Multiple Agency Fiscal Note Summary

Bill Number: 2357 S HB	**Title:** State patrol longevity bonus

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
Joint Legislative Audit and Review Committee	.0	0	0	4,800	.0	0	0	4,800	1.7	0	0	620,500
Office of Financial Management	.0	0	0	0	.0	0	0	0	.0	0	0	0
Washington State Patrol	Non-zero but indeterminate cost and/or savings. Please see discussion.											
Actuarial Fiscal Note - State Actuary	.0	0	0	0	.0	0	0	0	.0	0	0	(400,000)
Total $	0.0	0	0	4,800	0.0	0	0	4,800	1.7	0	0	220,500

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Office of Financial Management	.0	0	0	.0	0	0	.0	0	0
Washington State Patrol	.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: Tiffany West, OFM	Phone: (360) 890-2653	Date Published: Final 2/19/2024

Individual State Agency Fiscal Note

Bill Number: 2357 S HB	Title: State patrol longevity bonus	Agency: 014-Joint Legislative Audit and Review Committee

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	0.0	0.0	0.0	1.7
Account					
Performance Audits of Government Account-State 553-1	0	4,800	4,800	4,800	620,500
Total $	0	4,800	4,800	4,800	620,500

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:	Beth Redfield	Phone: 360-786-7140	Date: 02/12/2024
Agency Preparation:	Zack Freeman	Phone: 360-786-5179	Date: 02/13/2024
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 02/13/2024
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 02/13/2024

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.

Substitute House Bill 2357 establishes the State Patrol longevity bonus pilot program to strengthen the agency's "ability to retain senior, experienced commissioned staff."

Section 1 – Legislative Intent
Through this bill, the Legislature intends to strengthen WSP's ability to retain senior, experienced commissioned staff by establishing a longevity bonus pilot program.

Section 2 – WSP Longevity Bonus Pilot Program
Beginning July 1, 2024, an eligible commissioned employee completing 26 or more years of commissioned service shall receive an annual longevity bonus of $15,000 on their anniversary date of commissioned state employment. This section expires June 30, 2029.

Section 4 – JLARC Study
By November 1, 2028, JLARC must conduct a performance review of the State Patrol longevity bonus pilot program. The review must evaluate, at minimum:
a) The program's impact on retention of senior commissioned staff of the State Patrol;
b) The change in vacancies in each of the commissioned staff categories over time;
c) An evaluation of optimal commissioned staffing levels at the State Patrol, including a comparison to other states' field force staffing levels;
d) A description of other factors that may be impacting retention and vacancy rates; and
e) Recommendations for addressing State Patrol staffing levels, which must include whether to continue the state patrol longevity bonus program.

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.

JLARC staff would work with the State Patrol immediately after passage of the bill to ensure project contacts are established and the data necessary for the review are identified and collected. JLARC staff will meet with the State Patrol annual to receive updates on the pilot program and ensure the proper data is being collected and stored.

JLARC staff anticipate beginning the study in July 2027. JLARC staff will review personnel data to evaluate the impact of the bonus program on the retention of senior commissioned staff and on vacancies across each category of commissioned staff. This evaluation will include an assessment of the factors impacting senior staff retention and recommendations for how to best address staffing levels and whether to continue the longevity bonus pilot program.

In addition, the review will include an evaluation of the optimal level of WSP commissioned staff and a comparison to practices at other state police agencies.

This audit will require an estimated 26 audit months.

The numbers in the table include staff costs and any applicable consultant costs. JLARC expects that the staff costs can be absorbed in its base budget.

If the workload requirements from all assignments passed during the current legislative session exceed our staff capacity, JLARC may need additional staff resources. The staff costs are an estimate of those resources.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2023-25 costs are calculated at approximately $23,900 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
553-1	Performance Audits of Government Account	State	0	4,800	4,800	4,800	620,500
		Total $	0	4,800	4,800	4,800	620,500

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					1.7
A-Salaries and Wages		3,100	3,100	3,200	403,000
B-Employee Benefits		1,000	1,000	1,000	127,400
C-Professional Service Contracts					
E-Goods and Other Services		600	600	600	81,900
G-Travel		100	100		8,200
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	4,800	4,800	4,800	620,500

