

Multiple Agency Fiscal Note Summary

Bill Number: 1771 HB	Title: Public retirement systems
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Estimated Cash Receipts

Agency Name	2007-09		2009-11		2011-13	
	GF- State	Total	GF- State	Total	GF- State	Total
Total \$						

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	(90,700,000)	(108,500,000)	.0	(52,900,000)	(62,400,000)	.0	(66,500,000)	(78,500,000)
Department of Retirement Systems	5.1	0	2,207,000	3.0	0	397,000	3.0	0	397,000
State Investment Board	.0	0	0	.0	0	0	.0	0	0
Total	5.1	\$(90,700,000)	\$(106,293,000)	3.0	\$(52,900,000)	\$(62,003,000)	3.0	\$(66,500,000)	\$(78,103,000)

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

The Governor's budget assumed \$106 million in General Fund-State savings from this legislation, based on a December estimate from the Office of the State Actuary. The fiscal note from the Office of the State Actuary shows GF-S savings of \$91 million. The reasons for this, as provided by OSA, are:

- 1) decreased savings from the repeal of gain sharing after 2008, due to the use of a different salary projection model;
- 2) increased cost for the potential Plan 1 COLA, due to a method change; and
- 3) increased cost for the assured benefit program, due to a revised estimate for the cost of including all Plan 3 members in the option, and an update in pricing to use 2005 valuation data.

Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Final 2/ 6/2007
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 15523

Individual State Agency Fiscal Note

Revised

Bill Number: 1771 HB	Title: Public retirement systems	Agency: 035-Office of State Actuary
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND					
Total \$					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
All Other Funds-State 000-1	(9,000,000)	(8,800,000)	(17,800,000)	(9,500,000)	(12,000,000)
General Fund-State 001-1	(40,900,000)	(49,800,000)	(90,700,000)	(52,900,000)	(66,500,000)
Total \$	(49,900,000)	(58,600,000)	(108,500,000)	(62,400,000)	(78,500,000)

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:	Phone:	Date: 01/26/2007
Agency Preparation: Robert Baker	Phone: 360-786-6144	Date: 02/05/2007
Agency Approval: Matthew M. Smith	Phone: 360-786-6140	Date: 02/05/2007
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/06/2007

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

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	\$0	\$0	\$0	\$0	\$0

Part IV: Capital Budget 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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

Office of the State Actuary

035

2/5/07

HB 1771/SB 5779 -
Revised

INTENDED USE

This actuarial fiscal note was prepared by the Office of the State Actuary in accordance with RCW 44.44.040(4) and is intended to support the legislative process during the 2007 Legislative Session only.

Any third party recipient of this fiscal note is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in the absence of such professional guidance. The options and analysis presented in this fiscal note should be read as a whole. Distributing or relying on only portions of this fiscal note could result in misuse and may be misleading to others.

SUMMARY OF BILL

This bill impacts the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS), by:

- Discontinuing Plan 1 and Plan 3 gain-sharing after the 2008 event.
- Providing up to a five cent adjustment to the PERS 1 and TRS 1 annual increase amount on July 1, 2009, should the 2008 gain-sharing event result in less than a 23 cent adjustment to the annual increase amount.
- Providing TRS and SERS members hired on or after July 1, 2007, the choice of joining either Plan 2 or Plan 3 of their respective systems.
- Establishing an Assured Benefit Program (ABP) in which existing Plan 3 members have the option to contribute to a Plan 3 Assured Benefit Sub-account (ABS) that will be directed to the Washington State Investment Board (WSIB) Investment Program.
- Establishing a window beginning July 1, 2008 through September 30, 2008 in which all members of the Plans 3 hired prior to July 1, 2007 may make an irrevocable election to participate prospectively in the ABP.
- Establishing minimum ABP contribution rates (6% of pay in TRS, and 5% of pay in PERS and SERS). Members choose from the existing Plan 3 contribution rate structures in addition to the mandatory minimum of 5%, however, the total contribution rate must be at least equal to his or her system's assured benefit base rate.
- Limiting the self-direction of Plan 3 member defined contribution (DC) accounts to only those funds outside the Assured Benefit Sub-account.
- Establishing a minimum period of five years that must elapse from the date a member elects to participate in the ABP before the member can begin drawing a prospective Assured Benefit.

- Providing upon retirement, to a member participating in the ABP, either a transfer of the accumulations in the member's ABS to the member's Plan 3 DC account, or an annuity equal to 1% of the member's average final compensation (AFC) per year of participation in the ABP. (If the actuarial value of the sub-account exceeds 1% of the participant's AFC per year of participation, the excess is transferred to the member's DC account.)

Effective Date: July 1, 2007

CURRENT SITUATION

Currently, gain-sharing applies to the Plans 1 of PERS and TRS, and the Plans 3 of PERS, TRS, and SERS. Gain-sharing is a mechanism that increases benefits; the increases are not automatic, but are contingent on the occurrence of "extraordinary investment gains." Extraordinary gains occur when the compound average of investment returns on pension fund assets exceeds 10% for the previous four state fiscal years. When this occurs, a calculation is performed to determine a dollar amount that will be distributed to eligible members. Gain-sharing calculations are currently made once each biennium with potential distributions occurring in January of even-numbered years.

Plan 1 gain-sharing

When a gain-sharing event occurs, one-half of the gain for PERS 1 and TRS 1 is used to fund a permanent increase in the PERS 1 and TRS 1 Uniform COLA for current and future retirees. The monthly Uniform COLA is determined by multiplying each member's years of service by the "Annual Increase Amount". The most recent Annual Increase Amount was \$1.29; an eligible member with 30 years of service received a monthly COLA of \$38.70 (30 years of service times \$1.29). The Annual Increase Amount increases each year by at least 3%. Gain-sharing is also used to boost the Annual Increase Amount; 38 cents of the current amount compounded at 3% is a result of past gain-sharing. The Annual Increase Amount is scheduled to increase to \$1.33 on July 1, 2007.

In the absence of a gain-sharing payment on January 1, 2008, the Annual Increase Amount would increase to \$1.37 on July 1, 2008. It is estimated that there will be a gain-sharing increase on January 1, 2008. This amount, subject to change until the event occurs, is currently projected to be \$0.26. Under current provisions, the July 1, 2008 increase amount will be $(\$1.33 + \text{GS increase}) \times 1.03$. Using the \$0.26 as an example, the July 2008 increase amount would be \$1.63.

Plan 3 gain-sharing

In the Plans 3, active, retired, and terminated vested members receive gain-sharing distributions as a lump sum dollar amount that is deposited directly into their defined contribution accounts based on years of service credit. A member will qualify for gain-sharing by having a balance of at least \$1,000 in their account. There have been two gain-sharing distributions since the inception of gain-sharing: one in 1998 and one in 2000. Under current provisions, a gain-sharing event for Plan 3 members is expected to occur in January 2008. The total payout for this event, subject to change until the event occurs, is currently projected to be \$228 million.

Plan choice

Currently, of the three systems, PERS is the only one that has Plan 2/3 choice at hire. New PERS employees have a period of ninety days to make an irrevocable choice to become a member of Plan 2 or Plan 3. At the end of ninety days, if the member has not made a choice to become a member of Plan 2, he or she automatically becomes a member of Plan 3. In TRS and SERS, new employees automatically become members of Plan 3, and the Plans 2 are closed to new hires. Once a member has entered Plan 3, he or she may not currently transfer to Plan 2.

Plan 3 investment provisions

Current Plan 3 members may choose from a selection of contribution rate structures in addition to a mandatory minimum contribution of 5% of pay. Members may then self-direct those contributions from a set of options offered by the WSIB.

Plan 3 benefit

A retiring Plan 3 member currently receives a defined benefit (DB) that is equal to 1% of the member's average final compensation (AFC) per month per year of service. Members do not contribute to this 1% DB. Instead, they contribute to a defined contribution (DC) account, the contents of which they may withdraw under various payment options upon separation from employment. The result, under current law, is a hybrid plan with a guaranteed employer-provided benefit and a flexible member-provided benefit.

SUMMARY OF MEMBERS IMPACTED

Plan 1 Gain-sharing

Any Uniform COLA increase, the repeal of Plan 1 gain-sharing, and the 2008 gain sharing distribution will impact all 73,590 members of PERS 1 and all 45,184 members of TRS 1.

