Multiple Agency Fiscal Note Summary

Bill Number: 6305 SB	**Title:** Elected officials retirement

Estimated Cash Receipts

NONE

Estimated Expenditures

Agency Name	2013-15			2015-17			2017-19		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Retirement Systems	2.7	0	1,581,754	2.0	0	275,620	2.0	0	275,620
State Investment Board	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total	**2.7**	**$0**	**$1,581,754**	**2.0**	**$0**	**$275,620**	**2.0**	**$0**	**$275,620**

Estimated Capital Budget Impact

NONE

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/27/2014

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 36442

Individual State Agency Fiscal Note

Bill Number: 6305 SB	**Title:** Elected officials retirement	**Agency:** 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	0.0	5.4	2.7	2.0	2.0
Account					
Department of Retirement Systems Expense Account-State 600-1	0	1,581,754	1,581,754	275,620	275,620
Total $	0	1,581,754	1,581,754	275,620	275,620

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:	Pete Cutler	Phone: 786-7474	Date: 01/20/2014
Agency Preparation:	Shawn Merchant	Phone: 360-664-7303	Date: 01/23/2014
Agency Approval:	Marcie Frost	Phone: 360-664-7224	Date: 01/23/2014
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/23/2014

Request # 14-009-1

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 legislation creates a new state retirement system, the Elected Officials Retirement Savings Plan (EORS), effective July 1, 2015. Elected officials choosing to enter membership on or after July 1, 2015 will be given the option to participate in EORS or be exempt from membership.

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

- NOTE: To meet the July 1, 2015 deadline, the Department will suspend current efforts to procure and implement a new employer reporting system. That project was approved and funded for the current biennium but it would not be possible to make all of the system changes from both projects at the same time. DRS will need to build EORS in the current system and then build it into the new system when we're able to resume work in late 2015.

- EORS will be classified as a IRC 401(a) plan and will not be subject to Employment Retirement Income Security Act (ERISA) requirements.
- As EORS is an IRC 401(a) plan, IRS qualification will occur during the Cycle C process.
- The Department will use a third party record keeper to track member accounts, facilitate member investments, make member distributions and provide member choice and ongoing communication.
- EORS is not portable with any existing DRS administered retirement plan or First Class Cities retirement systems.
- EORS does not have any vesting requirements.
- Members of EORS are not eligible to purchase previous terms of elected service.

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

Benefits/Customer Service

Retirement Services Analysts (RSAs) will support modifications of DRS' automated systems, help update member communication materials, modify internal procedures to support this legislation and verify record keeper procedures. Resources to perform these tasks include:

Retirement Services Analyst 3 – 377 hours (salaries/benefits) = $12,401

Total Estimated Benefits/Customer Service Costs = $12,401

Fiscal Services

Fiscal Office team members will participate on the project to establish appropriate procedures to receipt, deposit, and transfer and invest member and employer contributions. Ongoing fiscal tasks and resources would include:

- Daily receipting of and reconciliation of contributions; processing corrections; and transfers of funds to the record keeper for investment
- Monthly reconciliation of transactions with employers, the State Treasurer's Office (OST), and the record keeper
- Daily and monthly cash flow projections for the State Investment Board (SIB)
- Researching and initiating adjustments to employer or member accounts
- Researching and verifying fund balances and reconciliations with the record keeper
- Posting general ledgers and any adjustments to the state's accounting system
- Verifying, approving and processing of fees

Fiscal Analyst 3 – 1,000 project hours (salaries/benefits) = $35,107
Fiscal Analyst 2 – effective FY15 and on-going (annual salaries/benefits) = $64,506
Fiscal Analyst 3 – effective FY15 and on-going (annual salaries/benefits) = $73,304
Total Estimated Fiscal Support Costs (in 2014/2015) = $172,917

Employer Support Services

Most DRS-covered employers have elected official positions. Employer Support Services team members will oversee and coordinate education for these employers, and provide business requirements and test upgrades of the transmittal system and web applications. Resources to perform these tasks include:

Info Tech Specialist 2 – 150 hours (salaries/benefits) = $5,742
Total Estimated Employer Support Services Costs = $5,742

