

# Furloughs Initial Consideration

LEOFF Plan 2 Retirement Board

September 23, 2009

# Definition

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- What is a furlough?
  - Furlough is a leave of absence without pay.

# Key Issue

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- Members who take voluntary or involuntary unpaid leave as a result of the current economic condition, may have their retirement benefit adversely affected if it occurs during their final average salary (FAS) period.

# Background

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- As of June 2009, 21 states have implemented or will soon be forced to implement furloughs.
- Most states' pension benefits could be adversely impacted.
- Legal challenges to furloughs.

# Legislation – SB 6157

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- PERS Plans 1, 2 & 3 only
  - DRS to implement
  - Must be a direct result of an effort by the employer to reduce costs during the 2009-11 fiscal biennium only

# Legislation – SB 6157

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- Costs

- No member costs to repay contributions
- Potential contribution rate increase

# Summary

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- Creates the potential for a reduction in a member's pension benefit calculation if the furlough occurs during the FAS period.
- Creates inconsistencies between the different systems and plans.

# Furloughs

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**QUESTIONS?**

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

## Furloughs Initial Consideration

September 23, 2009

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### 1. Issue

Members who either voluntarily or involuntarily take unpaid leave as a result of the current economic condition may have their retirement benefit adversely affected if it occurs during their final average salary (FAS) period.

### 2. Staff

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### 3. Members Impacted

As of June 30, 2007 there were 16,099 active members and 924 retirees as reported in the Office of the State Actuary's *2007 Actuarial Valuation Report*. Furloughs are a short-term option for solving budget shortfalls and should impact only those active members who plan to retire within the next five-seven years, and are furloughed during their FAS period.

### 4. Current Situation

A member's benefit is calculated using the formula; 2 percent, times FAS times years of service (YOS). If a member is required to take furlough days during their FAS period, which lowers their reported salary, it lowers their FAS, and thus lowers their benefit.

## 5. Background Information and Policy Issues

In today's economic environment many local and state governments are facing revenue shortfalls. There may be some public service programs discontinued or restricted and there may be some employee layoffs as a result of budget restrictions. In order to balance budgets, many state and local governments, as an alternative to layoffs, are considering furloughs as a way to decrease costs. A furlough is a leave of absence without pay. One advantage of using furloughs versus layoffs is employees are not terminated, yet there is a cost savings as the time off is without pay. Also, when the economy recovers there is no need to rehire and retrain the workforce. However, there are some potential negative impacts with the use of furloughs. One impact it could have is on a member's pension calculation if the furlough were to occur during the member's final average salary (FAS) period.

During the 2009 Legislative Session, the Legislature recognized the potential impacts to a member's pension benefit through the use of furloughs to help balance budgets. As a result, the Legislature passed SB 6157 (see Appendix A to see a complete copy of the bill) which allowed the pension benefit calculation to be adjusted for furloughs if the furlough occurred during the member's FAS period. While this did address the problem, it only included the Public Employees' Retirement System (PERS) pension system. Members of the other retirement systems, including LEOFF Plan 2, would not be granted the same benefit calculation adjustment. This difference in policy led the Board to send a letter to the Select Committee on Pension Policy (SCPP) to jointly sponsor legislation similar to SB 6157.

Many other states are using furloughs to help balance budgets. For example, in an article by Pauline Vu of Stateline.org, by the end of June 2009 twenty-one states had implemented or would be implementing furloughs. The number of days ranges from as few as two days, to as many as thirty days. Many of the states that are employing furloughs do not apply them to public safety employees such as police officers, fire fighters and correctional officers.

The use of furloughs has resulted in legal challenges across the country. In Prince George County, Maryland, a federal judge ruled against the county's furlough program stating it violated the contract clause of the United States Constitution, which bars states from passing laws impairing the obligation of contracts. Many employees in other states are currently working under expired contracts so they may not be covered under the contracts clause of either the United States Constitution or their state constitution.

Furloughs would have an adverse impact on pensions in most states. Like Washington, if the furlough occurs during the FAS period, it would lower the FAS, and thus lower the pension benefit for the employee. Delaware has introduced legislation that would prevent furloughs from impacting pension calculations for police and firefighter pensions.

Another point to consider is an employee's status. Looking at the U.S. Department of Labor regulations issued in 2007, an exempt salaried employee is entitled to their full salary in any week in which the employee does any work at all, regardless of the number of hours worked so the impact of furloughs on these employees is unclear.

