Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

Regular Committee Meeting

September 19, 2006

10:00 AM - 12:30 PM
House Hearing Room A
Olympia

AGENDA

10:00 AM	**(1)**	**Approval of Minutes**
10:05 AM	**(2)**	**Recommendation to PFC**, Laura Harper, Senior Research Analyst - Legal *Public Testimony*
10:50 AM	**(3)**	**$150,000 death benefit**, Darren Painter, Research Analyst *Public Testimony*
11:25 AM	**(4)**	**Service credit purchase due to injury**, Robert Wm. Baker, Senior Research Analyst *Public Testimony*
11:50 AM	**(5)**	**Judges benefit multiplier**, Robert Wm. Baker *Public Testimony*
12:30 PM	**(6)**	**Adjourn**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 786-6140. TDD 1-800-635-9993.

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

***Representative Bill Fromhold**, Vice-Chair

Vacant
TRS and SERS Employers

Robert Keller
PERS Actives

***Sandra J. Matheson**, Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore**, Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Select Committee on Pension Policy

2006 Meeting Dates

Full - 10:00 am – 12:00 pm
Executive - 12:30 – 2:30 pm
JLOB, Olympia, WA 98504

January 17, 2006 – *meeting cancelled*
February 21, 2006
March 21, 2006
April 18, 2006 – *meeting cancelled*
May 16, 2006
June 20, 2006
July 18, 2006
August 22, 2006
September 19, 2006
October 17, 2006
November 21, 2006
December 12, 2006

Plan 1 Funding Method
Reserved Subgroup Dates
Location to be determined
2:00 – 4:00 pm – Mondays

April 17, 2006
May 15, 2006
June 19, 2006
July 17, 2006
August 21, 2006 – **Scheduled HHR C**
September 18, 2006 – **Scheduled HHR C**
October 17, 2006
November 20, 2006
December 11, 2006

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January

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Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.

2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.

3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.

4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.

5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:

    a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
    b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
    c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
    d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
    e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

Select Committee on Pension Policy

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REGULAR COMMITTEE MEETING
DRAFT MINUTES

August 22, 2006

The Select Committee on Pension Policy met in House Hearing Room A, Olympia, Washington on August 22, 2006.

Committee members attending:

Senator Pridemore, Chair	Robert Keller
Representative Fromhold, Vice-Chair	Sandra Matheson
Elaine Banks	Corky Mattingly
Representative Bailey	Doug Miller
Lois Clement	Victor Moore
Representative Conway	Glenn Olson
Representative Crouse	J. Pat Thompson
Senator Fraser	Senator Schoesler
Leland Goeke	David Westberg

Senator Pridemore, Chair, called the meeting to order at 10:05 a.m.

(1) Approval of Minutes

It was moved to approve the July 18, 2006, Full Committee Draft Minutes. Seconded.

MOTION CARRIED

(2) Gain-sharing

Bob Baker, Senior Research Analyst, reported on "Gain-sharing." Discussion followed.

Public Testimony:

Joyce Williams, Washington State School Retirees' Association
Robert Rhule, Washington State School Retirees' Association
John Kvamme, Washington Association of School Administrators/ Association of Washington School Principals
Dave Scott, Washington Education Association
Wendy Rader-Konofalski, AFT Washington

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

***Representative Bill Fromhold**, Vice-Chair

Leland A. Goeke
TRS and SERS Employers

Robert Keller
PERS Actives

***Sandra J. Matheson**, Director
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Corky Mattingly
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Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore**, Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

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TDD: 1-800-635-9993

Public Testimony (continued)
Terry Kohl, Retired Public Employees Council
Don Carlson, citizen
Kathy Vallentine, Washington Education Association, retired
Eleanor Gilmore, TRS - retired
Beverly Hermanson, Washington Federation of State Employees
Helen Carlstrom, Washington Education Association - retired
Ron Roy, IBEW 77

The meeting adjourned at 12:05 p.m.

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Recommendation to PFC

In Brief

ISSUE

The SCPP is required to study and make recommendations on changes to contribution rates to the Pension Funding Council (PFC) prior to adoption of changes by the PFC.

Pension Funding Council

Pension contribution rates are established by a process mandated in the actuarial funding chapter of state law. Every two years, not later than September 30 of even-numbered years, the PFC adopts and may make changes to basic state and employer contribution rates for PERS, TRS, SERS, LEOFF Plan 1, and WSP. The contribution rates are effective for the ensuing biennium, subject to revision by the legislature. The council also solicits and administers a biennial actuarial audit of the actuarial valuations used for rate-setting purposes.

The PFC consists of the following members:

- Director of the Department of Retirement Systems
- Director of the Office of Financial Management
- Chair and Ranking Minority Member of the House of Representatives Appropriations Committee
- Chair and Ranking Minority Member of the Senate Ways and Means Committee

The PFC is supported by a work group consisting of one staff member from each of the following agencies:

- Department of Retirement Systems
- Office of Financial Management
- State Investment Board
- Senate Ways and Means Committee
- House Appropriations Committee
- The Economic and Revenue forecast Council

Other duties of the PFC include reviewing the experience and financial condition of the state retirement systems and adopting changes to the long-term economic assumptions and asset smoothing technique (next scheduled for the spring of 2008).

Laura Harper
Senior Research Analyst, Legal
360.786.6145
harper.laura@leg.wa.gov

SCPP Action Items

- *Receive the preliminary results of the actuarial audits.*
- *Study and make recommendations to the PFC on changes to contribution rates (prior to adoption by the PFC in September).*

Role of the SCPP in Contribution Rate-Setting

The SCPP receives the results of the actuarial audits of the actuarial valuations administered by the PFC. The SCPP is also required to study and make recommendations on changes to contribution rates prior to their adoption by the PFC.

Preliminary Employer Contribution Rates*

System	2007-08 Rates	2008-09 Rates	Current Rates*	2007-08 Difference	2008-09 Difference
PERS	6.91%	8.47%	5.28%**	1.63%	3.19%
TRS	7.72%	9.49%	4.56%	3.16%	4.93%
SERS	8.18%	9.48%	4.67%	3.51%	4.81%
LEOFF 1	0.00%	0.00%	0.00%	0.00%	0.00%
WSP	8.80%	8.80%	4.51%	4.29%	4.29%
PSERS* **	8.64%	9.52%	N/A	N/A	N/A

** Include supplemental rate increases effective 9/1/2006, the cost of future gain-sharing benefits and completion of the normal cost and Plan 1 UAAL rate increase phase-ins.*
***Effective 1/1/2007. From 7/1/2006 to 12/31/2006, rate is 3.51%.*
****Informational only. Contribution rates have been established through 2007-09.*

Preliminary Plan 2 Member Contribution Rates*

System	2007-08 Rates	2008-09 Rates	Current Rates	2007-08 Difference	2008-09 Difference
PERS	4.62%	5.30%	3.50%	1.12%	1.80%
TRS	3.28%	3.77%	3.01%	0.27%	0.76%
SERS	4.26%	4.68%	3.79%	0.47%	0.89%
WSP**	7.75%	7.75%	4.51%	3.24%	3.24%
PSERS* **	6.57%	6.57%	N/A	N/A	N/A

** The member contribution rate in PERS 1 and TRS 1 is fixed at 6%. No member contribution is currently required for LEOFF 1 under current funding policy. Plan 3 members do not contribute to the defined benefit portion of their plan.*
***All members*
****Informational only. Contribution rates have been established through 2007-09.*

Sample Motions

"I move that a recommendation be forwarded to the Pension Funding Council to adopt the 2007-2009 contribution rates as calculated by the State Actuary."

Or,

Attachments

- *August 2006 letter from the State Actuary to the PFC.*
- *Preliminary actuarial audit results.*
- *August 2006 letter from PFC Chair to SCPP Chair.*

"I move that a recommendation be forwarded to the Pension Funding Council to adopt the 2007-2009 contribution rates, as calculated by the State Actuary, with the following change(s) as recommended by the State Actuary and the actuarial auditor...."

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WASHINGTON STATE LEGISLATURE

Office of the State Actuary

August 22, 2006

Via e-mail and campus mail

TO: **Pension Funding Council Members**
Senator Margarita Prentice, Chair
Ways and Means Committee
Senator Joseph Zarelli, Ranking Minority Member
Ways and Means Committee
Representative Helen Sommers, Chair
Appropriations Committee
Representative Gary Alexander, Ranking Minority Member
Appropriations Committee
Ms. Sandra Matheson, Director
Department of Retirement Systems
Mr. Victor Moore, Director
Office of Financial Management

FROM: Matthew M. Smith, State Actuary

SUBJECT: **PRELIMINARY 2007-09 PENSION CONTRIBUTION RATES**

As required under RCW 41.45.060, I am providing the preliminary results of the 2005 actuarial valuation of the following Washington State retirement systems:

- Public Employees' Retirement System (PERS);
- Teachers' Retirement System (TRS);
- School Employees' Retirement System (SERS);
- Law Enforcement Officers' and Fire Fighters' Retirement System, Plan 1 (LEOFF 1); and
- Washington State Patrol Retirement System (WSP).

The results presented in this letter are still under review and will likely change in the final version. The primary purpose of the valuation was to determine contribution requirements for the systems listed above as of the valuation date September 30, 2005 and should not be used for other purposes. The results are based on the economic assumptions and asset value smoothing technique included in RCW 41.45.035.

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Gain-Sharing Benefits

As noted in the actuarial certification of the 2004 Actuarial Valuation Report, the gain-sharing benefit provisions of PERS and TRS Plans 1 and PERS, TRS and SERS Plans 3 were not reflected in the actuarial valuation for that year. The funding methodology and materiality of these benefit provisions were reviewed and the benefit provisions were determined to represent a material actuarial liability to the affected retirement systems. However, the 2005 Legislature delayed recognition of the cost of future gain-sharing until the 2007-09 biennium in Chapter 370, Laws of 2005. This material liability is once again recognized in the 2005 actuarial valuation and reflected in the attached preliminary contribution rate tables.

Preliminary Results

I will forward a final actuarial valuation report to the Council this fall. An executive summary of the 2005 valuation results is provided below.

Summary Comments

As of September 30, 2005, the Washington State retirement systems remain in a solid funding position. The funded ratio (actuarial assets divided by credited projected liability) for all systems combined is 99%. In other words, the combined plans have $0.99 in actuarial or smoothed assets for every $1 of accrued liability. This combined funded measure is provided for summarization purposes only since assets from one qualified retirement plan cannot be used to fund benefits for another plan. On an individual plan basis, all of the state's plan 2/3 systems and the WSP retirement system have funded ratios well in excess of 100%. Funded ratios for PERS 1, TRS 1 and LEOFF 1 are 74%, 81% and 113% respectively.

Unfunded actuarial accrued liability (UAAL) is re-emerging for PERS 1 and TRS 1 and their funded ratios are expected to drop slightly in the short term due to the annual recognition of past investment losses that are not yet fully recognized in the actuarial value of assets. RCW 41.45.062 suspended payments toward the PERS and TRS Plan 1 UAAL for the 2005-07 biennium. Future increases in the PERS and TRS Plan 1 UAAL contribution rates will be required to fully amortize the unfunded prior service costs in these plans at June 30, 2024 - as provided under current law.

The Legislature established the Pension Funding Stabilization Account (PFSA) in Chapter 6, Laws of 2006. Moneys from the PFSA are available to help mitigate these increasing contribution requirements in the short term

It is important to note that UAAL contribution rates are calculated based on total projected system salaries, including future system growth, under the current funding method for PERS and TRS Plan 1. This method results in dollar contributions that increase significantly as the 2024 amortization date approaches and may present an unreasonable and unmanageable payment schedule for system employers in the future.

Contribution Rates

As noted above, an increase in current employer and plan 2 member contribution rates is required to continue to fund retirement system benefits under the state's funding policy as provided in Chapter 41.45 RCW - Actuarial Funding of State Retirement Systems. The higher employer contribution rates represent a $544 million GF-S increase above the current biennial level. Preliminary employer and plan 2 member contribution rates for the 2007-09 biennium are provided under Attachment A. The required increase above current contribution rate levels is provided for your reference. Attachment B displays preliminary employer contributions for the 2007-09 biennium and increases above the current biennium.

Chapter 370, Laws of 2005 and Chapter 56, Laws of 2006 provided for phased-in contribution rate increases for the 2005-07 biennium. This legislation also directs the Pension Funding Council to adopt rates necessary to complete the phase-in schedule during 2007-09. The tables in attachments A and C reflect the completion of this schedule by displaying contribution rates by year rather than for the biennium.

The recognition of actuarial liability associated with future gain-sharing benefits in PERS and TRS Plans 1 and PERS, TRS and SERS Plans 3 had a significant impact on the 2005 preliminary valuation results. The higher employer contribution rates associated with future gain-sharing account for $162 million of the estimated $544 million GF-S increase. The remaining $382 million increase is primarily due to the resumption of PERS 1 and TRS 1 amortization payments under the current method and phase-in schedule. Please note that the funding allocation ratios by employer/source are currently under review and are subject to change. Attachments C and D illustrate the impact of future gain-sharing benefits on required employer contribution rates and dollars for the next biennium.

The Public Safety Employees' Retirement System (PSERS) was created in Chapter 242, Laws of 2004. This plan became effective on July 1, 2006. Initial contribution rates have been implemented through the end of the 2007-09 biennium, when the Pension

Funding Council will consider the first update to the rates for this plan. Attachments A, B, C and D include information about PSERS to provide the Council with a complete look at the funding impact.

The Legislature also provided for minimum contribution rates in Chapter 365, Laws of 2006. These rate floors do not go into effect until the 2009-11 biennium and will be addressed in the 2007 valuation.

I hope you find this information useful during your deliberations. Please don't hesitate to contact me directly should you require any additional information.

Attachments (A, B, C, D)

cc: Pension Funding Council Workgroup Members
Liz Mendizabal – State Investment Board
Steve Nelsen, LEOFF 2 Retirement Board
David Pringle, Office of Program Research
Jane Sakson, Office of Financial Management
Eric Sund, Senate Ways and Means
Eric Swensen, Economic and Revenue Forecast Council
Jeff Wickman, Department of Retirement Systems

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Attachment A

Preliminary 2007-09 Contribution Rates

Preliminary Employer Contribution Rates

System	2007-08 Rates	2008-09 Rates	Current Rates*	2007-08 Difference	2008-09 Difference
PERS	6.91%	8.47%	5.28%**	1.63%	3.19%
TRS	7.72%	9.49%	4.56%	3.16%	4.93%
SERS	8.18%	9.48%	4.67%	3.51%	4.81%
LEOFF 1	0.00%	0.00%	0.00%	0.00%	0.00%
WSP	8.80%	8.80%	4.51%	4.29%	4.29%
PSERS* **	8.64%	9.52%	N/A	N/A	N/A

**Includes supplemental rate increases effective 9/1/2006.*
***Effective 1/1/2007. From 7/1/2006 to 12/31/2006, rate is 3.51%.*
****Informational only. Contribution rates have been established through 2007-09.*

Preliminary Plan 2 Member Contribution Rates*

System	2007-08 Rates	2008-09 Rates	Current Rates	2007-08 Difference	2008-09 Difference
PERS	4.62%	5.30%	3.50%	1.12%	1.80%
TRS	3.28%	3.77%	3.01%	0.27%	0.76%
SERS	4.26%	4.68%	3.79%	0.47%	0.89%
WSP**	7.75%	7.75%	4.51%	3.24%	3.24%
PSERS* **	6.57%	6.57%	N/A	N/A	N/A

**The member contribution rate in PERS 1 and TRS 1 is fixed at 6%. No member contribution is currently required for LEOFF 1 under current funding policy. Plan 3 members do not contribute to the defined benefit portion of their plan.*
***All members*
****Informational only. Contribution rates have been established through 2007-09.*

Attachment B

Preliminary Employer Contributions

Preliminary 2007-09 Employer Contributions
(Estimated Dollars in Millions)

System	GF-S	Non GF-S (State)	Local Government	Total Employer
PERS	$192.0	$313.5	$774.3	$1,279.8
TRS	508.1	0.0	244.7	752.8
SERS	108.0	0.0	158.3	266.3
LEOFF*	96.2	0.0	145	241.2
WSP	1.4	12.8	0.0	14.2
PSERS**	47.2	2.5	28.4	78.1
Total	$952.9	$328.8	$1,350.7	$2,632.4
Current Biennium***	$408.6	$180.4	$539.2	$1,128.2
Difference	**$544.3**	**$148.4**	**$811.5**	**$1,504.2**

**Includes preliminary results for LEOFF 2. Contribution rates for LEOFF 2 are adopted by the LEOFF 2 Retirement Board.*
***Informational only. Contribution rates have been established through 2007-09.*
****Estimate*

Note: 2007-09 rate increases for TRS and SERS are effective 9/1/2007 through 8/31/2009. The impact of these rate increases on the 2009-11 biennium is not reflected in the above table.

Attachment C

Preliminary 2007-09 Contribution Rates Without Gain-Sharing

Preliminary Employer Contribution Rates - Without Gain-Sharing

System	2007-08 Rates	2008-09 Rates	Current Rates*	2007-08 Difference	2008-09 Difference
PERS	6.26%	7.82%	5.28%**	0.98%	2.54%
TRS	5.73%	7.50%	4.56%	1.17%	2.94%
SERS	5.90%	7.20%	4.67%	1.23%	2.53%
LEOFF 1	0.00%	0.00%	0.00%	0.00%	0.00%
WSP	8.80%	8.80%	4.51%	4.28%	4.28%
PSERS***	8.21%	9.09%	N/A	N/A	N/A

**Includes supplemental rate increases effective 9/1/2006.*
***Effective 1/1/2007. From 7/1/2006 to 12/31/2006, rate is 3.51%.*
****Informational only. Contribution rates have been established through 2007-09.*

Preliminary Plan 2 Member Contribution Rates - Without Gain-Sharing*

System	2007-08 Rates	2008-09 Rates	Current Rates	2007-08 Difference	2008-09 Difference
PERS	4.62%	5.30%	3.50%	1.12%	1.80%
TRS	3.28%	3.77%	3.01%	0.27%	0.76%
SERS	4.26%	4.68%	3.79%	0.47%	0.89%
WSP**	7.75%	7.75%	4.51%	3.24%	3.24%
PSERS***	6.57%	6.57%	N/A	N/A	N/A

**The member contribution rate in PERS 1 and TRS 1 is fixed at 6%. No member contribution is currently required for LEOFF 1 under current funding policy. Plan 3 members do not contribute to the defined benefit portion of their plan.*
***All members*
****Informational only. Contribution rates have been established through 2007-09.*

Attachment D

Preliminary Contributions Without Gain-Sharing

Preliminary 2007-09 Employer Contributions - Without Gain-Sharing
(Estimated Dollars in Millions)

System	GF-S	Non GF-S (State)	Local Government	Total Employer
PERS	$175.8	$287.1	$709.0	$1,171.9
TRS	391.1	0.0	188.4	579.5
SERS	81.7	0.0	119.7	201.4
LEOFF*	96.2	0.0	145.0	241.2
WSP	1.4	12.8	0.0	14.2
PSERS**	44.9	2.4	27.0	74.3
Total	$791.1	$302.3	$1,189.1	$2,282.5
07-09 with Gain Sharing	$952.9	$328.8	$1,350.7	$2,632.4
Difference	**$(161.8)**	**$(26.5)**	**$(161.6)**	**$(349.9)**

**Includes preliminary results for LEOFF 2. Contribution rates for LEOFF 2 are adopted by the LEOFF 2 Retirement Board.*
***Informational only. Contribution rates have been established through 2007-09.*

Note: 2007-09 rate increases for TRS and SERS are effective 9/1/2007 through 8/31/2009. The impact of these rate increases on the 2009-11 biennium is not reflected in the above table.