Member Communications

DRS' communication team will need to update the language in publications, forms and the DRS website to inform current elected officials of the changes. Resources to perform these tasks include:

Communications Consultant 4 – 260 hours (salaries/benefits) = $10,174
Total Estimated Member Communications Costs = $10,174

Automated Systems

DRS' automated systems need to be updated to process a new defined contribution system. Updates are required to the Member Information System, Financial Reporting System, Employer Information System, Web Applications and the interface between DRS and the record keeper. Resources to perform these tasks include:

Programmer hours – 10,035 at $95 per hour = $953,325

Info Tech Specialist 4 – 2,181 hours (salaries/benefits) = $99,648
Computer costs* - 260 weeks @ $500 per week = $130,000
Total Estimated Automated Systems Costs = $1,182,973

*cost for mainframe computer processing time and resources at CTS/DES

Project Management

Introducing a new retirement system requires that new processes, materials and services be incorporated into DRS' existing infrastructure. Consistent with knowledge and experience of other DRS projects of similar size and complexity, implementing EORS will require formal project management.

Project Manager – 3,120 hours (salaries/benefits) = $160,547
Total Estimated Project Management Costs = $160,547

Record Keeper Startup and Transition

A record keeper will provide record keeping services for members' accounts (including tracking and crediting employer contributions and earnings/losses), fund investments and liquidations; produce quarterly statements, welcome letters and confirmation letters to members.

Annual Record Keeping Cost estimated at $25.00 per member (borne by the member as a fee)
Record Keeper startup programming costs = $25,000
Record Keeper startup marketing, communications and web = $10,000
Record Keeper printing and marketing annual costs = $2,000
Total Estimated Record Keeper Startup/Transition Costs = $37,000

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

Benefits/Customer Service = $12,401
Fiscal Services = $172,917 in 2013-15 and $137,810 per year ongoing
Employer Support Services = $5,742
Member Communications = $10,174
Automated Systems = $1,182,973
Project Management = $160,547
Record Keeper Start Up and Transition = $37,000

TOTAL = $1,581,754 in 2013-15 and $137,810 per year ongoing

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years		5.4	2.7	2.0	2.0
A-Salaries and Wages		350,044	350,044	203,038	203,038
B-Employee Benefits		111,385	111,385	72,582	72,582
C-Professional Service Contracts		37,000	37,000		
E-Goods and Other Services		1,083,325	1,083,325		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$1,581,754	$1,581,754	$275,620	$275,620

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 2014	FY 2015	2013-15	2015-17	2017-19
Communications Consultant 4	61,632		0.1	0.1		
Fiscal Analyst 2	47,016		1.0	0.5	1.0	1.0
Fiscal Analyst 3	54,504		1.5	0.7	1.0	1.0
Info Tech Specialist 2	60,120		0.1	0.0		
Info Tech Specialist 4	73,260		1.0	0.5		
Project Manager	83,496		1.5	0.8		
Retirement Services Analyst 3	50,568		0.2	0.1		
Total FTE's	430,596		5.4	2.7	2.0	2.0

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.

New rules will be required for this program.

Individual State Agency Fiscal Note

Bill Number: 6305 SB	Title: Elected officials retirement	Agency: 126-State Investment Board

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:	Pete Cutler	Phone: 786-7474	Date: 01/20/2014
Agency Preparation:	Mike Donovan	Phone: (360) 956-4746	Date: 01/22/2014
Agency Approval:	Celina Verme	Phone: (360) 956-4740	Date: 01/22/2014
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/22/2014

Request # SB6305-4-1

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.

An Act Relating to creating a defined contribution retirement plan option for elected officials.

The legislature recognizes the need for persons who offer public service as an elected official to have the option of participating in a retirement savings plan that can contribute towards a secure and viable retirement benefit. The legislature also recognizes the need for public employers and taxpayers to have consistent and predictable pension funding obligations in support of employee retirement benefits. Therefore, it is the intent of the legislature to provide a defined contribution retirement plan option for elected officials that uses best practices to provide the opportunity and flexibility to accrue a viable retirement benefit, while providing stable funding requirements for public employers and taxpayers.

A member shall contribute five percent of his or her compensation earnable until age thirty-five, and seven and one-half percent thereafter. The employer of a member shall contribute to the member's account an amount equal to eighty percent of the contributions made by a member.

