

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1718 HB	<b>Title:</b> PSERS/offender nursing care
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## Estimated Cash Receipts

Agency Name	2015-17		2017-19		2019-21	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Social and Health Services	Non-zero but indeterminate cost and/or savings. Please see discussion.					
<b>Total \$</b>	0	0	0	0	0	0

## Estimated Expenditures

Agency Name	2015-17			2017-19			2019-21		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Retirement Systems	1.2	0	241,442	.0	0	0	.0	0	0
Department of Social and Health Services	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Department of Veterans Affairs	Fiscal note not available								
Department of Corrections	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Actuarial Fiscal Note - State Actuary	.0	2,600,000	4,400,000	.0	800,000	1,100,000	.0	1,200,000	1,800,000
<b>Total</b>	1.2	\$2,600,000	\$4,641,442	0.0	\$800,000	\$1,100,000	0.0	\$1,200,000	\$1,800,000

Local Gov. Courts *									
Loc School dist-SPI									
Local Gov. Other **	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

## Estimated Capital Budget Impact

NONE

<b>Prepared by:</b> Jane Sakson, OFM	<b>Phone:</b> 360-902-0549	<b>Date Published:</b> Preliminary 2/ 9/2015
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\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

ENPID: 39311

FNS029 Multi Agency rollout

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1718 HB	<b>Title:</b> PSERS/offender nursing care	<b>Agency:</b> 124-Department of Retirement Systems
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	2.5	0.0	1.2	0.0	0.0
<b>Account</b>					
Department of Retirement Systems	241,442	0	241,442	0	0
Expense Account-State 600-1					
<b>Total \$</b>	241,442	0	241,442	0	0

### Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 01/26/2015
Agency Preparation: Dave Nelsen	Phone: 360-664-7304	Date: 01/30/2015
Agency Approval: Marcie Frost	Phone: 360-664-7224	Date: 01/30/2015
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/30/2015

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

This bill expands eligibility for the Public Safety Employees' Retirement System (PSERS).

Section 1(12) adds the Department of Veterans Affairs (DVA) and the Department of Social and Health Services (DSHS) to the list of agencies who are PSERS employers.

Section 1(19) expands the definition of "member" in PSERS by:

- Adding employees who have nursing care/custody/safety responsibilities, who are required to complete specific training and who work in specific institutions or DSHS centers, and
- Adding employees who have nursing care/custody/safety responsibilities for offender/patient populations in centers operated by city/county/state corrections departments, or DVA.

The new Section 2 adds language to specify effective dates and member options:

- Members who are eligible for PSERS can remain in Plan 2 or 3 of the Public Employees' Retirement System (PERS) or become dual (PERS/PSERS) members effective January 1, 2016.
- Eligible members will have a two-month election period (January and February of 2016) to make the choice.
- PERS Plan 2 or 3 members who previously had a choice to transfer into PSERS are not excluded from this new election period, they would also have a new "transfer window" if eligible.
- During the election period, PERS Plan 2 or 3 members remain in PERS Plan 2 or 3 until they elect to prospectively move to PSERS (PSERS membership would begin on election date).
- Eligible members who don't elect to transfer before the election period closes will remain in PERS Plan 2 or 3.
- PERS 1 members do not have an option to transfer into PSERS.
- All new (eligible) employees will become members of PSERS. (They will not have a choice to enter PERS.)

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

No impact.

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

### ADMINISTRATIVE ASSUMPTIONS

- The estimated number of state employees newly added to PSERS eligibility and are expected to be eligible for this transfer opportunity is approximately 4,600.
- The estimated number of city/county/state corrections employees newly added to PSERS eligibility and are expected to be eligible for this transfer opportunity is fewer than 500.
- Employers would be responsible to notify DRS of the employees who are eligible for this transfer opportunity.
- DRS will provide informational packets to the eligible members, including a letter explaining their options,

an election form, dual membership information, benefit estimate worksheets and member handbooks for PERS and PSERS.

- DRS will implement a special phone line for members requesting information on this transfer opportunity.
- DRS will create a new transmittal type code for employer reporting purposes.
- DRS will create and provide additional specialized training to Retirement Specialists to ensure that they are able to address all questions from these members about their choice, including possible scenarios of dual membership and Early Retirement Factor (ERF) choice.
- DRS will provide customized on-site seminars to educate eligible members on the difference between PSERS and PERS Plans 2 and 3, benefits of dual membership, and ERF options so that they can make an informed decision regarding this transfer opportunity.

The assumptions above were used in developing the following workload impacts and cost estimates.

#### BENEFITS/CUSTOMER SERVICE

Retirement Specialists (RSs) will develop and provide training for team members in order to ensure that eligible transfer members are fully informed. RSs will also assist the review of member communications. Education and Outreach team members will develop seminar presentations, and provide training and education to eligible transfer members, either at their workplace or via the internet.

Retirement Specialist 3 – 1,392 hours (salary/benefits) = \$48,693

Benefit Marketing Representative – 1,044 hours (salary/benefits) = \$39,731

Seminar expenses (travel and per diem) = \$3,200

Total Estimated Benefits/Customer Service Costs = \$91,624

#### MEMBER COMMUNICATIONS

The agency will develop educational materials, forms, charts, videos, podcasts, website and webinars in order to communicate all necessary information to eligible members in order for them to make an informed decision regarding their transfer opportunity.