Pension Funding Council - August 23, 2006

Concurrent Audit of Actuarial Valuations Used for Rate-Setting Purposes for 2007-2009 Biennium

Presenters

- Marilyn Oliver FSA, MAAA, EA
  - Manager of Audit
  - Principal and Actuary, Oliver Consulting
- John Bartel ASA, MAAA, EA
  - Peer Review
  - President, Bartel Associates, LLC

Actuarial Audit Process

Covers 9/30/2005 actuarial valuations for:

- The Public Employees Retirement System (PERS): Plans 1, 2, and 3
- The Teachers Retirement System (TRS): Plans 1, 2, and 3
- The School Employees Retirement System (SERS): Plans 2 and 3
- The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF): Plan 1
  (Plan 2 audit is presented at LEOFF 2 Retirement Board meeting.)
- The Washington State Patrol Retirement System (WSPRS): Plans 1 and 2

Items Reviewed

Actuarial Liabilities and Present Values

- Office of the State Actuary (OSA) member data checking and editing processes
- OSA pre-processing of member data received from Department of Retirement Services (DRS)
- Calculation of liabilities and present values for actives and retirees for all plans by recalculating using Oliver Consulting computer programs and working with OSA staff to resolve any differences that exceed reasonable tolerance levels
- Test cases from OSA computer programs

Actuarial Assets

- Derivation of Market Value of Assets from information supplied by SIB, DRS, and Treasury
- Derivation of Actuarial Value of Assets

Actuarial Methods and Techniques

- Conformance with pension funding statutes
- Conformance with Actuarial Standards of Practice
- Conformance with actuarial theory

Member, Employer, and State Contribution Rates

- Application of actuarial formulas
- Check of contribution rate worksheets
- Analysis of sources of change in contribution rates since prior statutory valuation (9/30/2003)

Items Not Reviewed

- Actuarial assumptions set in 1995-2000 experience study and reviewed during 2002 actuarial audit
- Tests other than general reasonability of demographic data supplied by DRS
- Audit of fund data supplied by SIB, DRS, and Treasury and investment model output supplied by SIB

Peer Review

- General purpose of peer review
- Team approach
- Items included in peer review:
  - Completeness of audit process
    - Audit should encompass all items having significant impact on contribution rates and within the scope of an actuarial review
    - Includes all actuarial formulas, methods and calculations
  - Resource during course of audit
    - Current and emerging actuarial practices
    - Materiality in an actuarial sense
    - Second set of eyes
    - Reviews of actuarial formulas and techniques

Changes Since Last Statutory Valuation (9/30/2003)

Software conversion:

- Change in software system used to calculate liabilities and present values
- Adopted method and technique changes to conform to new software system and simplify procedures
- We have allocated particular attention to the software review portion of audit

Contribution rate formulas:

- Simplified procedure for calculating Plan 2/3 normal costs
- We agree that the new method is reasonable and conforms to the statutes

Mortality Assumptions:

- Contribution rates increased to reflect recognition of future mortality improvement.
- In line with current trends in practice, presents a picture of the systems' liabilities that is more accurate because it recognizes the likelihood of future mortality improvement.
- Benefit administration ramifications in terms of calculation of actuarial equivalence factors.
- Generally changes of this nature addressed when mortality assumptions reviewed in an experience study, so that mortality rates addressed as a whole – but not inappropriate to implement independently.

Phase-in of contribution rates:

- Plan 2/3 member and employer contribution rates increased to finish the phase-in of rate increases during 2007-2009 biennium.
- Plan 1 employer contribution rates adjusted to reflect contributions from the Pension Stabilization Account
- These phase-in procedures are being reviewed to assure that their treatment is consistent with the statutes and the formulas used in determining the contribution rates.

Current Status of Audit

- Completed with the exception of final stages of computer program reconciliation process, review of final contribution rate calculations and formulas, and analysis of changes in contribution rates.
- Anticipate completion of audit and report in time for review by the Pension Funding Council Meeting on September 20.

STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT
Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

August 30, 2006

The Honorable Craig Pridemore, Chair
Select Committee on Pension Policy
P.O. Box 40449
Olympia, WA 98504-0449

Dear Senator Pridemore:

On August 23, the Pension Funding Council met and discussed the State Actuary's preliminary pension rate recommendations for the 2007-09 Biennium. I am forwarding them to you and the other members of the Select Committee on Pension Policy for your review and comment.

I look forward to hearing from you. The Pension Funding Council will meet again in mid-September to consider the recommendations and to adopt contribution rates.

Sincerely,

Victor A. Moore
Director

cc: Members, Select Committee on Pension Policy
Matt Smith, State Actuary

WASHINGTON STATE LEGISLATURE

Office of the State Actuary

September 12, 2006

Sent via e-mail and campus mail

TO: **Pension Funding Council Members**
Senator Margarita Prentice, Chair
Ways and Means Committee
Senator Joseph Zarelli, Ranking Minority Member
Ways and Means Committee
Representative Helen Sommers, Chair
Appropriations Committee
Representative Gary Alexander, Ranking Minority Member
Appropriations Committee
Ms. Sandra Matheson, Director
Department of Retirement Systems
Mr. Victor Moore, Director
Office of Financial Management

FROM: Matthew M. Smith, FCA, EA, MAAA
State Actuary

RE: **NOTICE OF RATE CHANGES IN RESPONSE TO ACTUARIAL AUDIT**

This letter is intended to supplement my letter to you dated August 22, 2006, "Preliminary 2007-09 Pension Contribution Rates." I have considered comments from the actuarial auditor, Oliver Consulting, dated August 23, 2006. In response to those comments, I have slightly adjusted my position on mortality assumptions. The purpose of this letter is to explain the adjustment and provide additional information to the Council.

Background

As I mentioned to you in my presentation dated August 23, 2006, contribution rates for the 2007-2009 biennium reflect increases that are due in part to recognition of future mortality improvement. As stated by the actuarial auditor, this change is in line with current trends in practice in that it presents a picture of the systems' liabilities that is more accurate because it recognizes the likelihood of future mortality improvement.

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Prior to the preliminary results of the 2005 actuarial valuation, pension contribution rates were calculated using "static" mortality tables, meaning the mortality assumptions did not include future mortality improvements. Rates were also calculated using "combined" mortality tables, meaning there were no separate mortality rates for employees and healthy annuitants. The preliminary results that I presented to you on August 23, 2006, included both changes: (1) projected mortality and (2) "non-combined" or separate mortality tables.

The actuarial auditor has commented that generally, mortality assumptions are reviewed in an experience study, but also noted that it is not inappropriate to implement such changes independently. In considering the auditor's comments, I am mindful of the distinction between mortality assumptions that are plan-specific and mortality assumptions that are population-based. I have also considered the actuarial standards of practice, as well as recommendations from within the actuarial profession. I have concluded that the change to projected mortality is appropriately made at this point in time, independent of plan-specific experience studies. However, with respect to the use of "non-combined" or separate mortality tables, I have concluded that it would be more appropriate to defer this change until all plan-specific data can be considered as a whole. For your information, I will discuss each of these two aspects of mortality assumptions in more detail below.

Projecting Mortality Improvement

The creators of the Uninsured Pensioners (UP)-94 mortality table, published by the Society of Actuaries (SOA), noted that the trend of mortality improvement has been long and consistent in the U.S. and a preponderance of scientific and demographic literature foresees continued mortality improvement. Furthermore, the creators of the Retirement Plan (RP)-2000 mortality table, also published by the SOA, noted: "… in the view of the long history of improvement in non-disabled mortality rates in all of these sets of data, pension valuations should take trends in long-term mortality improvement into account. From a theoretical standpoint … the use of generational mortality improvement … is an appropriate way of reflecting this improvement …"

The RP-2000 mortality table is updated using projection scale AA, the recommended projection scale within the actuarial profession. This scale was also published by the SOA and is based on Social Security and Civil Service participants' experience from 1977 to 1993.

The following information may provide the Council with a rough idea of the magnitude of the projection scale. For ages under 85, the annual rate of mortality improvement under projection scale AA is banded to be not less than 0.5 percent and not more than 2.0 percent per year. The annual rates of mortality improvement at age 85 and older are smoothed to a value of 0.1 percent at age 100. No projected improvement is assumed for ages over 100. A copy of mortality projection scale AA is attached to the letter for your convenience.

Prior to the 2005 valuation, actuarial software used by the Office of the State Actuary did not support the projection of mortality on a generational basis. The previous software system was developed in the 1970s and was maintained, without significant functional improvements, until the recent conversion to the current system. The new system, implemented in 2006, can easily and fully accommodate a generational projection of mortality improvement.

Separate Mortality Tables

The creators of the RP-2000 mortality table generated separate tables by gender for employees, healthy annuitants and disabled retirees. The authors agreed that "… mortality among the groups [employees and healthy annuitants] differed sufficiently to justify use of separate tables" and "a combined employee and healthy annuitant mortality table was … produced as a more direct comparison to earlier tables and for actuaries to use if a combined table is needed."

The RP-2000 Combined Healthy mortality table was created by combining the underlying employee and healthy annuitant tables and blending the rates over the ages of overlap between the two separate tables. The combination results in lower mortality rates for annuitants over the ages of overlap than the rates in the underlying annuitant mortality table since annuitants experience higher mortality rates than employees at the same ages.

Prior to the results of the 2005 actuarial valuation, pension contribution rates were calculated using a combined mortality table. The preliminary results provided to you on August 23, 2006, followed the recommendation of the authors of the RP-2000 mortality table and used separate employee and healthy annuitant tables. However, upon further consideration I am recommending that the more prudent course of action is to defer this change until all plan-specific experience has been made available and can be considered along with the change to separate tables.

Relevant Actuarial Standards of Practice

Actuarial standards of practice dictate that actuaries review all plan assumptions and certify the appropriateness of each individual assumption for each measurement. In other words, I have a professional obligation to review the assumptions at each annual valuation and make adjustments as necessary.

Section 3.5.3 of Actuaries Standard of Practice Number 35, Selection of Demographic Assumptions and Other Non-Economic Assumptions for Measuring Pension Obligations states: "The Actuary should consider factors such as … the likelihood and extent of mortality improvements into the future" and "the possible use of different mortality assumptions before and after retirement … ."

Recommendations

(1) I would characterize projected mortality improvement, in the context of the 2005 actuarial valuation, as a general population-level assumption, not as a plan-specific demographic assumption. In my judgment, a traditional five- or six-year look-back experience study would be insufficient for purposes of studying mortality improvement in Washington's public plans. Therefore, the change to projected mortality is most appropriately made now in order to more accurately reflect plan liabilities. I have applied 50 percent of projection scale AA to the combined RP-2000 mortality table, for non-disabled lives, in developing the 2007-09 pension contribution rates. I have recommended the use of 50 percent of the scale in recognition that there is still some uncertainty in future trends in mortality improvement (e.g., the role of obesity and diabetes) and to ease the transition from a static to a generational mortality table.

(2) In contrast to projected mortality improvements, the underlying mortality tables with applicable age adjustments by plan represent plan-specific demographic assumptions. In developing the preliminary results reported to you on August 23, 2006, I relied upon the recommendations of the creators of the RP-2000 mortality tables in making the switch from a combined table to separate tables. I considered performing an off-cycle experience study for purposes of validating the change to separate tables, but determined there would be insufficient data to determine the appropriateness of the change given the relatively small size of the annuitant populations in the affected plans.

After discussions with the actuarial auditor, I agree that a formal and on-cycle experience study would be most prudent before recommending the use of separate mortality tables. I concur with her recommendation to defer switching from the combined mortality table to separate mortality tables for employees and annuitants until further analysis is conducted during the 2008 experience study. I will present an analysis of employee versus annuitant mortality experience in the 2008 experience study report.

Please note that recommendation (2) will result in revised rate recommendations at the September PFC meeting.

Finally, I have considered the actuarial auditor's August 23, 2006, comment that there could be "... possible benefit administration ramifications in terms of calculation of actuarial equivalence factors," associated with implementing projected mortality improvements. In my opinion, the Department of Retirement Systems is not required to use the same assumptions for benefit administration as are used in the actuarial valuation. There is a variety of alternative approaches the Department could use to approximate this assumption change while balancing the need for administrative efficiency. I would be happy to consult with the Department in this regard.

I hope you find this information useful during your deliberations. Please don't hesitate to contact me directly should you require any additional information.

Attachment:
Table 7-3 Mortality Projection Scale AA

cc: Pension Funding Council Workgroup Members
Liz Mendizabal, State Investment Board
Steve Nelsen, LEOFF 2 Retirement Board
David Pringle, Office of Program Research
Jane Sakson, Office of Financial Management
Eric Sund, Senate Ways and Means
Eric Swensen, Economic and Revenue Forecast Council
Jeff Wickman, Department of Retirement Systems
Martin McCaulay, Office of the State Actuary
Marilyn Oliver, Oliver Consulting

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Table 7-3
Mortality Projection Scale AA

Age	Male	Female	Age	Male	Female	Age	Male	Female
1	0.020	0.020	41	0.009	0.015	81	0.009	0.007
2	0.020	0.020	42	0.010	0.015	82	0.008	0.007
3	0.020	0.020	43	0.011	0.015	83	0.008	0.007
4	0.020	0.020	44	0.012	0.015	84	0.007	0.007
5	0.020	0.020	45	0.013	0.016	85	0.007	0.006
6	0.020	0.020	46	0.014	0.017	86	0.007	0.005
7	0.020	0.020	47	0.015	0.018	87	0.006	0.004
8	0.020	0.020	48	0.016	0.018	88	0.005	0.004
9	0.020	0.020	49	0.017	0.018	89	0.005	0.003
10	0.020	0.020	50	0.018	0.017	90	0.004	0.003
11	0.020	0.020	51	0.019	0.016	91	0.004	0.003
12	0.020	0.020	52	0.020	0.014	92	0.003	0.003
13	0.020	0.020	53	0.020	0.012	93	0.003	0.002
14	0.019	0.018	54	0.020	0.010	94	0.003	0.002
15	0.019	0.016	55	0.019	0.008	95	0.002	0.002
16	0.019	0.015	56	0.018	0.006	96	0.002	0.002
17	0.019	0.014	57	0.017	0.005	97	0.002	0.001
18	0.019	0.014	58	0.016	0.005	98	0.001	0.001
19	0.019	0.015	59	0.016	0.005	99	0.001	0.001
20	0.019	0.016	60	0.016	0.005	100	0.001	0.001
21	0.018	0.017	61	0.015	0.005	101	0.000	0.000
22	0.017	0.017	62	0.015	0.005	102	0.000	0.000
23	0.015	0.016	63	0.014	0.005	103	0.000	0.000
24	0.013	0.015	64	0.014	0.005	104	0.000	0.000
25	0.010	0.014	65	0.014	0.005	105	0.000	0.000
26	0.006	0.012	66	0.013	0.005	106	0.000	0.000
27	0.005	0.012	67	0.013	0.005	107	0.000	0.000
28	0.005	0.012	68	0.014	0.005	108	0.000	0.000
29	0.005	0.012	69	0.014	0.005	109	0.000	0.000
30	0.005	0.010	70	0.015	0.005	110	0.000	0.000
31	0.005	0.008	71	0.015	0.006	111	0.000	0.000
32	0.005	0.008	72	0.015	0.006	112	0.000	0.000
33	0.005	0.009	73	0.015	0.007	113	0.000	0.000
34	0.005	0.010	74	0.015	0.007	114	0.000	0.000
35	0.005	0.011	75	0.014	0.008	115	0.000	0.000
36	0.005	0.012	76	0.014	0.008	116	0.000	0.000
37	0.005	0.013	77	0.013	0.007	117	0.000	0.000
38	0.006	0.014	78	0.012	0.007	118	0.000	0.000
39	0.007	0.015	79	0.011	0.007	119	0.000	0.000
40	0.008	0.015	80	0.010	0.007	120	0.000	0.000

In Brief

PROPOSAL

A $150,000 death benefit is provided to survivors of public employees who die as a result of a duty-related injury or illness. The benefit amount is not adjusted for inflation and has not changed since 1996.

The LEOFF 2 Board has proposed that the $150,000 death benefit be annually adjusted for inflation.

Secondary issues identified by the OSA include differences in the eligibility criteria between plans and a technical issue related to the Volunteer Fire Fighters' system.

MEMBER IMPACT

Fewer than ten duty-deaths are expected each year from a group of over 281,000 public employees.

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$150,000 Death Benefit

Current Situation

Survivors of public employees who die as a result of injuries sustained or, in some cases, illnesses contracted in the course of employment are eligible to receive a lump sum death benefit of $150,000. Determination of eligibility is made by the Department of Labor and Industries (L&I). The benefit amount is set in statute, is not adjusted for inflation, and has not changed since the benefit was first established in 1996. Some differences exist in the eligibility criteria between plans. Benefits are provided by the state retirement systems and, in some cases, the state general fund. The benefits are not subject to federal income tax.

Survivors of members of the following retirement systems receive a $150,000 lump sum benefit for death due to duty-related injury:[1]

- Public Employees' Retirement System (PERS);
- Teachers' Retirement System (TRS);
- School Employees' Retirement System (SERS);
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF);
- Washington State Patrol Retirement System (WSP);
- Public Safety Employees' Retirement System (PSERS);
- Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFF);[2]
- Judicial Retirement System (JRS);[3] and
- Higher Education Retirement Plans (HIED).[3]

1. *In VFF and LEOFF Plan 2 the death benefit is also provided for deaths resulting from a duty-related illness.*
2. *VFF provides an additional $2,000 duty death benefit.*
3. *Benefits paid from the state general fund.*

Also, survivors of state, school district, and higher education employees who are not members of a state retirement system receive a $150,000 lump sum benefit for death due to duty-related injury paid from the state general fund.