In addition to contributions made to members' accounts, employers shall make contributions to the unfunded actuarial accrued liability in plan 1 of the public employees retirement system in the amounts specified in RCW 41.45.060.

Members may self-direct their investments as set forth in section 208 of this act and RCW 43.33A.190. If a member does not select investments, the member's account shall be invested in the default investment option of the retirement strategy fund that is closest to the retirement target date of the member.

“Retirement strategy fund" means one of several diversified asset allocation portfolios managed by investment advisors under contract to the state investment board. The asset mix of the portfolios adjusts over time depending on a target retirement date. The department shall adopt rules that will allow members the option to roll over moneys from other tax qualified accounts into their public employees' savings plan member account. This option is subject to internal revenue service requirements for favorable tax qualification. The department is not required to allow all roll-overs that may be permitted under internal revenue service regulations.

The state investment board has the full authority to invest all self-directed investment moneys in accordance with RCW 43.84.150 and 43.33A.140, and cumulative investment directions received pursuant to section 207 of this act and this section. In carrying out this authority the state investment board, after consultation with the department, shall provide a set of options for members to choose from for self-directed investment.

The state investment board has sole responsibility for contracting with outside investment firms to provide investment management for the defined contribution funds and shall manage the performance of investment managers under those contracts.

This act takes effect July 1, 2015.

This legislation has no additional Fisal Impact on this 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

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

Bill Number: 6305 SB	Title: Elected officials retirement	Agency: AFN-Actuarial Fiscal Note - State A

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.

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:	Pete Cutler	Phone: 786-7474	Date: 01/20/2014
Agency Preparation:	Devon Nichols	Phone: 3607866145	Date: 01/27/2014
Agency Approval:	Matt Smith	Phone: 360-786-6147	Date: 01/27/2014
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/27/2014

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

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: Establishes the Washington EORSP for state and local elected officials and removes eligibility in a state defined benefit plan.

COST SUMMARY

The cost of this bill is **INDETERMINATE**. We were able to identify the impact to PERS, but due to a lack of data on local elected officials, the overall impact to EORSP is less certain. The following table provides a range of possible budget impacts by source over a 25-year period.

Range of 25-Year Budget Impacts		
(Dollars in Millions)	**Low**	**High**
State	($65.7)	($65.7)
Local Government	($26.2)	$145.0
Employee	$75.5	$289.5

This bill could result in a savings or a cost depending on how many eligible elected officials choose to participate in EORSP who have not previously participated in a state retirement system. The actual cost of this bill may fall outside the range provided.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- Removing approximately 800 elected officials from PERS lowers defined benefit liabilities and results in a savings to the retirement system.
    1. We do not expect any impact to the defined benefit liabilities of other retirement systems since so few of their active members serve as elected officials.
- Using the assumptions disclosed in the remainder of this fiscal note, we developed a range of possible budget impacts, shown in the table above.
    1. The Low impact results represent the savings to PERS and the offsetting costs for the approximate 800 current and future elected officials joining EORSP.
    2. The High impact results illustrate the potential cost of an additional 1,200 elected officials choosing to join EORSP that do not currently participate in a state retirement system under current law.
        - The High impact shown above will vary based on how many elected officials actually choose to participate in EORSP.
- We expect elected officials will pay higher contribution rates under EORSP than under current law; and employers will pay lower contribution rates under EORSP than under current law.

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 Change

This bill impacts the following systems:

- ❖ Public Employees' Retirement System (PERS) Plans 1/2/3.
- ❖ Teachers' Retirement System (TRS) Plans 1/2/3.
- ❖ School Employees' Retirement System (SERS) Plans 2/3.
- ❖ Public Safety Employees' Retirement System (PSERS) Plan 2.
- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1/2.
- ❖ Washington State Patrol Retirement System (WSPRS) Plans 1/2.

This bill creates the Elected Official Retirement Savings Plan (EORSP), an optional Defined Contribution (DC) retirement plan, for eligible elected officials of the state of Washington and its political subdivisions. Membership consists of all eligible persons elected to office on or after July 1, 2015, including individuals who have previously served office.