For a typical Plan 1 member impacted by this bill, the uncertain and irregular adjustment to the Annual Increase Amount provided by gain-sharing is exchanged for a definitely determinable increase consisting of the sum of the Annual Increase amount from the 2008 gain sharing distribution plus an additional Annual Increase Amount of up to five cents. The additional amount would also be limited so that the total is no more than twenty-three cents, or the amount from the 2008 event, whichever is greater. The 2008 gain sharing distribution is projected to result in an Annual Increase Amount of twenty-six cents. Under this bill, we expect there would be an additional Uniform COLA increase of \$0.02 on July 1, 2009. The expected value of the additional amount using deterministic methods would be zero cents since twenty-six cents exceeds twenty-three cents. We used stochastic methods to develop the two cent estimate.

A retiree with 30 years of service would get an estimated initial increase of $\$0.26 \times 30 = \7.80 per month on January 1, 2008. This increase would be followed by the standard Uniform COLA increase amount on July 1, 2008. With a July 1, 2007 increase amount of \$1.33 and an estimated \$0.26 gain-sharing payment in January 2008, the Annual Increase Amount as of July 1, 2008 would be $(\$1.3264 + \$0.26) \times 1.03 = \$1.63$. If the \$0.02 Uniform COLA increase occurs on July 1, 2009, the total increase for that date would be the regularly scheduled amount for that date of $(\$1.63 \times 1.03 = \$1.68) + \$0.02 = \1.70 . The amounts presented in this paragraph are estimates. Once the amounts are calculated in the final form and distributed, the increases in this bill would become a permanent part of the Uniform COLA Annual Increase Amount, growing by 3% per year thereafter.

Plan 3 Gain-sharing

The repeal of Plan 3 gain-sharing could potentially impact all current and future members of PERS 3, TRS 3, and SERS 3, including all of the active Plan 3 members (except those that would not meet the requirement of having a minimum balance of \$1,000 in their DC accounts), all of the Plan 3 annuitants, all of the Plan 3 terminated vested members meeting the minimum balance requirement, and any Plan 3 terminated non-vested members who are rehired and become vested.

The discontinuation of gain-sharing benefits eliminates future gain-sharing contributions to members' DC accounts after the January 2008 event. The 2008 event is expected to pay a collective \$228 million into the DC accounts of eligible members.

Plan 2/3 Choice

The prospective Plan 2/3 choice will impact TRS and SERS members hired on or after July 1, 2007. We estimate that from October 1, 2007 to September 30, 2008, there will be a total of 4,691 new TRS members and 5,512 new SERS members. The number of new members is expected to increase each year. We estimate that 50% of these new members would elect to join Plan 2 and 50% would elect Plan 3. The experience from 2002 to 2006 shows that about 63% of new PERS members elect Plan 2 and 37% elect Plan 3.

Additionally, active members in TRS Plan 2 and SERS Plan 2 beginning in 2009 would be affected by this provision through increased contribution rates. We estimate that there will be 6,491 active TRS 2 and 16,286 active SERS 2 members in 2007.

Plan 3 Assured Benefit

The Plan 3 Assured Benefit provision could impact any Plan 3 member hired on or before July 1, 2007 and active during the July 1, 2008 to September 30, 2008 selection window. Members who opt into the Assured Benefit Program (ABP) will have a choice upon retirement of receiving an additional 1% annuity, reduced for early retirement (if any), even if the funds in their assured benefit account are insufficient to cover the actuarial value of that 1% annuity. Funds from the assured benefit sub-account in excess of the actuarial value of the additional annuity will be deposited into a member's DC account. Members electing to participate in the ABP may also choose to have the funds in the assured benefit sub-account, including investment returns, deposited to their DC accounts and forgo the 1% annuity.

Replacement Benefits

This bill replaces gain-sharing with certain benefits. The present value of the replacement benefits for current members as a ratio of the present value of gain-sharing is shown below. The replacement benefits for Plan 1 members are the 2008 gain-sharing event plus the Uniform COLA increase. The replacement benefits for current Plan 3 members are the 2008 gain-sharing event plus the assured benefit.

System/Plan	Value of replacement benefits as a percent of gain-sharing for current members
PERS 1	53%
PERS 2/3	109%
TRS 1	54%
TRS 2/3	85%
SERS 2/3	85%

See the Data section of this fiscal note for more details on members impacted by this bill.

METHODS

Gain-sharing

To find the savings from the discontinuation of gain-sharing benefits, we subtracted the liabilities currently attributable to expected future gain-sharing benefits from the total liabilities of each of the systems. These additional gain-sharing liabilities were determined by finding the difference between the present value of future benefits valued at a gross and net valuation interest rate. Additional information on this method can be found in the September 30, 2005 actuarial valuation report (AVR).

2008 gain-sharing event

Because there will very likely be one last gain-sharing payment on January 1, 2008 under this bill, we estimated the cost of this event, which is an actuarial loss to the affected systems. We began by building the probability distribution for the random value of gain-sharing in 2008. From this distribution we calculated the projected mean value of 2008 gain-sharing. We looked at what the four-year compound rate of return for the Commingled Trust Fund (CTF) would be at that mean value for the time period beginning July 1, 2003 and ending June 30, 2007 and took half of the amount over 10%. We spread this rate of return between the Plans 1 and 3 to determine the corresponding liability increase attributable to the respective plans. Below is a table showing current and projected Plan 2 and Plan 3 service. The ratio of Plan 3 eligible service to total Plan 2/3 service determines the percentage of assets available for gain-sharing payments to plan 3 members.

Development of Plan 3 Gain-Sharing Assets		
	September 30, 2005	Projected to 2007
Plan 2 Eligible Service Years	1,916,475	2,156,899
Plan 3 Eligible Service Years	978,676	1,142,856
Total Plan 2/3 Service Years (Total Service)	2,895,151	3,299,755
Ratio Plan 3 Eligible Service to Total Service	33.8%	34.6%
Plan 2/3 Mean Expected Market Value of Assets*	N/A	\$24,653
Assets Available for Gain-Sharing*	N/A	\$8,538

*Totals may not agree due to rounding. Dollars in millions.

The table below illustrates the expected fiscal impact from the gain-sharing payment as of January 1, 2008. We assume that under this bill, the contribution rates to pre-fund the cost of gain-sharing will not be collected in the 2007-09 biennium. Therefore, the net impact in the table below matches the reduction in funded status for all plans.

Preliminary Expected Impact of January 1, 2008 Gain-Sharing Event			
	Reduction in Funded Status	Less Contributions	Net Impact
Plan 1			
PERS	\$288.0	\$0.0	\$288.0
TRS	<u>244.0</u>	<u>0.0</u>	<u>244.0</u>
Plan 1 Total	\$532.0	\$0.0	\$532.0
Plan 3			
PERS	\$45.3	\$0.0	\$45.3
TRS	119.2	0.0	119.2
SERS	<u>63.4</u>	<u>0.0</u>	<u>63.4</u>
Plan 3 Total	\$227.9	\$0.0	\$227.9
All Plans	<u>\$759.9</u>	<u>\$0.0</u>	<u>\$759.9</u>

Preliminary estimates only. Dollars are in millions.

To determine the contribution rate increases shown at page 14 from the value of expected 2008 gain-sharing benefits shown in the above table and on page 8, we calculated the present value of the liabilities from the expected gain-sharing payments and divided them by the Present Value of Future Salaries of the respective plans. We assumed the increase in contribution rates would become effective in 2009.

Plan 1 Uniform COLA increase

To find the expected value of the Uniform COLA increase in this bill, we used the same probability distribution as for the 2008 gain-sharing event described above, and found the weighted average of the expected Uniform COLA increase amount to be \$0.02.

Plan 2/3 choice

To find the cost of plan choice at hire, we determined the Entry Age Normal Cost rate (EANC) for Plan 2 as if every active Plan 2 and Plan 3 member were in Plan 2, and we determined the EANC for Plan 3 as if every active Plan 2 and Plan 3 member were in Plan 3. We calculated the excess of the employer portion of the EANC for Plan 2 over the EANC for Plan 3 and then took 50% of the difference to reflect our assumption that 50% of new members in TRS and SERS would elect to join Plan 2 and 50% would elect Plan 3. We applied the rate increase for plan choice to the projected payroll for new entrants only.

Assured benefit

We compared the liability of an annuity based on a 1% accrual per year of prospective service times final average salary, and a cash balance account based on member contributions to their DC account converted to an annuity. We focused on the difference in these annuities for each type of decrement (retirement, termination, death and disability) and added them together where the differences were positive.

Otherwise, costs were developed using the same methods as those disclosed in the AVR.

The methods chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of methods may also be reasonable and might produce different results.

Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Rate increases calculated under the Aggregate actuarial cost method are used to determine the increase in funding expenditures for current plan members.

ASSUMPTIONS

Gain-sharing

We assumed that the contribution rates to pre-fund gain-sharing would be repealed beginning in the 2007-09 biennium. We further assume that a gain-sharing event will be triggered on June 30, 2007 and occur on January 1, 2008.