In addition to the $150,000 death benefit, survivors of public employees who die from duty-related causes may be eligible to receive other death benefits from federal and state sources. These benefits are discussed in greater detail under the section "Death Benefits for Public Employees."

Figure 1

Number of $150,000 Death Benefits Paid *	
Plan	**Benefits Paid**
LEOFF 2	20
PERS 2	7
LEOFF 1	2
VFF	2
PERS 1	1
TRS 3	1
WSP	1
Unknown *(paid from general fund)*	3
Total	**37**

**Length of reporting period varies among systems.*

Members Impacted

Any of the more than 281,000 estimated active and disabled members of PERS, TRS, SERS, LEOFF, WSP, PSERS, JRS, HIED, and the VFF retirement systems who die from duty-related causes may be impacted. State, school district, and higher education employees who are not members of a state retirement system and who die from duty-related causes may also be impacted. Counts for HIED are estimated based on 2003 data; all other counts are based on data as of September 30, 2005.

It is expected that fewer than ten duty-related deaths will occur each year. Figure 1 shows the history of duty-death benefits paid to date.

History

The $150,000 death benefit was first established in LEOFF and WSP in 1996 and subsequently extended to various other groups of public employees.

Since 1996, a total of eight bills dealing with the $150,000 death benefit have passed—the most recent in 2006.

The most recent activity around this benefit occurred with HB 2933 during the 2006 legislative session. HB 2933 was request legislation of the LEOFF Plan 2 Retirement Board. The original bill expanded eligibility for the $150,000 death benefit to include death resulting from a duty-related illness and added an annual increase to the lump sum benefit amount. The annual increase was tied to changes in the Consumer Price Index for Wage Earners and Clerical

Workers [CPI-W] for Seattle-Tacoma-Bremerton [STB], up to a maximum of 3 percent per year—the same increase provided for LEOFF Plan 2 retirement benefits. The proposed annual increase was not included in the version of the bill that passed (Chapter 351, Laws of 2006). Since 1996, a total of eight bills dealing with the $150,000 death benefit have passed the Legislature (see Figure 2).

Figure 2

History of Legislative Changes to the $150,000 Death Benefit

Year	Bill	Effect
1996	E2SSB 5322	$150,000 death benefit established for LEOFF and WSP.
1998	SB 5217 ESB 6305	$150,000 death benefit established in VFF. $150,000 death benefit is established for survivors of PERS 1 port and university police officers.
1999	ESSB 5180 (Budget)	$150,000 death benefit provided to teachers and paid as sundry claim from general fund. Expired 6/30/2001.
2000	EHB 2487 (Budget)	$150,000 death benefit provided to school district employees and paid as sundry claim from general fund. Expired 6/30/2001.
2001	ESSB 6153 (Budget)	$150,000 death benefit provided to state, school district, and higher education employees and paid as sundry claim from general fund. Expired 6/30/2001.
2003	HB 1207	$150,000 death benefit established in PERS, TRS, and SRS. Benefit also provided as a sundry claim to the general fund for state, school district, and higher education employees who are not eligible to receive the benefit from a state retirement system.
2006	SHB 2933	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for LEOFF 2.

Policy Analysis

Several elements may be considered when examining the policy implications of adjusting the $150,000 death benefit for inflation. This paper will specifically look at:

- State policy on inflation protection;
- The effects of inflation;
- Indexing benefits to protect against inflation;
- Death benefits for public employees;
- Lump sum death benefits in comparative systems;
- Plan differences in the benefit provisions;

- Administration of death from duty-related illness claims; and,
- A technical issue related to VFF.

State Policy on Inflation Protection

State policy on protecting retirement benefits from inflation can be found in existing policy statements and further inferred from plan design. The SCPP has adopted as a stated goal ". . . to increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS. . . ." The Plans 2/3 of the state's retirement systems, the most recently created tiers, provide an annual Cost-of-Living Adjustment (COLA) on retirement pensions. The Plan 2/3 COLA is based on inflation as measured by changes in a Consumer Price Index (CPI). The inclusion of this COLA in the Plan 2/3 design indicates a clear desire to protect retirement pensions from the effects of inflation.

Effect of Inflation on the $150,000 Death Benefit

The value of the death benefit has declined 21 percent since 1996.

Inflation erodes the relative value of a fixed dollar amount over time. The $150,000 death benefit was first established in 1996. The cumulative effect of inflation since then has eroded 21 percent* of the relative value of the benefit. If inflation were to continue at a rate of 3.5 percent a year for the next ten years, the total value of the benefit lost since 1996 would amount to 44 percent*.

**Based on CPI-W STB, all Items. Actual CPI data used through 2005, projected at 3.5 percent from 2006-2015.*

Indexing

Indexing is a common way to protect benefits against inflation. Indexing may be full, partial, or level.

A frequently used method of protecting the value of a benefit against inflation is indexing. Indexing involves making annual adjustments to the benefit amount based on changes in an underlying measure of inflation.

One of the most commonly used measures of inflation is the CPI, which records changes in the price of a set

"market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation.

A key issue in indexing benefits is the amount of inflation protection to provide. The value of a benefit may be:

- *Fully* protected from inflation (full indexing);
- Protected up to a *maximum* amount of inflation (partial indexing);
- Protected against a *set* amount of inflation (level indexing).

A *fully indexed* benefit increases at the same percentage change as inflation each year. This method ensures the full purchasing power of the benefit is always maintained, but can lead to greater than expected costs if actual inflation exceeds the amount assumed for funding the benefit. Examples of fully indexed retirement benefits include Social Security, which is indexed to the CPI-W, All U.S. Cities; and the LEOFF Plan 1 pension, which is indexed to the CPI-W STB.

A *partially indexed* benefit increases with the percentage change in inflation each year up to a maximum percentage. In years where inflation exceeds the maximum, the benefit will lose some purchasing power. The index can be designed to allow the benefit to recover lost purchasing power during periods when actual inflation is lower than the maximum. This method can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Examples of partially indexed retirement benefits are Plan 2/3 pensions, which are indexed to the CPI-W STB, to a maximum of 3 percent.

A *level indexed* benefit increases by a fixed percentage every year. Purchasing power is lost in years when inflation exceeds the fixed percentage and is gained in years when inflation is less than the fixed percentage. This method is simple to administer and can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Under this method, if actual inflation is consistently less than the fixed amount, the

purchasing power of the benefit will increase. An example of a level indexed retirement benefit is the PERS and TRS Plan 1 Uniform COLA, which increases by 3 percent each year.

A key policy consideration is the intended purpose of the benefit.

One of the key considerations in using indexing to protect the value of a benefit from inflation is the intended purpose of the benefit. Is the benefit intended to become part of the ongoing income stream of an individual and support a standard of living, or, is the benefit intended to provide one-time relief for specific situations? The answer to this question will have significant policy implications.

Indexing a lump sum does not provide inflation protection to an individual.

Indexing a pension or other annuity-type benefit provides inflation protection to the recipient by maintaining the relative value of the annuity payments over time. In contrast, increasing the amount of a lump sum benefit through indexing does not provide inflation protection to an individual recipient since the payment is not received "over time" — it is received only once. From the perspective of policy makers, there may be less need to automatically adjust a lump sum benefit for inflation because the benefit does not become part of an individual's ongoing income stream. One reason policy makers may wish to automatically adjust the amount of a lump sum benefit for inflation is to maintain equity in the value of the benefit among successive generations of recipients.

Death Benefits for Public Employees

Survivors may receive a variety of death benefits.

In addition to the $150,000 death benefit, survivors of public employees who die from duty-related causes may be eligible to receive a variety of other benefits including:

- Survivor, funeral, and death benefits from the retirement plan;
- L&I death benefits;
- Social Security survivor benefits;
- Federal public safety officers death benefits; and,
- Reimbursement of premiums paid to the Health Care Authority.

Employer provided life insurance is beyond the scope of this paper and is not considered among the benefits provided.

Figure 3 shows counts for the different types of survivor benefits provided. The "Total" column shows the total number of types, the "Indexed" column shows how many are annually adjusted using an index, and the "Duty" column shows how many are paid for duty-related deaths only. Survivor benefits from state retirement systems that are of essentially the same form are considered a single type. As seen from Figure 3, benefits paid in the form of a monthly annuity are much more likely to have some form of annual adjustment than benefits paid in a lump sum. A detailed list of the different types of survivor benefits is provided in Appendix A.

Figure 3

Types of Survivor Benefits			
Type	**Total**	**Indexed**	**Duty**
Annuity	9	7	3
Lump Sum	7	3	5

The table below summarizes the lump sum death benefits provided for public employees (Figure 4). The most significant other lump sum death benefit provided is the federal Public Safety Officers' Benefits Death Benefit. This benefit ($283,385 in 2005) is payable to survivors of law enforcement officers, fire fighters, and other public safety personnel who die in the line of duty. The benefit is fully indexed to inflation.

Figure 4

Lump Sum Death Benefits Provided for Public Employees[1]		
Benefit	**Amount**	**Annual Adjustment**
$150,000 Death Benefit	$150,000 (+$2,000 in VFF)	None
VFF Funeral Benefit	$2,000	None
TRS 1 Death Benefit	$400 or $600	None
L&I Death Lump Sum	100% state average monthly wage ($3,253)[2]	Indexed to state average wage
L&I Burial Benefit	Up to 200% state average monthly wage ($3,253)[2]	Indexed to state average wage
Social Security Burial Benefit	$255	None
Federal Public Safety Officers' Death Benefit	$283,385 as of 10/01/2005	Indexed to CPI

1. *Eligibility includes duty and non-duty deaths and varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Underlined benefits are payable whether or not the death is duty-related. Excludes employer provided life insurance.*
2. *As of 7/01/2005.*

Death Benefits in Comparative Systems

Most of the comparative systems provide survivor annuities similar to those in Washington systems. The annuities are generally based on the member's earned benefit or some percentage of the member's salary. Five of the comparative systems also provide some type of lump sum death benefit — none of which are indexed (see Figure 5). Three of the systems (Colorado, Idaho, and Wisconsin) provide a lump sum based on the member's contributions. Since contributions are based on salaries, and salaries grow with inflation, contribution-based lump sums effectively have built-in inflation adjustments. One system (California) provides a lump sum that is "periodically adjusted".

Figure 5

Lump Sum Death Benefits in Comparative Systems

System	Benefit Amount	Annual Adjustment
California CALSTRS	$6,136	Periodically adjusted
Colorado PERA	200% return of contributions, plus interest	None
Idaho PERSI	200% return of contributions plus interest	None
Iowa IPERS	$100,000 for line of duty-death	None
Wisconsin WRS	200% return of contributions, plus interest	None

Plan Differences in the $150,000 Death Benefit

The Legislature has set forth a policy that retirement systems should provide similar benefits wherever possible (RCW 41.50.005[1]). One area of concern is that differences in benefits may create a perception of inequity and lead to calls for legislative remedy. This often creates a ripple effect as benefit changes are adopted for one plan and incrementally extended to other plans.

Eligibility for benefits upon death from duty-related illness differs between plans.

There is one area in which the provisions of the $150,000 death benefit differ between plans: eligibility for benefits upon death resulting from a duty-related illness. In 2006, the Legislature passed SHB 2933, which added death from a duty-related illness to the eligibility criteria for the

$150,000 death benefit in LEOFF Plan 2. Duty-death benefits are also provided for VFF members who die as a result of a duty-related illness. (Duty-related illness may be more of an issue for fire fighters than other employees.) With this most recent legislative change, the eligibility provisions for $150,000 death benefit differ both between the retirement systems and within the plans of the LEOFF system.

Administration of Death from Duty-Related Illness Claims

An occupational disease arises from distinctive workplace conditions.

Payment of the $150,000 death benefit for duty-related illness in LEOFF Plan 2 is contingent upon a determination by L&I that the death occurred as a result of an occupational disease. An occupational disease arises from the distinctive workplace conditions and duties of a given job. An occupational disease is one that could only be contracted from a particular occupation or has a greater risk of being contracted from the particular occupation. Diseases that are common to all employment, such as most communicable diseases, will generally not qualify as an occupational disease — even if contracted on the job or from a coworker. To substantiate a claim of occupational disease, medical documentation must be provided. This documentation must show that the workplace condition or job process is the most likely cause of the disease.

There is a statutory presumption that certain respiratory diseases, cancers, and infectious diseases are occupational diseases for fire fighters (RCW 51.32.185). Fire fighters who contract one of the listed occupational diseases are not required to substantiate the link between fire-fighting employment and the disease.

Claims of occupational disease may be disallowed when evidence supports that other factors may be significant contributors to the contraction of the disease. Such factors may include a workers' lifestyle, fitness, heredity, exposure from activities unrelated to work, or personal choice in performing work.

It is estimated that very few additional $150,000 death benefits would be paid out each year if the eligibility criteria were expanded to include death from duty-related illness in all plans where it is not currently provided: LEOFF 1, PERS, TRS, SRS, PSERS, WSP, JRS, and HIED.

Technical Issue in VFF

The amount of the death benefit is codified as $152,000 in VFF.

When the $150,000 death benefit was first extended to VFF in 1998, it was combined with a previously existing $2,000 duty-death lump sum benefit and the amount codified as $152,000 (RCW 41.24.160[1][a][i]). Combining the two benefits was a deliberate policy decision at that time of the Joint Committee on Pension Policy. This decision was likely influenced by the fact that the majority of VFF members are not covered by L&I and are consequently not eligible for the L&I duty-death lump sum benefits. Providing an annual adjustment to the duty-death lump sum benefit in VFF will require consideration of whether the adjustment should apply to the entire $152,000 combined benefit or only the $150,000 portion of the combined benefit.

Conclusions

Indexing is an effective method to protect the value of a benefit against inflation. Indexing can be tailored to achieve a variety of policy goals. While indexing both annuity and lump sum benefits is common practice, the reasons for, and ramifications of, indexing these distinct types of benefits differ. Policy makers may wish to consider the intended purpose of a benefit when developing specific policies on indexing benefits.

Claims for duty-related diseases are determined by L&I according to very narrowly defined criteria. Very few public employees are expected to die from a duty-related disease as currently defined. As a group, fire fighters have a greater risk of contracting certain duty-related diseases than other public employees.

Policy Questions

To help the committee decide whether to move forward with this issue, members may want to deliberate via the following issues:

- Does the $150,000 death benefit need to be annually adjusted for inflation?
- Will providing an annual inflation adjustment to the $150,000 death benefit lead to calls to provide similar adjustments to other fixed-dollar benefits in statute such as the TRS Plan 1 death benefit or the VFF funeral benefit?
- Does the committee wish to address the plan differences in eligibility provisions for death from duty-related illnesses?
- Should any annual adjustment provided for VFF be made to the entire combined duty-death benefit or just the $150,000 portion of the benefit?

Options for Indexing $150,000 Death Benefit

1. **Fully index to changes in the CPI-W STB.** This option will preserve the value of the benefit at its current level but may lead to greater than expected costs if actual inflation exceeds the assumed rate. This is the most expensive option, however, the resulting increase in liabilities is insufficient to affect contribution rates in any plan.
2. **Index to changes in the CPI-W STB with a 3 percent a year maximum.** This option will maintain the value of the benefit if long term inflation averages 3 percent or less. If actual inflation exceeds a 3 percent average over the long term, the value of the benefit will decline. The cap on the annual increase serves to control costs and promote stable funding. This is the least expensive option. The resulting increase in liabilities is insufficient to affect contribution rates

in any plan. This is also the option recommended by the LEOFF 2 Board.

3. **Increase the benefit by a level 3 percent each year.** This option is very similar to option 2 with the added advantages of being simpler to administer and providing a more predictable benefit. This option would recover some of the value of the benefit already lost to inflation if long term inflation averages less than 3 percent. The resulting increase in liabilities for this option is insufficient to affect contribution rates in any plan.

Next Steps

Following the June meeting, the Executive Committee of the SCPP directed staff to prepare options and pricing for indexing the $150,000 death benefit and provide more information on death from duty-related illness. Staff will report back to the full committee at the September meeting.

Stakeholder Correspondence

Kelly Fox, Chair, LEOFF 2 Board

Attachments

"$150,000 Death Benefit Inflation Adjustment Initial Consideration", Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board, April 26, 2006.

Appendix A: Death Benefit Provided for Public Employees

Death Benefits Provided for Public Employees[1]				
Benefit	**Normal Form**	**Eligible Deaths**	**Amount**	**Annual Adjustment[2]**
LEOFF & WSP Plan 1 Survivor Pension	Annuity	Duty & Non-Duty	50%-60% of AFC	Indexed to CPI
PERS & TRS Plan 1 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or return of contributions with interest (ROC)[3]	Uniform COLA on annuity -- indexed by level 3%
Plans 2/3 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or ROC[3,4]	Annuity Indexed to CPI
VFF Survivor Benefit	Annuity	Duty & Non-Duty	Member's earned benefit	None -- Benefits periodically increased by Board
VFF Duty-Death Survivor Pension	Annuity	Duty	$1,445-$2,892 / month	Indexed to CPI
HIED Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Payout of member's account	None
LEOFF Plan 2 Survivor Health Care	Annuity	Duty	Reimbursement of premiums paid to Health Care Authority—up to $946/month for 2006	Indexed to Health Care Authority medical and dental premiums
L&I Death Benefit	Annuity	Duty	60%-70% of gross wages up to 120% of state average wage[5]	Indexed to state average wage[5]
Social Security Survivor Benefit	Annuity	Duty & Non-Duty	75%-100% of employees earned Social Security benefit	Indexed to CPI
$150,000 Death Benefit	Lump Sum	Duty	$150,000 (+$2,000 in VFF)	None
VFF Funeral Benefit	Lump Sum	Duty	$2,000	None
TRS 1 Death Benefit	Lump Sum	Duty & Non-Duty	$400 or $600	None
L&I Death Lump Sum	Lump Sum	Duty	100% state average monthly wage[5]	Indexed to state average wage[5]
L&I Burial Benefit	Lump Sum	Duty	Up to 200% state average monthly wage[5]	Indexed to state average wage[5]
Social Security Burial Benefit	Lump Sum	Duty & Non-Duty	$255	None
Federal Public Safety Officers' Death Benefit	Lump Sum	Duty	$283,385 as of 10/01/2005	Indexed to CPI

1. Eligibility varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Excludes employer provided life insurance.
2. Excludes optional COLAs purchased by recipient.
3. Actuarial reduction applied if death is not duty-related.
4. 150% ROC for LEOFF Plan 2; payout of member's DC account for Plans 3.
5. $3,253 as of 7/01/2005.