Elected Official Retirement Savings Plan

The EORSP is a tax-qualified DC retirement plan that provides members an individual retirement account rather than a guaranteed benefit. The account is funded by member and employer contributions and the investment earnings on those contributions. The plan administrator for the EORSP is the Department of Retirement Systems (DRS). The Washington State Investment Board (WSIB) is the investment manager for member accounts.

Under this bill, all newly elected officials, including those who have previously served in office, have 90 days to make the irrevocable choice to participate in the EORSP. Elected officials who do not make a decision within 90 days of taking office cannot participate in EORSP or any other state retirement system.

Members contribute 5 percent of salary until age 35 and 7.5 percent thereafter. Employers match 80 percent of member contributions, which equals 4 percent of salary until age 35 and 6 percent thereafter. Members are immediately and fully vested in the EORSP.

Members may self-direct the investment of their accounts under options provided by WSIB. Members who do not choose an investment option are defaulted into a target-date retirement strategy fund. DRS must adopt rules that will allow members to roll over moneys from other tax qualified accounts.

Upon retirement or separation from service, members may withdraw their account balance as a lump sum or under other options provided by DRS. DRS must develop rules that will allow members to purchase an annuity.

PERS Plan 1 UAAL

This bill requires employers to contribute to the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) on the salaries of EORSP members. If an elected official chooses to not participate in the EORSP, their employer does not contribute to the PERS Plan 1 UAAL. This is consistent with current practice for PERS, TRS, SERS, and PSERS members.

Effective Date: July 1, 2015.

What Is The Current Situation?

Elected officials means individuals elected to any state, local or political subdivision or those appointed to any vacant elective office. Elected officials are not required to participate in a state retirement system. Any state elected position is considered full-time service. Generally, to be eligible for participation in a state retirement system, locally elected positions and positions appointed by the Governor must reach 90 total hours of work in a month and be compensated in excess of 90 times the state minimum wage in order to earn service credit.

The state does not currently provide a pure DC retirement plan for public employees. New employees in PERS, TRS, and SERS have the option of choosing between a pure Defined Benefit (DB) (Plan 2) or a DB/DC hybrid (Plan 3). Employees who do not choose a plan upon hire are placed in Plan 3. PSERS only provides a Plan 2, which all new PSERS employees join.

Plan 2 employers and Plan 2 members share an equal portion of the costs of the DB plan. The Plans 2 provide a guaranteed retirement allowance calculated as follows:

2% x Average Final Compensation (AFC) x Years of Service (YOS)

The Plans 3 consist of both an employer-funded DB and a member-funded DC. The Plan 3 DB provides a guaranteed retirement allowance calculated as follows:

1% x AFC x YOS

The Plan 3 also provides a DC account funded by member contributions and investment earnings on those contributions. Members may choose their contribution rate from a list of options ranging from 5 percent to 15 percent. WSIB invests member accounts as directed by members. Members may self-direct their investments in a variety of options provided by WSIB, or may invest with WSIB in the Plans 2/3 Commingled Trust Fund under the Total Allocation Portfolio (TAP). Members who do not choose an investment option are invested in a target-date retirement strategy fund. Plan 3 members may purchase an annuity from the TAP upon retirement.

The Plans 2 and Plans 3 are tax-qualified plans under Internal Revenue Code Section 401(a). Plan qualification generally allows plan participants to defer paying federal income taxes on contributions or investment earnings until retirement or withdrawal.

PERS and TRS Plans 1 have an unfunded liability for past service called the UAAL. Employers contribute to the UAAL on the salaries of all members of the system, including Plan 2/3 members. PERS, SERS, and PSERS employers contribute to the PERS 1 UAAL while TRS employers contribute to the TRS 1 UAAL.

Who Is Impacted And How?

We estimate this bill could affect approximately 800 active PERS members through a change in benefits. Furthermore, we anticipate approximately 1,200 additional local elected officials could join EORSP that chose not to join PERS under current law. Members of other existing state retirement systems could also join EORSP if they serve as an elected official; however, we do not expect an impact to the funding of these retirement systems because of the very limited number of impacted members. Please see **Appendix B** for more information.