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
Research Analyst	131,064					1.1
Support staff	110,856					0.6
Total FTEs						1.7

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: 2357 S HB	**Title:** State patrol longevity bonus	**Agency:** 105-Office of Financial Management

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:	Beth Redfield	Phone: 360-786-7140	Date: 02/12/2024
Agency Preparation:	Kathy Cody	Phone: (360) 480-7237	Date: 02/14/2024
Agency Approval:	Jamie Langford	Phone: 360-902-0422	Date: 02/14/2024
OFM Review:	Val Terre	Phone: (360) 280-3973	Date: 02/15/2024

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 substitute version adjusted the eligibility requirements of the Washington State Patrol (WSP) longevity bonus pilot program from the previous version. This change had no impact on OFM's fiscal impact assumption.

SHB 2357:
The bill creates a pilot program for longevity bonuses for commissioned officers of WSP. Bonuses are not salary and not part of Average Final Salary pension calculations. Beginning 7/1/24, all commissioned officers with 26+ years of service will receive an annual $15,000 longevity bonus on their anniversary date of state employment.

All WSP commissioned officers are covered under a collective bargaining agreement, and the legislation explicitly says this is subject to collective bargaining, so the implementation of this program will need to be bargained. That work will be done by OFM Labor Relations in conjunction with WSP leadership. Bargaining will need to be completed with the two unions that represent these employees.

The bargaining over implementation of this pilot program can be incorporated into routine business, as implementation bargaining is a core function of OFM Labor Relations work. An OFM staff member is already assigned to bargain any changes with these two unions. There is no fiscal impact to OFM.

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

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.

Individual State Agency Fiscal Note

Revised

Bill Number: 2357 S HB	Title: State patrol longevity bonus	Agency: 225-Washington State Patrol

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:

- [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:	Beth Redfield	Phone: 360-786-7140	Date: 02/12/2024
Agency Preparation:	Shawn Eckhart	Phone: 360-596-4083	Date: 02/16/2024
Agency Approval:	Mario Buono	Phone: (360) 596-4046	Date: 02/16/2024
OFM Review:	Tiffany West	Phone: (360) 890-2653	Date: 02/16/2024

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.

The substitute version of this bill will continue to have a fiscal impact to the Washington State Patrol (WSP).

Section 2 establishes longevity bonus payment eligibility, amounts and timing for commissioned staff. Beginning July 1, 2024, commissioned staff with 26 or more years of service will receive a $15,000 longevity bonus on their anniversary date of state employment. This longevity bonus continues through June 30, 2029. The bonus is subject to a change to the applicable collective bargaining agreements, and the payment is not included in salary or average final salary for calculation of pension benefits. This latter intent is also represented in Section 3 on the definitions of "Salary". Changes from the original bill were the removal of a payment on July 1, 2024, for anyone with 25 or more years of service on June 30, 2024; the removal of $7,500 longevity bonuses for eligible employees reaching 25 years of service; and the change in the wording from "years of commissioned service" to "years of service".

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.

There are no cash receipts to the WSP from this legislation.

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.

We have an indeterminate fiscal impact. We can estimate a maximum number of eligible employees, but we don't know the likelihood of the employees taking advantage of the longevity bonuses by maintaining employment with the agency.

During FY25, we estimate 93 employees would be eligible for the $15,000 longevity payment during FY25. The total is $1,395,000, plus $23,297 for the corresponding state share of Medicare (1.45%) and Family and Medical Leave (0.22%) benefits. Grand total is $1,418,297.

During FY26, we estimate 36 new employees will become eligible for the $15,000 longevity payment and, with the 93 eligible employees from the prior year, the total with benefits is $1,967,315.

During FY27, we estimate 35 new employees will become eligible for the $15,000 longevity payment and, with the 129 eligible employees from prior years, the total with benefits is $2,501,082.

During FY28, we estimate 32 new employees will become eligible for the $15,000 longevity payment and, with the 164 eligible employees from prior years, the total with benefits is $2,989,098.

During FY29, we estimate 28 new employees will become eligible for the $15,000 longevity payment and, with the 196 eligible employees from prior years, the total with benefits is $3,416,112.

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.