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STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

March 9, 2006

RECEIVED
MAR 10 2006
Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to congratulate you on another successful legislative session.

I want to bring three topics to your attention as you begin preparations for the 2006 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. Two of these topics, Dual Membership Corrections and Service Credit Purchase for Duty-Related Injury, came up in 2005 and were deferred by both the SCPP and the Board for full study in 2006. The third topic, Adding an Inflationary Adjustment to the $150,000 Death Benefit, arose as a result of Board legislation in the 2006 session.

I have provided a brief summary of each topic for your reference:

Dual Membership

The Board studied impacts of making changes to the current dual membership statutes last year. Under the current portability statutes (RCW 41.54), there are situations where a member's pension benefits would seem to be unnecessarily penalized, if the member changes careers. Changes to the dual membership statutes studied by the Board included:

- Easing restrictions on total service credit if a Plan 2 member has less than 15 years of Plan 1 service.
- Adding indexing to all plans that allow shared service to qualify for indexing.
- Redefining base salary so that payments defined as salary or compensation, in both dual member systems, would be included in base salary.

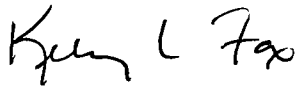
Service Credit Purchase for Duty-Related Injury
The Legislature passed a bill in the 2004 session, which increased the period of service credit that could be purchased by a PERS member, who is on a leave of absence for a duty-related injury. The Board would like to study extending this policy to other pension plans, including LEOFF Plan 2.

Inflationary Adjustment for $150,000 Death Benefit
As you may be aware, the Board recommended legislation on this topic in 2006 (SHB 2933 - Death Benefit for Occupational Illnesses), which was passed with an amendment removing the annual inflation increase. Since other retirement plans also provide a lump-sum death benefit, legislators expressed an interest in the Board working with the SCPP to study the effect of adding this inflationary adjustment to all the plans.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

$150,000 Death Benefit Inflation Adjustment

Initial Consideration

April 26, 2006

1. Issue

Currently, the $150,000 lump-sum death benefit is a fixed amount. This report looks at the policy issues and costs related to adding an inflation factor to this benefit.

2. Staff

Greg Deam, Senior Research and Policy Manager
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3. Members Impacted

Any member who dies in the line of duty could potentially be impacted. According to the Office of the State Actuary, as of September 30, 2004 there were 14,754 active LEOFF Plan 2 members and 432 retirees.

4. Current Situation

The beneficiaries of members who die in the line of duty, either as a result of an injury or occupational illness, are entitled to a $150,000 lump-sum payment. The amount is fixed and has been the same since the introduction of the lump-sum death benefit payment in 1996.

5. Background Information and Policy Issues

The Legislature passed an amendment to the $150,000 Death Benefit during the 2006 session. The original bill included two amendments to existing statutes. The first added death due to an occupational illness as a qualified reason to receive the $150,000 lump-sum death benefit. The second amendment added an annual inflation adjustment to increase the one-time $150,000 amount over time. The proposed inflation adjustment was to be the same as the one members receive on their pensions.

The proposed inflation adjustment was removed from the version of the bill that was signed into law. Because all of the other plans also have the same $150,000 lump-sum death benefit, the Legislature wanted to understand how the other plans would be affected before they set a precedent with LEOFF Plan 2.

During the original cost analysis performed by the Office of the State Actuary, the addition of the inflation adjustment did not create an increase in contribution rates. The Select Committee on Pension Policy (SCPP) has committed to work in coordination with the LEOFF 2 Board to study this matter during the 2006 Interim.

Of the eight states that provide a lump-sum death benefit of $100,000 or more, three have an inflation adjustment. In addition to state provided lump-sum death benefits, the Public Safety Officers' Benefits (PSOB) Act, a federal death benefit, was enacted in 1976 to assist in the recruitment and retention of law enforcement officers and fire fighters by providing a lump-sum death benefit. This benefit has had an inflation adjustment since October 15, 1988. The benefit has been adjusted each year on October 1 to reflect the percentage of change in the Consumer Price Index. As of October 1, 2005, the amount is $283,325

In Brief

PROPOSAL

The Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2) Board is seeking to improve the provisions that allow members to purchase service credit for injury recovery periods. The Board recognizes that this issue crosses most public employee retirement systems and, because similar provisions were recently improved in the Public Employees' Retirement system (PERS), would likely be an issue before the SCPP this interim. As a result, the Board wishes to coordinate with the SCPP on this issue (see correspondence).

MEMBER IMPACT

Improvement in the provisions allowing the purchase of service credit for injury recovery periods could impact all members of PERS, SERS, PSERS, TRS, and LEOFF 2.

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Service Credit Purchase Due to Injury

Current Situation

Provisions in the Public Employees' Retirement System (PERS) governing the purchase of service credit for injury recovery periods – also known as periods of temporary duty disability (TDD) – were improved under 2005 legislation. PERS members may now purchase up to two years of service credit for periods that they are on TDD and receiving Workers' Compensation time-loss payments; they were formerly limited to purchasing one year of service credit for TDD. These improvements were exclusive to PERS. Temporary duty disability provisions in the other retirement systems remained unchanged.

Earned Service Credit

In general, members of the retirement plans can acquire service credit by either earning it or purchasing it. PERS members earn service credit for each creditable month they are actively employed by a PERS employer or on paid leave of absence. Members earn service credit in increments based on how many hours they work in a month (Figure 1). This service credit is used in the formula for determining a member's retirement benefit.

Figure 1

PERS Service Credit Provisions	
Plan 1	70+ hours of work per month = 1 service credit month 1-69 hours of work per month = ¼ service credit month
Plan 2/3	90+ hours of work per month = 1 service credit month 70-89 hours of work per month = ½ service credit month 1-69 hours of work per month = ¼ month service credit

Identical Plan 2 service credit provisions are found in the Public Safety Employees' Retirement System (PSERS) and LEOFF.

A service credit month is earned after 70 hours of work in the LEOFF 1 and Washington State Patrol (WSPRS) retirement systems. These plans do not award partial service credit because members are required to be in full-time fully compensated positions.

Members of the School Employees' Retirement System (SERS) and Teachers Retirement System (TRS) earn service credit based on school-year activity. A TRS 1 member who works 144 days in a school year earns a full service credit year. SERS 2/3 or TRS 2/3 members earn twelve service credit months if they work nine months during the school year and are compensated for at least 810 hours during that period.

Purchased Service Credit

TRS has no provisions allowing the purchase of service credit for injury recovery periods.

PERS members may also purchase service credit. At retirement, a member may purchase up to five years of service credit to enhance their retirement annuity. Because the purchase of this service credit is not tied to a particular period of actual service it is commonly known as purchasing "air time." Members must pay the full actuarial cost to purchase such service credit.

A PERS member may also purchase up to five years of service credit for interruptive military service. Interruptive military service occurs after a member establishes PERS membership – which is distinct from military service that occurred prior to establishing PERS membership. A member may purchase service credit for the period of interruptive military service by paying the member contributions; the employer will be billed for the employer contributions plus interest.

Members may also purchase service credit for periods where they have suffered an on-the-job injury and are unable to work: also known as a TDD. In order to qualify to receive service credit for these periods, members have to

be receiving or have received Workers' Compensation / Time Loss benefits. Such a member may purchase the service credit for the leave of absence period by paying the member contributions (plus interest if necessary); their employer will then be billed for the employer contributions (plus interest if necessary). Contributions will be based on the salary the member would have been making had they not been injured. PERS members may receive up to twenty-four months of such service credit in a working career.

Those on TDD may avoid the interest charges if their contribution payments are made during their disability period – this must be arranged with their employer. If a member on TDD waits until after returning to employment before making what would then be retroactive retirement contributions, they will be charged interest.

Currently, TRS has no statutory provisions allowing the purchase of service credit for on-the-job injury recovery periods. Current school district human resource practices, and contract provisions related to temporary duty disability situations, appear to have this issue covered for many TRS members. It is unknown whether all TRS members receive similar service credit coverage for TDD periods.

Example

Plan 3 members are charged their individual contribution rates without interest.

The process for receiving service credit for periods of injury – TDD – is as follows:

- After returning to work following a TDD period, the member will contact the Department of Retirement Systems (DRS).
- DRS will then contact the member's employer.
- The employer will confirm the member's TDD status and dates.
- The employer will provide DRS with the regular wage/salary the member would have received had they not been injured.
- DRS will bill the member for the appropriate contributions, plus interest (Plan 3 members are

charged their individual contribution rates without interest).

- After the member has paid the contributions, DRS will bill the employer for the appropriate contributions, plus interest.
- After the employer has paid the contributions, DRS will credit the member's service.

Following all these steps can be a lengthy process. A member may be billed an amount they cannot pay all at once. The longer the member takes to pay, the more interest they are charged. Because the employer is billed after the member payments are completed, they will be billed more because of the longer interest period, administrative rate, and possible Unfunded Actuarial Accrued Liability (UAAL) rate. The DRS billing data in Figure 2 are the most recent figures for paid bills; other data are available for pending and cancelled bills.

Figure 2

Average TDD Billed Amounts by System and Plan
Source: DRS

System / Plan	Member	Employer
SERS 2	$517.80	$866.40
SERS 3	$609.84	$1,101.46
LEOFF 2	$668.06	$430.75
PERS 1	$1,062.79	$1,150.03
PERS 2	$532.57	$847.29
PERS 3	$819.47	$970.12
WSPRS 1	$2,767.28	$1,725.49
Total	$730.84	$838.86

History

SB 5522 and HB 1521 were introduced in the 2005 session. SB 5522 passed the legislature and was signed into law as Chapter 363, Laws of 2005. The legislation increased from twelve months to twenty-four months the allowable service credit PERS members could purchase for periods in which they were on TDD and were receiving workers compensation payments. There was a cost to increasing the period members may purchase under this provision,

but it was insufficient to increase the member or employer contribution rates.

This issue was not studied by the SCPP.

Policy Analysis

Provisional Differences in Washington Systems

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

The recent legislative change in the PERS provisions that govern the awarding of service credit for periods of on-the-job injury highlights the inconsistencies among the retirement systems administered by Washington State (Figure 3, below). The provisions related to the time that can be awarded vary from none in TRS to an unlimited amount in the WSPRS and LEOFF 1. The costs borne by members receiving such service credit range from *contributions plus interest* in PERS to a fully subsidized benefit in LEOFF 1.

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

Figure 3

Service Credit for Temporary Duty Disability in Washington Systems and Plans

System	Time Limit	Cost to Member
PERS	24 consecutive months	Member contributions (plus interest if applicable)
SERS	12 consecutive months	Member contributions (plus interest if applicable)
TRS	No provision	No provision
PSERS	12 consecutive months	Member contributions (plus interest if applicable)
WSPRS	No limit	Member contributions
LEOFF 1	No limit	None
LEOFF 2	6 months per incident, 24 month total	Member contributions

Comparative Systems

There appears to be no particular consensus among the comparative systems on whether such a benefit should be available or what it should cost the member. The comparative systems show a range of provisions similar to that found in Washington systems (Figure 4). There are systems that do not allow members to purchase service credit for periods they were injured and not working (Colorado and Wisconsin), while others offer service credit for periods of injury (or leaves of absence) at no cost to the member (Missouri and Oregon).

Figure 4

Service Credit for Temporary Duty Disability In the Comparative Systems

System	Time Limit	Cost to Member
California CalPERS	No limit	Member contributions plus interest
Colorado PERA	No provision	No provision
Florida FRS	No limit	Member contributions plus interest
Idaho PERSI	No limit	Full actuarial cost
Iowa IPERS	No limit	Full actuarial cost
Missouri MOSERS	12 month limit	None
Minnesota MSRS	No Limit	Member contributions plus interest if purchased at the conclusion of the leave period – full actuarial cost if paid later.
Ohio OPERS	3 year limit	None
Oregon OPSRS	No limit	None if member received workers' comp.
Seattle SCERS	No limit	20% of member contributions plus interest
Wisconsin WRS	No provision	No provision

Of the systems that do require member contributions, the Seattle City Employees' Retirement System (SCERS) requires the least expensive buy-in for the member. The City will cover 80 percent of normal contributions for a member on TDD. Upon returning to employment, employees have the

option of accepting the prorated service credit or paying the remaining 20 percent of contributions to make it whole. If they choose to pay within five years of resuming employment, they are charged 5.75 percent interest. If they choose to pay after five years of resuming employment, they are charged 7.75 percent interest.

Risk of Injury

A major factor driving a service credit purchase policy for temporary duty disability is the risk of becoming injured on-the-job and being unable to work. No job is free from the risk of injury, though some jobs are considerably less risky than others. Data from the Department of Labor and Industries in Figure 5 compares time-loss claims by select employers.

Figure 5

Workers Compensation Claims in Fiscal Year 2004 For Employers With Over 50 Employees Source: Labor and Industries

Industry description	Claims per 200,000 Hours
Software Publishers	0.64
Elementary & Secondary Schools	6.51
Junior Colleges	3.27
Colleges, Universities, & Professional Schools	4.36
Executive Offices	6.09
Legislative Bodies	6.89
Public Finance Activities	1.38
Executive & Legislative Offices, Combined	9.69
Other General Government Support	9.39
Courts	1.15
Police Protection	13.32
Correctional Institutions	10.77
Fire Protection	12.42
Administration Of Education Programs	1.62
Administration Of Public Health Programs	5.18
Administration Of Human Resource Programs	5.03
Administration Of Veteran's Affairs	3.31
Administration Of Air & Water Resource & Solid Waste	4.82
Administration Of Conservation Programs	11.55
Administration Of Housing Programs	9.36
Administration Of Urban Planning & Community & Rural Programs	1.95
Regulation And Administration Of Transportation Programs	8.34
Regulation Of Agricultural Marketing And Commodities	6.21
Regulation, Licensing, And Inspection Of Miscellaneous Commodities	3.48

It is apparent that the frequency of claims is greater for public safety employees than for typical PERS, SERS, or TRS members, though there are some atypically high claims within the Administration of Conservation Programs because of the physical nature of many of those jobs.

The key difference between public safety employees and other public employees is the degree to which an injury can impede their job performance. A broken leg may be a painful inconvenience for a PERS member working in an office environment, but it would not necessarily stop that member from performing their job. In comparison, a broken leg would easily side-line a fire fighter. This sensitivity to injury requires a greater emphasis on physical fitness and safety procedures among members engaged in the public safety systems (PSERS, LEOFF, and WSPRS) than among members of other systems in general.

Figure 6

Temporary Duty Disability Bills Compared to Total Membership By System and Plan
Source: DRS

System / Plan	Total Bills	Total Membership	TDD Rate
SERS 2	49	20,424	0.24%
SERS 3	33	29,430	0.11%
LEOFF 2	589	14,754	3.99%
PERS 1	658	17,829	3.69%
PERS 2	906	118572	0.76%
PERS 3	73	19,855	0.37%
WSPRS 1	4	997	0.40%
Total	2,312	221,861	1.04%

Based on the most recent information, there were a total of 2,312 total TDD bills administered by DRS (Figure 6). Comparing the TDD bills to total plan membership provides a reasonable "rate" of TDD injury (except for WSPRS). While injured State Patrol members are eligible for workers' compensation time-loss benefits, they are also eligible for WSPRS disability benefits administered by the Chief of the State Patrol. Because WSPRS disability benefits are off-set by L&I benefits, the great majority of WSPRS members who experience an injury do not apply for L&I.

The TDD rates vary considerably between the systems and plans. The highest rate is found in LEOFF 2 at almost 4 percent. Close behind is PERS 1 with a rate of almost 3.7 percent; PERS 1 is a closed plan whose membership is rapidly aging and more susceptible to injury. Other plans tend to have TDD rates well below 1 percent.

Injury Period

A tertiary policy issue related to service credit purchases for TDD periods is how much TDD time members should be allowed to purchase. Were injuries commonplace, or

Figure 7

Average Service Credit Purchase for Temporary Duty Disability by System and Plan Source: DRS	
System/Plan	Average Months Purchased
SERS 2	7.1
SERS 3	7.2
LEOFF 2	2.2
PERS 1	4.4
PERS 2	4.4
PERS 3	4.5
WSPRS 1	10.3
Total	4.0

typically so severe as to require lengthy rehabilitation, then policy-makers may think it appropriate to allow members to purchase similar periods of service credit. Based on the TDD optional bill data from DRS, the average TDD period being purchased is 4.0 months (Figure 7). This average varies by system, but not much by plan. PERS members purchased between 4.4 and 4.5 months of service. SERS members purchase 7.1 to 7.2 months of service. LEOFF 2 members purchase an average of 2.2 months; this shorter period is likely due to the lesser injury threshold that may impede a LEOFF member's duties.

The question then becomes what are the extremes experienced by workers on TDD? While the average TDD recuperation period may be four months, there may be individuals with considerably longer recovery periods. Instances of members purchasing the maximum service credit may indicate that they were injured for a longer period and are limited by the maximum service credit purchase period. Based on the most recent records from the Department, 144 service credit purchase bills for injury periods were for the maximum allowed (Figure 8). Members of SERS have a relatively low number of total billings, but a significant share of those billings was for the maximum period allowed (twelve months).

Figure 8

Temporary Duty Disability Bills Compared to Maximum Service Bills By System and Plan Source: DRS			
System / Plan	Total Bills	Maximum Service Bills	% Max Bills
SERS 2	49	12	24.5%
SERS 3	33	5	15.2%
LEOFF 2	589	44	7.5%
PERS 1	658	37	5.6%
PERS 2	906	44	4.9%
PERS 3	73	2	2.7%
Total	2,308	144	6.2%

Service and Service Credit

Any provision related to purchasing service credit is likely to raise policy maker's concerns about possible conflicts with Internal Revenue Service (IRS) regulations. However, unlike the purchasing of "air time" where the service credit in question is not tied to any particular period of employment (actual service), members who are injured and receiving TDD benefits are still considered "employed." Under the current permissibility standards, the linkage between TDD periods and actual service is reasonably firm. As a result, purchasing service credit for TDD periods – limited periods where the member is still considered officially employed – is unlikely to draw the ire of the IRS.