Communications Consultant 5 – 1,362 hours (salary/benefits) = \$61,615

Info Tech Specialist 4 – 284 hours (salary/benefits) = \$13,130

Materials and postage = \$16,541

Total Estimated Member Communications Costs = \$91,286

#### EMPLOYER SERVICES

DSHS and DVA will be trained on new reporting requirements, eligibility, type code, etc. In addition, employer support services will create training materials and provide employer training, including web sessions.

Info Tech Specialist 3 – 72 hours (salary/benefits) = \$3,051

#### AUTOMATED SYSTEMS

The agency's automated systems will need to be modified to add new employer reporting groups, edits and rules. Business requirements will be developed and User Acceptance Testing will be needed.

Info Tech Specialist 4 - 90 hours (salary/benefits) = \$4,161

Contracted programming – 38 hours @ \$95 per hour = \$3,610

DES\* cost - 3 weeks @ \$500 per week = \$1,500

Total Estimated Automated Systems Costs = \$9,271

\*cost for mainframe computer processing time and resources at Department of Enterprise Services (DES)

## PROJECT MANAGEMENT

Project oversight will be required to implement this bill. A project manager will set the timelines for development of training and communication; monitor progress to ensure materials, automated systems, personnel, etc. are ready for the transfer window; and document the associated processes to effectively transition the project into ongoing operations.

Project Manager – 870 hours (salary/benefits) = \$46,210

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL: \$241,442

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	2.5		1.2		
A-Salaries and Wages	158,527		158,527		
B-Employee Benefits	58,064		58,064		
C-Professional Service Contracts					
E-Goods and Other Services	21,651		21,651		
G-Travel	3,200		3,200		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$241,442	\$0	\$241,442	\$0	\$0

### III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2016	FY 2017	2015-17	2017-19	2019-21
Benefits Marketing Rep	57,240	0.5		0.3		
Communications Consultant 5	69,756	0.7		0.3		
Info Tech Specialist 3	64,740	0.0		0.0		
Info Tech Specialist 4	71,496	0.2		0.1		
Project Manager	83,496	0.4		0.2		
Retirement Specialist 3	51,864	0.7		0.3		
<b>Total FTE's</b>	398,592	2.5		1.2		0.0

## **Part IV: Capital Budget Impact**

NONE

No impact.

## **Part V: New Rule Making Required**

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

Existing rules will need to be modified.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1718 HB	<b>Title:</b> PSERS/offender nursing care	<b>Agency:</b> 300-Dept of Social and Health Services
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

### Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

### Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

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- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 01/26/2015
Agency Preparation: Bill Jordan	Phone: 360-902-8183	Date: 01/28/2015
Agency Approval: Dan Winkley	Phone: 360-902-8179	Date: 01/28/2015
OFM Review: Danielle Cruver	Phone: (360) 902-0575	Date: 01/28/2015

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Section 1 (19) amends RCW 41.37.010 definition of “Member” to include (d) whose primary responsibility is to provide nursing care to, or to ensure the custody and safety of, offender, probationary, or patient populations; and who is in a position that requires completion of defensive tactics training or de-escalation training; and who is employed by one of the following state institutions or centers operated by the Department of Social and Health Services (DSHS):

- (i) Juvenile Rehabilitation Administration Institutions;
- (ii) Mental Health hospitals;
- (iii) Child Study and Treatment centers;
- (iv) Special Commitment centers;
- (v) Institutions or residential sites that serve developmentally disabled patients or offenders

Section 2 adds a new section to RCW 41.37 to allow employees at these locations to become members of the public safety employees’ retirement system plan 2, if they elect to.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

If this bill should pass DSHS can no longer earn above the lidded grant maximum for a portion of the additional cost, therefore, it is assumed that GF-State will be needed. Federal funds that can be earned such as Food Stamps, Title 19, Child Support, are based on the DSHS Compensation Impact Model (CIM) funding percentages.

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

Section 2 adds a new section to RCW 41.37 to allow employees at these locations to become members of the public safety employees’ retirement system plan 2, if they elect to.

The public safety employees' retirement system employer contribution rate is 10.54%. The rate for the public employees' retirement system is 9.21%.

There is an indeterminate cost for this bill. It is unknown how many employees will elect to switch between retirement plans, resulting in increased costs for DSHS.

For every \$500,000 in salary costs for employees that might elect to switch plans, the increased costs would be:

\$500,000 x 10.54%	=	\$53,000
\$500,000 x 9.21%	=	\$46,000
Increased Costs		\$7,000

## Part III: Expenditure Detail



**Part IV: Capital Budget Impact**

NONE

**Part V: New Rule Making Required**

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1718 HB	<b>Title:</b> PSERS/offender nursing care	<b>Agency:</b> 310-Department of Corrections
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

### Estimated Capital Budget Impact:

NONE

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

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- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 01/26/2015
Agency Preparation: Karen Barrett	Phone: (360)725-8510	Date: 01/31/2015
Agency Approval: Sarian Scott	Phone: (360) 725-8270	Date: 01/31/2015
OFM Review: Trisha Newport	Phone: (360) 902-0417	Date: 02/03/2015

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

The bill concerns membership in a retirement plan known as the Public Safety Employees Retirement System (PSERS). Existing law declares the Washington State Department of Corrections (DOC) to be a PSERS employer.

Section 1(19)(e) amends RCW 41.37.010 to expand the definition of "member" by adding persons whose primary duty is to render nursing care to institutionalized offender populations and work full-time for a municipal, county or State correctional center or institution.

Section 2 is a new section for PSERS chapter RCW 41.37.