Individual State Agency Fiscal Note

Bill Number: 2357 S HB	Title: State patrol longevity bonus	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	(400,000)
Total $	0	0	0	0	(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:	Beth Redfield	Phone: 360-786-7140	Date: 02/12/2024
Agency Preparation:	Aaron Gutierrez	Phone: 360-786-6152	Date: 02/15/2024
Agency Approval:	Michael Harbour	Phone: 360-786-6151	Date: 02/15/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/16/2024

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	0	0	0	(400,000)
		Total $	0	0	0	0	(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					(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	0	0	0	(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: This bill enacts longevity bonuses for commissioned WSP troopers and requires JLARC to conduct a performance audit of those bonuses.

COST SUMMARY: This bill will not impact WSPRS contribution rates or budgets until the 2027-29 Biennium but could change the long-term costs as shown below. For information on the long-term impact to contribution rates, see the **Actuarial Results** section.

The results presented in this AFN match those for the original bill (HB 2357). We expect the changes made in this substitute could further change retirement behavior; however, we anticipate the impact of the policy changes will partially offset and thus won't materially impact the results.

Budget Impacts			
(Dollars in Millions)	**2024-25**	**2025-27**	**25-Year**
General Fund-State	$0.0	$0.0	($0.1)
Local Government	$0.0	$0.0	$0.0
Total Employer	**$0.0**	**$0.0**	**($1.2)**

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- Under this bill, eligible troopers may delay their retirement as a result of these retention bonuses. Since these bonuses are not pensionable, we anticipate a net savings to WSPRS could materialize as follows.
  - The savings from paying out pension benefits over a shorter period of time tends to exceed the costs associated with these members increasing their calculated pension benefit through additional service credit and salary growth.
- Any changes in member retirement behavior as a result of the bonuses that begin July 1, 2024, will first emerge in our June 30, 2025, valuation data. The 2025 AVR informs contribution rates for the 2027-29 Biennium, and therefore, no WSPRS contribution rate or budget impacts will be experienced until FY 2028.
- During the five years in which retention bonuses will be provided, we assumed that eligible members would be 10 percent less likely to retire than under current law assumptions. This is roughly equivalent to assuming about 70 eligible members delaying their retirement by one year (or about half the number of members expected to be eligible for a bonus on July 1, 2024).
  - In the year after the bonuses end, we also assumed there would be a catch-up in the number of retirements such that the expected size of the WSPRS active population moving forward would be the same as it is under current law assumptions.
  - We may submit a revised AFN if we receive data (on the expected behavioral changes of the WSPRS population due to this bill) that significantly differs from what we assumed above.
- The results presented in this AFN can vary under a different set of assumptions. If we assumed no eligible members delay their retirement, then there is no savings from this bill. Conversely, if we assume twice as many eligible members delay their retirement (or the same number of members delay their retirement for twice as long), the expected savings from this bill will double.
- The budget impacts captured in this AFN do not account for any difference in contributions that the state would need to make over the salaries of employees who choose to delay their retirement. We have excluded this cost from our AFN as we assume it will be included in other agencies' fiscal notes.

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 members of the Washington State Patrol Retirement System (WSPRS) by enacting longevity bonuses for commissioned troopers. It also requires the Joint Legislative Audit and Review Committee (JLARC) to conduct a performance audit of those bonuses.

Beginning July 1, 2024, troopers who have 26 or more Years of Service (YOS) receive $15,000 on their anniversary date. These bonuses are not considered part of the Final Average Salary (FAS) for the purpose of retirement benefits. The section establishing the bonuses expires June 30, 2029.

Effective Date: 90 days after session.

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

How the Substitute Differs from the Original Version

Below are the changes that impact the pricing of the bill. For a complete list of changes to the current version of the bill, please refer to the bill reports prepared by legislative staff.

- Troopers are eligible for bonuses with 26 or more YOS instead of 25 or more YOS.
- Strikes the requirement for the service to be as a commissioned trooper.

What Is the Current Situation?

Troopers are not currently eligible for bonuses. WSPRS benefits are calculated as 2 percent times the trooper's YOS times their FAS (see Revised Code of Washington 43.43.120 for details).

Who Is Impacted and How?

We estimate that roughly 140 members could be eligible to receive bonuses beginning July 1, 2024. Over the five-year period when bonuses are paid, additional members will become eligible as they reach more than 25 YOS.