Cost Sharing

Another policy issue related to service credit purchases for TDD periods revolves around how much of the cost of such a purchase should be borne by the member, and how much by the employer. In PERS, SERS, PSERS, and LEOFF 2 plans there is a common cost-sharing method. For the period of disability, the member and the employer each pay whatever the contributions would have been were the member active; interest is also charged, if necessary. The actual amounts billed the member and employer will not necessarily be equal because of the differing interest periods and the differences in member and employer contribution rates (employers pay an additional Plan 1 UAAL rate and an administrative expense rate).

While considering improving the provisions allowing service credit purchases for TDD periods, policy-makers may also want to ask whether the current cost sharing policy is appropriate in all on-the-job injury situations. Are there instances when more of the cost should be borne by the employer or by the member?

Plan Consistency

A broad policy concern is that of plan consistency. It is a statutory policy within the Retirement Systems chapter that the systems and plans provide similar benefits wherever possible (RCW 41.50.005[1]). This issue illustrates what occurs when one system is awarded a benefit improvement exclusive from the other systems and creates dissimilarity where none existed before. Members of other systems excluded from such legislation will inevitably request equal treatment, particularly if there is no discernable reason for the difference. This could be called the elastic band effect – one system stretches out a benefit "lead" and the other systems scramble to catch up.

There are always cost concerns in such a benefit situation. While the cost of expanding the service credit purchase for injury provision in PERS was not sufficient to increase contribution rates, it has not been estimated at this time whether such a benefit change would have similarly small fiscal impacts in the other systems.

Policy Questions

To help the committee decide on a course of action, members may want to deliberate via the following questions:

- Are the service credit purchase provisions for injury periods in Washington's retirement systems adequate?
  - Is the period of coverage adequate, should there be a limit?
  - Is the cost-sharing appropriate?
- Are the differences in the service credit purchase for injury provisions in Washington's retirement systems significant enough to warrant a statutory remedy?
- If the committee wants to pursue a legislative remedy, would they want to include TRS in that remedy?

Possible Options

Option 1
Allow members of PSERS and SERS to purchase up to two years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods temporary duty disability in PSERS, and SERS would provide these members benefits equal to those in the Public Employee's Retirement System (PERS), thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: Because of the small number of members who would be eligible for this benefit, the impact on the retirement funds would be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 2
Allow members of SERS to purchase up to two years of service credit for periods of temporary duty disability, and allow members of PSERS to purchase up to four years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods of temporary duty disability in SERS would provide these members benefits equal to those in PERS, thus maintaining system and plan consistency as is a goal within statutory retirement policy. Expanding the service credit purchase provisions for periods temporary duty disability in PSERS to four years would acknowledge the greater inherent risk in public safety occupations.

Fiscal Impact: The increase in number of members who would experience extended TDD periods is minimal. The share of members purchasing the maximum time currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. The share purchasing service credit for longer periods would be a subset of that group. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 3
Allow members of PERS, SERS, and PSERS to purchase service credit for all periods of temporary duty disability.

Policy Impact: Allowing service credit to be purchased for all periods of temporary duty disability would provide members benefits equal to the injury risk inherent in each system, thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: The increase in members eligible to purchase the additional TDD time is minimal. The number of members purchasing the maximum time

currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 4
Include members of TRS in any proposal.

Policy Impact: Including TRS members in any service credit purchase proposal would be in keeping with maintaining system and plan consistency as is a goal with statutory retirement policy.

Fiscal Impact: Giving TRS members the statutory authority to purchase service credit for TDD periods would, in many instances, codify existing human resource and contractual practices. As there is no significant difference in injury frequency among school employees compared to other non-public safety employees, the cost to the retirement system would be similarly negligible and insufficient to increase contribution rates, be it for a two year statutory period or for an unlimited statutory period. As with the other systems, there would be budgetary impacts, as employers would continue to be responsible for contribution and interest payments for those employees making such a purchase.

Next Steps

The Executive Committee of the SCPP will provide direction to staff on this issue – to provide additional options and pricing, or to forward a proposal to the full committee for their consideration. The Executive committee will also direct staff on the appropriate level of coordination with the LEOFF 2 Board.

Stakeholder Correspondence

Kelly Fox, Chair
LEOFF Plan 2 Retirement Board

Attachments

Service Credit Purchase for Injury, Preliminary Report
LEOFF Plan 2 Retirement Board.

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STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
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March 9, 2006

RECEIVED
MAR 10 2006
Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to congratulate you on another successful legislative session.

I want to bring three topics to your attention as you begin preparations for the 2006 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. Two of these topics, Dual Membership Corrections and Service Credit Purchase for Duty-Related Injury, came up in 2005 and were deferred by both the SCPP and the Board for full study in 2006. The third topic, Adding an Inflationary Adjustment to the $150,000 Death Benefit, arose as a result of Board legislation in the 2006 session.

I have provided a brief summary of each topic for your reference:

Dual Membership

The Board studied impacts of making changes to the current dual membership statutes last year. Under the current portability statutes (RCW 41.54), there are situations where a member's pension benefits would seem to be unnecessarily penalized, if the member changes careers. Changes to the dual membership statutes studied by the Board included:

- Easing restrictions on total service credit if a Plan 2 member has less than 15 years of Plan 1 service.
- Adding indexing to all plans that allow shared service to qualify for indexing.
- Redefining base salary so that payments defined as salary or compensation, in both dual member systems, would be included in base salary.

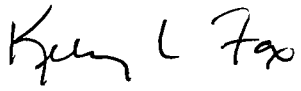
Service Credit Purchase for Duty-Related Injury
The Legislature passed a bill in the 2004 session, which increased the period of service credit that could be purchased by a PERS member, who is on a leave of absence for a duty-related injury. The Board would like to study extending this policy to other pension plans, including LEOFF Plan 2.

Inflationary Adjustment for $150,000 Death Benefit
As you may be aware, the Board recommended legislation on this topic in 2006 (SHB 2933 - Death Benefit for Occupational Illnesses), which was passed with an amendment removing the annual inflation increase. Since other retirement plans also provide a lump-sum death benefit, legislators expressed an interest in the Board working with the SCPP to study the effect of adding this inflationary adjustment to all the plans.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Service Credit Purchase for Injury

Preliminary Report

November 16, 2005

1. Issue

During the June meeting of the Select Committee on Pension Policy there was discussion of extending to other plans, the policy from Senate Bill 5522 (2005), which increased the period of service credit that could be purchased by an employee who is on a leave of absence for an injury on the job.

2. Staff

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3. Members Impacted

Any active LEOFF Plan 2 member who is injured on the job may be affected. As of September 30, 2003 there were 14,560 active members as reported in *The Office of the State Actuary's 2003 LEOFF 2 Actuarial Valuation Report.*

4. Current Situation

The purchase of service credit for periods of temporary leave for a disability is accomplished through a two part process for LEOFF Plan 2 members. A member who is receiving a leave supplement or similar benefit can purchase service credit for a period up to 6 months through the provisions of temporary duty disability. A member may purchase service credit for periods of leave beyond the 6 months through the provisions of authorized leave of absence.

5. Background Information and Policy Issues

The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Washington State Patrol Retirement System (WSPRS) and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) provide retirement benefits to most Washington State and local government employees. Except for TRS, each of these systems include provisions for Plan 2 members to purchase service credit for periods of temporary leave related to a disability resulting from an injury on the job, commonly referred to as "Temporary Duty Disability" or "TDD". Each plan determines its requirements to complete such a purchase.

Under the current LEOFF Plan 2 provisions, some members may not be entitled to purchase service credit utilizing the temporary duty disability provisions because of the eligibility restrictions and service credit purchase limit. When compared to most other Plan 2 systems, LEOFF Plan 2 has stricter eligibility requirements and a lower service credit purchase limit. Members not qualified to purchase service credit under temporary duty disability provisions may purchase the service credit under authorized leave of absence provisions, which are more costly to the member.

The first section of this report provides a description of the temporary duty disability provisions in LEOFF Plan 2 and is followed by a comparison to other Washington Plan 2 systems in the second section. The third section provides a description of the authorized leave of absence service credit purchase provisions. Following the third section, Appendix A, provides a comparison table which summarizes the temporary duty disability and authorized leave of absence provisions in each of the Plan 2 systems.

Temporary Duty Disability – LEOFF Plan 2

If a member does not earn full service credit because of leave associated with a temporary duty disability, a member may have the option to purchase up to six months of service credit for each covered duty disability. To be eligible to purchase service credit for temporary duty disability, the member must be receiving a disability leave supplement or similar benefits provided by their employer and the disability must have occurred in the line of duty.

If a member's employer does not provide a disability leave supplement or similar benefits, the member is ineligible to purchase service credit under temporary duty disability provisions. A disability leave supplement must be provided by an employer if the employee is receiving temporary total disability benefits under Title 51 unless the employer is a city or town with a population of less than twenty-five hundred or a county with a population of less than ten thousand. If the member is not eligible under temporary duty disability, the member may be eligible to purchase the service credit under the authorized leave of absence provisions.

The member is responsible for payment of the employee contributions and the employer is responsible for payment of the employer contributions. Recovery interest is not charged on

LEOFF Plan 2 temporary duty disability billings. The purchase cost is based on the compensation the member would have earned had the member been working. While there is no statutory deadline for requests to purchase service credit for temporary duty disability, full payment for the purchase must be received prior to retirement.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is includable within the Final Average Salary calculation.

Temporary Duty Disability in Other Washington Systems

Except for TRS Plan 2, all of the Plan 2 systems have a provision allowing for the purchase of temporary duty disability. While the basic provisions in each plan are similar, there are a couple of notable differences.

One difference is the amount of service credit that can be purchased for each incident of temporary duty disability. The table below shows the limits for each of the Plan 2 systems:

Plan	Purchase Limit
WSPRS Plan 2	No limit
PERS Plan 2	24 months per incident
SERS Plan 2	12 months per incident
TRS Plan 2	No TDD provision
LEOFF Plan 2	6 months per incident

Senate Bill 5522, passed by the 2005 Legislature, expanded the service credit purchase for temporary duty disability in PERS. Prior to Senate Bill 5522, members of PERS could only purchase up to 12 months of service credit for temporary duty disability. Senate Bill 5522, increased the period of unearned service credit that a member of PERS could purchase from 12 months to 24 months, doubling the per incident amount of service credit. During the June meeting of the Select Committee on Pension Policy, there was discussion of extending the policy from SB 5522 (2005) to other plans.

The second key difference between the LEOFF Plan 2 temporary duty disability and other Plan 2 temporary duty disability provisions is the eligibility criteria for a temporary duty disability purchase. In PERS and SERS, a person is eligible to purchase service credit for temporary duty disability if they are receiving benefits under Title 51 RCW or a similar federal workers' compensation program. In WSPRS, a member must be relieved from duty by the Chief of Washington State Patrol for an injury on the job. In LEOFF Plan 2, a person must be receiving a disability leave supplement or similar benefits provided by their

employer. As noted above, some cities and counties may not be required to provide a disability leave supplement, which means that a period of leave for an uncovered member could only be purchased through authorized leave of absence provisions.

Lastly, PERS and SERS charge both the member and employer recovery interest on temporary duty disability billings. The current recovery interest rate is 8%. LEOFF Plan 2 temporary duty disability billings do not currently charge interest.

Temporary Duty Disability in Comparison Systems

The comparison systems treat temporary duty disabilities in one of three ways. The comparison system either provides a process for keeping the member's account whole by allowing some form of service credit purchase, the comparison system pays out benefits during the period of disability and the member cannot recover the period of service, or there are no benefits extended for temporary leave of absence related to an on the job injury.

Out of the twelve comparison systems, seven systems provide for the recovery of lost service credit through some sort of purchase mechanism. Among these seven systems that allow for the recovery of service credit, two allow the recovery of five years, two allow the recovery of two years, one allows the recovery of one year, and two have no limit on the amount of service that can be recovered.

In the remaining comparison systems, three provide disability benefits payments and two systems do not provide any benefits. See Appendix C.

Authorized Leave of Absence

If a member is not eligible to purchase a period of service credit under temporary duty disability provisions, the member may purchase the service under authorized leave of absence provisions. This could occur for a LEOFF Plan 2 member if they were not receiving a disability leave supplement or if the temporary duty disability period exceeded the 6-month temporary duty disability purchase limit. The following key provisions apply to all of the Plan 2 systems, except WSPRS Plan 2 which does not have an authorized leave of absence provision.

A member may request to purchase service after returning to work from an authorized leave of absence. Requests for recovery of service credit and payment must be received within five years from the initial date of return to work, or prior to retirement, whichever occurs first.

A member is only allowed to purchase a maximum of twenty-four months of service credit for an authorized leave of absence during his or her entire working career.

The member is responsible for payment of both the employee and employer contributions, plus applicable interest. This makes an authorized leave of absence service credit purchase more expensive than a temporary duty disability service credit purchase. The purchase cost

is based on the average of the member's compensation earnable at the time the authorized leave was granted, and the time the member resumed employment.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is not includable within the Final Average Salary calculation.

6. Policy Options

Option 1: Adopt policy from Senate Bill 5522 (2005)

Adopting the policy from Senate Bill 5522, passed in 2005 for the Public Employees' Retirement System (PERS) would make two changes to the current LEOFF Plan 2 policy. First, the new policy would increase the per incident amount of service credit a member could purchase, for absence from an injury incurred in the line of duty, from 6 months to 24 months. Second, the new policy would change the eligibility requirement from receiving a leave supplement from an employer to receiving benefits under state workers' compensation (Title 51 RCW) or a similar federal workers' compensation program.

These changes would create consistency with the PERS policy established in 2005, allows the purchase of a longer period of service for LEOFF Plan 2 members, and eliminates the possibility that a member will not qualify to purchase such service credit due to working for an employer that does not provide a leave supplement.

7. Supporting Information

- **Appendix A**: Temporary Duty Disability & Authorized Leave of Absence Comparison
- **Appendix B**: Leave Supplement Statutes
- **Appendix C:** Temporary Duty Disability Provisions in Comparison Systems

Appendix A: Temporary Duty Disability & Authorized Leave of Absence Comparisons

Temporary Duty Disability Comparison

Plan	Eligibility	Purchase Limits	Computation	Payment	Include In FAS
LEOFF Plan 2	Receiving a disability leave supplement or similar benefits provided by their employer	6 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions through employer Employer pays employer contributions. State pays state contributions	Yes
PERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	24 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
SERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	12 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
TRS Plan 2	No temporary duty disability provision	NA	NA	NA	NA
WSPRS Plan 2	Relieved from duty by the Chief of Washington State Patrol for an injury on the job	No statutory limit	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes

Authorized Leave of Absence Comparison

System	Eligibility	Purchase Limits	Cost Computation	Payment	Include In FAS
LEOFF Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays member, employer, and state contributions, plus interest	No
PERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
SERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
TRS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
WSPRS Plan 2	No authorized leave of absence provision	NA	NA	NA	NA

Appendix B: Leave Supplement Statutes

RCW 41.04.500 **Disability leave supplement for law enforcement officers and fire fighters.**	County, municipal, and political subdivision employers of full-time, commissioned law enforcement officers and full-time, paid fire fighters shall provide a disability leave supplement to such employees who qualify for payments under RCW 51.32.090 due to a temporary total disability.
RCW 41.04.505 **Disability leave supplement for law enforcement officers and fire fighters -- Amount.**	The disability leave supplement shall be an amount which, when added to the amount payable under RCW 51.32.090 will result in the employee receiving the same pay he or she would have received for full time active service, taking into account that industrial insurance payments are not subject to federal income or social security taxes.
RCW 41.04.510 **Disability leave supplement for law enforcement officers and fire fighters -- Payment.**	The disability leave supplement shall be paid as follows: (1) The disability leave supplement shall begin on the sixth calendar day from the date of the injury or illness which entitles the employee to benefits under RCW 51.32.090. For the purposes of this section, the day of injury shall constitute the first calendar day. (2) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be charged against the accrued paid leave of the employee. In computing such charge, the employer shall convert accumulated days, or other time units as the case may be, to a money equivalent based on the base monthly salary of the employee at the time of the injury or illness. "Base monthly salary" for the purposes of this section means the amount earned by the employee before any voluntary or involuntary payroll deductions, and not including overtime pay. (3) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be paid by the employer. If an employee has no accrued paid leave at the time of an injury or illness which entitles him to benefits under RCW 51.32.090, or if accrued paid leave is exhausted during the period of disability, the employee shall receive only that portion of the disability leave supplement prescribed by subsection (3) of this section.
RCW 41.04.515 **Disability leave supplement for law enforcement officers and fire fighters -- Time limitation.**	The disability leave supplement provided by RCW 41.04.500 through 41.04.530 shall continue as long as the employee is receiving benefits under RCW 51.32.090, up to a maximum of six months from the date of the injury or illness.

RCW 41.04.520 **Disability leave supplement for law enforcement officers and fire fighters -- Employee to perform light duty tasks.**	While an employee is receiving disability leave supplement, the employee, subject to the approval of his or her treating physician, shall perform light duty tasks in the employee's previous department as the employer may require, with no reduction in the disability leave supplement.
RCW 41.04.525 **Disability leave supplement for law enforcement officers and fire fighters -- Continuation of employee insurance benefits.**	The disability leave supplement provided in RCW 41.04.510(3) shall not be considered salary or wages for personal services: PROVIDED, That the employee shall also continue to receive all insurance benefits provided in whole or in part by the employer, notwithstanding the fact that some portion of the cost of those benefits is paid by the employee: PROVIDED FURTHER, That the portion of the cost not paid by the employer continues to be paid by the employee.
RCW 41.04.530 **Disability leave supplement for law enforcement officers and fire fighters -- Exhaustion of accrued sick leave.**	If an employee's accrued sick leave is exhausted during the period of disability, the employee may, for a period of two months following return to active service, draw prospectively upon sick leave the employee is expected to accumulate up to a maximum of three days or three work shifts, whichever is greater. Any sick leave drawn prospectively as provided in this section shall be charged against earned sick leave until such time as the employee has accrued the amount needed to restore the amount used. In the event an employee terminates active service without having restored the sick leave drawn prospectively, the employer shall deduct the actual cost of any payments made under this section from compensation or other money payable to the employee, or otherwise recover such payments.
RCW 41.04.535 **Disability leave supplement for law enforcement officers and fire fighters -- Greater benefits not precluded.**	Nothing in RCW 41.04.500 through 41.04.530 shall preclude employers of law enforcement officers and fire fighters and such employees from entering into agreements which provide benefits to employees which are greater than those prescribed by RCW 41.04.500 through 41.04.530, nor is there any intent by the legislature to alter or in any way affect any such agreements which may now exist.
RCW 41.04.540 **Disability leave supplement for law enforcement officers and fire fighters -- Supplement not required in smaller cities, towns, and counties.**	Cities and towns with a population of less than twenty-five hundred and counties with a population of less than ten thousand shall not be required to provide a disability leave supplement to their commissioned law enforcement officers and full-time paid fire fighters who qualify for payments pursuant to RCW 51.32.090, due to temporary total disability.