Section 2(1) says an employee of a PSERS employer who was or is a member of plan 2 or plan 3 of the Public Employees Retirement System (PERS) come January 1, 2016 and meets the criteria for PSERS membership, has options to exercise. Such individuals may:

(a) remain in PERS or

(b) join PSERS plan 2 as a dual member as provided in chapter 41.54 RCW but PERS service credits may not be transferred.

Section 2(2) defines the election period as the calendar days between January 1, 2016 and March 1, 2016.

Section 2(3) clarifies that members who elect to join PSERS will have their membership begin prospectively from the date of their election.

Section 2(4) closes the election option and states that if after March 1, 2016, the member did not make an election to join PSERS, he or she will remain in PERS plan 2 or plan 3.

Section 2(5) clarifies that the option to elect to join PSERS does not extend to persons who may meet the criteria but are members of PERS Plan 1.

Section 2(6) declares that all new employees hired on or after January 1, 2016 by a PSERS employer are to be enrolled in PSERS when they meet PSERS eligibility criteria.

Effective date is assumed 90 days after adjournment of session in which this bill is passed.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

None. Our impacts are general fund state.

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

The DOC is a PSERS employer. We employ a variety of nursing care professionals, which at last payroll totaled 395 individuals who are not members of the Public Employees Retirement System (PERS) plan 1. It is unknown how many will elect to change plans, and as such fiscal impact is indeterminate. For illustration, and given 395 staff, we assume an estimated cost per Fiscal Year (FY) of \$290,363. The cost of this measure is attributed to the higher employer contribution rate for PSERS as compared to Plans 2 and 3 of PERS.

**Assumptions:**

1. For illustration, we assumed 10.54% of salary for PSERS, and calculated the difference from current contributions DOC is making monthly for nursing professionals and supervisors. We did not include non-permanent contract nurses relying on “permanent” as a proxy for “full time” status. If other staff qualify our costs will increase. We used an average contribution rate of 9.21% for current retirement plans. This position-based analysis considers 265 nursing professionals and 25 clinical supervisors in our chain of command in offender care.

Future Employer Contributions:	\$ 2,298,933 per FY
Less Current Employer Contributions:	\$ 2,008,570 per FY
Difference (Cost impact):	\$ 290,363 per FY

The likelihood of all qualified nursing professionals opting to join PSERS is indeterminate. The estimate draws upon records available from the Human Resource Management System (HRMS) for the state calendar year ending December, 2014, to size the proposed membership change to DOC.

2. Election notice would be given to any nursing care professional and supervisor on record in the DOC chain of command by no later than November 1, 2015.
3. We assume 100% hundred percent of those permanent staff able to join PSERS would elect to join by March 1, 2016.
4. Employer contributions would be retroactively adjusted from start of calendar year for new PSERS members by no later than the June 10th payroll giving DOC ninety days to process benefit changes for affected employees.
5. DOC would absorb the cost to run the PSERS election called out in Section 2 and work in step with the Washington State Department of Retirement Systems as it notifies newly eligible nursing professionals and clinical or administrative supervisors across prison facilities and correctional centers.

### **Part III: Expenditure Detail**

### **Part IV: Capital Budget Impact**

NONE

### **Part V: New Rule Making Required**

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1718 HB	<b>Title:</b> PSERS/offender nursing care	<b>Agency:</b> AFN-Actuarial Fiscal Note - State A
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## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
<b>Account</b>					
All Other Funds-State 000-1	700,000	1,100,000	1,800,000	300,000	600,000
General Fund-State 001-1	1,000,000	1,600,000	2,600,000	800,000	1,200,000
<b>Total \$</b>	<b>1,700,000</b>	<b>2,700,000</b>	<b>4,400,000</b>	<b>1,100,000</b>	<b>1,800,000</b>

### Estimated Capital Budget Impact:

NONE

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- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 01/26/2015
Agency Preparation: Darren Painter	Phone: 360-786-6155	Date: 02/09/2015
Agency Approval: Matt Smith	Phone: 360-786-6147	Date: 02/09/2015
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/09/2015

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

NONE

## Part IV: Capital Budget Impact

NONE

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

## SUMMARY OF RESULTS

**BRIEF SUMMARY OF BILL:** This bill adds new members to PSERS and provides a transfer option for eligible PERS 2/3 members.

### COST SUMMARY

Impact on Contribution Rates (Effective 09/01/2015) - Current Employees Only		
Fiscal Years 2015-2017 State Budget	PERS	PSERS
Employee (Plan 2)	0.02%	0.34%
Total Employer	0.02%	0.34%

Budget Impacts			
(Dollars in Millions)	2015-2017	2017-2019	25-Year
General Fund-State	\$2.6	\$0.8	\$86.7
Local Government	\$3.2	\$2.7	\$24.2
Total Employer	\$7.6	\$3.7	\$168.6

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

### HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ Moving members from PERS to PSERS results in an expected cost because members can retire earlier and receive larger benefits under PSERS.
- ❖ We relied on data from DRS to determine the number of impacted members. The estimated cost excludes impacts from affected local government employees and employees who previously declined an opportunity to transfer to PSERS due to lack of data.
- ❖ The actual cost of this bill depends on the actual number, age, and salary of members who elect to transfer from PERS to PSERS.
  - If about 2,900 of the 4,100 members we identified transfer, we expect the costs noted above.
  - If only 25 percent of the most costly members transfer, the 2015-17 impact would be about half the amounts noted above.
  - If no members transfer, the 25-year total employer cost would be about 70 percent of the cost noted above.
- ❖ We did not analyze how the bill affects the financial risks to the affected systems. We expect the changes in financial risks to be minor in the context of all the state pensions systems, but material to PSERS.