These bonuses are not considered pensionable, but they may impact members' retirement behavior. More specifically, members with at least 25 YOS may delay their retirement (i.e., wait to commence their pension benefit) in exchange for working longer and receiving a longevity bonus. This behavior is expected to result in a net decrease to WSPRS liabilities.

Consider the following example of a 55-year-old WSPRS member with 25 YOS and a FAS of $130,000 who retires today. Their annual pension benefit would be:

$65,000 (= 2% x 25 YOS x $130,000)

Paid out over their remaining expected lifetime, we estimate the value of this benefit would be approximately $1.1 million in today's dollars, after accounting for assumed investment earnings and cost-of-living adjustments.

If this same member decides to keep working one more year, they will retire at age 56 with 26 YOS and an estimated FAS of $135,000. Their annual pension benefit would be:

$70,200 (= 2% x 26 YOS x $135,000)

Paid out over their remaining expected lifetime, we estimate the liability associated with this benefit would be approximately $9,000 less in today's dollars compared to the above example where the member retired a year earlier.

This bill could impact WSPRS employees and employers (the state) through decreased contribution rates.

WHY THIS BILL HAS A SAVINGS AND WHO RECEIVES IT

Why This Bill Has a Savings

Under this bill, eligible members may delay retirement in order to receive these retention bonuses. Since these bonuses are not pensionable, we anticipate a net savings to the retirement system could materialize because the savings from paying out pension benefits over a shorter period of time tends to exceed the cost associated with these members increasing their calculated pension benefit through additional service credit and salary growth. (This circumstance typically applies once a member reaches normal retirement eligibility.)

Who Will Receive These Savings?

Any savings that arise from this bill will be divided according to the standard funding method of 50 percent member and 50 percent employer, subject to the member maximum contribution rate. The current member maximum contribution rate is 8.74 percent. This maximum rate will not change as a result of this bill, since this bill does not revise pension statutes.

The member contribution rate is currently at the maximum, with the excess contribution rate being paid by employers. Thus, so long as the member contribution rate remains at its cap, employers will receive 100 percent of the savings from this bill. Once member rates fall below the cap, any savings from this bill will be shared equally with members and employers.

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

During the five years that retention bonuses are provided under this bill (Fiscal Years [FY] 2025-29), we assumed that members eligible to receive a bonus (i.e., those members with at least 25 YOS) would be 10 percent less likely to retire than under current law assumptions. This is roughly equivalent to assuming about 70 eligible members delaying their retirement by one year.

We also assumed that in the year after the bonuses have ended (FY 2030), there would be a catch-up in the number of retirements, such that the expected size of the WSPRS active population moving forward would be the same as it is under current law expectations.

For more detail on these retirement assumptions, please see **Appendix A**.

How We Applied These Assumptions

The fiscal impact of this bill represents the change in projected contributions. To estimate this, we compared projected pension contributions under current law to the projected contributions we expect under this bill, applying the adjusted retirement rate assumptions described above.

For more detail on this expected fiscal impact, please see **Appendix B**.

ACTUARIAL RESULTS

How the Liabilities Changed

This bill will impact the actuarial funding of WSPRS by decreasing the present value of future benefits payable to the members. The impact of the decreasing present value of future benefits payable for current members is shown below.

Impact on Pension Liability *(As of 6/30/2022)*			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits *(The Value of the Total Commitment to All Current Members)*			
WSPRS 1/2	$1,909	($0.7)	$1,908
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)*			
WSPRS 1/2	$93	($1.5)	$92

Note: Totals may not agree due to rounding.

How the Assets Changed

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

How the Present Value of Future Salaries (PVFS) Changed

This bill will impact the actuarial funding of WSPRS by increasing the PVFS of the members. The impact of the increasing PVFS for current members is shown below.

Present Value of Future Salaries *(As of 6/30/2022)*			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Future Salaries *(The Value of the Future Salaries Expected to be Paid to Current Members)*			
WSPRS 1/2	$1,110	$3.7	$1,114

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The bonuses provided by this bill are not pensionable, and thus the impact of this bill will not result in a supplemental contribution rate for the current biennium. However, we will use the unrounded rate decrease shown below to measure the budget changes in future biennia.