**Policy Issues:**

One policy issue is to determine whether or not to change the laws to ensure that a member who either voluntarily or involuntarily takes unpaid leave as a result of the current economic condition does not have their retirement benefit adversely affected if it occurs during their FAS period. It also becomes an equity issue since PERS members would be given relief in this situation, but LEOFF Plan 2 members would not be.

## **6. Supporting Information**

### **APPENDIX A: Public Retirement – Compensation Calculation (SB 6157 - Furloughs)**

### **APPENDIX B: Fiscal Note - SB 6157**

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 6157 SB	<b>Title:</b> Publ retirement compensation
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## Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
<b>Total \$</b>						

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

## Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	800,000	1,800,000	.0	500,000	1,100,000	.0	600,000	1,200,000
Department of Personnel	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
<b>Total</b>	<b>0.0</b>	<b>\$800,000</b>	<b>\$1,800,000</b>	<b>0.0</b>	<b>\$500,000</b>	<b>\$1,100,000</b>	<b>0.0</b>	<b>\$600,000</b>	<b>\$1,200,000</b>

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

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

\*\* See local government fiscal note

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 6157 SB	<b>Title:</b> Publ retirement compensation	<b>Agency:</b> 035-Office of State Actuary
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**Part I: Estimates**

No Fiscal Impact

**Estimated Cash Receipts to:**

<b>FUND</b>					
<b>Total \$</b>					

**Estimated Expenditures from:**

	FY 2010	FY 2011	2009-11	2011-13	2013-15
<b>Fund</b>					
All Other Funds-State 000-1	500,000	500,000	1,000,000	600,000	600,000
General Fund-State 001-1	400,000	400,000	800,000	500,000	600,000
<b>Total \$</b>	900,000	900,000	1,800,000	1,100,000	1,200,000

*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: 04/13/2009
Agency Preparation: Nelsen Dave	Phone: 360-786-6144	Date: 04/18/2009
Agency Approval: Matthew M. Smith	Phone: 360-786-6140	Date: 04/18/2009
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 04/20/2009

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## 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 2010	FY 2011	2009-11	2011-13	2013-15
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					
9-					
<b>Total:</b>	\$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.

# ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
<b>Office of the State Actuary</b>	<b>035</b>	<b>4/18/09</b>	<b>SB 6157</b>

## 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 above. We intend this fiscal note to be used by the Legislature during the 2009 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.

## SUMMARY OF RESULTS

This bill modifies the definition of Average Final Compensation (AFC) for the Public Employees' Retirement System (PERS) to include the salary forgone by members due to taking time off without pay during the 2009-2011 Biennium. This modification only applies to time off taken as an integral part of an employer's effort to reduce expenditures.

<b>Impact on Pension Liability</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Today's Value of All Future Pensions</b>	\$34,695	\$15.8	\$34,711
<b>Earned Pensions Not Covered by Today's Assets</b>	\$3,609	\$5.8	\$3,614

<b>Impact on Contribution Rates: (Effective 9/1/2009)</b>			
<b>2009-2011 State Budget</b>	<b>PERS</b>	<b>SERS</b>	<b>PSERS</b>
<b>Employee (Plan 2)</b>	0.01%	0.00%	0.00%
<b>Employer:</b>			
Current Annual Cost	0.01%	0.00%	0.00%
Plan 1 Past Cost	<u>0.01%</u>	<u>0.01%</u>	<u>0.01%</u>
<b>Total</b>	0.02%	0.01%	0.01%

<b>Budget Impacts</b>			
<i>(Dollars in Millions)</i>	<b>2009-2011</b>	<b>2011-2013</b>	<b>25-Year</b>
<b>General Fund-State</b>	\$0.8	\$0.5	\$5.1
<b>Total Employer</b>	\$3.7	\$2.4	\$22.9

Please see the remainder of this fiscal note for additional detail including how the cost could increase above the amounts listed above.

## **WHAT IS THE PROPOSED CHANGE?**

### **Summary Of Benefit Improvement**

This bill impacts the PERS Plans 1, 2, and 3 by modifying the definition of AFC. The new definition of AFC for purposes of calculating a member's retirement benefit includes salary forgone by the member during the 2009-2011 Biennium due to time off without pay. However, this modification to the AFC only applies to time off without pay taken as an integral part of the employer's efforts to reduce expenses.