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

## WHAT IS THE PROPOSED CHANGE?

### Summary Of Benefit Improvement

This bill impacts the following systems:

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

This bill expands PSERS membership to include eligible security staff and nurses employed by certain state institutions and local corrections departments. The bill provides a transfer option for current PERS 2/3 members in PSERS-eligible positions to transfer to PSERS for future service only. The bill also adds two new employers to the statutory list of PSERS employers.

- ❖ Department of Social and Health Services (DSHS).
- ❖ Department of Veterans' Affairs (DVA).

The bill establishes separate eligibility requirements for DSHS employees and other employees groups.

DSHS employees must meet the following criteria to be eligible for PSERS.

- ❖ Primary responsibility to provide nursing care to, or ensure the custody and safety of, offender, probationary, and patient populations.
- ❖ Employed by one of the following DSHS institutions or centers: Juvenile Rehabilitation Administration, mental health hospitals, Child Study and Treatment Center, Special Commitment Center, or an institution or residential site that serves developmentally disabled patients or offenders.
- ❖ In a position that requires the completion of defensive tactics or de-escalation training.
- ❖ Supervise eligible members that meet the above criteria.

Employees of the Department of Corrections (DOC), DVA, a city or county corrections department, or a public corrections entity must meet the following criteria to be eligible for PSERS.

- ❖ Primary responsibility to provide nursing care to offender and patient populations.
- ❖ Supervise eligible members that meet the above criteria.

Under the bill, eligible new employees hired on or after January 1, 2016, will automatically become members of PSERS. Current PERS 2/3 members meeting the PSERS eligibility requirements are allowed to transfer to PSERS between January 1, 2016, and March 1, 2016. This includes PERS 2/3 members who



declined the opportunity to transfer to PSERS when the plan was first opened. If an employee elects to transfer they will become a dual member and no PERS service credit may be transferred.

Effective Date: 90 days after session.

### **What Is The Current Situation?**

PSERS was established in 2006 for public safety type positions and is generally comprised of corrections officers and limited authority law enforcement officers.

DSHS and DVA are not currently included in the statutory list of PSERS employers. However, city and county corrections departments, public corrections entities, and the DOC are currently included. Employees of DSHS and DVA, and nurses working in state and local correctional facilities, are generally members of PERS.

PERS employees have a normal retirement age of 65 with five years of service in Plan 2 or 65 with up to ten years of service (depending on hire age) in Plan 3. Early retirement eligibility begins at age 55 with 20 years of service for Plan 2 members or age 55 with ten years of service for Plan 3 and is subject to certain reduction factors.

PSERS generally has earlier normal retirement benefits and higher disability benefits than PERS 2/3. Normal retirement age in PSERS is 65 with five years of total service or 60 with ten years of PSERS service. Early retirement eligibility begins at age 53 with twenty years of total service and is subject to certain reduction factors. Disability benefits equal the accrued benefit, actuarially reduced from age 60 (age 65 in PERS 2/3).

Current PSERS membership eligibility requirements include:

- ❖ Certified criminal justice training with authority to arrest, conduct criminal investigations, enforce criminal laws of Washington, and carry a firearm as part of the job; or
- ❖ Ensure the custody and security of incarcerated or probationary individuals; or
- ❖ Function as a Peace Officer; or
- ❖ Supervise eligible members that meet the above criteria.

### **Who Is Impacted And How?**

This bill could affect current members through an option of prospectively changing plan membership (no transfer of prior service credit). Additionally, a PERS 2/3 member who prospectively transfers to PSERS may contribute lower (or higher) contribution rates in PSERS.

We received data for 4,061 employees in DSHS, DVA, and DOC who are newly eligible to transfer to PSERS. Of those 4,061 employees, we identified 2,910

actives in PERS 2/3 who could benefit, at least in part, by a prospective transfer to PSERS.

This bill impacts all PERS 2 and PSERS 2 members through increased contribution rates due to changes in plan membership. This bill will not affect member contribution rates in PERS 1 since they are fixed in statute. Additionally, this bill will not affect member contribution rates in PERS 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

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

For example, a future PERS 2 member who enters at age 30 could retire as early as age 55 in PERS under current law, with a total of 25 years of service at retirement. The benefit would be actuarially reduced to recognize retirement before age 65. If the member's average final compensation (AFC) is \$50,000, their retirement benefit would be as follows.

$$\$50,000 \times 25 \times 2\% \times 0.365 = \$9,125 \text{ per year}$$

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

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

Current members who transfer to PSERS can also benefit from improved PSERS benefits on the service they earn in PSERS after the transfer. Members who plan to retire soon after the transfer would benefit less relative to those members who might retire years later.

A PERS 2/3 member who transfers to PSERS could contribute different contribution rates in PSERS. We have captured the expected change in contributions for the employers as a result of contributing to a different Washington State retirement system.

Please see the **Special Data Needed** section of this fiscal note for more details.

## **WHY THIS BILL HAS A COST AND WHO PAYS FOR IT**

### **Why This Bill Has A Cost**

We expect the bill will have an impact on all Plan 2 members and all employers in PERS and PSERS plus an additional impact on employers who employ affected members for the following reasons.