If eligible, current active members of the state retirement systems, who are impacted by this bill, will receive a DB life annuity upon retirement based on their accrued benefit earned through June 30, 2015. Additionally, this bill will change the benefits for an impacted member by providing a DC account for all future contributions made as an active member of EORSP, from which they can draw funds during retirement.

This bill impacts all 115,877 Plan 2 members of PERS through decreased contribution rates. With the exception of WSPRS members, this bill will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

See the Special Data Needed section of this fiscal note for more details on the impacted group of current members.

WHY THIS BILL HAS A COST/SAVINGS AND WHO PAYS FOR / RECEIVES IT

This bill will have a cost or savings for different groups of stakeholders as follows.

- ❖ **Current Plan 2 Members** – This bill is expected to decrease contribution rates for current and future members of PERS because it eliminates future benefit accruals for current Plan 2 members impacted under this bill.
- ❖ **EORSP Members** – Members in EORSP will pay set contribution rates, depending on age, into their DC accounts. These amounts may be more or less than they would have contributed into their Plans 1/2 DB or Plan 3 DC account depending on many factors. Additionally, eligible elected officials who chose not to join PERS may elect to participate in EORSP. These employees will make

a retirement contribution under this bill, whereas under current law they did not.

- ❖ **Employers of Current Members** – Employers are expected to pay lower contribution rates (normal cost and PERS 1 UAAL) for members of existing state retirement systems because the bill eliminates future benefit accruals for current members impacted under this bill.
- ❖ **Employers of EORSP** – Employers of members in EORSP will pay a contribution rate between 4 and 6 percent of pay depending on the age of the member. If this employer contribution rate is higher than the DB rate, then this results in a cost to EORSP employers. For members who chose not to join PERS under current law but elect to join EORSP, a retirement contribution may be made under this bill that was not previously. Additionally, employers of EORSP members will make contributions to the Plan 1 UAAL.

The actual cost (or savings) will depend on the actual number of current (and future) members electing to join EORSP. The actual cost may fall outside the cost range provided in this analysis. Future plan experience could also vary from our expectations.

HOW WE VALUED THESE COSTS

Assumptions We Made

For current PERS members and future new entrants that will join EORSP, we made the following assumptions when estimating contributions.

- ❖ We assumed all current elected officials in PERS would join EORSP and would leave active employment at the same rates. Consequently, we assume no impact to salaries over which UAAL rates are collected.
- ❖ We assumed new employer funding source splits for contributions in EORSP. Based upon the distribution of current elected officials in PERS, we assumed 39 percent of contributions to EORSP for this group of members were from state employers and the remaining 61 percent were from local employers.
- ❖ We further assumed all elected officials joining EORSP were over age 35. In other words, we assumed a contribution rate of 7.50 percent and 6.00 percent for employees and employers, respectively.
- ❖ We estimated projected new entrant payroll into EORSP by modifying the new entrant profile as disclosed in

Appendix A. This included increasing the average new entrant age and salary consistent with the current group of elected officials in PERS.

- ❖ Lastly, we assumed the group of approximately 800 current elected officials would increase by our system growth assumption of 0.95 percent.

We also anticipate up to an additional 1,200 local elected officials, who chose not to join PERS under current law, could elect to join EORSP. The following assumptions were used in developing their potential budget impact.

- ❖ Based upon input we received from DRS, we assumed these additional members are likely less than full-time and have lower compensation than the current group of PERS elected officials. Specifically, we assumed the additional members had half the annual salaries of current PERS elected officials.
- ❖ By increasing our initial EORSP headcount by 1,200 additional members with 50 percent of the compensation (up from 800), we assumed the total employer budget impact to EORPS would increase by 75 percent. We further assumed the entire group of 1,200 additional members were local elected officials and allocated those costs accordingly.

Note that we do not expect any impact to the Plan 1 UAAL from these additional 1,200 members because the contribution rates would decrease in response to increasing the salary base over which contributions are collected. Hence, there would be no budget impact at the total employer level for the UAAL.

How We Applied These Assumptions

For PERS, we changed the active records for all elected officials in our valuation database to terminated with either (1) a vested pension benefit to be paid as a deferred life annuity, or (2) a non-vested pension benefit which amounts to an immediate cash-out of their accrued savings fund, if applicable. This lowered the plan's liabilities and removed all their prospective salary from the PERS retirement system. We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members. We used the Entry Age Normal Cost Method to determine the fiscal budget changes for future new entrants.