Effective Date: 90 days after session.

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

AFC for PERS Plan 1 members is the annual average of the greatest salary earned during a two year period where the members earned service credit in each month of that period. For PERS Plan 2/3 members, AFC is the annual average of the greatest salary earned during a five year period where the members earned service credit in each month of that period.

PERS members who take time off without pay may be able to restore the missing service and/or compensation upon return to employment, depending on the member's plan and the reason for the time off. For example, all members can generally restore service and salary for time off to serve in the armed forces. However, only Plan 2 or Plan 3 members can restore service for other voluntary time off without pay.

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

We estimate this bill could affect all 158,022 active members of PERS through improved benefits. With the absence of a statewide furlough policy, we believe at least 19,000 members will be affected by taking ten furlough days in each year of the upcoming biennium. We used this as the assumption for our pricing.

We believe a reasonable estimate of a statewide furlough policy would be anywhere from 39,506 to 158,022 members taking ten furlough days in each year of the upcoming biennium. We priced these two scenarios in the How The Results Change When The Assumptions Change section (AKA sensitivity analysis).

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

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

This bill changes the law to increase the AFC, and retirement benefit, of anyone who takes cost-saving furloughs over the next two years. Any increase in ultimate retirement benefits due to this law change would be considered a cost to the pension system. The AFC is used in the retirement benefit calculation through termination, retirement, disability, and death.

### **Who Will Pay For These Costs?**

These costs will be funded consistent with the normal pension funding policy of PERS. All employers of PERS, School Employees' Retirement System (SERS), and Public Safety Employees' Retirement System (PSERS) members will pay a larger Unfunded Actuarial Accrued Liability (UAAL) contribution rate due to the increase in costs from PERS Plan 1 members. Members of PERS Plan 2 and employers of members in PERS Plans 2/3 will share equally in contribution rate increases due to the costs from PERS Plans 2/3 members.

## **HOW WE VALUED THESE COSTS**

### **Assumptions We Made**

For the pricing of the fiscal note we assumed:

- Twelve percent of the members in PERS (both State and local) would take ten furlough days each of the next two years, absent a statewide furlough policy.

For the low-cost estimate we assumed:

- Twenty-five percent of the members in PERS (both State and local) would take ten furlough days each of the next two years, based upon a statewide furlough policy.

For the high-cost estimate we assumed:

- Every member in PERS (both State and local) would take ten furlough days each of the next two years, based upon a statewide furlough policy.

Otherwise, we developed these costs using the same assumptions as disclosed in the June 30, 2007, Actuarial Valuation Report (AVR).

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

We determined the cost of this bill when both one-quarter (low-cost estimate) and the full population (high-cost estimate) took ten furlough days for the next two years. We decided that was a reasonable range for this bill if a furlough policy were announced.

However, since a statewide furlough policy has not been announced, we determined that 12 percent of the PERS population would need to take ten furlough days in order to impact supplemental contribution rates in the 2009-2011 Biennium. We concluded that 12 percent of the population taking furloughs is likely based on King County (3.5 percent of PERS) already announcing a 10-day furlough policy.

The method we used for calculating the cost of our scenarios is outlined below:

We created a new “base” which reflects the future benefits expected to be earned based on average final compensation excluding missed furlough pay.

To do this we first altered the projected salary stream of the affected members. Each affected member’s salary would decrease by 2/52 in the first year to reflect two work weeks of time off. We then increased every member’s salary by 4.25 percent in the second year to reflect assumed general salary growth. We then increased every member’s salary by 8.42 percent in the third year to reflect assumed general salary growth and the return to a full annual salary. Please see the table below for an example of the salary streams under this pricing.

<b>Salary Example</b>			
	Year 1	Year 2	Year 3
<b>With Furlough</b>	\$48,077	\$50,120	\$54,340
<b>Without Furlough</b>	\$50,000	\$52,125	\$54,340

We then measured the increase in liability between the “base” and the “pricing” – where the “pricing” is consistent with our AVR. The increase in liability emerges due to a higher AFC in the calculation of retirement benefits. We discounted the liability increase by two years to produce a liability change consistent with the liabilities as of the valuation date.