- ❖ **PERS Impact (all Plan 2 members and employers):** The removal of PERS members can have a cost or savings in PERS depending on the age and salary of the group removed. Removing the group identified in our best estimate pricing results in an expected cost because of the removal of future salaries to fund the benefits of remaining PERS members.
- ❖ **PSERS Impact (all Plan 2 members and employers):** A cost due to employees transferring to PSERS who are more experienced are more likely to receive a retirement benefit than current PSERS members.
- ❖ **Affected Employers Impact:** A cost or savings depending on the time period and equal to the difference between projected employer contribution rates in PERS and PSERS for, (a) their employees who transfer under the bill, and for (b) the affected new hires in the future. Please see the **How We Applied These Assumptions** section for further details.

### Who Will Pay For These Costs?

The costs/savings to the affected retirement systems that result from this bill will be divided between members and employers according to standard funding methods that vary by plan.

- ❖ Plan 1: 100 percent employer.
- ❖ Plan 2: 50 percent member and 50 percent employer.
- ❖ Plan 3: 100 percent employer.

## HOW WE VALUED THESE COSTS

### Assumptions We Made

Using our valuation model and the special data provided by DRS (noted below), we identified 4,061 members who could potentially transfer and 2,910 who were under age 55 and had larger future liability in PSERS than under PERS. Of this latter group, we assumed all members currently age of 55 and older would not transfer from PERS to PSERS. This resulted in an assumed transfer group of 2,910 ( $2,910/4,061 = 72\%$ ) for our best estimate pricing.

For purposes of this pricing, we further assumed that the demographic profile of future new entrants in PERS and PSERS would not change as a result of this bill.

When PSERS was first opened, certain eligible PERS 2/3 members had a one-time option to prospectively transfer to PSERS. Under this bill, a member who declined the option to transfer to PSERS would be given another option to transfer to PSERS. We do not currently have data on these members so the

pricing does not include members who declined to transfer during the initial transfer window ("second chance transfer group").

We assumed no change in the PERS Plan 1 Unfunded Actuarially Accrued Liability (UAAL) rates since the total payroll used to amortize the PERS Plan 1 UAAL rate will not change.

Otherwise, we developed these costs using the same assumptions as disclosed in the [\*June 30, 2013, Actuarial Valuation Report\*](#) (AVR).

### **How We Applied These Assumptions**

To price this bill, we calculated the liability change if the members identified under our best estimate terminate from PERS and begin accruing future service within PSERS as a new entrant.

Using the resulting cost differences from the method described above, we found constant, or static, contribution rate differences for PERS and PSERS. This method identified the estimated impact to all Plan 2 members and employers of PERS and PSERS members as described in the **Why This Bill Has A Cost** section.

To identify the estimated impact to affected employers for their employees who transfer under the bill and for their affected new hires in the future, we applied the difference in projected PERS and PSERS employer contribution rates (under current law) to projected payroll for the affected members.

We expect the difference between PSERS and PERS contribution rates to decrease in the near future (PERS rates are expected to be higher than PSERS for four years) and then increase thereafter, ultimately ending in a larger difference than currently exists. The table below shows these varying contribution rate differences.

Expected Difference Between PSERS and PERS Employer Contribution Rates			
FY		FY	
2016	0.36%	2029	1.30%
2017	0.36%	2030	1.28%
2018	(0.55%)	2031	1.28%
2019	(0.55%)	2032	1.26%
2020	(0.37%)	2033	1.26%
2021	(0.34%)	2034	1.25%
2022	0.45%	2035	1.25%
2023	0.45%	2036	1.24%
2024	1.11%	2037	1.24%
2025	1.11%	2038	1.23%
2026	1.28%	2039	1.23%
2027	1.28%	2040	1.23%
2028	1.30%		

We used the Entry Age Normal Cost method to determine the fiscal budget changes for future new entrants. We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members.

Otherwise, we developed these costs using the same methods as disclosed in the AVR.

### Special Data Needed

The Department of Retirement Systems (DRS) provided us with the member data we used for this pricing. We checked the data for reasonableness. An audit of this data was not performed. We relied on all data provided by DRS as complete and accurate. In our opinion, with the exception of the missing data for local government and the second chance transfer group noted above, the data is reasonable, adequate, and substantially complete for the purposes of this pricing.

We relied on data from DRS about employees of DSHS, DVA, and DOC potentially eligible for transfer to PSERS. We matched the data provided by DRS with our valuation data. We found 4,061 DRS records for active members that matched our valuation data. These members represented “all potential transfers” under this bill.

We eliminated members we thought would not transfer under this bill. Please see **Assumptions We Made** for more details. Beyond those actions, we did not audit the data for accuracy. It is possible that some of the members identified in the data will not actually qualify for transfer to PSERS, but we are unable to identify them. The table below shows some general information about the records we used for this pricing, along with similar information from PERS and PSERS.

Active Membership					
				Average	
	Count	Age	Service	Annual Salary	Accumulated Savings
<b>PERS 2/3</b>	145,053	47.5	11.8	\$57,491	\$28,415
<b>PSERS</b>	4,513	40.4	8.7*	\$56,075	\$20,487
<b>Data for Bill (Best estimate)</b>	2,910	40.8	8.2	\$44,943	\$14,935
<b>All Potential Transfers</b>	4,061	46.1	10.1	\$47,612	\$21,025

\*Includes 4.8 years of service in PSERS and 3.9 years of service from PERS. PERS service may be used for retirement eligibility.

We have not received reliable data at this time from county or municipal corrections agencies or for the second chance transfer group. For this reason, the estimated cost excludes impacts from these groups.

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR. In addition, we recognized the market value of assets through June 30, 2014, when estimating projecting contribution rates.

## ACTUARIAL RESULTS

### How The Liabilities Changed

If all of the members we identified under our “best estimate” pricing transfer from PERS to PSERS, we expect this bill would impact the actuarial funding of PERS and PSERS by increasing (or decreasing) the present value of future benefits payable under the systems as shown below.