Impact on Contribution Rates *(Beginning FY 2028)*	
System	WSPRS
Current Members	
Employee	(0.079%)
Employer	(0.079%)

Based upon our latest Projected Contribution Rates, we anticipate WSPRS calculated rates to fall below the member cap in the next five to ten years. As a result, we assumed the savings from this bill would be shared equally by members and employers.

How This Impacts Budgets and Employees

Budget Impacts	
(Dollars in Millions)	WSPRS
2024-2025	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	0.0
Total Employer	**$0.0**
Total Employee	**$0.0**
2025-2027	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	0.0
Total Employer	**$0.0**
Total Employee	**$0.0**
2024-2049	
General Fund	($0.1)
Non-General Fund	(1.1)
Total State	**($1.2)**
Local Government	0.0
Total Employer	**($1.2)**
Total Employee	**($1.2)**

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 system. The combined effect of several changes 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.*

In terms of risk, we expect this bill would improve the affordability and solvency risk measures due to eligible members delaying retirement and commencing their pension benefit at a later date. This lowers plan liabilities and contribution rates; however, this impact is not expected to materially change the risk measures displayed above.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results presented above 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 considered the following scenarios:

- ❖ If no eligible members choose to delay their retirement, then there will be no savings from this bill.
- ❖ If the number of eligible members who choose to delay their retirement is double what we assumed (or if the number of years they delay their retirement is double what we assumed), then we expect the savings from this bill will be twice the best-estimate amount displayed in this AFN.

The actual cost/savings of this bill may vary from our best estimate and may fall outside the range of savings identified in this section.

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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APPENDIX A
Assumptions We Made

The bonuses provided under this bill may impact the retirement behavior of WSPRS members. More specifically, members with at least 25 YOS may choose to delay their retirement during the five-year window when these bonuses are paid. We adjusted our current law retirement rate assumption for this pricing as follows:

- For members with less than 25 YOS, we assumed retirement rates remain consistent with the current law assumption.
- For members with more than 25 YOS, we assumed their retirement rates would vary by fiscal year, depending on whether bonuses were being provided in that year.
  - Prior to FY 2025, we assumed retirement rates remain consistent with the current law assumption.
  - From FY 2025-29, which is when bonuses are being provided, we assumed retirement rates would be reduced by 10 percent compared to the current law assumption.
  - In FY 2030, which is the first year the bonuses cease, we assumed retirement rates would increase by about 25 percent compared to the current law assumption. This increase in retirement rates results in the expected size of the WSPRS active population being the same under this pricing as it is under current law from FY 2030 onward.
  - Following FY 2030, we assumed retirement rates would again be consistent with the current law assumption.

The table below summarizes the rounded retirement rate assumptions under both current law and this pricing. Note that retirement is mandatory in WSPRS at age 65.

Retirement Rates Assumptions

	Current Law	Pricing				
	All YOS	YOS < 25	YOS ≥ 25	YOS ≥ 25	YOS ≥ 25	YOS ≥ 25
Age	All Years	All Years	FY < 2025	FY 2025-29	FY 2030	FY > 2030
Under 45	0.00	0.00	0.00	0.00	0.00	0.00
45	0.50	0.50	0.50	0.45	0.62	0.50
46-48	0.38	0.38	0.38	0.34	0.47	0.38
49-50	0.33	0.33	0.33	0.30	0.41	0.33
51-54	0.27	0.27	0.27	0.24	0.33	0.27
55-58	0.20	0.20	0.20	0.18	0.25	0.20
59-63	0.33	0.33	0.33	0.30	0.41	0.33
64	0.50	0.50	0.50	0.45	0.62	0.50
65+	1.00	1.00	1.00	1.00	1.00	1.00

APPENDIX B
How We Applied These Assumptions

We estimated the fiscal impact of this bill by comparing projected pension contributions under this bill to contributions under current law. The projected pension contributions reflect contributions from the current members as well as assumed future hires.

- To determine the projected contributions under current law, we relied on our base model described in the **How We Valued These Costs** section. For current members, contribution rates from the base model are multiplied by future payroll. For future hires, contribution rates under the Entry Age Normal Cost method are multiplied by future new entrant payroll.
- To determine the projected contributions under this bill, we modified the base model to reflect the provisions of the bill, and the assumptions noted in the **How We Valued These Costs** section. We then multiplied the respective new contribution rates reflecting these changes by future payroll.

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