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

**Special Data Needed**

We relied on information contained in the 2009 King County budget that requires ten county-wide furlough days in the 2009 budget year. King County represents approximately 3.5 percent of the total PERS population.

We developed these costs using the same assets and data as disclosed in the AVR.

**ACTUARIAL RESULTS**

**How The Liabilities Changed**

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

<b>Impact on Pension Liability</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$14,061	\$5.8	\$14,067
PERS 2/3	<u>20,634</u>	<u>10.0</u>	<u>20,644</u>
<b>PERS Total</b>	<b>\$34,695</b>	<b>\$15.8</b>	<b>\$34,711</b>
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized to 2024)</i>			
<b>PERS 1</b>	<b>\$3,609</b>	<b>\$5.8</b>	<b>\$3,614</b>
<b>Unfunded PUC Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)</i>			
PERS 1	\$3,990	\$5.7	\$3,995
PERS 2/3	<u>(2,470)</u>	<u>8.4</u>	<u>(2,461)</u>
<b>PERS Total</b>	<b>\$1,520</b>	<b>\$14.1</b>	<b>\$1,534</b>

Note: Totals may not agree due to rounding.

### How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown below that applies in the current biennium. However, we will use the un-rounded rate increase to measure the budget changes in future biennia.

<b>Impact on Contribution Rates: (Effective 9/1/2009)</b>			
<b>System/Plan</b>	<b>PERS</b>	<b>SERS</b>	<b>PSERS</b>
<b>Current Members</b>			
<b>Employee (Plan 2)</b>	0.008%	0.000%	0.000%
<b>Employer:</b>			
Normal Cost	0.008%	0.000%	0.000%
Plan 1 UAAL	<u>0.005%</u>	<u>0.005%</u>	<u>0.005%</u>
<b>Total</b>	<b>0.013%</b>	<b>0.005%</b>	<b>0.005%</b>
<b>New Entrants*</b>			
<b>Employee (Plan 2)</b>	0.000%	0.000%	0.000%
<b>Employer:</b>			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	<u>0.005%</u>	<u>0.005%</u>	<u>0.005%</u>
<b>Total</b>	<b>0.005%</b>	<b>0.005%</b>	<b>0.005%</b>

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

## How This Impacts Budgets And Employees

Budget Impacts				
<i>(Dollars in Millions)</i>	PERS	SERS	PSERS	Total
<b>2009-2011</b>				
General Fund	\$0.7	\$0.1	\$0.0	\$0.8
Non-General Fund	<u>1.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>
<b>Total State</b>	<b>\$1.6</b>	<b>\$0.1</b>	<b>\$0.0</b>	<b>\$1.8</b>
Local Government	<u>1.7</u>	<u>0.2</u>	<u>0.0</u>	<u>1.9</u>
<b>Total Employer</b>	<b>\$3.4</b>	<b>\$0.3</b>	<b>\$0.0</b>	<b>\$3.7</b>
<b>Total Employee</b>	<b>\$1.3</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1.3</b>
<b>2011-2013</b>				
General Fund	\$0.4	\$0.1	\$0.0	\$0.5
Non-General Fund	<u>0.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.6</u>
<b>Total State</b>	<b>\$1.1</b>	<b>\$0.1</b>	<b>\$0.0</b>	<b>\$1.2</b>
Local Government	<u>1.1</u>	<u>0.1</u>	<u>0.0</u>	<u>1.2</u>
<b>Total Employer</b>	<b>\$2.2</b>	<b>\$0.2</b>	<b>\$0.0</b>	<b>\$2.4</b>
<b>Total Employee</b>	<b>\$1.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1.0</b>
<b>2009-2034</b>				
General Fund	\$4.2	\$0.7	\$0.1	\$5.1
Non-General Fund	<u>6.0</u>	<u>0.0</u>	<u>0.0</u>	<u>6.0</u>
<b>Total State</b>	<b>\$10.2</b>	<b>\$0.7</b>	<b>\$0.2</b>	<b>\$11.0</b>
Local Government	<u>10.9</u>	<u>0.9</u>	<u>0.0</u>	<u>11.8</u>
<b>Total Employer</b>	<b>\$21.0</b>	<b>\$1.7</b>	<b>\$0.2</b>	<b>\$22.9</b>
<b>Total Employee</b>	<b>\$8.6</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$8.6</b>

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

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.

