the primary Cost-Of-Living Adjustment (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 $72.95[1]. If a member's benefit falls below this amount, they receive the UCOLA annual increase, which is $2.77/month per YOS as of July 1, 2023.

The Alternate Minimum is a fixed dollar amount per month (currently $2,202.79[1]) that increases by 3 percent each year. Eligible members must have at least:

[1]*As of July 1, 2023: 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.*

- 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 recent years the Legislature has granted one-time COLAs to eligible PERS and TRS Plans 1 annuitants who had been retired for one year prior to the effective date of the increase, as shown in the table below:

Recent One-time COLAs in the Plans 1		
Year	**Increase**	**Enacted Law**
2018	Ad hoc COLA of 1.5% with a $62.50/month cap for all annuitants not receiving minimum benefits.	Senate Substitute Bill 6340 (Chapter 151, Laws of 2018)
2020	Ad hoc COLA of 3% with a $62.50/month cap for all annuitants not receiving minimum benefits.	Engrossed House Bill 1390 (Chapter 329, Laws of 2020)
2022	Ad hoc COLA of 3% with a $110.00/month cap for all annuitants not receiving minimum benefits.	Senate Bill 5676 (Chapter 52, Laws of 2022)
2023	Ad hoc COLA of 3% with a $110.00/month cap for all annuitants not receiving minimum benefits.	Senate Bill 5350 (Chapter 397, Laws of 2023)

Who Is Impacted and How?

As of June 30, 2022, we estimate this bill could affect 53,400 members out of the total 70,600 members of PERS 1 and TRS 1 annuitants through benefit changes. 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 $125 per month cap. Most eligible annuitants are expected to receive a 3 percent COLA on their entire pension benefit. Annuitants receiving more than approximately $4,170 per month ($50,000 per year) would receive the $125 per month cap.

Estimated Headcounts as of June 30, 2022			
	PERS 1	**TRS 1**	**Total**
Total Annuitants	**41,000**	**29,600**	**70,600**
Annuitants Not Receiving Minimum Benefit	27,500	25,900	53,400
Annuitants to Receive 3.0% COLA	23,100	23,600	46,700
Annuitants to Receive $125 Per Month Cap	4,400	2,300	6,700

This bill impacts all PERS, TRS, SERS, and PSERS employers through increased Unfunded Actuarial Accrued Liability (UAAL) contribution rates. 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 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. 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 (AVR) – the June 30, 2022, 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 modeled that the benefit increases provided under this bill occur as of the effective date of the bill. That is, we assume demographic and eligibility changes occur as expected between the valuation date of June 30, 2022, and the effective date of this bill, July 1, 2024.

Consistent with current law, we assumed the contribution rate increases to fund this benefits improvement will be collected for the full ten-year period starting September 1, 2024.

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 using a Microsoft Excel model we developed. This model uses projected salary data from ProVal to calculate contribution rate and budget impacts based on the change in liabilities between current law and the provisions of this bill. The projected pension contributions reflect contributions from the current members as well as assumed future hires. We assessed this model as part of our annual update of it, and we compare the results of this model to simplified by-hand estimates as part of individual pricings.

To determine the projected costs under this bill, we modified the ProVal programming to reflect the increased benefits from the one-time COLA provided under this bill. Eligible members expected to survive to the effective date of the bill, receive a one-time 3 percent COLA subject to a $125 monthly cap. Members already receiving a COLA through the Basic or Alternate Minimum monthly benefit, or who are expected to receive a minimum benefit by the effective date of the bill, are not eligible for the COLA provided under this bill.

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 for the next ten years starting September 1, 2024.

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 below.

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	$11,065	$129.4	$11,195
TRS 1	$8,045	$123.2	$8,168
Unfunded Actuarial Accrued Liability *(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
PERS 1	$2,189	$129.4	$2,319
TRS 1	$1,021	$123.2	$1,144
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	$2,753	$129.4	$2,882
TRS 1	$1,569	$123.2	$1,693

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 current 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 supplemental contribution rate shown on page one that applies in the current biennium. This fixed rate is expected to be 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 9/1/2024)*				
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	0.09%	0.17%	0.09%	0.09%
Total Employer	**0.09%**	**0.17%**	**0.09%**	**0.09%**
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	0.09%	0.17%	0.09%	0.09%
Total Employer	**0.09%**	**0.17%**	**0.09%**	**0.09%**

**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**
2024-2025					
General Fund	$2.1	$10.8	$1.3	$0.4	$14.6
Non-General Fund	3.2	0.0	0.0	0.0	3.2
Total State	**$5.3**	**$10.8**	**$1.3**	**$0.4**	**$17.9**
Local Government	5.3	1.9	1.1	0.2	8.5
Total Employer	**$10.6**	**$12.7**	**$2.4**	**$0.6**	**$26.4**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2025-2027					
General Fund	$5.3	$27.3	$3.4	$1.0	$36.9
Non-General Fund	8.0	0.0	0.0	0.1	8.1
Total State	**$13.4**	**$27.3**	**$3.4**	**$1.1**	**$45.1**
Local Government	13.4	4.8	2.8	0.5	21.4
Total Employer	**$26.7**	**$32.1**	**$6.1**	**$1.5**	**$66.5**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2024-2034					
General Fund	$29.1	$150.1	$18.4	$5.8	$203.2
Non-General Fund	43.6	0.0	0.0	0.7	44.3
Total State	**$72.6**	**$150.1**	**$18.4**	**$6.5**	**$247.5**
Local Government	72.6	26.5	15.0	2.8	116.9
Total Employer	**$145.3**	**$176.5**	**$33.4**	**$9.3**	**$364.5**
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.

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 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.*

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, such as:

- 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 AFN.

Similarly, the plan may experience 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 older/younger, the pension liability impact would decrease/increase.

As a point comparison, we provided a numerical example as part of our AFN on Senate Bill 5350 from the 2023 Legislative Session.

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 supplemental rate period as required. Under current law, neither the supplemental rate described on page one, nor for how long that supplemental 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 supplemental 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, 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. 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 2024 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.

Michael Harbour

Michael T. Harbour, ASA, MAAA
Actuary

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