The 2008 gain-sharing formula will consider the investment returns over the four years ending on June 30, 2007. The applicable returns to June 30, 2006, are 16.7 percent for the year ending June 30, 2004; 13.3 percent for the year ending June 30, 2005; 16.7 percent for the year ending June 30, 2006; and 10.1 percent for the six months ending December 31, 2006. The accumulated return is 70.0 percent.

In order to trigger gain-sharing, investment returns would have to average 10 percent for each of the four years to June 30, 2007, for a compounded four-year total return of 46.4 percent. The current accumulated return of 70.0 percent exceeds the four-year accumulated return of 46.4 percent required for gain-sharing.

The table below uses investment return simulations from the Washington State Investment Board (WSIB). It shows the expected future annual rate of return for each tenth percentile (the probability of getting a value less than that indicated, based on the distribution of simulated returns). This is combined with past actual returns for three years and six months to estimate the total four-year return to June 30, 2007. The compound average annual rate of return is calculated, along with the excess over 10 percent, and half the excess over 10 percent.

2006 WSIB Capital Market Assumptions

Investment Return Percentiles	Expected Future Annual Rate of Return	Total Four-Year Return to 6/30/07	Average Annual Rate of Return	Excess, if any, Over 10%	$\frac{1}{2}$ Excess, if any, Over 10%
95%	31.9%	100.0%	18.9%	8.9%	4.5%
85%	22.2%	91.0%	17.6%	7.6%	3.8%
75%	16.8%	85.7%	16.7%	6.7%	3.4%
65%	12.7%	81.6%	16.1%	6.1%	3.0%
55%	9.1%	77.9%	15.5%	5.5%	2.7%
45%	5.7%	74.4%	14.9%	4.9%	2.5%
35%	2.3%	70.8%	14.3%	4.3%	2.2%
25%	-1.3%	66.8%	13.6%	3.6%	1.8%
15%	-5.7%	61.8%	12.8%	2.8%	1.4%
5%	-12.6%	53.7%	11.3%	1.3%	0.7%
Median Return	7.4%	76.1%	15.2%	5.2%	2.6%
Mean Return	8.2%	77.0%	15.3%	5.3%	2.7%
Average of ten percentiles	8.1%	76.4%	15.2%	5.2%	2.6%

The benefits percentile table below lists half the excess over 10 percent returns applicable to the gain-sharing calculation. This is multiplied by the assets attributable to gain-sharing to get the value of the gain-sharing benefits. The Plan 1 value was used to calculate additional Plan 1 benefits. These benefits are granted in the form of an additional Uniform Increase amount.

Benefit Percentiles	$\frac{1}{2}$ Excess, if any, Over 10%	Total Gain-Sharing Value*	Plan 1 Value	Plan 3 Value	Plan 1 Benefits (Uniform Inc.)
(\$ in Millions)					
95 th	4.5%	\$ 1,271	\$ 890	\$ 381	\$ 0.44
85 th	3.8%	\$ 1,076	\$ 754	\$ 323	\$ 0.37
75 th	3.4%	\$ 960	\$ 672	\$ 288	\$ 0.33
65 th	3.0%	\$ 866	\$ 606	\$ 260	\$ 0.30
55 th	2.7%	\$ 782	\$ 547	\$ 234	\$ 0.27
45 th	2.5%	\$ 699	\$ 490	\$ 210	\$ 0.24
35 th	2.2%	\$ 614	\$ 430	\$ 184	\$ 0.21
25 th	1.8%	\$ 518	\$ 363	\$ 155	\$ 0.18
15 th	1.4%	\$ 397	\$ 278	\$ 119	\$ 0.14
5 th	0.7%	\$ 191	\$ 134	\$ 57	\$ 0.07
Median Return	2.6%	\$ 741	\$ 518	\$ 222	\$ 0.26
Mean Return	2.7%	\$ 760	\$ 532	\$ 228	\$ 0.26
Average of ten Percentiles	2.6%	\$ 737	\$ 516	\$ 221	\$ 0.26

Projected Market Value of Assets 6/30/07	Total Assets	Gain- Sharing Assets	Plan 1 Assets	Plan 3 Assets
(\$ in Millions)				
PERS 1	\$ 10,788	\$ 10,788	\$ 10,788	
TRS 1	\$ 9,142	\$ 9,142	\$ 9,142	
PERS 2/3	\$ 16,478	\$ 5,707		\$ 1,697
TRS 2/3	\$ 5,820	\$ 2,016		\$ 4,467
SERS 2/3	\$ 2,355	\$ 816		\$ 2,374
Total	\$ 44,582	\$ 28,468	\$ 19,930	\$ 8,538

Totals may not agree due to rounding

Assets applicable to Plan 3 gain-sharing benefits are the assets attributable to Plans 3 participants. These attributable assets are the total assets in Plans 2 and 3, multiplied by the ratio of service in Plan 3 over service in Plans 2 and 3. All Plan 1 assets are attributable to Plan 1 gain-sharing.

The service data was obtained from the 2005 actuarial valuation of the plans and projected to June 30, 2007. The asset data as of December 31, 2006, was obtained from the WSIB, and projected to June 30, 2007.

The simulated investment returns use the 2006 capital market assumptions provided by the WSIB.

2006 WSIB Capital Market Assumptions

Investment Type	Expected Returns	Standard Deviation	Current Portfolio	
			Target Allocation	Expected Return
U.S. Equity	8.50%	17.50%	23%	2.0%
Non-U.S. Equity	8.50%	19.00%	23%	2.0%
Fixed Income	5.00%	5.00%	25%	1.3%
Private Equity	12.50%	33.00%	17%	2.1%
Real Estate	7.75%	14.00%	12%	0.9%
Cash	3.25%	1.50%	0%	0.0%
TIPS	4.75%	5.00%	0%	0.0%
Long Duration FI	5.50%	7.50%	0%	0.0%
Total			100%	8.2%

The expected future annual rate of return over the next twelve months is shown for each tenth percentile from the fifth percentile to the ninety-fifth percentile. The percentile is the probability of getting a value less than that indicated. The ninety-fifth percentile is an annual rate of return of 31.9 percent. This is interpreted as a 95 percent probability of getting a rate less than 31.9 percent, or a 5 percent probability of getting a rate more than 31.9 percent - based on the distribution of simulated returns.

To estimate the volatility of the six-month rates of return based on the WSIB 2006 capital market assumptions, we prepared a forecast based on a logarithmic best fit line of WSIB capital market assumptions from durations of one year to fifty years for each tenth percentile. A table of the WSIB annual rates of return compared to our estimated range of six-month rates of return can be seen below:

		6
Percentile	Annual Rates	Month Rates
95th	31.9%	17.7%
85th	22.2%	12.4%
75th	16.8%	9.3%
65th	12.7%	6.8%
55th	9.1%	4.7%
45th	5.7%	2.6%
35th	2.3%	0.5%
25th	-1.3%	-1.9%
15th	-5.7%	-4.8%
5th	-12.6%	-9.6%
Median Return	7.4%	3.6%
Mean Return	8.2%	4.1%
Average of ten percentiles	8.1%	3.8%

Plan 1 Uniform COLA Increase

We assumed that the Uniform COLA increase would be \$0.02 in addition to the Uniform COLA increase from the 2008 gain-sharing event. This is based on the average of the ten percentiles below.

Benefit Percentiles	2008 Event	Additional COLA
95 th	\$ 0.44	\$ 0.00
85 th	\$ 0.37	\$ 0.00
75 th	\$ 0.33	\$ 0.00
65 th	\$ 0.30	\$ 0.00
55 th	\$ 0.27	\$ 0.00
45 th	\$ 0.24	\$ 0.00
35 th	\$ 0.21	\$ 0.02
25 th	\$ 0.18	\$ 0.05
15 th	\$ 0.14	\$ 0.05
5 th	\$ 0.07	\$ 0.05
Median Return	\$ 0.26	\$ 0.00
Mean Return	\$ 0.26	\$ 0.00
Average of ten Percentiles	\$ 0.26	\$ 0.02

Plan 2/3 choice

Since plan choice would only apply to new TRS and SERS members, we assumed no immediate rate increase for choice for the current Plan 2 members, and applied the rate increase for choice to the projected payroll for new entrants only.

We considered making an adjustment for the cost of plan choice based on the age of members who would elect Plan 2 compared to the age of members who would elect Plan 3. However, after reviewing the choices made by new members in PERS over an 18-month period, there was no significant difference in choice based on age.