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 the actuarial assumptions. If the State adopts a furlough policy in the 2009-2011 Biennium, the State Actuary may calculate an additional supplemental contribution rate increase for this bill.

### HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The cost of this bill could increase if the State adopts a furlough policy and/or actual experience exceeds the amount assumed in this pricing. The tables below show the impacts of this proposal when we change the assumed percentage of members who will take ten furlough days in the next two years.

- **Low Estimate** – 25 percent assumption
- **High Estimate** – 100 percent assumption

## How The Liabilities Could Change

<b>Impact on Pension Liability – Low Estimate</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$14,061	\$12.5	\$14,074
PERS 2/3	<u>20,634</u>	<u>21.5</u>	<u>20,656</u>
<b>PERS Total</b>	<b>\$34,695</b>	<b>\$34.1</b>	<b>\$34,729</b>
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized to 2024)</i>			
<b>PERS 1</b>	<b>\$3,609</b>	<b>\$12.5</b>	<b>\$3,621</b>
<b>Unfunded PUC Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)</i>			
PERS 1	\$3,990	\$12.2	\$4,002
PERS 2/3	<u>(2,470)</u>	<u>18.2</u>	<u>(2,451)</u>
<b>PERS Total</b>	<b>\$1,520</b>	<b>\$30.5</b>	<b>\$1,551</b>

Note: Totals may not agree due to rounding.

<b>Impact on Pension Liability – High Estimate</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$14,061	\$50.2	\$14,111
PERS 2/3	<u>20,634</u>	<u>86.1</u>	<u>20,721</u>
<b>PERS Total</b>	<b>\$34,695</b>	<b>\$136.3</b>	<b>\$34,832</b>
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized to 2024)</i>			
<b>PERS 1</b>	<b>\$3,609</b>	<b>\$50.2</b>	<b>\$3,659</b>
<b>Unfunded PUC Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)</i>			
PERS 1	\$3,990	\$48.9	\$4,039
PERS 2/3	<u>(2,470)</u>	<u>72.9</u>	<u>(2,397)</u>
<b>PERS Total</b>	<b>\$1,520</b>	<b>\$121.8</b>	<b>\$1,642</b>

Note: Totals may not agree due to rounding.

## How Contribution Rates Could Change

Impact on Contribution Rates – Low Estimate (Effective 9/1/2009)			
System/Plan	PERS	SERS	PSERS
<b>Current Members</b>			
<b>Employee (Plan 2)</b>	0.017%	0.000%	0.000%
<b>Employer:</b>			
Normal Cost	0.017%	0.000%	0.000%
Plan 1 UAAL	<u>0.011%</u>	<u>0.011%</u>	<u>0.011%</u>
<b>Total</b>	0.028%	0.011%	0.011%
<b>New Entrants*</b>			
<b>Employee (Plan 2)</b>	0.000%	0.000%	0.000%
<b>Employer:</b>			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	<u>0.011%</u>	<u>0.011%</u>	<u>0.011%</u>
<b>Total</b>	0.011%	0.011%	0.011%

*\*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.*

Impact on Contribution Rates – High Estimate (Effective 9/1/2009)			
System/Plan	PERS	SERS	PSERS
<b>Current Members</b>			
<b>Employee (Plan 2)</b>	0.069%	0.000%	0.000%
<b>Employer:</b>			
Normal Cost	0.069%	0.000%	0.000%
Plan 1 UAAL	<u>0.043%</u>	<u>0.043%</u>	<u>0.043%</u>
<b>Total</b>	0.113%	0.043%	0.043%
<b>New Entrants*</b>			
<b>Employee (Plan 2)</b>	0.000%	0.000%	0.000%
<b>Employer:</b>			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	<u>0.043%</u>	<u>0.043%</u>	<u>0.043%</u>
<b>Total</b>	0.043%	0.043%	0.043%

*\*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 Could Impact Budgets And Employees