Impact on Pension Liability – Current Employees Only			
(Dollars in Millions)	Current	Increase	Total
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 2/3	33,404	(149.3)	33,255
<b>PSERS 2</b>	<b>\$595</b>	<b>\$211.2</b>	<b>\$807</b>
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)*</i>			
<b>PERS 1</b>	<b>\$4,692</b>	<b>\$0.0</b>	<b>\$4,692</b>
<b>Unfunded Projected Unit Credit Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
PERS 2/3	(537)	16.4	(520)
<b>PSERS 2</b>	<b>(\$44)</b>	<b>\$0.1</b>	<b>(\$44)</b>

Note: Totals may not agree due to rounding.

\*PERS 1 is amortized over a ten-year period.

## How The Assets Changed

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

## How The Present Value of Future Salaries (PVFS) Changed

If all of the members we identified under our best estimate pricing transfer from PERS to PSERS, we expect this bill would impact the actuarial funding of PERS and PSERS by increasing (or decreasing) the PVFS of the members of the systems as shown below.

<b>Present Value of Future Salaries – Current Employees Only</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Future Salaries</b>			
<i>(The Value of the Future Salaries Expected to be Paid to Current Members)</i>			
PERS 2	\$56,952	(\$1,025.4)	\$55,927
PERS 3	14,870	(367.7)	14,502
<b>PERS 2/3</b>	<b>\$71,822</b>	<b>(\$1,393.1)</b>	<b>\$70,429</b>
<b>PSERS 2</b>	<b>\$2,694</b>	<b>\$1,335.4</b>	<b>\$4,030</b>

*Note: Totals may not agree due to rounding.*

## How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate for PERS and PSERS shown on page one that applies in the current biennium. We will use the un-rounded rate increase shown below to measure the budget changes in future biennia.

<b>Impact on Contribution Rates (Effective 09/01/2015) – Current Employees Only</b>		
<b>System/Plan</b>	<b>PERS</b>	<b>PSERS</b>
<b>Current Members</b>		
<b>Employee (Plan 2)</b>	0.016%	0.338%
<b>Employer</b>		
Normal Cost	0.016%	0.338%
Plan 1 UAAL	0.000%	0.000%
<b>Total</b>	<b>0.016%</b>	<b>0.338%</b>
<b>New Entrants*</b>		
<b>Employee (Plan 2)</b>	0.000%	0.000%
<b>Employer</b>		
Normal Cost	0.000%	0.000%
Plan 1 UAAL	0.000%	0.000%
<b>Total</b>	<b>0.000%</b>	<b>0.000%</b>

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

We assumed that the demographic profile of future new entrants in PERS and PSERS would not change as a result of this bill.

## How This Impacts Budgets And Employees

If all of the members we identified under our best estimate pricing transfer from PERS to PSERS, we expect this bill would impact future budgets as shown below.

In addition to the impacts for all current PERS and PSERS employers, the budget impacts shown below include the budget impacts to DSHS, DOC, and DVA for their current and future affected members. Please see **Appendix A – Budget Impact Details** for a separate listing of these impacts.

Budget Impacts			
(Dollars in Millions)	PERS	PSERS	Total
<b>2015-2017</b>			
General Fund	(\$8.7)	\$11.3	\$2.6
Non-General Fund	(5.5)	7.3	1.8
<b>Total State</b>	<b>(\$14.2)</b>	<b>\$18.5</b>	<b>\$4.3</b>
Local Government	1.9	1.3	3.2
<b>Total Employer</b>	<b>(\$12.3)</b>	<b>\$19.8</b>	<b>\$7.6</b>
<b>Total Employee</b>	<b>\$2.8</b>	<b>\$2.5</b>	<b>\$5.3</b>
<b>2017-2019</b>			
General Fund	(\$17.8)	\$18.6	\$0.8
Non-General Fund	(12.1)	12.4	0.3
<b>Total State</b>	<b>(\$29.9)</b>	<b>\$31.0</b>	<b>\$1.1</b>
Local Government	1.3	1.4	2.7
<b>Total Employer</b>	<b>(\$28.6)</b>	<b>\$32.3</b>	<b>\$3.7</b>
<b>Total Employee</b>	<b>\$1.9</b>	<b>\$2.7</b>	<b>\$4.6</b>
<b>2015-2040</b>			
General Fund	(\$329.5)	\$416.1	\$86.7
Non-General Fund	(227.6)	285.3	57.7
<b>Total State</b>	<b>(\$557.1)</b>	<b>\$701.4</b>	<b>\$144.4</b>
Local Government	10.9	13.3	24.2
<b>Total Employer</b>	<b>(\$546.2)</b>	<b>\$714.7</b>	<b>\$168.6</b>
<b>Total Employee</b>	<b>\$15.9</b>	<b>\$25.5</b>	<b>\$41.4</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

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

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



## How the Risk Measures Changed

We did not analyze how the bill affects the financial risks to the affected systems. We expect the changes in financial risks to be minor in the context of all the state pensions systems, but material to PSERS.

## How the Results Change When We Make Different Assumptions

The cost of the bill is sensitive to the number of people who actually transfer from PERS to PSERS, their age, and their salary. To demonstrate this, we varied the transfer group from our best estimate pricing as follows:

- ❖ **No Transfers:** No currently active members transfer from PERS to PSERS. This pricing represents only the mandated new entrants joining PSERS in the future.
- ❖ **Twenty-Five Percent Most Expensive:** Twenty-five percent of the most expensive current members from our best estimate transfer group transfer to PSERS.