Assured benefit

We assumed that all Plan 3 members would elect to participate prospectively in the assured benefit provision. We also assumed that each member would choose the option associated with the assured benefit that would be most valuable to that individual. We considered, but did not allow for, the possibility that some members might not make the most valuable choice. For example, some members might opt for a transfer of their sub-account balance to their DC accounts, even if their sub-account funds would have produced an annuity of less than 1% per year of service, which would have necessitated an employer subsidy.

The DC account balances were projected based on the respective required contribution rates, accumulated with interest based on the WSIB 2006 capital market assumptions and asset mix. The returns based on assumptions were calibrated to match the 8% expected return assumption used in the actuarial valuation. Rates of return were decreased from the WSIB expected return based on the weighted average of the deficit, if any, of the return for each percentile (using a total of ten percentiles), below the long-term expected return. These rates were dependent on the investment horizon. The longer the investment horizon, the less likely that the compounded returns would be below the expected return, and the less of an interest rate reduction below the expected return. The following table shows the annual return that was assumed on the DC account balances for each year, beginning July 1, 2008.

Time Horizon	Annual Return
Years 1-5	5.67%
Years 6-10	7.04%
Years 11-20	7.32%
Beyond 20 Years	7.55%

The projected account balances were converted to monthly annuities discounted for mortality and 8% interest. The following table provides sample factors that were used to convert the Plan 3 ABS balances at decrement to deferred monthly annuities payable at age 65 for ages under 65, and for immediate monthly annuities at age 65 and above.

	PERS 2/3	SERS 2/3	TRS 2/3
40	0.0436255	0.0428364	0.0427864
45	0.0314450	0.0307269	0.0306775
50	0.0222775	0.0216271	0.0215804
55	0.0156338	0.0150454	0.0150041
60	0.0104851	0.0099838	0.0099513
65	0.0072458	0.0068158	0.0067919
70	0.0084366	0.0078162	0.0077883

The excess, if any, of the benefit provided by a 1% accrual rate on service after the effective date, over the the projected Plan 3 ABS balance as an annuity, was determined to be the benefit increase provided at normal retirement age.

We assumed that the costs of the assured benefit program are 100% employer paid. Otherwise, costs were developed using the same assumptions as those disclosed in the AVR.

The assumptions chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

DATA

Gain-sharing

The following table illustrates the number of current members potentially impacted by current and proposed gain-sharing provisions:

<i>(As of September 30, 2005)</i>	PERS 1	TRS 1	PERS 3	TRS 3	SERS 3
Actives	15,962	8,592	21,216	51,473	30,963
Annuitants	54,795	35,264	343	706	705
Terminated and Vested	<u>2,833</u>	<u>1,328</u>	<u>1,793</u>	<u>3,158</u>	<u>2,491</u>
Total	73,590	45,184	23,352	55,337	34,159

While the exact impact of a 2008 gain-sharing event is not yet known, we based our estimate for the cost of this event on the rates of return provided by the WSIB through December 2006 and the market value of assets, also provided by WSIB, as of December 31, 2006. We projected the value of plan assets from December 2006 to June 30, 2007, using the valuation interest rate assumption and the contribution rates that currently are in effect.

FISCAL IMPACT

Description

While the discontinuation of gain-sharing in this bill results in fiscal savings for all affected systems, the increases from the 2008 gain-sharing event and all other provisions partially offset these savings. A 2008 gain-sharing payment is expected to impact unfunded liabilities when it occurs, but there is no immediate effect on plan funding. The Plan 2/3 choice benefit improvement likewise affects costs in the future, but has no immediate impact on plan liabilities.

Actuarial Determinations

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

<i>(Dollars in Millions)</i>		Current	Increase*	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS	\$30,601	(\$500)	\$30,101
	TRS	\$17,119	(\$555)	\$16,564
	SERS	\$2,473	(\$80)	\$2,393
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	\$3,567	(\$467)	\$3,100
	TRS 1	\$2,147	(\$368)	\$1,779
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS	\$828	(\$512)	\$316
	TRS	\$969	(\$558)	\$411
	SERS	(\$315)	(\$90)	(\$405)

*Liability increases for the expected experience loss due to the 2008 gain-sharing event and Plan 2/3 choice are not yet accrued.
Projected contribution rate increases are provided in the following section of this fiscal note.

Increase/(Decrease) in Contribution Rates:

(Effective 09/01/2007 unless indicated otherwise)

	PERS	PSERS	TRS	SERS
Current Members				
Employee (Plan 2)				
Discontinue Gain-Sharing (Effective 7/1/07 for PERS, 9/1/07 for TRS and SERS)	0.00%	0.00%	0.00%	0.00%
2008 Gain-Sharing Event (Effective 7/1/09 for PERS, 9/1/09 for TRS and SERS)	0.00%	0.00%	0.00%	0.00%
Uniform COLA Increase	0.00%	0.00%	0.00%	0.00%
Plan 3 Assured Benefit	0.00%	0.00%	0.00%	0.00%
Plan 2/3 Choice (Effective 9/1/09)	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Employee - Current	0.00%	0.00%	0.00%	0.00%
Employer/State				
Discontinue Gain-Sharing (Effective 7/1/07 for PERS, 9/1/07 for TRS and SERS)				
Plan 1 UAAL	(0.40)%	(0.40)%	(0.78)%	(0.40)%
Plan 2/3 normal cost	<u>(0.22)%</u>	<u>0.00%</u>	<u>(1.16)%</u>	<u>(1.78)%</u>
Total Gain-Sharing	(0.62)%	(0.40)%	(1.94)%	(2.18)%

Increase/(Decrease) in Contribution Rates:

(Effective 09/01/2007 unless indicated otherwise)

	PERS	PSERS	TRS	SERS
2008 Gain-Sharing Event (Effective 7/1/09 for PERS, 9/1/09 for TRS and SERS)				
Plan 1 UAAL	0.23%	0.23%	0.48%	0.23%
Plan 2/3 normal cost	<u>0.07%</u>	<u>0.00%</u>	<u>0.32%</u>	<u>0.61%</u>
Total 2008 Gain-Sharing Event (Effective 7/1/09 for PERS, 9/1/09 for TRS and SERS)	0.30%	0.23%	0.80%	0.84%
Uniform COLA Increase (Plan 1 UAAL)	0.02%	0.02%	0.03%	0.02%
Plan 3 Assured Benefit (Plan 2/3 normal cost)	0.18%	0.00%	0.71%	1.00%
Plan 2/3 Choice (Plan 2/3 normal cost) (Effective 9/1/09)	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Employer/State - Current	(0.12)%	(0.15)%	(0.40)%	(0.32)%

New Entrants*

Employee (Plan 2)				
Discontinue Gain-Sharing (Effective 7/1/07 for PERS, 9/1/07 for TRS and SERS)	0.00%	0.00%	0.00%	0.00%
2008 Gain-Sharing Event (Effective 7/1/09 for PERS, 9/1/09 for TRS and SERS)	0.00%	0.00%	0.00%	0.00%
Uniform COLA Increase	0.00%	0.00%	0.00%	0.00%
Plan 3 Assured Benefit	0.00%	0.00%	0.00%	0.00%
Plan 2/3 Choice (Effective 9/1/09)	<u>0.00%</u>	<u>0.00%</u>	<u>0.15%</u>	<u>0.15%</u>
Total Employee - New Entrants	0.00%	0.00%	0.15%	0.15%
Employer/State (Plan 2/3 normal cost)				
Discontinue Gain-Sharing (Effective 7/1/07 for PERS, 9/1/07 for TRS and SERS)	(0.26)%	0.00%	(0.83)%	(1.99)%
2008 Gain-Sharing Event (Effective 7/1/09 for PERS, 9/1/09 for TRS and SERS)	0.00%	0.00%	0.00%	0.00%
Uniform COLA Increase	0.00%	0.00%	0.00%	0.00%
Plan 3 Assured Benefit	0.00%	0.00%	0.00%	0.00%
Plan 2/3 Choice (Effective 9/1/09)	<u>0.00%</u>	<u>0.00%</u>	<u>0.15%</u>	<u>0.15%</u>
Total Employer/State - New Entrants	(0.26)%	0.00%	(0.68)%	(1.84)%

*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 lower required contribution rates, the decrease in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	(\$10.7)	(\$1.5)	(\$64.8)	(\$13.7)	(\$90.7)
Non-General Fund	<u>(17.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(17.8)</u>
Total State	(28.5)	(1.5)	(64.8)	(13.7)	(108.5)
Local Government	<u>(43.8)</u>	<u>(1.9)</u>	<u>(39.9)</u>	<u>(20.7)</u>	<u>(106.3)</u>
Total Employer	(72.3)	(3.4)	(104.7)	(34.4)	(214.8)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	(\$5.7)	(\$0.7)	(\$34.2)	(\$12.3)	(\$52.9)
Non-General Fund	<u>(9.5)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(9.5)</u>
Total State	(15.2)	(0.7)	(34.2)	(12.3)	(62.4)
Local Government	<u>(23.2)</u>	<u>(0.7)</u>	<u>(16.4)</u>	<u>(17.9)</u>	<u>(58.2)</u>
Total Employer	(38.4)	(1.4)	(50.6)	(30.2)	(120.6)
Total Employee	\$0.0	\$0.0	\$1.6	\$0.9	\$2.5
2007-2032					
General Fund	(\$175.1)	(\$8.4)	(\$949.9)	(\$521.8)	(\$1,655.2)
Non-General Fund	<u>(286.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(286.2)</u>
Total State	(461.3)	(8.4)	(949.9)	(521.8)	(1,941.4)
Local Government	<u>(707.3)</u>	<u>(10.2)</u>	<u>(465.8)</u>	<u>(764.2)</u>	<u>(1,947.5)</u>
Total Employer	(1,168.6)	(18.6)	(1,415.7)	(1,286.0)	(3,888.9)
Total Employee	\$0.0	\$0.0	\$98.7	\$47.6	\$146.3

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.