RCW 41.04.545 **Disability leave supplement for law enforcement officers and fire fighters -- Vested right not created.**	Chapter 462, Laws of 1985 neither grants employees a vested right to receive a disability leave supplement nor creates a contractual obligation on behalf of the state or its political subdivisions to provide a disability leave supplement.
RCW 41.04.550 **Disability leave supplement for law enforcement officers and fire fighters -- Not subject to interest arbitration.**	Disability leave supplement payments for employees covered by chapter 462, Laws of 1985 shall not be subject to interest arbitration as defined in RCW 41.56.430 through 41.56.905.

Appendix C: Temporary Duty Disability provisions in comparison systems

Alaska	**Service Credit Recovery**: An employee who takes more than 10 days leave of absence without pay in a calendar year because the employee is unable to work due to an on-the-job injury or occupational illness for which the employee is receiving benefits under Alaska Statute 23.30 (Workers' Compensation) may elect to receive credited service for the time on leave of absence without pay status. There is **no limit** on the amount of time that may be purchased.
Arizona	**Disability Benefit**: A member may receive benefits for Total and presumably temporary disability, incurred in performance of duty, prior to normal retirement, preventing performance of a reasonable range of duties within the employee's department. The monthly pension is one-twelfth of 50% of annual compensation at time of disability. Payments terminate after **twelve months** or return to work. The member must terminate employment to receive this benefit.
Arkansas	**No Benefit**: LOPFI does not offer or extend benefits for temporary disabilities and does not have any service credit purchase provisions that this type of service can be purchased under.
Colorado	**Disability Benefit**: A member injured on the job may be entitled to a Temporary Occupational Disability that is 40% of base salary. Once granted, benefits are payable from the day following the member's last day on the employer's payroll. Minimum of 1 year. Maximum of **five years**. At the end of five years the member either returns to employment, upgrades to Permanent Occupational or Total Disability status, or benefits are discontinued. If the member is restored to active service with his/her former employer, FPPA will transfer from the D&D fund the contributions required to fund the money purchase plan (or component) or fund service credit under the defined benefit plan (or component) while the member was on Temporary Disability (up to 16%). If the mandatory contribution amount is above 16%, the employer will make the additional contributions. If the disability is expect to be less than 12 months, short term disability benefits may be provided by the employer. No benefits will be provided by the Statewide defined benefit plan.
Delaware	**Service Credit Recovery**: A member may purchase service credit for a medical leave if the member subsequently accrues at least 1 year of credited service and pays into the Fund prior to the issuance of his or her 1st pension check, contributions determined by multiplying the rates in effect at the time of payment for member contributions and employer contributions times the average of the 60 months of creditable compensation used to calculate the member's pension benefit times the months or fractions thereof so credited. Any credited service purchased for medical leave shall not be used to determine eligibility for benefits.

Kansas	**Disability Benefit**: If you cannot perform duties related to your job due to an injury or illness, you can apply for disability benefits. You receive an annual benefit of 50 percent of your final average salary in on-going monthly payments. There is no child's benefit. If you return to work with any KP&F participating employer, your disability benefits will automatically stop. Participating Service is any service after your membership date. You will automatically receive this type of service credit while you work in a covered position and make contributions to the Retirement System. For Tier II members, this type of service will be credited during any period of approved disability if you qualify for disability benefits.
Maryland	**Authorized leave of absence purchase**: A member who goes on an approved leave of absence due to an injury or illness may purchase up to **two years** of service credit for the period of leave. The member pays the member contributions that would have been paid if not on leave, plus interest.
Nevada	**Service Credit Purchase**: If a member has five years of creditable service they may purchase up to a maximum of **five years** of service credit. The cost to purchase service is based on the average compensation times the number of months purchased times the actuarial percentage based on the member's age.
New Jersey	**Service Credit Recovery:** Members are eligible to purchase credit for time spent on official, authorized leaves of absence without pay. Members may purchase up to **two years** of service credit for leave for personal illness, and up to 3 months for leave for personal reasons. The cost of the purchase is shared equally between the member and the employer.
New York	**No Benefit**: New York does not provide any temporary disability leave purchase, authorized leave of absence purchase, or service credit purchase provisions.
Ohio	**Service Credit Recovery:** If a member is placed on a medical leave of absence due to a medical disability, the member may purchase credit for such a break in service, up to **one year** per event.
South Carolina	**Service Credit Recovery:** Members may establish service credit for various types of previous employment and leaves of absence, and up to **five years** of non-qualified service. A member may establish service credit for a period while on leave of absence and receiving Workers' Compensation benefits. The cost is based on contributions plus interest using your earnable compensation at the time of injury.

Judges' Benefit Multiplier

(December 20, 2005)

Issue

Judges employed by Washington State after June 30, 1998, – Supreme Court, Court of Appeals, and Superior Court judges – are members of the Public Employees' Retirement System (PERS). They also receive an additional retirement benefit called the Judges Retirement Account (JRA). This is a Defined Contribution (DC) account into which members and the state each contribute 2.5 percent of pay. Upon retirement, state employed judges receive their PERS benefits plus distributions from their JRA accounts.

Proposal

The Superior Court Judges Association has asked the SCPP to review the current benefit formula. The Association is proposing to raise the benefit formula to 3.5 percent per year to a maximum benefit of 75 percent of pay. The Judges Association also proposes that the benefit improvement be in lieu of the current JRA benefit received by Superior Court judges, thereby financing the benefit within existing resources. The Superior Court judges are the only judges making this request.

Staff

Robert Wm. Baker, Senior Research Analyst
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Members Impacted

This proposal would effect all members of PERS serving as Superior Court judges.

According to the Administrative Office of the Courts, there are nine Supreme Court judges, 22 Court of Appeals judges, 179 Superior Court judges, 110 District Court judges, and 120 Municipal Court judges in Washington State.

Current Situation

Since July 1, 1988, newly elected or appointed judges have become members of the PERS Plan 2. Since March 1, 2002, newly elected or appointed judges have had the choice to enter either PERS 2 or PERS 3.

A Plan 2 member is eligible for an unreduced retirement benefit at age 65 with at least five years of service; the member's benefit would be 2 percent of their Average Final Compensation (AFC) times their years of service.

A Plan 3 member would be eligible for an unreduced retirement benefit at age 65 with at least ten years of service (or five years if twelve months of service credit is earned after age 54); their benefit would be 1 percent of their AFC times their years of service plus the accumulations in their individual defined contribution account.

There is no cap on a PERS 2/3 Defined Benefit (DB).

In addition to a PERS benefit, state-employed judges are also eligible for a supplemental benefit from the JRA — a Defined Contribution (DC) plan. The supplemental retirement benefit was created when the earlier Judicial Retirement System was closed (June 30, 1988). This benefit was established under Chapter 109, Laws of 1988, and is found in Chapter 2.14 RCW (see Appendix A). The JRA is available to judges serving on the Supreme Court, Court of Appeals, and Superior Court.

To fund the JRA benefit, members and their employer (the state) each contribute 2.5 percent of pay. Those contributions are deposited into member accounts in the "Judicial Retirement Principal Account" within the State Treasury. Under the direction of the Administrator of the Courts, this account may be deposited in select depository institutions, used to purchase life insurance or fixed or variable annuities, or as is done currently, invested by the State Investment Board.

Upon retirement, member judges are eligible for their PERS benefits, plus a JRA distribution. That distribution may be in the form of a lump-sum or other payment option as adopted by the Administrator for the Courts.

Plan History

Prior to the current PERS – JRA combination, judges were served by the Judges' Retirement Plan (1937 - 1971) and the Judicial Retirement System (1971 - 1988). Both plans offered a maximum benefit of 75 percent of final average salary that could be accrued after about 21½ years of service. The actual accrual rates differed for members with shorter service, but worked out almost the same for those who served long enough to accrue the maximum benefit (see Figure 1).

Figure 1
Service Retirement Formulas in the Judges and Judicial Retirement Plans

Judges	For members with 12 to 18 years of service: 50% of FAS × (Years of service ÷ 18) For members with more than 18 years of service: 50% of FAS + (1/18th of salary for each year over 18) to a maximum of 75% of FAS
Judicial	For members with more than 10 but less than 15 years of service: 3% of FAS per year of service For members with 15 or more years of service: 3.5% of FAS per year of service to a maximum of 75% of FAS

These plans were unusual in that they were funded on a pay-as-you-go basis. This made them inordinately expensive as there was no investment earnings to help defray the cost of the plans. While members' contributions were 7.5 percent of pay in the Judicial Plan and 6.5 percent of pay in the Judges Plan, the state contributions averaged over 40 percent of pay.

Based on recommendations of the Joint Committee on Pension Policy (JCPP), the Judicial Retirement System was closed to new members on June 30, 1988. New Superior Court, Court of Appeals, and Supreme Court judges would become members of PERS 2 and also contribute to the JRA. Because new judges became members of a cost-sharing, pre-funded plan, this lowered their cost and that of the state to about 7.5 percent of pay each, for a total of 15 percent of pay.

Member Characteristics

Based on current data, the average Superior Court judge became a member of PERS at around 40 years of age. That would be considered a mid-career hire for an average PERS member. Their entry date isn't necessarily when they became judges; they may have served in other PERS eligible capacities before their judges service. Superior Court judges are also highly paid relative to the PERS membership at large. Their salaries are set by the "Washington Citizens Commission on Salaries for Elected Officials" (WCCSEO). Superior Court judges annual salaries were set at $124,411 for fiscal year 2004, $128,143 for fiscal year 2005, and will increase to $131,988 in 2006.

Figure 2
Superior Court Judges Membership Demographics 9/30/03

	PERS 1	PERS 2	PERS 3
Active Members	51	102	7
Average Age	58.2	53.4	53.3
Average Years of Service	19.2	11.9	10.4

Retirement Benefit Example

An example of the defined retirement benefit earned by a Superior Court judge would be similar to that earned by a PERS 2 member in a typical civil service position – 2 percent per year of service times AFC. The difference in the retirement benefit rests in the DC accumulations in the JRA. Figure 3 shows an estimated accumulation in such an account and, if annuitized, what that

would represent as a defined benefit. This example assumes an entry age of 40 and retirement at age 65 after 25 years of service. While many judges serve beyond age 65, this is when the member is first eligible for an unreduced defined benefit. This example assumes that PERS and judicial service are the same; members with the same PERS service but with less judicial service would accumulate less in their JRA.

Figure 3
Superior Court Judge
Plan 2 Member Retiring in 2004

Age	65
Years of Service	25
Benefit Ratio (2% × Years of Service)	50%
Average Final Compensation (monthly)	$9,502
Base Benefit	$4,751
JRA Accumulations	$276,928
Annuitized Accumulation (monthly)	$2,084
Total Monthly Benefit	$6,835
% of Average Final Compensation	71.9%
Equivalent DB Accrual Rate per Year	2.88%

In Figure 3, the member's DB is 50 percent of AFC – 2 percent times 25 years of service. With an AFC of $9,502, the base benefit, prior to payment options, is $4,751. Added to the DB is the annuitized JRA accumulations. The estimated accumulations are based on contributions of 5 percent of salary compounded at 8 percent interest (the actuarially assumed rate of return) for 25 years. Judges salaries are assumed to increase at a 3.5 percent annual rate - a bit less than the 4.5 percent assumption for PERS members overall. When added to the DB, the annuitized JRA accumulations increase the total monthly benefit to $6,835. That represents 71.9 percent of the member's AFC and a benefit accrual rate equivalent to 2.88 percent per year of service. It should be noted that a lower/higher long-term rate-of-return on the JRA account would result in lesser/greater, accumulations than in the above example.

Assets invested over the long-term are less sensitive to any single down market period. One risk in a DC design, as is the JRA, is the possibility of poor investment performance in the short term. Judges who accepted late-career appointments, say after age 50, would be more at risk of a “bear market” impeding their JRA accumulations.

Other States

Among the comparative states used in this analysis, judges' retirement benefits are distinct from regular plan members. The principal consistencies among the comparative states' judges' retirement plans is that they tend to be DB plans and have relatively high benefit accrual rates – Ohio's plan is a DB plan, with a DC option. Beyond that, there are significant differences in benefit multipliers, AFC periods, and maximum benefits.

Figure 4
Select Judges Retirement Plan Provisions

	Benefit Multiplier	AFC Period	Maximum Benefit
CalPERS (Judges II)	3.75%	12 months	75%
Colorado PERA	2.5%	3 years	100%
Florida FRS	3.33%	5 fiscal years	100%
Idaho	5%, yrs 1-10 2.5%, yrs 10+	Current Annual	75%
Iowa	3.0%	3 years	60%
Minnesota[1]	3.2%	5 years	76.8%
Missouri	2.5%, 3.33%, 4.17%	Current Salary	50%
Ohio[2]	2.2% up to 30 yrs	3 highest yrs	100%
Oregon **A: Regular** **B: With Pro Tempore service**	**A:** 2.8125% yrs 1-16 1.67% yrs 16+ **B:** 3.75% yrs 1-16 2.0% yrs 16+	36 months	A: 65% B: 75%
Wisconsin	2000 - 2.0% Prior to 2000 - 2.165%	3 highest years	70% or more

1 *After 24 years, members contribute to the Unclassified Employees Retirement Plan.*

2 Ohio judges (elected officials) may purchase service credit for two times the annual employee contribution rate.

The benefit multiplier among the comparative states varies from 2.5 percent in Colorado to 4.17 percent in Missouri (see Figure 4). But those multipliers must be viewed in concert with the other elements of the plans, particularly the maximum benefit and participation in Social Security. For instance, Ohio and Colorado members do not participate in Social Security. Missouri's high multiplier is only for those who are appointed at later ages and allows them to accrue a benefit equal to 50 percent of their final salary at age 62 after 12 years of service. Missouri's plan allows a member to receive a maximum benefit of 50 percent of final salary, the lowest of the comparative states. As a result, judges retirement policy in Missouri is considerably different than the policy in Colorado where judges are encouraged to serve longer and retire at later ages.

The AFC period among the plans varies widely as well. Idaho and Missouri use the current salary in the benefit formula and California uses the most recent 12 month salary. Minnesota and Florida use a five-year average. But, again, these design elements should be considered in light of the maximum benefit allowed under these plans. Minnesota and Florida allow members to accrue a benefit at a higher percent of AFC than Idaho, Missouri, or California.

Based on the comparative states, there is little consistency in the retirement plan design and policy for judges. Some plans encourage long service – some short. Some have high multipliers – some low. Some use the current salary to calculate benefits – some use up to five years of salary. The combination of PERS and JRA benefits appears to place Washington State in the middle of the pack in terms of retirement benefits for judges.

Policy

Retirement policy regarding judges employed by the state is inferred in statute. That policy is based on the principal that judicial service warrants a greater retirement benefit than the standard PERS allowance; this is accomplished through the JRA. This policy drove the benefit design in the earlier "Judges" and "Judicial" retirement systems. The accumulation dynamics of a DC account are such that, while not stated, longer membership is advantageous and thus encouraged.

There may also be Bakenhus (contractual rights) issues with any benefit proposal that is not optional. It is possible that a mandatory change in benefits of this nature could harm some individuals. Those whose Judges Retirement Account (JRA) performed well during their judicial service could see their total benefits diminished by a mandatory change.

Additionally, any significant change in benefits for judges may result in a shift in the choices made by future members. Currently there are a number of judges who chose to join PERS 3. It is uncertain whether they would have made that choice if they could have earned a 3.5 percent per year accrual in PERS 2. If the committee wants to forward a proposal to increase the PERS 2 defined benefit multiplier for judges, it may be worthwhile to include a window for PERS 3 judges to move to PERS 2.

Policy Questions

Is a combination DB/DC the best retirement plan design for mid-career hires? What about late-career hires?

In light of the higher compensation received by judges, is it necessary to have a higher multiplier in order for their retirement benefit to be adequate?

Are there recruitment issues that would be resolved by modifying judges retirement benefits?

Benefit Questions

Does the committee want to include the Supreme Court and Court of Appeals judges in this proposal, as they also receive the JRA?

Does the committee want to include PERS District and Municipal Court judges in any proposal, even though they do not currently receive the JRA?

Does the committee want to establish an option for members to purchase past service at the higher multiplier?

If the committee decided to change the plan design for Superior Court judges so as to consolidate the existing DB and DC elements into a DB design, would it want this consolidation of benefits to be of equivalent value to the existing PERS and JRA plans, or would it want to increase the benefits?

Would the committee want to make any benefit proposal optional?

Would the committee want to provide PERS 3 Judges a choice to transfer to PERS 2?

Options

1. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows PERS 1 and PERS 2 members to accrue a 3.5 percent per year DB to a maximum of 75 percent of AFC and Plan 3 members to accrue a 1.75 percent per year DB to a maximum of 37.5 percent of AFC. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly

contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

Fiscal Impact: The 2003 normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 member rate is 4.35 percent of pay each. The PERS 1 member contribution rate is 6.0 percent of pay. Those rates support the PERS DB accruals. For the DB to accrue at 3.5 percent per year instead of 2.0 percent per year, the cost would increase on a near proportionate basis. Redirecting the 2.50 percent JRA contribution would make up most of the cost, but the plan would require additional contributions from both the employer and members. This would have a General Fund State cost of $200,000 in 2006-07 and a 25 year cost of $9.1 million.

Alternate Fiscal Impact: I f the member judges were to pay the entire cost of the benefit increase, their contribution rates would be the original, normal cost plus the JRA contribution plus the entire difference. That would be 1.44 percent for PERS 2 members; (0.72 percent for the member and employer) the average increase in a judge's annual retirement contributions would be $1,792 (2004 salary). This would require no new employer contributions.

2. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows members to accrue a DB equal to the combined value of the existing PERS and JRA benefits to a maximum of 75 percent of AFC for Plan 2 members and 37.5 percent of AFC for Plan 3 members. This would be an estimated accrual rate of 3.15 percent per year of service for Plan 2 members and 1.575 percent for Plan 3 members. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

Fiscal Impact: The 2003 normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 employee rate is 4.35 percent of pay each. The PERS 1 member contribution rate is 6.0 percent of pay. Those rates support the PERS 2/3 DB accruals. The 2.50 percent JRA contribution would be added to the normal cost contribution rates to pay for the equivalent increase in the DB accrual. This would require no new member or employer contributions.