<b>Budget Impacts - Low Estimate</b>				
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>SERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2009-2011</b>				
General Fund	\$1.0	\$0.1	\$0.0	\$1.2
Non-General Fund	<u>1.4</u>	<u>0.0</u>	<u>0.0</u>	<u>1.4</u>
<b>Total State</b>	<b>\$2.4</b>	<b>\$0.1</b>	<b>\$0.0</b>	<b>\$2.6</b>
Local Government	<u>2.6</u>	<u>0.2</u>	<u>0.0</u>	<u>2.8</u>
<b>Total Employer</b>	<b>\$5.1</b>	<b>\$0.3</b>	<b>\$0.0</b>	<b>\$5.4</b>
<b>Total Employee</b>	<b>\$2.6</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$2.6</b>
<b>2011-2013</b>				
General Fund	\$0.9	\$0.2	\$0.0	\$1.1
Non-General Fund	<u>1.3</u>	<u>0.0</u>	<u>0.0</u>	<u>1.4</u>
<b>Total State</b>	<b>\$2.3</b>	<b>\$0.2</b>	<b>\$0.0</b>	<b>\$2.5</b>
Local Government	<u>2.5</u>	<u>0.2</u>	<u>0.0</u>	<u>2.7</u>
<b>Total Employer</b>	<b>\$4.7</b>	<b>\$0.4</b>	<b>\$0.0</b>	<b>\$5.2</b>
<b>Total Employee</b>	<b>\$2.1</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$2.1</b>
<b>2009-2034</b>				
General Fund	\$8.6	\$1.4	\$0.3	\$10.3
Non-General Fund	<u>12.3</u>	<u>0.0</u>	<u>0.0</u>	<u>12.3</u>
<b>Total State</b>	<b>\$20.9</b>	<b>\$1.4</b>	<b>\$0.3</b>	<b>\$22.6</b>
Local Government	<u>22.3</u>	<u>1.8</u>	<u>0.1</u>	<u>24.2</u>
<b>Total Employer</b>	<b>\$43.2</b>	<b>\$3.2</b>	<b>\$0.4</b>	<b>\$46.8</b>
<b>Total Employee</b>	<b>\$18.4</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$18.4</b>

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

**Budget Impacts - High Estimate**

<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>SERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2009-2011</b>				
General Fund	\$3.7	\$0.6	\$0.1	\$4.4
Non-General Fund	<u>5.3</u>	<u>0.0</u>	<u>0.0</u>	<u>5.3</u>
<b>Total State</b>	<b>\$9.0</b>	<b>\$0.6</b>	<b>\$0.1</b>	<b>\$9.6</b>
Local Government	<u>9.6</u>	<u>0.7</u>	<u>0.0</u>	<u>10.3</u>
<b>Total Employer</b>	<b>\$18.6</b>	<b>\$1.3</b>	<b>\$0.1</b>	<b>\$20.0</b>
<b>Total Employee</b>	<b>\$9.1</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$9.1</b>
<b>2011-2013</b>				
General Fund	\$3.8	\$0.7	\$0.1	\$4.6
Non-General Fund	<u>5.4</u>	<u>0.0</u>	<u>0.0</u>	<u>5.4</u>
<b>Total State</b>	<b>\$9.2</b>	<b>\$0.7</b>	<b>\$0.1</b>	<b>\$10.0</b>
Local Government	<u>9.8</u>	<u>0.8</u>	<u>0.0</u>	<u>10.7</u>
<b>Total Employer</b>	<b>\$19.0</b>	<b>\$1.5</b>	<b>\$0.2</b>	<b>\$20.6</b>
<b>Total Employee</b>	<b>\$8.2</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$8.2</b>
<b>2009-2034</b>				
General Fund	\$34.1	\$5.7	\$1.1	\$40.9
Non-General Fund	<u>48.6</u>	<u>0.0</u>	<u>0.1</u>	<u>48.7</u>
<b>Total State</b>	<b>\$82.6</b>	<b>\$5.7</b>	<b>\$1.2</b>	<b>\$89.6</b>
Local Government	<u>88.4</u>	<u>7.1</u>	<u>0.3</u>	<u>95.8</u>
<b>Total Employer</b>	<b>\$171.0</b>	<b>\$12.9</b>	<b>\$1.5</b>	<b>\$185.4</b>
<b>Total Employee</b>	<b>\$72.1</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$72.1</b>

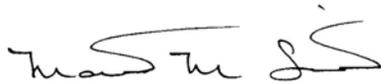
*Note: Totals may not agree due to rounding.*

## ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2009 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 on page 1 of this fiscal note.

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

## 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 on 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.
- 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.