Sensitivity Analysis

2008 gain-sharing event

The expected January 1, 2008 gain-sharing distributions were determined by finding the mean distribution amounts from a probability distribution. The total expected payout for this event is \$759.9 million, an amount that could go as low as \$191 million or as high as \$1.3 billion at the extreme ends of this particular model. A more likely result will be that the gain-sharing payout will fall between \$518 million, at the 25th percentile, and \$960 million, which marks the 75th percentile of the model. The following table summarizes results for the 25th percentile, the expected payout, and the 75th percentile.

Range of Expected Gain-Sharing Values on January 1, 2008						
(Dollars are in millions)	PERS		TRS		SERS	
	Contribution		Contribution		Contribution	
	Payout	Rate Increase	Payout	Rate Increase	Payout	Rate Increase
Plan 1						
25 th Percentile	\$196.3	0.16%	\$166.4	0.33%	N/A	N/A
Expected Value	\$288.0	0.23%	\$244.0	0.48%	N/A	N/A
75 th Percentile	\$363.7	0.29%	\$308.2	0.61%	N/A	N/A
Plan 3						
25 th Percentile	\$30.9	0.05%	\$81.3	0.22%	43.2	0.41%
Expected Value	\$45.3	0.07%	\$119.2	0.32%	63.4	0.61%
75 th Percentile	\$57.2	0.09%	\$150.6	0.40%	80.0	0.77%

Preliminary estimates of payouts as of January 1, 2008. Rate increases are effective 7/1/2009 for PERS, 9/1/2009 for TRS and SERS.

Plan 1 Uniform COLA Increase

The Plan 1 Uniform COLA increase amount, beyond the amount provided by the 2008 gain-sharing event, is estimated at \$0.02 for this bill. This increase amount could be as low as zero, or go as high as \$0.05 under the terms of the bill. The table below illustrates the low, expected, and high estimates for this benefit improvement:

Range of Expected Plan 1 Uniform COLA Increases*				
(Dollars are in millions)	PERS		TRS	
	Liability	Contribution	Liability	Contribution
	Increase	Rate Increase	Increase	Rate Increase
Low Estimate	\$0	0.00%	\$0	0.00%
Expected Value	\$18	0.02%	\$15	0.03%
High Estimate	\$46	0.04%	\$38	0.07%

Totals may not agree due to rounding.

*Present value of fully projected benefits.

Assured benefit

The Plan 3 assured benefit could cost more or less than we have estimated, depending on how many members actually elect this benefit and how well WSIB's investments on these funds perform. The sensitivity analysis estimate costs for this proposed benefit improvement ranging from 0% to 175% of the value presented in this fiscal note. The table below illustrates this range:

Range of Expected Plan 3 Assured Benefit Increases*						
(Dollars are in millions)	PERS		TRS		SERS	
	<i>Liability Increase</i>	<i>Contribution Rate Increase</i>	<i>Liability Increase</i>	<i>Contribution Rate Increase</i>	<i>Liability Increase</i>	<i>Contribution Rate Increase</i>
Low Estimate	\$0	0.00%	\$0	0.00%	\$0	0.00%
Expected Value	\$111	0.18%	\$261	0.71%	\$102	1.00%
High Estimate	\$194	0.31%	\$456	1.25%	\$179	1.75%

Totals may not agree due to rounding.

**Present value of fully projected benefits.*

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

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.

Supplement to HB 1771/SB 5779

Fiscal Note

(Revised February 5, 2007)

Fiscal Budget Determinations (Discontinue plan 1 gain-sharing only):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	(\$9.9)	(\$1.5)	(\$42.1)	(\$4.8)	(\$58.3)
Non-General Fund	<u>(16.3)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(16.3)</u>
Total State	(26.2)	(1.5)	(42.1)	(4.8)	(74.6)
Local Government	<u>(40.1)</u>	<u>(1.9)</u>	<u>(25.9)</u>	<u>(7.4)</u>	<u>(75.3)</u>
Total Employer	(66.3)	(3.4)	(68.0)	(12.2)	(149.9)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	(\$11.1)	(\$1.7)	(\$51.1)	(\$5.8)	(\$69.7)
Non-General Fund	<u>(18.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(18.2)</u>
Total State	(29.3)	(1.7)	(51.1)	(5.8)	(87.9)
Local Government	<u>(44.9)</u>	<u>(2.1)</u>	<u>(24.6)</u>	<u>(8.4)</u>	<u>(80.0)</u>
Total Employer	(74.2)	(3.8)	(75.7)	(14.2)	(167.9)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	(\$134.1)	(\$20.5)	(\$597.5)	(\$68.9)	(\$821.0)
Non-General Fund	<u>(219.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(219.2)</u>
Total State	(353.3)	(20.5)	(597.5)	(68.9)	(1,040.2)
Local Government	<u>(541.0)</u>	<u>(25.1)</u>	<u>(293.3)</u>	<u>(101.1)</u>	<u>(960.5)</u>
Total Employer	(894.3)	(45.6)	(890.8)	(170.0)	(2,000.7)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Allow 2008 Plan 1 Gain-Sharing Event):

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

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	\$6.4	\$1.0	\$31.5	\$3.3	\$42.2
Non-General Fund	<u>10.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>10.5</u>
Total State	16.9	1.0	31.5	3.3	52.7
Local Government	<u>25.9</u>	<u>1.2</u>	<u>15.2</u>	<u>4.9</u>	<u>47.2</u>
Total Employer	42.8	2.2	46.7	8.2	99.9
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	\$71.5	\$11.0	\$341.7	\$36.8	\$461.0
Non-General Fund	<u>116.7</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>116.7</u>
Total State	188.2	11.0	341.7	36.8	577.7
Local Government	<u>288.2</u>	<u>13.4</u>	<u>164.5</u>	<u>53.9</u>	<u>520.0</u>
Total Employer	476.4	24.4	506.2	90.7	1,097.7
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 1 \$0.02 Uniform COLA Increase):

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

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	\$0.5	\$0.0	\$1.6	\$0.2	\$2.3
Non-General Fund	<u>0.7</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.7</u>
Total State	1.2	0.0	1.6	0.2	3.0
Local Government	<u>1.8</u>	<u>0.0</u>	<u>1.0</u>	<u>0.4</u>	<u>3.2</u>
Total Employer	3.0	0.0	2.6	0.6	6.2
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	\$0.6	\$0.0	\$2.0	\$0.2	\$2.8
Non-General Fund	<u>0.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.9</u>
Total State	1.5	0.0	2.0	0.2	3.7
Local Government	<u>2.3</u>	<u>0.2</u>	<u>1.0</u>	<u>0.4</u>	<u>3.9</u>
Total Employer	3.8	0.2	3.0	0.6	7.6
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	\$6.8	\$1.1	\$22.9	\$3.4	\$34.2
Non-General Fund	<u>10.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>10.9</u>
Total State	17.7	1.1	22.9	3.4	45.1
Local Government	<u>26.8</u>	<u>1.5</u>	<u>11.3</u>	<u>5.1</u>	<u>44.7</u>
Total Employer	44.5	2.6	34.2	8.5	89.8
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 1 All Changes):