3. Include all judges in any benefit proposal, including District and Municipal Court judges. As District and Municipal Court judges do not pay into the JRA, they and their employers do not have that existing revenue source to off-set part of the cost of any benefit increase. (Note: Cost estimates for District and Municipal Court judges were based on the Superior Court Judges demographic profile. More complete information will result in different costs.)

Fiscal Impacts:

To fund a defined benefit with a 3.5 percent per year accrual, District and Municipal Court judges and their employers would each need to contribute an additional 3.22 percent of pay. The combined employer cost for Superior Court, District Court, and Municipal Court judges would be $1.3 million in 2006-07 ($0.2 million GFS and $1.1 million local) and a 25 year cost of $68.3 million ($9.1 million GFS and $59.2 million local).

To fund a defined benefit with a 3.15 percent per year accrual, District and Municipal Court judges and their employers would each need to contribute an additional 2.50 percent of pay. The Local Government employer cost would be $900,000 in 2006-07 ($0 GFS) and a 25 year cost of $46.0 million ($0 GFS).

4. Create an optional system of benefits allowing judges to accrue a 3.5 percent per year benefit multiplier and a maximum retirement benefit of 75 percent of average final compensation. Allow State employed judges to opt out of the Judges Supplemental Retirement Account and allow members to pay additional contributions in support of these benefits. State Employers would be allowed to contribute, in addition to their regular contributions, an additional 2.5 percent of pay. Plan 3 members would be allowed to transfer to Plan 2 to participate in these benefits. Local judges would be allowed to opt into these benefit provisions and their employers would be allowed to contribute up to an additional and optional 2.5 percent of pay.

Fiscal Impact: State employers will pay the Plan 1/Plan 2 contribution rate as established in the funding chapter, plus an additional 2.5 percent of pay -- this amount will likely be redirected from the JRA contributions they formerly made. State employed Plan 2 judge members will contribute 250 percent of the overall Plan 2 member contribution rate less 2.5 percent of pay. Plan 1 judges will pay the statutory contribution (6 percent) plus an additional 3.76

percent of pay. Local employers will pay the PERS employer contribution rate as established in the funding chapter, plus an optional 2.5 percent of pay if they so choose. Local judges would be responsible for the remaining cost of the benefits. This would require no new employer contributions, though local employers would have the option to contribute up to, but not exceeding, an additional 2.5 percent of pay. Because the possible employer contributions are optional, this option would have no fiscal impact – if local employers choose to make additional contributions, this option would have a fiscal impact.

5. Keep the existing JRA benefit and retain the existing multiplier.

Fiscal Impact: This would require no new member or employer contributions.

Stakeholder Input

Letter from Leonard Costello, Immediate Past President, Superior Court Judges Association (see Attachments).

Letter from Michael J. Trickey, President, Superior Court Judges Association (see Attachment).

Proposal from the Superior Court Judges Association (see Attachments).

Executive Committee Recommendation

At the November 15th meeting, the Executive Committee of the SCPP moved to forward the Option 4 proposal to the full committee for a public hearing and possible executive session.

Committee Recommendation

At the December 13th meeting, the SCPP forwarded the proposal to the legislature contingent on the PERS 3 to PERS 2 transfer language be stricken, and alternative language included to enhance PERS 3 judges' defined benefit annual accrual.

PERS 1 and PERS 2 judges will be allowed to accrue a 3.5 percent annual benefit multiplier, and earn a maximum retirement benefit equal to 75 percent of average final compensation in lieu of member and employer contributions to the JRA. Amounts formerly contributed to the JRA plan, plus additional member contributions, will be redirected to the PERS 1 and PERS 2 defined benefits.

PERS 3 judges will be allowed to accrue a 1.6 percent annual benefit multiplier, and earn a maximum retirement benefit equal to 37.5 percent of average final compensation in lieu of employer contributions to the JRA. Amounts formerly contributed by the employer to the JRA plan, will be redirected to the PERS 3 defined benefit. PERS 3 judges are required to redirect their JRA contributions to their existing PERS 3 defined contribution accounts.

Judges who do not participate in the JRA will be required to pay the full cost of the benefit increase. Employers who do not contribute to the JRA will have the option to contribute an additional 2.5 percent of pay in support of the enhanced judges benefits.

Bill Draft

Attached

Fiscal Note

Attached

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August 29, 2006

The Honorable Craig Pridemore
Washington State Senate
PO Box 40482
Olympia WA 98504-0482

Dear Senator Pridemore:

The judges at all levels of court very much appreciate the efforts of the Select Committee on Pension Policy and the Office of the State Actuary leading up to the 2006 legislative session in working with us to develop and to pass an improved retirement benefit multiplier for judges.

As you know, judges come to this public service as a second career – the average age of judges taking the Superior Court bench is 47. Through the work of the Select Committee, the State Actuary and the Legislature, the retirement benefit multiplier for new judges starting in 2007 has been restored to the pre-1988 level making the defined benefit far more comparable to such benefits for judges in other states. Our goal, consistent with the Select Committee's Goal #2, was to restore this benefit multiplier for past and future service to aid in both the recruitment and retention of highly qualified judges. This new legislation will foster that goal for newly appointed judges, with the cost borne by the judges alone. We are very grateful to the members of the Select Committee, as well as the State Actuary and the Legislature for this significant improvement.

Under the bill passed by the Legislature, current judges also have the opportunity to opt into this improved benefit on a going forward basis by shouldering the entire cost of the new benefit. The difficulty for many of the seasoned judges relates to the issue of the buy back of past service credit. The judges understood that we would have the opportunity to "buy back" past service credit as a judge at a cost per year reflected on the proposal approved by the Select Committee. We did not understand that the legislation required a "buy forward" or annuity purchase methodology to be used to purchase past service credit. Unfortunately, the annuity methodology results

in a cost that is prohibitive for the most highly experienced judges currently serving in Washington. This situation creates a vast disparity in retirement benefits for most of the judges currently serving when compared to the judges who took the bench before 1988 and those that will take the bench in 2007 and thereafter.

I am writing to ask for your help in addressing this issue. We appreciate you including this subject for the full Committee agenda on September 19. We believe that there are several other methods that can be used to calculate the cost to purchase past service credit that are fair, both to the state and to the judges. We are very interested in achieving such a change and are focused on identifying a method that will not impact the rates. We are confident that, with the help of the Office of the State Actuary if you were to so direct, we could identify several options for the Select Committee's consideration.

As an example, one option is to utilize the average group cost as reflected on the proposal that the Select Committee approved, with the Actuary determining the assumption for "anti-selection," that is, a number reflecting the fact that some judges will not elect to buy back. That figure could be analyzed in terms of the rounding factor to determine if the cost fell below .005% and thus not impact the rates. If it was somewhat higher, the Actuary could determine what amount, such as 105% of the average group cost figure, would bring the cost below the rounding factor.

Another option is to require the employee-judge to pay what he or she would have paid in a given year of service based on that year's rates and the judge's salary for that year, and also require the employee-judge to pay what the employer would have paid, plus the assumed 8% interest rate. The Actuary could then determine if this payment, taking into account the anti-selection factor, would fall below the rounding factor and therefore not impact the rates. Again, if it was above .005%, some premium (for example, 105%) could be utilized to bring it below the rounding factor. Although this would be a substantially higher cost for the judges with the most experience, we believe it is still fair and would be a good resolution. Either of these options, and perhaps others, would allow currently sitting judges to achieve the same retirement benefits for their service as those judges beginning service before 1988 and after 2007. This is a significant issue of fairness and parity for the judges currently serving in the state of Washington.

We would truly appreciate your help in resolving this issue. We are very interested in meeting with Mr. Smith and his staff to discuss these and other options and understand that he requires your direction to do so.

Sincerely,

Michael E. Cooper
President

SCJA\President's Correspondence\Cooper\ltr Pridemore re pension.doc
cc: Regina McDougall

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December 1, 2005

RECEIVED
DEC 6 - 2005
Office of
The State Actuary

Honorable Bill Fromhold
239 JLOB
PO Box 40600
Olympia, Washington 98504-0600

Dear Representative Fromhold:

As president of the Superior Court Judges' Association, I am writing to thank you for the Select Committee's efforts in reviewing the judges' proposal to restore the defined benefit multiplier as an element of the judges' pension benefits. We also appreciate the efforts of the state actuary's office and particularly Mr. Smith and Mr. Baker in working with us in outlining the proposal.

The purpose of this proposal is to continue to attract and retain highly qualified judges to the Washington judiciary. Restoring the pre-1988 multiplier of 3.5% for years of judicial service will bring Washington to a comparable level of judicial defined retirement benefits provided for judges in the 50 states. Judges come to the bench at mid or late career, unlike most state employees, and therefore have less time to accumulate years of service before they retire. For example, the average age that a judge takes the superior court bench is 47.

This proposal is cost neutral to the state. The proposed benefit is entirely funded by the judges themselves by redirecting the JRA account contributions currently made by the employee-judge and the employer to the PERS programs and by the employee-judge paying an additional sum.

If you have any questions about the proposal to restore the judges' defined benefit multiplier, please do not hesitate to contact me at (206) 240-1042, Judge Leonard Costello at (360) 337-4464 or our lobbyist, Tom Parker at (206) 200-7898.

Sincerely,

Michael J. Trickey, President
Superior Court Judges' Association

cc: SCJA Board
Judge Deborah Fleck
Tom Parker

scja/presidents correspondence/trickey/retirement proposal ltr 12 05

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Kelso, WA 98626-1739
(360) 577-3085

James P. Hutton, *District Five Trustee* (2002-2005)
Yakima County Superior Court
128 N 2nd Street
Yakima, WA 98901-2639
(509) 574-2710 FAX: (509) 574-2701

T. W. Small, *District Six Trustee* (2004-2007)
Chelan County Superior Court
101 Washington Street
Wenatchee, WA 98807-0880
(509) 667-6210 FAX: (509) 667-6588

May 26, 2005

Senator Karen Fraser
Chair, Pension Policy Committee
Olympia, WA

Representative Steve Conway
Vice Chair, Pension Policy Committee
Olympia, WA

Dear Senator Fraser and Representative Conway

On behalf of the superior court judges in Washington State, I respectfully request the Pension Policy Committee review the current benefit formula for judges. Recent independent analysis shows that the benefits of the Washington State Superior Court Judges retirement plan ranks near the bottom of the fifty states. This alarming statistic is in sharp contrast to Washington's judicial reputation as one of the best in the United States.

The superior court judges request the committee consider an improvement to the plan that would increase the current two percent multiplier to three and a half percent for service earned; and set a maximum of 75 percent of pay for the entire benefit. As a possible offset to the increased cost to the state, the judges request the committee explore reducing the state's contribution to the judicial retirement account that is currently set at two and a half percent.

Most of Washington's superior court judges come to the position later in their careers because they want to serve the public good. Our objective in the review is to establish a retirement benefit formula that attracts the best and brightest from the legal community into Washington's judiciary.

Thank you,

Leonard Costello
Immediate Past President

cc: Matt Smith

STATE OF WASHINGTON
1206 Quince Street SE • P.O. Box 41170 • Olympia, WA 98504-1170
360-753-3365 • 360-586-8869 Fax • www.courts.wa.gov

PROPOSED RETIREMENT BENEFIT FORMULA: RESTORING COMPARABILITY TO JUDICIAL RETIREMENT

Purpose

The purpose of this proposal is to attract and retain highly qualified judges to the Washington judiciary. Returning to the pre-1988 multiplier of 3.5% for years of judicial service will bring Washington to a comparable level of judicial defined retirement benefits provided for judges in the 50 states. It is the intent of this proposal that it be cost neutral to the state. This proposal promotes the second goal of the Select Committee on Pension Policy: to recruit and retain a qualified public workforce, and it does so without increasing the long-term employer cost.

Proposed Improvement

If a judge elects this benefit package, this proposal will increase the current 2% multiplier to 3.5% for judicial service earned after the effective date of the legislation, up to a maximum of 75% (average of highest two years for PERS Plan 1; average of highest five consecutive years for PERS Plan 2). The JRA contribution by the employee and the employer will be redirected to the defined benefit package.

Option to Opt In

Current PERS Plan 1 and 2 plan members will have a one-time opportunity to opt to receive this proposed benefit package. Current PERS Plan 3 members will have a one-time opportunity to opt into PERS Plan 2.

New Judges

New judges will be part of the PERS Plan 2 with these judicial benefits after the effective date, unless the judge has been a member of the PERS Plan 1 through prior public employment. In that event, the new judge will continue as a member of the PERS Plan 1 with the 3.5% multiplier up to a maximum of 75% of the average of the highest two years of judicial service.

Applicability

This proposal includes the Superior Court and Court of Appeals judges and the Supreme Court justices. It provides that the District Court judges and elected Municipal Court judges are eligible to participate if approved by their local legislative bodies.

Buy Back Option

Members or their survivors, including terminated and vested members who are not in pay status, will have the option to buy back years of judicial service (including district//municipal court) at the time of retirement or prior to retirement if permissible under current IRS regulations and may use funds in their JRA account for that purpose.

Membership Demographics (as of 9/30/03 for superior court judges; average age at time of appointment or election to superior court is 47)

	Plan 1	Plan 2	Plan 3
Number of Active Members	51	102	7
Average age	58.2	53.4	53.3
Average Annual Salary	$121,996	$121,965	$121,983

Impact on PERS Plan 2/3 Contribution Rates *(includes employer gain-sharing costs)*

	Employee*	Employer
Rate Under 3.5% Prospective Formula	7.57%	7.69%
Rate Under Current Formula (historical avg.)	4.35%	4.44%
Increase Due to Proposed Improvement	3.22%	3.25%
Current JRA Contribution	2.50%	2.50%

*Plan 3 members do not contribute to their defined benefit

Judges opting into this benefit package will pay an additional 1.44% of their salary per month. (The 1.44% is calculated as follows: 3.22% less 2.50% (.722%) x 2 = 1.44%.) To achieve the 3.5% multiplier, judges will pay the additional cost for both the employee and employer to maintain the cost neutral status for the state of this proposal. The judges currently pay 2.25% as a contribution (compared to the historical average of 4.35% above used by the actuary to determine the additional cost of the proposed new benefit). This 2.25% judge-employee contribution is projected to increase to 3.5% on July 1, 2006.

Impact on PERS Plan 1 Contribution Rates

	Employee	Employer
Rate Under Current Formula (fixed in statute)	6.0%	3.38%
Increase Due to Proposed Improvement	3.76%	
Current JRA Contribution	2.50%	2.50%

PERS Plan 1 is not a 50/50 cost sharing Plan as is PERS Plan 2. Judges opting into this benefit package will pay an additional 1.26% of their salary per month after the 5% (2.5% employee contribution and 2.5% employer contribution) to the JRA account is redirected to this benefit.

Current Estimated Cost of Past Service (optional purchase) *(assuming 3.5% multiplier is applied to past service)*

	Plan 1	Plan 2/3
Total Increase in Liability (present value)	$8,518,807	$9,293,296
Average Increase Per Member	$ 167,035	$ 85,260
Average Increase Per Year of Service	$ 8,700	$ 7,077

CERTIFICATION OF ENROLLMENT

SUBSTITUTE HOUSE BILL 2691

Chapter 189, Laws of 2006

59th Legislature
2006 Regular Session

PUBLIC EMPLOYEES RETIREMENT SYSTEM--JUDICIAL RETIREMENT ACCOUNT

EFFECTIVE DATE: 1/1/07

Passed by the House February 11, 2006
Yeas 96 Nays 1

FRANK CHOPP

Speaker of the House of Representatives

Passed by the Senate March 1, 2006
Yeas 43 Nays 0

BRAD OWEN

President of the Senate

Approved March 24, 2006.

CHRISTINE GREGOIRE

Governor of the State of Washington

CERTIFICATE

I, Richard Nafziger, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 2691** as passed by the House of Representatives and the Senate on the dates hereon set forth.

RICHARD NAFZIGER

Chief Clerk

FILED

March 24, 2006 - 1:45 p.m.

Secretary of State
State of Washington

SUBSTITUTE HOUSE BILL 2691

Passed Legislature - 2006 Regular Session

State of Washington 59th Legislature 2006 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Crouse, Fromhold, Conway, Lovick, Bailey, Kenney and Quall; by request of Select Committee on Pension Policy)

READ FIRST TIME 01/30/06.

AN ACT Relating to public retirement benefits for justices and judges; adding a new section to chapter 2.14 RCW; adding new sections to chapter 41.40 RCW; adding new sections to chapter 41.32 RCW; adding new sections to chapter 41.45 RCW; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 2.14 RCW to read as follows:

Beginning January 1, 2007, through December 31, 2007, any member of the public employees' retirement system eligible to participate in the judicial retirement account plan under this chapter may make a one-time irrevocable election, filed in writing with the member's employer, the department of retirement systems, and the administrative office of the courts, to discontinue future contributions to the judicial retirement account plan in lieu of prospective contribution and benefit provisions under this act.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.40 RCW to read as follows:

(1) Beginning January 1, 2007, any newly elected or appointed

supreme court justice, court of appeals judge, or superior court judge shall not participate in the judicial retirement account plan under chapter 2.14 RCW and shall be subject to the benefit and contribution provisions under this act.

(2) Beginning January 1, 2007, any newly elected or appointed supreme court justice, court of appeals judge, or superior court judge, who has not previously established membership in this system, shall become a member of plan 2 and shall be subject to the benefit and contribution provisions under this act.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.32 RCW to read as follows:

Beginning January 1, 2007, any newly elected or appointed supreme court justice, court of appeals judge, or superior court judge, who is a member of plan 1, shall not participate in the judicial retirement account plan under chapter 2.14 RCW in lieu of prospective contribution and benefit provisions under this act.

NEW SECTION. **Sec. 4.** A new section is added to chapter 41.40 RCW to read as follows:

(1) Beginning January 1, 2007, any newly elected or appointed district court judge or municipal court judge, who is not eligible for membership under chapter 41.28 RCW, shall be subject to the benefit and contribution provisions under this act.

(2) Beginning January 1, 2007, any newly elected or appointed district court judge, or municipal court judge, who has not previously established membership in this system, and who is not eligible for membership under chapter 41.28 RCW, shall become a member of plan 2 and shall be subject to the benefit and contribution provisions under this act.