For EORSP, we calculated the budget impact as the projected salaries of the current elected officials plus the projected salaries of new entrants into the plan, times the employee and 80 percent employer matching contribution rates. We further calculated the additional budget impact of the 1,200 members who may elect to join EORSP as described in the **Assumptions We Made** section above.

Special Data Needed

Using our valuation data, we identified approximately 800 elected officials in PERS. A more detailed summary of the data is presented in **Appendix B**.

We also relied on rough estimates from DRS and the Municipal Research & Services Center in setting our assumption that: (1) an additional 1,200 members, who chose not to join PERS under current law, could elect to join EORSP under this bill; and (2) that they are lower compensated than the group of elected officials who currently participate in a state retirement system. However, given the uncertainty in actual number of potentially eligible members and uncertainty in how many will actually join EORSP, we believe this cost of this fiscal note is indeterminate.

Otherwise, we developed these costs using the same assets, data, assumptions, and methods as disclosed in the *June 30, 2012, Actuarial Valuation Report* (AVR) and as described on the Projections Disclosures webpage of the Office of the State Actuary website.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding of PERS by decreasing the present value of future benefits payable under the system as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$12,514.4	($10.9)	$12,503.5
PERS 2/3	$28,796.5	(98.4)	$28,698.1
PERS Total	**$41,310.8**	**($109.3)**	**$41,201.5**
Unfunded Actuarial Accrued Liability			
*(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
PERS 1	**$3,725.1**	**($6.6)**	**$3,718.5**
Unfunded Projected Unit Credit Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)			
PERS 1	$3,847.0	($5.4)	$3,841.5
PERS 2/3	($2,306.0)	($20.3)	($2,326.3)
PERS Total	**$1,540.9**	**($25.7)**	**$1,515.2**

Note: Totals may not agree due to rounding.

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

How The Present Value of Future Salaries (PVFS) Changed

This bill will impact the actuarial funding of PERS by decreasing the PVFS of the members of the system as shown below.

Present Value of Future Salaries			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Future Salaries			
(The Value of the Future Salaries Expected to be Paid to Current Members)			
PERS 2	$56,028.6	($362.0)	$55,666.6
PERS 3	$13,968.6	(47.0)	$13,921.5
PERS 2/3	**$69,997.2**	**($409.0)**	**$69,588.2**
UAAL Present Value of Future Salaries			
(The Value of the Future Salaries Used to Fund the UAAL)			
PERS	**$91,578.6**	**$0.0**	**$91,578.6**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The decrease in the required actuarial contribution rates does not apply to the current biennium. We will use the un-rounded rate decrease shown below to measure the budget changes in future biennia.

Impact on Contribution Rates (Effective 7/1/2015)	
System/Plan	**PERS**
Current Members	
Employee (Plan 2)	(0.049%)
Employer	
Normal Cost	(0.049%)
Plan 1 UAAL	(0.007%)
Total	**(0.056%)**
New Entrants*	
Employee (Plan 2)	(0.014%)
Employer	
Normal Cost	(0.014%)
Plan 1 UAAL	(0.007%)
Total	**(0.021%)**

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

How This Impacts Budgets And Employees

The following tables illustrate the range of budget impacts we could expect under this bill. Note that the only differences are to the Local Government and Employee categories under EORSP.

The Low Range Budget Impacts table represents the budget impact if no additional local elected officials elect to join EORSP.

Low Range Budget Impacts					
(Dollars in Millions)	**EORSP**	**PERS**	**SERS**	**PSERS**	**Total**
2014-2015					
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2015-2017					
Total State	**$4.2**	**($12.5)**	**($0.1)**	**($0.0)**	**($8.4)**
Local Government	6.5	(13.3)	(0.2)	(0.0)	(7.0)
Total Employer	**$10.7**	**($25.8)**	**($0.3)**	**($0.0)**	**($15.4)**
Total Employee	**$13.4**	**($13.2)**	**$0.0**	**$0.0**	**$0.1**
2014-2039					
Total State	**$89.0**	**($154.0)**	**($0.6)**	**($0.2)**	**($65.7)**
Local Government	139.3	(164.7)	(0.8)	(0.0)	(26.2)
Total Employer	**$228.3**	**($318.6)**	**($1.4)**	**($0.2)**	**($91.9)**
Total Employee	**$266.5**	**($191.0)**	**$0.0**	**$0.0**	**$75.5**

The High Range Budget Impacts table represents the budget impact if approximately 1,200 additional eligible local elected officials elect to join EORSP.