**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).

**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 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.

**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.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 6157 SB	<b>Title:</b> Publ retirement compensation	<b>Agency:</b> 111-Department of Personnel
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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: 04/13/2009
Agency Preparation: Kelly Moore	Phone: 360-664-6314	Date: 04/20/2009
Agency Approval: Kelly Moore	Phone: 360-664-6314	Date: 04/20/2009
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 04/20/2009

Request # 30-1

*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.*

*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.*

*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 IV: Capital Budget Impact**

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 6157 SB	<b>Title:</b> Publ retirement compensation	<b>Agency:</b> 124-Department of Retirement Systems
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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: 04/13/2009
Agency Preparation: Michelle Hardesty	Phone: 360-664-7193	Date: 04/17/2009
Agency Approval: Cathy Cale	Phone: 360-664-7305	Date: 04/17/2009
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 04/17/2009

Request # 09-065-1

## **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 bill allows the Average Final Compensation (AFC) for members of the Public Employees' Retirement Systems (PERS) to include compensation lost due to the result of reduced hours, voluntary leave without pay or temporary furloughs during the 2009-11 biennium if the reduced compensation was an integral part of the employer's expenditure reduction efforts.

This change does not have a fiscal impact on the Department of Retirement Systems (DRS) because review/confirmation of the AFC is a normal step in processing a member's retirement. DRS assumes that employers will report the actual (reduced) compensation received by the member, and member and employer contributions will be based on that compensation.

### **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.*

No impact.

## **Part III: Expenditure Detail**

## **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.*

No impact.

CERTIFICATION OF ENROLLMENT

**SENATE BILL 6157**

Chapter 430, Laws of 2009

61st Legislature  
2009 Regular Session

PUBLIC RETIREMENT--COMPENSATION CALCULATION

EFFECTIVE DATE: 07/26/09

Passed by the Senate April 20, 2009  
YEAS 35 NAYS 12

BRAD OWEN

\_\_\_\_\_  
**President of the Senate**

Passed by the House April 25, 2009  
YEAS 94 NAYS 0

FRANK CHOPP

\_\_\_\_\_  
**Speaker of the House of Representatives**

Approved May 8, 2009, 11:25 a.m.

CHRISTINE GREGOIRE

\_\_\_\_\_  
**Governor of the State of Washington**

CERTIFICATE

I, Thomas Hoemann, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SENATE BILL 6157** as passed by the Senate and the House of Representatives on the dates hereon set forth.

THOMAS HOEMANN

\_\_\_\_\_  
**Secretary**

FILED

May 11, 2009

**Secretary of State  
State of Washington**

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SENATE BILL 6157

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Passed Legislature - 2009 Regular Session

State of Washington                      61st Legislature                      2009 Regular Session

By Senators Prentice, Tom, Hobbs, and Fraser

Read first time 04/13/09. Referred to Committee on Ways & Means.

1            AN ACT Relating to the calculation of compensation for public  
2 retirement purposes during the 2009-2011 fiscal biennium; and amending  
3 RCW 41.40.010.

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

5            **Sec. 1.** RCW 41.40.010 and 2007 c 50 s 4 are each amended to read  
6 as follows:

7            As used in this chapter, unless a different meaning is plainly  
8 required by the context:

9            (1) "Retirement system" means the public employees' retirement  
10 system provided for in this chapter.

11            (2) "Department" means the department of retirement systems created  
12 in chapter 41.50 RCW.

13            (3) "State treasurer" means the treasurer of the state of  
14 Washington.

15            (4)(a) "Employer" for plan 1 members, means every branch,  
16 department, agency, commission, board, and office of the state, any  
17 political subdivision or association of political subdivisions of the  
18 state admitted into the retirement system, and legal entities  
19 authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the

1 term shall also include any labor guild, association, or organization  
2 the membership of a local lodge or division of which is comprised of at  
3 least forty percent employees of an employer (other than such labor  
4 guild, association, or organization) within this chapter. The term may  
5 also include any city of the first class that has its own retirement  
6 system.

7 (b) "Employer" for plan 2 and plan 3 members, means every branch,  
8 department, agency, commission, board, and office of the state, and any  
9 political subdivision and municipal corporation of the state admitted  
10 into the retirement system, including public agencies created pursuant  
11 to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August  
12 31, 2000, school districts and educational service districts will no  
13 longer be employers for the public employees' retirement system plan 2.