As a result of the higher (lower) required contribution rates, the increase (decrease) in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	(\$9.4)	(\$1.5)	(\$40.5)	(\$4.6)	(\$56.0)
Non-General Fund	<u>(15.6)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(15.6)</u>
Total State	(25.0)	(1.5)	(40.5)	(4.6)	(71.6)
Local Government	<u>(38.3)</u>	<u>(1.9)</u>	<u>(24.9)</u>	<u>(7.0)</u>	<u>(72.1)</u>
Total Employer	(63.3)	(3.4)	(65.4)	(11.6)	(143.7)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	(\$4.1)	(\$0.7)	(\$17.6)	(\$2.3)	(\$24.7)
Non-General Fund	<u>(6.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(6.8)</u>
Total State	(10.9)	(0.7)	(17.6)	(2.3)	(31.5)
Local Government	<u>(16.7)</u>	<u>(0.7)</u>	<u>(8.4)</u>	<u>(3.1)</u>	<u>(28.9)</u>
Total Employer	(27.6)	(1.4)	(26.0)	(5.4)	(60.4)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	(\$55.8)	(\$8.4)	(\$232.9)	(\$28.7)	(\$325.8)
Non-General Fund	<u>(91.6)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(91.6)</u>
Total State	(147.4)	(8.4)	(232.9)	(28.7)	(417.4)
Local Government	<u>(226.0)</u>	<u>(10.2)</u>	<u>(117.5)</u>	<u>(42.1)</u>	<u>(395.8)</u>
Total Employer	(373.4)	(18.6)	(350.4)	(70.8)	(813.2)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Discontinue plan 3 gain-sharing current members only):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	(\$5.4)	\$0.0	(\$62.6)	(\$20.8)	(\$88.8)
Non-General Fund	<u>(9.0)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(9.0)</u>
Total State	(14.4)	0.0	(62.6)	(20.8)	(97.8)
Local Government	<u>(22.1)</u>	<u>0.0</u>	<u>(38.5)</u>	<u>(31.3)</u>	<u>(91.9)</u>
Total Employer	(36.5)	0.0	(101.1)	(52.1)	(189.7)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	(\$4.3)	\$0.0	(\$59.0)	(\$16.7)	(\$80.0)
Non-General Fund	<u>(7.0)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(7.0)</u>
Total State	(11.3)	0.0	(59.0)	(16.7)	(87.0)
Local Government	<u>(17.3)</u>	<u>0.0</u>	<u>(28.4)</u>	<u>(24.5)</u>	<u>(70.2)</u>
Total Employer	(28.6)	0.0	(87.4)	(41.2)	(157.2)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	(\$38.4)	\$0.0	(\$606.6)	(\$131.3)	(\$776.3)
Non-General Fund	<u>(62.7)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(62.7)</u>
Total State	(101.1)	0.0	(606.6)	(131.3)	(839.0)
Local Government	<u>(155.0)</u>	<u>0.0</u>	<u>(300.1)</u>	<u>(192.7)</u>	<u>(647.8)</u>
Total Employer	(256.1)	0.0	(906.7)	(324.0)	(1,486.8)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Eliminate plan 3 gain-sharing new entrants only):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	(\$2.2)	\$0.0	(\$12.2)	(\$9.1)	(\$23.5)
Non-General Fund	<u>(3.6)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(3.6)</u>
Total State	(5.8)	0.0	(12.2)	(9.1)	(27.1)
Local Government	<u>(8.8)</u>	<u>0.0</u>	<u>(5.9)</u>	<u>(13.4)</u>	<u>(28.1)</u>
Total Employer	(14.6)	0.0	(18.1)	(22.5)	(55.2)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	(\$122.5)	\$0.0	(\$770.7)	(\$512.3)	(\$1,405.5)
Non-General Fund	<u>(199.9)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(199.9)</u>
Total State	(322.4)	0.0	(770.7)	(512.3)	(1,605.4)
Local Government	<u>(493.9)</u>	<u>0.0</u>	<u>(371.2)</u>	<u>(749.6)</u>	<u>(1,614.7)</u>
Total Employer	(816.3)	0.0	(1,141.9)	(1,261.9)	(3,220.1)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Allow 2008 Plan 3 Gain-Sharing Event):

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

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	\$1.4	\$0.0	\$16.3	\$5.7	\$23.4
Non-General Fund	<u>2.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>2.2</u>
Total State	3.6	0.0	16.3	5.7	25.6
Local Government	<u>5.5</u>	<u>0.0</u>	<u>7.8</u>	<u>8.3</u>	<u>21.6</u>
Total Employer	9.1	0.0	24.1	14.0	47.2
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	\$10.5	\$0.0	\$149.9	\$37.8	\$198.2
Non-General Fund	<u>17.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>17.2</u>
Total State	27.7	0.0	149.9	37.8	215.4
Local Government	<u>42.3</u>	<u>0.0</u>	<u>72.1</u>	<u>55.3</u>	<u>169.7</u>
Total Employer	70.0	0.0	222.0	93.1	385.1
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 2/3 Choice):

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

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	\$0.0	\$0.0	\$2.2	\$0.7	\$2.9
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	2.2	0.7	2.9
Local Government	<u>0.0</u>	<u>0.0</u>	<u>1.1</u>	<u>1.0</u>	<u>2.1</u>
Total Employer	0.0	0.0	3.3	1.7	5.0
Total Employee	\$0.0	\$0.0	\$1.6	\$0.9	\$2.5
2007-2032					
General Fund	\$0.0	\$0.0	\$139.2	\$38.8	\$178.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	139.2	38.8	178.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>67.3</u>	<u>56.4</u>	<u>123.7</u>
Total Employer	0.0	0.0	206.5	95.2	301.7
Total Employee	\$0.0	\$0.0	\$98.7	\$47.6	\$146.3

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 3 Assured Benefit):

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

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	\$4.1	\$0.0	\$38.3	\$11.7	\$54.1
Non-General Fund	<u>6.8</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>6.8</u>
Total State	10.9	0.0	38.3	11.7	60.9
Local Government	<u>16.6</u>	<u>0.0</u>	<u>23.5</u>	<u>17.6</u>	<u>57.7</u>
Total Employer	27.5	0.0	61.8	29.3	118.6
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	\$3.5	\$0.0	\$36.1	\$9.4	\$49.0
Non-General Fund	<u>5.7</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>5.7</u>
Total State	9.2	0.0	36.1	9.4	54.7
Local Government	<u>14.1</u>	<u>0.0</u>	<u>17.4</u>	<u>13.8</u>	<u>45.3</u>
Total Employer	23.3	0.0	53.5	23.2	100.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
General Fund	\$31.1	\$0.0	\$371.2	\$73.9	\$476.2
Non-General Fund	<u>50.8</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>50.8</u>
Total State	81.9	0.0	371.2	73.9	527.0
Local Government	<u>125.3</u>	<u>0.0</u>	<u>183.6</u>	<u>108.5</u>	<u>417.4</u>
Total Employer	207.2	0.0	554.8	182.4	944.4
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 2/3 All Changes):

As a result of the higher (lower) required contribution rates, the increase (decrease) in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	(\$1.3)	\$0.0	(\$24.3)	(\$9.1)	(\$34.7)
Non-General Fund	<u>(2.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(2.2)</u>
Total State	(3.5)	0.0	(24.3)	(9.1)	(36.9)
Local Government	<u>(5.5)</u>	<u>0.0</u>	<u>(15.0)</u>	<u>(13.7)</u>	<u>(34.2)</u>
Total Employer	(9.0)	0.0	(39.3)	(22.8)	(71.1)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	(\$1.6)	\$0.0	(\$16.6)	(\$10.0)	(\$28.2)
Non-General Fund	<u>(2.7)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(2.7)</u>
Total State	(4.3)	0.0	(16.6)	(10.0)	(30.9)
Local Government	<u>(6.5)</u>	<u>0.0</u>	<u>(8.0)</u>	<u>(14.8)</u>	<u>(29.3)</u>
Total Employer	(10.8)	0.0	(24.6)	(24.8)	(60.2)
Total Employee	\$0.0	\$0.0	\$1.6	\$0.9	\$2.5
2007-2032					
General Fund	(\$119.3)	\$0.0	(\$717.0)	(\$493.1)	(\$1,329.4)
Non-General Fund	<u>(194.6)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(194.6)</u>
Total State	(313.9)	0.0	(717.0)	(493.1)	(1,524.0)
Local Government	<u>(481.3)</u>	<u>0.0</u>	<u>(348.3)</u>	<u>(722.1)</u>	<u>(1,551.7)</u>
Total Employer	(795.2)	0.0	(1,065.3)	(1,215.2)	(3,075.7)
Total Employee	\$0.0	\$0.0	\$98.7	\$47.6	\$146.3

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (All Plans, All Changes):

As a result of the higher (lower) required contribution rates, the increase (decrease) in funding expenditures is projected to be:

Costs (in Millions):	PERS	PSERS	TRS	SERS	Total
2007-2009					
General Fund	(\$10.7)	(\$1.5)	(\$64.8)	(\$13.7)	(\$90.7)
Non-General Fund	<u>(17.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(17.8)</u>
Total State	(28.5)	(1.5)	(64.8)	(13.7)	(108.5)
Local Government	<u>(43.8)</u>	<u>(1.9)</u>	<u>(39.9)</u>	<u>(20.7)</u>	<u>(106.3)</u>
Total Employer	(72.3)	(3.4)	(104.7)	(34.4)	(214.8)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	(\$5.7)	(\$0.7)	(\$34.2)	(\$12.3)	(\$52.9)
Non-General Fund	<u>(9.5)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(9.5)</u>
Total State	(15.2)	(0.7)	(34.2)	(12.3)	(62.4)
Local Government	<u>(23.2)</u>	<u>(0.7)</u>	<u>(16.4)</u>	<u>(17.9)</u>	<u>(58.2)</u>
Total Employer	(38.4)	(1.4)	(50.6)	(30.2)	(120.6)
Total Employee	\$0.0	\$0.0	\$1.6	\$0.9	\$2.5
2007-2032					
General Fund	(\$175.1)	(\$8.4)	(\$949.9)	(\$521.8)	(\$1,655.2)
Non-General Fund	<u>(286.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(286.2)</u>
Total State	(461.3)	(8.4)	(949.9)	(521.8)	(1,941.4)
Local Government	<u>(707.3)</u>	<u>(10.2)</u>	<u>(465.8)</u>	<u>(764.2)</u>	<u>(1,947.5)</u>
Total Employer	(1,168.6)	(18.6)	(1,415.7)	(1,286.0)	3,888.9
Total Employee	\$0.0	\$0.0	\$98.7	\$47.6	\$146.3

Individual State Agency Fiscal Note

Revised

Bill Number: 1771 HB	Title: Public retirement systems	Agency: 124-Department of Retirement Systems
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Part I: Estimates

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No Fiscal Impact

Estimated Cash Receipts to:

FUND					
Total \$					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	5.9	4.2	5.1	3.0	3.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	1,249,000	958,000	2,207,000	397,000	397,000
Total \$	1,249,000	958,000	2,207,000	397,000	397,000

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:	Phone:	Date: 01/26/2007
Agency Preparation: Jeff Wickman	Phone: (360) 664-7303	Date: 02/01/2007
Agency Approval: Sandra J. Matheson	Phone: (360) 664-7312	Date: 02/01/2007
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 02/01/2007

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 removes the gain sharing benefit in Plan 1 for retirees of the Teachers’ Retirement System (TRS) and Public Employees’ Retirement System (PERS), and in Plan 3 for members of TRS, PERS and the School Employees’ Retirement System (SERS) after January 1, 2008. The bill provides that no new gain sharing will be calculated after July 1, 2007 or credited after January 2008.

The bill provides the following new benefit for PERS and TRS Plan 1 retirees:

- Beginning in 2009, an annual cost of living adjustment (COLA) will be provided to TRS and PERS Plan 1 retirees equal to \$0.23 minus the 2008 gain sharing increase per month per year of service. The adjustment shall not decrease the annual amount, and is not to exceed \$0.05 per month, per year of service.

The bill provides the following new benefit option for Plan 3 members of TRS, PERS and SERS:

- Beginning July 1, 2008 through September 30, 2008 members who established membership in TRS, PERS or SERS Plan 3 prior to July 1, 2007 have an irrevocable choice to participate in a new Assured Benefit Program (ABP) which will guarantee a 1% prospective benefit on service earned after entering the ABP in addition to the current 1% defined benefit. The member must participate in ABP for at least five years before receiving the guaranteed 1% benefit.

The bill also makes the following change for newly hired TRS and SERS members:

- Beginning July 1, 2007 newly hired TRS and SERS members will have 90 days to choose membership in either Plan 2 or Plan 3

If any portion of the bill is found to be in conflict with the favorable tax treatment of the plans, only that portion of the bill is deemed inoperable. The legislature also reserves the right to amend or repeal the bill in order to comply with a final determination on favorable tax treatment by the Internal Revenue Service.

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.

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	5.9	4.2	5.1	3.0	3.0
A-Salaries and Wages	348,044	187,704	535,748	289,010	289,010
B-Employee Benefits	101,661	63,487	165,148	100,536	100,536
C-Personal Service Contracts					
E-Goods and Services	724,220	706,809	1,431,029	7,454	7,454
G-Travel	75,075		75,075		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	\$1,249,000	\$958,000	\$2,207,000	\$397,000	\$397,000

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 2008	FY 2009	2007-09	2009-11	2011-13
Benefit Marketing Rep	56,026	1.8		0.9		
Financial Analyst 3	56,977		0.8	0.4	1.0	1.0
Info Tech Spec 4	69,462	1.0	0.2	0.6		
Office Asst 3	32,826	0.6	1.7	1.2		
Project Manager	77,264	1.0	0.3	0.7		
Public Info Officer 4	68,270	0.6		0.3		
Retirement Svcs Analyst 2	44,795		1.2	0.6	2.0	2.0
Retirement Svcs Analyst 3	48,326	0.9		0.5		
Total FTE's		5.9	4.2	5.1	3.0	3.0

Part IV: Capital Budget Impact

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.

New rules will be required.

II. C - Expenditures

Administrative Assumptions

Plan 1 COLA increase

- PERS and TRS Plan 1 retirees eligible for the uniform COLA adjustment will receive an increase reflecting the permanent one-time increase effective with their July 2009 benefit payment. Regardless of how the calculation of the “annual increase” changes, OSA will provide the amount to DRS.

Optional TRS and SERS Plan 3 Membership

- Substitute teachers and substitute classified school employees have the option of becoming a member. Currently, if the substitute chooses to join, they must become a Plan 3 member. Because of this, DRS requires employers to report substitutes as “potential” Plan 3 members. After the effective date of the bill, all substitute teachers and substitute classified school employees will have the option of joining either Plan 2 or Plan 3. This will require that substitutes be reported initially in Plan 2, not Plan 3.
- Substitutes previously reported in Plan 3 as “potential” members will be converted to Plan 2 as of the effective date of the bill.
- Employer payroll reporting systems will require modifications to support optional plans.

Assured Benefit Program

- The calculation of the assured benefit will apply to service credit earned after election to participate.
- Any member funds invested in WSIB or SELF at the time of election will not be affected by this choice. Members can continue to self-direct these funds with no impact to the assured benefit calculation.
- The assured benefit calculation is: $1\% \times \text{service credit in the ABP} \times \text{average final compensation (AFC)}$.
- Members participating in the assured benefit will contribute a minimum contribution (5% for PERS and SERS; 6% for TRS) to the assured benefit and cannot move these contributions to another Plan 3 investment program.
- TRS members who are not contributing at least 6% can not join ABP. TRS members will have the option to change their contribution rate during January 2008.
- Members can withdraw, rollover or establish periodic payments from their SELF or WSIB account without affecting the calculation of the assured benefit.
- At separation, participants of ABP can withdraw their ABP funds and forfeit the 1% assured benefit.
- Members in the assured benefit, who have withdrawn, can restore those contributions plus earnings to their member account upon reentry to the plan according to defined benefit rules.
- At retirement, an ABP participant may choose to either forfeit the 1% assured benefit or receive the 1% assured benefit with COLA.
- If the member chooses to forfeit the 1% assured benefit or has excess assured benefit contributions, all assured benefit contributions and their associated earnings will be moved to the member’s DC SELF account and will be available to the member through normal distribution options.
- If member receives the 1% assured benefit before normal retirement age an early retirement reduction factor will be applied.
- To receive payment in the ABP a member must be retired.
- Employers will continue to report Plan 3 contributions to SELF or WSIB as directed by the member. For ABP participants, DRS will split the appropriate contributions between the ABP account and SELF/WSIB accounts.
- Employers will not report the ABP choice on the transmittals. Instead, members will send ABP election forms directly to DRS. DRS staff will manually enter the ABP choice information.
- DRS will distribute the ABP payments to members and record keeping for assured benefit accounts will be done by DRS’ third party record keeper.
- An inactive member, who retires retroactively, will also receive retroactive ABP payments.

- ABP participants will be able to get an on-line self-estimate for their assured benefit payment.
- The ABP payment will be treated as an increase of the member's DB payment, even if the ABP payment starts after the DB payments begin.