High Range Budget Impacts					
(Dollars in Millions)	**EORSP**	**PERS**	**SERS**	**PSERS**	**Total**
2014-2015					
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2015-2017					
Total State	**$4.2**	**($12.5)**	**($0.1)**	**($0.0)**	**($8.4)**
Local Government	14.5	(13.3)	(0.2)	(0.0)	1.1
Total Employer	**$18.7**	**($25.8)**	**($0.3)**	**($0.0)**	**($7.4)**
Total Employee	**$23.4**	**($13.2)**	**$0.0**	**$0.0**	**$10.2**
2014-2039					
Total State	**$89.0**	**($154.0)**	**($0.6)**	**($0.2)**	**($65.7)**
Local Government	310.5	(164.7)	(0.8)	(0.0)	145.0
Total Employer	**$399.5**	**($318.6)**	**($1.4)**	**($0.2)**	**$79.3**
Total Employee	**$480.6**	**($191.0)**	**$0.0**	**$0.0**	**$289.5**

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 have not analyzed this bill using the risk assessment model. We chose not to use the risk assessment model because we did not have sufficient time or resources to prepare the analysis.

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 2014 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 (an indeterminate result with a range of cost).
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 2014 Legislative Session.
6. 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 – ASSUMPTIONS WE MADE

To model new entrant salaries in EORSP and the corresponding decrease in new entrant salaries in PERS 2/3, we assumed: (1) two-thirds of new hires would have a similar profile as PERS 2 new entrants, and (2) the remaining one-third of new hires in EORSP would have a similar profile as PERS 3 new entrants.

Since the current PERS elected officials have older entry ages and higher salaries than the average PERS population, we increased the following new entrant profiles such that these weighted averages are consistent with the entry-level salaries and ages of the current elected officials. Please see **Appendix B** for additional details.

New Entrant Profiles							
PERS 2				PERS 3			
Age	Salary	Sex	Weight*	Age	Salary	Sex	Weight*
25	$62,928	M	10.0%	26	$61,359	M	11.5%
25	$62,928	F	10.0%	26	$61,359	F	11.5%
30	$71,820	M	9.5%	31	$70,403	M	10.5%
30	$71,820	F	9.5%	31	$70,403	F	10.5%
35	$75,411	M	7.5%	36	$76,078	M	7.0%
35	$75,411	F	7.5%	36	$76,078	F	7.0%
40	$75,582	M	6.0%	41	$78,738	M	5.5%
40	$75,582	F	6.0%	41	$78,738	F	5.5%
45	$75,924	M	5.5%	46	$78,206	M	5.0%
45	$75,924	F	5.5%	46	$78,206	F	5.0%
50	$76,950	M	4.5%	51	$78,738	M	4.5%
50	$76,950	F	4.5%	51	$78,738	F	4.5%
58	$78,831	M	7.0%	59	$81,752	M	6.0%
58	$78,831	F	7.0%	59	$81,752	F	6.0%

**Weighted totals may not sum to 100% due to rounding.*

APPENDIX B – SPECIAL DATA NEEDED

The following table provides additional details on the current group of PERS elected officials. We did not value the impact of two TRS 1, one PSERS 2, and two LEOFF 2 members who are currently serving as elected officials.

All PERS Plans		Average			
	Count	Age	Service	Salary	Savings
State Elected	115	56.8	13.0	$50,865	$45,472
City/County Elected	310	56.8	15.2	$79,300	$56,053
District Elected	44	60.8	11.2	$44,590	$21,741
State Judges	207	59.5	17.9	$149,697	$182,881
District/City Judges	121	57.1	15.2	$131,551	$134,932
Total	**797**	**57.8**	**15.3**	**$99,498**	**$97,548**

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.