Under this bill, the members with the largest impacts on liability and future plan salary typically entered the PERS system at a younger age and also have higher salaries relative to the entire population eligible to transfer. The affected members who entered PERS at a younger age will be most likely to take advantage of early retirement in PSERS.

How Results Change When We Assume Different Transfer Rates			
(Dollars in Millions)	No Transfers (New Entrants Only)	25% Most Expensive	Best estimate
<b>Number of Current Members Impacted</b>			
Number of Transfers	0	728	2,910
Transfer Rate	0%	18%	72%
<b>2015-2017 Budget Impacts</b>			
GF-S	\$0	\$1	\$3
Total Employer	\$1	\$4	\$8
<b>2017-2019 Budget Impacts</b>			
GF-S	\$0	\$0	\$1
Total Employer	\$0	\$2	\$4
<b>2015-2040 Budget Impacts</b>			
GF-S	\$68	\$76	\$87
Total Employer	\$116	\$138	\$169

*Note: Totals may not agree due to rounding.*

Overall, we found the 25-year budget impact is sensitive to the assumed transfer group, however, assumed new entrants (including replacements of current members assumed not to transfer) drive the majority of the long-term budget impact.

The assumed transfer group does not change the budget impact for new entrants because new entrants in positions covered under this bill must join PSERS (no transfer option).

**WHAT THE READER SHOULD KNOW**

The Office of the State Actuary (“we”) prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2015 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

**ACTUARY'S CERTIFICATION**

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2015 Legislative Session.
6. Because of missing or insufficient data on affected members, this fiscal note provides estimated impacts for certain affected DSHS, DOC, and DVA employees only. Please do not use this fiscal note as an estimate of the impacts from affected local government employees or as an estimate for the second-chance transfer option noted above.
7. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



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

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## APPENDIX A – BUDGET IMPACT DETAILS

As described in the **Why This Bill Has A Cost** section, we expect the bill will have an impact on all Plan 2 members and all current employers in PERS and PSERS plus an additional impact on DSHS, DOC and DVA for their affected current members and affected new members in the future.

In the following three tables we break out the total budget impacts from the tables previously provided as follows:

The table below displays the budget impacts for all current employers in PERS and PSERS from removing current members from PERS and adding them prospectively to PSERS.

Budget Impacts – Current Members All Current Employers in PERS and PSERS			
(Dollars in Millions)	PERS	PSERS	Total
<b>2015-2017</b>			
General Fund	\$0.7	\$1.0	\$1.7
Non-General Fund	1.0	0.1	1.2
<b>Total State</b>	<b>\$1.7</b>	<b>\$1.2</b>	<b>\$2.9</b>
Local Government	1.9	1.3	3.2
<b>Total Employer</b>	<b>\$3.6</b>	<b>\$2.5</b>	<b>\$6.1</b>
<b>Total Employee</b>	<b>\$2.8</b>	<b>\$2.5</b>	<b>\$5.3</b>
<b>2017-2019</b>			
General Fund	\$0.4	\$1.1	\$1.6
Non-General Fund	0.7	0.2	0.8
<b>Total State</b>	<b>\$1.1</b>	<b>\$1.3</b>	<b>\$2.4</b>
Local Government	1.3	1.4	2.7
<b>Total Employer</b>	<b>\$2.4</b>	<b>\$2.7</b>	<b>\$5.1</b>
<b>Total Employee</b>	<b>\$1.9</b>	<b>\$2.7</b>	<b>\$4.6</b>
<b>2015-2040</b>			
General Fund	\$3.8	\$10.8	\$14.6
Non-General Fund	5.8	1.5	7.2
<b>Total State</b>	<b>\$9.6</b>	<b>\$12.3</b>	<b>\$21.9</b>
Local Government	10.9	13.3	24.2
<b>Total Employer</b>	<b>\$20.5</b>	<b>\$25.5</b>	<b>\$46.1</b>
<b>Total Employee</b>	<b>\$15.9</b>	<b>\$25.5</b>	<b>\$41.4</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

The table below displays the budget impacts for DSHS, DOC, and DVA from removing current members from PERS and adding them prospectively to PSERS.

For this table, we assumed 50 percent of DSHS' funding comes from the General Fund, 30 percent of DVA's funding comes from the General Fund, and 100 percent of DOC's funding comes from the General Fund. We do not have data on local members so we assumed 0 percent of funding comes from local governments.

<b>Budget Impacts – Current Members DSHS, DOC and DVA Only</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2015-2017</b>			
General Fund	(\$7.0)	\$7.4	\$0.4
Non-General Fund	(4.9)	5.2	0.3
<b>Total State</b>	<b>(\$11.9)</b>	<b>\$12.6</b>	<b>\$0.7</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$11.9)</b>	<b>\$12.6</b>	<b>\$0.7</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>2017-2019</b>			
General Fund	(\$11.6)	\$10.8	(\$0.9)
Non-General Fund	(8.1)	7.5	(0.6)
<b>Total State</b>	<b>(\$19.8)</b>	<b>\$18.3</b>	<b>(\$1.5)</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$19.8)</b>	<b>\$18.3</b>	<b>(\$1.5)</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>2015-2040</b>			
General Fund	(\$88.3)	\$91.9	\$3.7
Non-General Fund	(61.8)	64.4	2.6
<b>Total State</b>	<b>(\$150.0)</b>	<b>\$156.3</b>	<b>\$6.3</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$150.0)</b>	<b>\$156.3</b>	<b>\$6.3</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

The table below displays the budget impacts for DSHS, DOC, and DVA from removing future members from PERS and adding them to PSERS. This includes replacing members from the assumed transfer group as they exit in the future and the future replacements for current members we assumed would not transfer.