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

Benefits/Customer Service

There are over 110,000 Plan 3 members who will have the choice to join the APB. Additional staff will be needed to respond to member questions. Members choosing to join will send an election form directly to DRS. DRS staff will need to process the forms, including imaging and entering choice information into the automated system. ABP participants will need estimates and benefit calculations for the ABP payments in addition to their regular retirement estimates and benefit calculations when approaching retirement. Benefits Unit staff will also support the modification of DRS' automated systems, the creation of member communications, and the modification of policies, procedures and rules to support this legislation. The tasks associated with implementing this bill are:

- Review, key and return (if needed) ABP election forms
- Respond to member questions, written and telephone
- Define business requirements for the automated systems
- Develop new rules and operating policies
- Conduct user acceptance testing
- Conduct staff training
- Review communication materials
- Update the Retirement Services Division (RSD) Online Operations Manual

Retirement Services Analyst 3 – 13 months (salaries/benefits)	\$68,424
Two Retirement Services Analyst 2 – 7 months (salaries/benefits)	\$69,993
Two Office Assistant 3 – 7 months (salaries/benefits)	\$53,936
Fiscal Analyst 3 – 12 months (salaries/benefits)	\$67,559
Office Assistant 3 – 6 months (salaries/benefits)	\$23,115
Computers/Equipment for new staff	<u>\$11,303</u>
Total Estimated Benefits/Customer Service Costs	\$294,330

Total Estimated Benefits/Customer Service Costs (05-07 Biennium)	\$31,593
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Total Estimated Benefits/Customer Service Costs (07-09 Biennium)	\$262,737
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On-going costs* (per biennium)	\$397,000
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**One Financial Analyst 3 and two Retirement Services Analyst 2 positions.*

Member Communications

To ensure the successful implementation of this bill, a comprehensive member communication, education program will be required. Education and communication materials will need to be updated and/or created to meet the different member groups' needs. The communication tasks associated with implementing this bill include:

- Inform members of the options available to them via individual letters
- Provide assured benefit member seminars and workshops for all affected Plan 3 members
- Update, print and distribute member handbooks for Plans 2 and 3 of SERS, PERS and TRS
- Create SERS and TRS Plan Choice Booklets
- Create Plan 3 Assured Benefit Program Booklets

- Create *Retirement Outlook* articles to notify members of the changes to the retirement rules and gain sharing
- Create Frequently Asked Questions for the DRS Internet and a *Facts at a Glance* for DRS staff
- Update regular DRS retirement seminars and pension workshop materials to provide the new information

Printing and distribution costs	\$399,509
Public Information Officer 4 – 7 months (salaries/benefits)	\$50,743
Three Benefit Marketing Representatives – 7 months (salaries/benefits)	\$127,590
Office Assistant 3 – 7 months (salaries/benefits)	\$26,968
Computer Equipment/Projectors	\$32,172
Travel Expenses	\$60,000
Vehicle Expenses	<u>\$15,075</u>
Total Estimated Member/Retiree Communications Costs	\$712,057

Total Estimated Member Communications Costs (05-07 Biennium)	\$32,172
Total Estimated Member Communications Costs (07-09 Biennium)	\$679,885

Automated Systems

With the implementation of the TRS, SERS and PERS Plan 3, DRS modified its automated systems to allow members to transfer service credit and contributions from Plan 2 to Plan 3. These systems will again be modified to allow eligible members to elect into the new ABP. The specific changes to DRS' automated systems will be:

- Configure the SERS and TRS benefit plans to support a membership choice of Plan 2 or 3 for new members.
- Modify Member Information System (MIS), Web Based Employer Transmittal (WBET) and the Employer Information System (EIS) to support the new choices and benefit options.
- Store and display the new choices, values and amounts within the automated systems.
- Calculate the new assured benefit payments for retirements and re-retirements.
- Segregate member contributions to the new assured benefit investment manager for members choosing the new option.
- Modify system interfaces to send assured benefit program information to and from the record keeper.

Information Technology Specialist 4 – 16 months (salaries/benefits)	\$115,708
Programmer time of 6,579 hours @ \$95 per hour	\$625,005
DIS cost* of \$500 per week for 139 weeks	\$69,500
External Quality Assurance	<u>\$50,000</u>
Total Estimated Automated Systems Costs	\$860,213

Total Estimated Automated System Costs (05-07 Biennium)	\$75,608
Total Estimated Automated System Costs (07-09 Biennium)	\$784,605

**cost for mainframe computer processing time and resources at the Department of Information Services*

Internal Operations

The changes to PERS, SERS and TRS membership options will impact procedures throughout DRS' operations and infrastructure. These operational requirements will increase administrative complexity and will require project management to implement this bill.

Project Manager – 18 months (salaries/benefits)	\$145,210
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Computer workstation	<u>\$3,190</u>
Total Estimated Internal Operations Costs	\$148,400

Total Estimated Internal Operations Costs (05-07 Biennium)	\$18,627
Total Estimated Internal Operations Costs (07-09 Biennium)	\$129,773

Tax Treatment

DRS will work with the Attorney General's Office (AGO) to identify areas within the proposal that require review and confirmation in order to retain a favorable tax treatment under federal requirements. Identified areas will be addressed through a request for private letter ruling submitted to the Internal Revenue Service (IRS). External tax counsel familiar with IRS private letter ruling process will assist with the development of questions and support DRS and the AGO for this effort.

One-time cost for tax counsel	<u>\$50,000</u>
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Total Estimated Tax Treatment Costs (07-09 Biennium)	\$50,000
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Record Keeping

DRS contracts with an external third party company to provide record keeping services for member defined contributions accounts in SERS, TRS and PERS Plan 3. The new assured benefit program will require the creation of new accounts for each member who elects this program. Changes will be required to modify the existing systems that support the Plan 3 defined contribution accounts. In addition, the costs of record keeping services negotiated by DRS are based in part on the amount of assets in Plan 3. The number of participants drives assets in large part. Since new members eligible for SERS and TRS are currently required to join Plan 3, the growth in assets can be projected based on prior history. This bill gives eligible new employees a choice of entering either Plan 2 or Plan 3. Although not quantifiable at this time, beyond the estimated cost impact of specific modifications that are reflected below, fluctuations in the growth of Plan 3 membership could impact DRS' contract with the third party record keeper. **Fees may need to be renegotiated if there is a material change in Plan 3 enrollment.**

Record keeper modifications	<u>\$300,000</u>
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Total Estimated Record Keeping Costs (07-09 Biennium)	\$300,000
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ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	<u>FY 2007</u>	<u>2007-09</u>	<u>2009-11</u>
BENEFITS/CUSTOMER SERVICE	\$31,593	\$262,737	\$397,000
MEMBER COMMUNICATIONS	\$32,172	\$679,885	\$0
AUTOMATED SYSTEMS	\$75,608	\$784,605	\$0
INTERNAL OPERATIONS	\$18,627	\$129,773	\$0
TAX TREATMENT	\$0	\$50,000	\$0
RECORD KEEPING	\$0	\$300,000	\$0
ESTIMATED TOTAL COSTS	<u>\$158,000</u>	<u>\$2,207,000</u>	<u>\$397,000</u>

Individual State Agency Fiscal Note

Bill Number: 1771 HB	Title: Public retirement systems	Agency: 126-State Investment Board
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Part I: Estimates

☒ **No Fiscal Impact**

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:	Phone:	Date: 01/26/2007
Agency Preparation: Mike Donovan	Phone: (360) 956-4746	Date: 01/26/2007
Agency Approval: Celina Verme	Phone: (360) 956-4740	Date: 01/31/2007
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/01/2007

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: This section revises RCW 41.34.020 and 2000 c 247 s 401 to add that Assured Benefit Program means the provisions of this chapter allowing certain members the option to contribute a specified percentage of their compensation, invest that contribution in the WSIB program, and receive a specified benefit. Assured Benefit Sub-account means a portion of a member account that must be directed the WSIB program.

Section 2: This section amends RCW 41.34.040 and 2003 c 156 s 1 to include members of the public employees’, school employees’, and teachers’ retirement systems participating in the assured benefit program shall contribute according to one of the rate structures in this subsection in addition to the mandatory minimum 5%. However, the total contribution rate must be at least equal to his or her system’s assured benefit base rate. The assured benefit base rates for teachers’ retirement system is 6%, school employee’s retirement system is 5%, and public employees’ retirement system is 5%. The assured benefit base rate contributions are deposited in the member’s assured benefit subaccount and are directed to the WSIB program. This section also indicates a member not participating in the assured benefit program shall contribute from his or her compensation in accordance with one of the rate structures in subsection (c) in addition to the mandatory minimum 5%.

The proposed legislation will not have fiscal impact on the Washington State investment Board.

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

Part IV: Capital Budget 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.