NEW SECTION. **Sec. 5.** A new section is added to chapter 41.40 RCW to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 1 or plan 2 employed as a supreme court justice, court of appeals judge, or superior court judge may make a one-time irrevocable election, filed in writing with the member's employer, the department, and the administrative office of the courts, to accrue an additional

benefit equal to one and one-half percent of average final compensation for each year of future service credit from the date of the election in lieu of future employee and employer contributions to the judicial retirement account plan under chapter 2.14 RCW.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by an additional one and one-half percent per year of service for the period in which the member served as a justice or judge prior to the election. The member shall pay, for the applicable period of service, the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier as determined by the director. This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

NEW SECTION. **Sec. 6.** A new section is added to chapter 41.40 RCW to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 1 or plan 2 employed as a district court judge or municipal court judge may make a one-time irrevocable election, filed in writing with the member's employer and the department, to accrue an additional benefit equal to one and one-half percent of average final compensation for each year of future service credit from the date of the election.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by one and one-half percent per year of service for the period in which the member served as a judge prior to

the election. The member shall pay, for the applicable period of service, the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier as determined by the director. This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

NEW SECTION. **Sec. 7.** A new section is added to chapter 41.32 RCW to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 1 employed as a supreme court justice, court of appeals judge, or superior court judge may make a one-time irrevocable election, filed in writing with the member's employer, the department, and the administrative office of the courts, to accrue an additional benefit equal to one and one-half percent of average final compensation for each year of future service credit from the date of the election.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by one and one-half percent per year of service for the period in which the member served as a justice or judge prior to the election. The member shall pay, for the applicable period of service, the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier as determined by the director. This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay

all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

NEW SECTION. **Sec. 8.** A new section is added to chapter 41.40 RCW to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 3 employed as a supreme court justice, court of appeals judge, or superior court judge may make a one-time irrevocable election, filed in writing with the member's employer, the department, and the administrative office of the courts, to accrue an additional plan 3 defined benefit equal to six-tenths percent of average final compensation for each year of future service credit from the date of the election in lieu of future employer contributions to the judicial retirement account plan under chapter 2.14 RCW.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by six-tenths percent per year of service for the period in which the member served as a justice or judge prior to the election. The member shall pay, for the applicable period of service, the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier as determined by the director. This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by

the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(3) A member who chooses to make the election under subsection (1) of this section shall contribute a minimum of seven and one-half percent of pay to the member's defined contribution account.

NEW SECTION. **Sec. 9.** A new section is added to chapter 41.40 RCW to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 3 employed as a district court judge or municipal court judge may make a one-time irrevocable election, filed in writing with the member's employer and the department, to accrue an additional plan 3 defined benefit equal to six-tenths percent of average final compensation for each year of future service credit from the date of the election.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by six-tenths percent per year of service for the period in which the member served as a judge prior to the election. The member shall pay, for the applicable period of service, the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier as determined by the director. This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to

determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(3) A member who chooses to make the election under subsection (1) of this section shall contribute a minimum of seven and one-half percent of pay to the member's defined contribution account.

NEW SECTION. **Sec. 10.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 1" to read as follows:

(1) In lieu of the retirement allowance provided under RCW 41.40.185, the retirement allowance payable for service as a supreme court justice, court of appeals judge, or superior court judge, for a member who elects to participate under section 5(1) of this act, shall be equal to three and one-half percent of average final compensation for each year of service earned after the date of the election. The total retirement benefit accrued or purchased under this act in combination with benefits accrued during periods served prior to the election shall not exceed seventy-five percent of average final compensation.

(2) In lieu of the retirement allowance provided under RCW 41.40.185, the retirement allowance payable for service as a supreme court justice, court of appeals judge, or superior court judge, for those justices or judges newly elected or appointed after the effective date of this act, shall be equal to three and one-half percent of average final compensation for each year of service after the effective date of this act. The total retirement benefits accrued under this act in combination with benefits accrued during periods served prior to the effective date of this act shall not exceed seventy-five percent of average final compensation.

NEW SECTION. **Sec. 11.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 1" to read as follows:

(1) In lieu of the retirement allowance provided under RCW 41.32.498, the retirement allowance payable for service as a supreme court justice, court of appeals judge, or superior court judge, for those justices or judges who elected to participate under section 7(1) of this act, shall be equal to three and one-half percent of average final compensation for each year of service earned after the date of the election. The total retirement benefit accrued or purchased under

this act in combination with benefits accrued during periods served prior to the election shall not exceed seventy-five percent of average final compensation.

(2) In lieu of the retirement allowance provided under RCW 41.32.498, the retirement allowance payable for service as a supreme court justice, court of appeals judge, or superior court judge, for those justices or judges newly elected or appointed after the effective date of this act, shall be equal to three and one-half percent of average final compensation for each year of service after the effective date of this act. The total retirement benefits accrued under this act in combination with benefits accrued during periods served prior to the effective date of this act shall not exceed seventy-five percent of average final compensation.

NEW SECTION. **Sec. 12.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 1" to read as follows:

(1) In lieu of the retirement allowance provided under RCW 41.40.185, the retirement allowance payable for service as a district court judge or municipal court judge, for those judges who elected to participate under section 6(1) of this act, shall be equal to three and one-half percent of average final compensation for each year of service earned after the election. The total retirement benefit accrued or purchased under this act in combination with benefits accrued during periods served prior to the election shall not exceed seventy-five percent of average final compensation.

(2) In lieu of the retirement allowance provided under RCW 41.40.185, the retirement allowance payable for service as a district court judge, or municipal court judge, for those judges newly elected or appointed after the effective date of this act, and who are not eligible for membership under chapter 41.28 RCW, shall be equal to three and one-half percent of average final compensation for each year of service after the effective date of this act. The total retirement benefits accrued under this act in combination with benefits accrued during periods served prior to the effective date of this act shall not exceed seventy-five percent of average final compensation.

NEW SECTION. **Sec. 13.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 2" to read as follows:

(1) In lieu of the retirement allowance provided under RCW 41.40.620, the retirement allowance payable for service as a supreme court justice, court of appeals judge, or superior court judge, for those justices or judges who elected to participate under section 5(1) of this act, shall be equal to three and one-half percent of average final compensation for each year of service earned after the election. The total retirement benefit accrued or purchased under this act in combination with benefits accrued during periods served prior to the election shall not exceed seventy-five percent of average final compensation.

(2) In lieu of the retirement allowance provided under RCW 41.40.620, the retirement allowance payable for service as a supreme court justice, court of appeals judge, or superior court judge, for those justices or judges newly elected or appointed after the effective date of this act, shall be equal to three and one-half percent of average final compensation for each year of service after the effective date of this act. The total retirement benefits accrued under this act in combination with benefits accrued during periods served prior to the effective date of this act shall not exceed seventy-five percent of average final compensation.

NEW SECTION. **Sec. 14.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 2" to read as follows:

(1) In lieu of the retirement allowance provided under RCW 41.40.620, the retirement allowance payable for service as a district court judge or municipal court judge for those judges who elected to participate under section 6(1) of this act shall be equal to three and one-half percent of the average final compensation for each year of such service earned after the election. The total retirement benefit accrued or purchased under this act in combination with benefits accrued during periods served prior to the election shall not exceed seventy-five percent of average final compensation.

(2) In lieu of the retirement allowance provided under RCW 41.40.620, the retirement allowance payable for service as a district court judge, or municipal court judge, for those judges newly elected or appointed after the effective date of this act, and who are not eligible for membership under chapter 41.28 RCW, shall be equal to three and one-half percent of average final compensation for each year

of service after the effective date of this act. The total retirement benefits accrued under this act in combination with benefits accrued during periods served prior to the effective date of this act shall not exceed seventy-five percent of average final compensation.

NEW SECTION. **Sec. 15.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 3" to read as follows:

In lieu of the retirement allowance provided under RCW 41.40.790, the retirement allowance payable for service as a supreme court justice, court of appeals judge, or superior court judge, for those justices or judges who elected to participate under section 8(1) of this act, shall be equal to one and six-tenths percent of average final compensation for each year of service earned after the election. The total retirement benefit accrued or purchased under this act in combination with benefits accrued during periods served prior to the election shall not exceed thirty-seven and one-half percent of average final compensation.

NEW SECTION. **Sec. 16.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 3" to read as follows:

In lieu of the retirement allowance provided under RCW 41.40.790, the retirement allowance payable for service as a district court judge or municipal court judge, for those judges who elected to participate under section 9(1) of this act, shall be equal to one and six-tenths percent of average final compensation for each year of service earned after the election. The total retirement benefit accrued or purchased under this act in combination with benefits accrued during periods served prior to the election shall not exceed thirty-seven and one-half percent of average final compensation.

NEW SECTION. **Sec. 17.** A new section is added to chapter 41.45 RCW to read as follows:

(1) The required employer contribution rate in support of public employees' retirement system members employed as supreme court justices, court of appeals judges, and superior court judges who elect to participate under section 5(1) or 8(1) of this act, or who are newly elected or appointed after the effective date of this act, shall

consist of the public employees' retirement system employer contribution rate established under this chapter plus two and one-half percent of pay.

(2) The required contribution rate for members of the public employees' retirement system plan 2 employed as supreme court justices, court of appeals judges, and superior court judges who elect to participate under section 5(1) or 8(1) of this act, or who are newly elected or appointed after the effective date of this act, shall be two hundred fifty percent of the member contribution rate for the public employees' retirement system plan 2 established under this chapter less two and one-half percent of pay.

(3) The required contribution rate for members of the public employees' retirement system plan 1 employed as supreme court justices, court of appeals judges, and superior court judges who elect to participate under section 5(1) of this act, or who are newly elected or appointed after the effective date of this act, shall be the contribution rate established under RCW 41.40.330 plus three and seventy-six one-hundredths percent of pay.

NEW SECTION. **Sec. 18.** A new section is added to chapter 41.45 RCW to read as follows:

(1) The required employer contribution rate in support of teachers' retirement system members employed as supreme court justices, court of appeals judges, and superior court judges who elect to participate under section 7(1) of this act, or who are newly elected or appointed after the effective date of this act, shall equal the teachers' retirement system employer contribution rate established under this chapter.

(2) The required contribution rate for members of the teachers' retirement system plan 1 employed as supreme court justices, court of appeals judges, and superior court judges who elect to participate under section 7(1) of this act, or who are newly elected or appointed after the effective date of this act, shall be the deductions established under RCW 41.50.235 plus six and twenty-six one-hundredths percent of pay.

NEW SECTION. **Sec. 19.** A new section is added to chapter 41.45 RCW to read as follows:

(1) The required employer contribution rate in support of public employees' retirement system members employed as district court judges and municipal court judges who elect to participate under section 6(1) or 9(1) of this act, or who are newly elected or appointed after the effective date of this act, shall equal the public employees' retirement system employer contribution rate established under this chapter.

(2) The required contribution rate for members of the public employees' retirement system plan 2 employed as district court judges or municipal court judges who elect to participate under section 6(1) or 9(1) of this act, or who are newly elected or appointed after the effective date of this act, shall be two hundred fifty percent of the member contribution rate for the public employees' retirement system plan 2 established under this chapter.

(3) The required contribution rate for members of the public employees' retirement system plan 1 employed as district court judges or municipal court judges who elect to participate under section 5(1) of this act, or who are newly elected or appointed after the effective date of this act, shall be the contribution rate established under RCW 41.40.330 plus six and twenty-six one-hundredths percent of pay.

NEW SECTION. **Sec. 20.** This act takes effect January 1, 2007.

Passed by the House February 11, 2006.
Passed by the Senate March 1, 2006.
Approved by the Governor March 24, 2006.
Filed in Office of Secretary of State March 24, 2006.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/1/06	SHB 2691

SUMMARY OF BILL:

This bill impacts the Public Employees Retirement System (PERS) and the Judicial Retirement Account Plan (JRA).

The bill allows State-employed judges – Supreme Court Justices, Court of Appeals Judges, and Superior Court Judges -- the option to cease participation in the JRA Plan and establish a prospective 3.5% per year benefit multiplier within PERS 1 and PERS 2 with a maximum retirement allowance of 75% of average final compensation. Plan 3 justices and judges would also have the option to cease participation in the JRA Plan and establish a prospective 1.6% per year multiplier within PERS 3 with a maximum retirement allowance of 37.5% of average final compensation.

The contribution rate for PERS 2 State-employed Judges who elect to participate in these provisions would be 250% of the Plan 2 member contribution rate less 2.5% of pay. PERS 3 member Judges would be required to contribute at least 7.5% of pay to their member accounts. PERS 1 member Judges would be required to contribute an additional 3.76% of pay beyond the current 6.0% statutory rate.

As an employer, the State would be responsible for the existing employer contributions, plus an additional 2.5% of pay. Former contributions to the JRA would be redirected to support these benefits.

The bill also allows District Court and Municipal Court judges, who do not participate in the JRA, the option to establish a prospective 3.5% per year benefit multiplier within PERS 1 and PERS 2 with a maximum retirement allowance of 75% of average final compensation. Plan 3 District and Municipal judges would also have the option to establish a prospective 1.6% per year multiplier within PERS 3 with a maximum retirement allowance of 37.5% of average final compensation.

District and Municipal Judge members who elect to participate in these benefit enhancements would be responsible for all additional contributions above the existing employer contributions.

PERS 1 and PERS 2 members would also be allowed to purchase the 3.5% benefit multiplier for their past service as judges, and Plan 3 members would be allowed to purchase the 1.6% benefit multiplier for their past service as judges, using lump-sum payments, eligible rollover, direct rollover, or trustee-to-trustee transfers from eligible retirement plans.

Newly elected or appointed Supreme Court Justices, Court of Appeals Judges, Superior Court Judges, District Court Judges, and Municipal Court Judges would become members of PERS 2 and be eligible for the 3.5% per year benefit multiplier and a maximum retirement benefit of 75% of average final compensation. Newly elected judges with prior PERS service would also participate in these provisions.

Effective Date: January 1, 2007

CURRENT SITUATION:

Since July 1, 1988, newly elected or appointed judges have become members of the PERS Plan 2. Since March 1, 2002, newly elected or appointed judges have had the choice to enter either PERS 2 or PERS 3.

In addition to a PERS benefit, state-employed judges (Supreme Court Justices, Court of Appeals Judges, and Superior Court Judges) are also eligible for a supplemental benefit from the Judicial Retirement Account Plan (JRA) — a defined contribution (DC) plan. To fund the JRA benefit, members and their employer (the state) each contribute 2.5 percent of pay. Upon retirement, member judges are eligible for their PERS benefits, plus a JRA distribution. That distribution may be in the form of a lump-sum or other payment option as adopted by the Administrator for the Courts.

MEMBERS IMPACTED:

We estimate that 210 Superior Court Judges, Court of Appeals Judges, and Supreme Court Justices; and 230 District and Municipal Court judges, out of the total 156,256 active members of PERS would be affected by this bill.

Increasing the benefit accrual formula from 2.0% to 3.5% in PERS 1 and PERS 2 represents a 75% increase in accrued benefits for every year of service earned under the new formula. We estimate that for a typical member impacted by this bill, the maximum increase in annual benefits would be between $30,000 and $48,000 a year.

Increasing the benefit accrual formula from 1.0% to 1.6% in PERS 3 represents a 60% increase in accrued benefits for every year of service earned under the new formula. We estimate that for a typical member impacted by this bill, the maximum increase in annual benefits would be between $12,000 and $20,000 a year.

ASSUMPTIONS:

We assumed that all judges have the same demographic, salary, and plan membership profile, and cost, as the Superior Court Judges. We assumed that all eligible judges will elect to receive the enhanced benefits. We assumed the increase in benefit formula would not change retirement behavior. In determining required member and state contributions, we assumed all JRA contributions are redirected to the pension trust fund to fund the benefit improvements. We assume that the increased contribution rates specified in the bill are sufficient to pay for the increased liabilities for the judges.

FISCAL IMPACT:

Description:

This bill would increase retirement benefits by changing the 2% benefit accrual rate per year of service in PERS 1 and PERS 2 to 3.5% and by changing the 1.0% benefit accrual rate per year of service in PERS 3 to 1.6% for service earned after the effective date of the bill. This bill would also increase contributions to the system by redirecting contributions currently being made to the JRA to the PERS trust funds and requiring judges to pay a higher contribution rate to fully fund the increased benefits. Judges who do not participate in the JRA would need to make an additional contribution of at least 5% to cover the cost of the benefit improvement. Employer contribution rates do not change since members' are fully funding the cost of benefit improvements not covered by redirecting the JRA contributions.

Provisions allowing PERS 1 and PERS 2 members to purchase the 3.5% benefit multiplier and PERS 3 members to purchase the 1.6% benefit multiplier for past service are assumed to have no fiscal impact since the member is charged the full actuarial cost.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)	System: PERS			
	Current	Increase	Increase	Total
		Superior Court Judges*	District & Municipal Court Judges	
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)				
PERS 1	$12,818	$2	$2	$12,822
PERS 2/3	$15,288	$12	$14	$15,314
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)				
PERS 1	$2,563	$0	$0	$2,563
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)				
PERS 1	$2,254	$0	$0	$2,254
PERS 2/3	($2,927)	$0	$0	($2,927)

Increase in Contribution Rates:
(Effective 1/1/2007)

	Superior Court Judges*	District & Municipal Court Judges
Current Members		
Employee (Plan 1)	3.76%	6.26%
Employee (Plan 2)	2.75%	5.25%
Employer State	0.00%	0.00%
New Entrants***		
Employee**	4.19%	6.69%
Employer State	0.00%	0.00%

**Includes Supreme Court Justices and Court of Appeals Judges. Rates do not reflect 2.5 percent member contribution to JRA.*
***Projected long-term contribution rates beginning in 2013.*
****Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required member contribution rates, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS Superior Court Judges	PERS District & Municipal Court Judges	Total
2006-2007			
State:			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	$0.0	$0.0	$0.0
Total State	$0.0	$0.0	$0.0
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.0	$0.0
Total Employee	$0.4	$0.9	$1.3
2007-2009			
State:			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	$0.0	$0.0	$0.0
Total State	$0.0	$0.0	$0.0
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.0	$0.0
Total Employee	$2.4	$4.6	$7.0

Costs (in Millions):	PERS Superior Court Judges	PERS District & Municipal Court Judges	Total
2006-2031			
State:			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	$0.0	$0.0	$0.0
Total State	$0.0	$0.0	$0.0
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.0	$0.0
Total Employee	$60.7	$107.7	$168.4

State Actuary's Comments:

The amendment removes the optional local government employer 2.5 percent of pay contribution, and we had already assumed that local government employers would not opt to make the additional contribution.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, and assumptions as those used in preparing the September 30, 2003 & 2004 actuarial valuation reports of the Public Employee's Retirement System. Additional data for the current number and salaries of judges was provided by the Office of the Administrator of the Courts and was not audited.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

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

5. This fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.