For this table, we assumed 50 percent of DSHS' funding comes from the General Fund, 30 percent of DVA's funding comes from the General Fund, and 100 percent of DOC's funding comes from the General Fund. We do not have data on local members so we assumed 0 percent of funding comes from local governments.

<b>Budget Impacts – Future Members DSHS, DOC, and DVA Only</b>			
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2015-2017</b>			
General Fund	(\$2.4)	\$2.8	\$0.4
Non-General Fund	(1.7)	2.0	0.3
<b>Total State</b>	<b>(\$4.0)</b>	<b>\$4.8</b>	<b>\$0.8</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$4.0)</b>	<b>\$4.8</b>	<b>\$0.8</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>2017-2019</b>			
General Fund	(\$6.6)	\$6.7	\$0.1
Non-General Fund	(4.6)	4.7	0.1
<b>Total State</b>	<b>(\$11.2)</b>	<b>\$11.4</b>	<b>\$0.1</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$11.2)</b>	<b>\$11.4</b>	<b>\$0.1</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>2015-2040</b>			
General Fund	(\$245.1)	\$313.4	\$68.3
Non-General Fund	(171.6)	219.4	47.9
<b>Total State</b>	<b>(\$416.7)</b>	<b>\$532.9</b>	<b>\$116.2</b>
Local Government	0.0	0.0	0.0
<b>Total Employer</b>	<b>(\$416.7)</b>	<b>\$532.9</b>	<b>\$116.2</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

*Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.*

## 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. Under this method, all plan costs (for past and future service credit) are included under the normal cost. Therefore, the method does not produce an unfunded actuarial accrued liability outside the normal cost. It's most common for the normal cost to be determined for the entire group rather than on an individual basis for this method.

**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.
- ❖ Amortization of the unfunded actuarial accrued liability.

The normal cost is most commonly 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.

**Projected Unit Credit (PUC) Liability:** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

**Projected Benefits:** Pension benefit amounts that 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 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.

**Unfunded PUC Liability:** The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

<b>Bill Number:</b> 1718 HB	<b>Title:</b> PSERS/offender nursing care
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## Part I: Jurisdiction—Location, type or status of political subdivision defines range of fiscal impacts.

### Legislation Impacts:

- ☒ Cities: City contributions to employees' retirement accounts would increase if an employee elects to change from PERS to PSERS.
- ☒ Counties: County contributions to employees' retirement accounts would increase if an employee elects to change from PERS to PSERS.
- ☐ Special Districts:
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

## Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☐ Legislation provides local option:
- ☒ Key variables cannot be estimated with certainty at this time: How many eligible employees might elect to change from PERS to PSERS.

### Estimated revenue impacts to:

None

### Estimated expenditure impacts to:

Indeterminate Impact
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## Part III: Preparation and Approval

Fiscal Note Analyst: Elizabeth Green-Taylor	Phone: 360-725-5036	Date: 02/05/2015
Leg. Committee Contact: David Pringle	Phone: 360-786-7310	Date: 01/26/2015
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 02/05/2015
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/05/2015



## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

*Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.*

The bill adds a new section to Chapter 41.37 RCW and amends RCW 41.37.010 to allow certain public employees who provide nursing services to offenders, probationers, and patient populations to elect to change retirement systems from the Public Employees' Retirement System (PERS) to the Public Safety Employees' Retirement System (PSERS).

Section 1 -- Amends RCW 41.37.010 to add two state agencies to the definition of "employer" in paragraph (12), and adds subparagraphs (d) and (e) to paragraph (19), which defines "member." Subparagraph (d) adds certain employees of the Department of Social and Health Services to the definition of "member" for the purposes of the chapter. Subparagraph (e) adds employees who provide nursing care to offender and patient populations in institutions and centers operated by city and county corrections departments and other public corrections entities, including the state departments of Corrections and Veterans' Affairs.

Section 2 -- Adds a new section to Chapter 41.37 RCW, which specifies procedures and deadlines for eligible employees to change from PERS to PSERS.

### **B. SUMMARY OF EXPENDITURE IMPACTS**

*Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.*

Local government expenditure impacts of this bill are indeterminate due to the difficulty of anticipating how many eligible employees might elect to switch from PERS to PSERS, but are expected to range from small (less than \$50,000) to moderate (up to approximately \$90,000), depending on the number of employees electing to change and their actual annual salaries.

According to the Office of the State Actuary, the employer contribution rate for PERS is 11.00 percent, and for PSERS it is 11.36 percent. Therefore, for each \$100,000 in wages earned by newly eligible employees who elect to change from PERS to PSERS, the local government contribution would increase by \$360 -- from \$11,000 to \$11,360.

According to the Department of Retirement Systems, there are an estimated 500 or fewer city, county, and state corrections employees who would become newly eligible to change retirement programs under the bill. Data on which of those 500 are state employees and which are local is not available. However, assuming all 500 are local employees, and assuming a \$50,000 average annual salary per employee, if one employee elected the change, local government contributions would increase by \$180 annually. If all 500 newly eligible employees elected the change, annual local government contributions would increase by \$90,000.

### **C. SUMMARY OF REVENUE IMPACTS**

*Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.*

There are no local government cash receipts impacts to this bill.

#### **SOURCES:**

Department of Retirement Systems  
Office of the State Actuary