14 (5) "Member" means any employee included in the membership of the  
15 retirement system, as provided for in RCW 41.40.023. RCW 41.26.045  
16 does not prohibit a person otherwise eligible for membership in the  
17 retirement system from establishing such membership effective when he  
18 or she first entered an eligible position.

19 (6) "Original member" of this retirement system means:

20 (a) Any person who became a member of the system prior to April 1,  
21 1949;

22 (b) Any person who becomes a member through the admission of an  
23 employer into the retirement system on and after April 1, 1949, and  
24 prior to April 1, 1951;

25 (c) Any person who first becomes a member by securing employment  
26 with an employer prior to April 1, 1951, provided the member has  
27 rendered at least one or more years of service to any employer prior to  
28 October 1, 1947;

29 (d) Any person who first becomes a member through the admission of  
30 an employer into the retirement system on or after April 1, 1951,  
31 provided, such person has been in the regular employ of the employer  
32 for at least six months of the twelve-month period preceding the said  
33 admission date;

34 (e) Any member who has restored all contributions that may have  
35 been withdrawn as provided by RCW 41.40.150 and who on the effective  
36 date of the individual's retirement becomes entitled to be credited  
37 with ten years or more of membership service except that the provisions

1 relating to the minimum amount of retirement allowance for the member  
2 upon retirement at age seventy as found in RCW 41.40.190(4) shall not  
3 apply to the member;

4 (f) Any member who has been a contributor under the system for two  
5 or more years and who has restored all contributions that may have been  
6 withdrawn as provided by RCW 41.40.150 and who on the effective date of  
7 the individual's retirement has rendered five or more years of service  
8 for the state or any political subdivision prior to the time of the  
9 admission of the employer into the system; except that the provisions  
10 relating to the minimum amount of retirement allowance for the member  
11 upon retirement at age seventy as found in RCW 41.40.190(4) shall not  
12 apply to the member.

13 (7) "New member" means a person who becomes a member on or after  
14 April 1, 1949, except as otherwise provided in this section.

15 (8)(a) "Compensation earnable" for plan 1 members, means salaries  
16 or wages earned during a payroll period for personal services and where  
17 the compensation is not all paid in money, maintenance compensation  
18 shall be included upon the basis of the schedules established by the  
19 member's employer.

20 (i) "Compensation earnable" for plan 1 members also includes the  
21 following actual or imputed payments, which are not paid for personal  
22 services:

23 (A) Retroactive payments to an individual by an employer on  
24 reinstatement of the employee in a position, or payments by an employer  
25 to an individual in lieu of reinstatement in a position which are  
26 awarded or granted as the equivalent of the salary or wage which the  
27 individual would have earned during a payroll period shall be  
28 considered compensation earnable and the individual shall receive the  
29 equivalent service credit;

30 (B) If a leave of absence is taken by an individual for the purpose  
31 of serving in the state legislature, the salary which would have been  
32 received for the position from which the leave of absence was taken,  
33 shall be considered as compensation earnable if the employee's  
34 contribution is paid by the employee and the employer's contribution is  
35 paid by the employer or employee;

36 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and  
37 72.09.240;

1 (D) Compensation that a member would have received but for a  
2 disability occurring in the line of duty only as authorized by RCW  
3 41.40.038;

4 (E) Compensation that a member receives due to participation in the  
5 leave sharing program only as authorized by RCW 41.04.650 through  
6 41.04.670; and

7 (F) Compensation that a member receives for being in standby  
8 status. For the purposes of this section, a member is in standby  
9 status when not being paid for time actually worked and the employer  
10 requires the member to be prepared to report immediately for work, if  
11 the need arises, although the need may not arise.

12 (ii) "Compensation earnable" does not include:

13 (A) Remuneration for unused sick leave authorized under RCW  
14 41.04.340, 28A.400.210, or 28A.310.490;

15 (B) Remuneration for unused annual leave in excess of thirty days  
16 as authorized by RCW 43.01.044 and 43.01.041.

17 (b) "Compensation earnable" for plan 2 and plan 3 members, means  
18 salaries or wages earned by a member during a payroll period for  
19 personal services, including overtime payments, and shall include wages  
20 and salaries deferred under provisions established pursuant to sections  
21 403(b), 414(h), and 457 of the United States Internal Revenue Code, but  
22 shall exclude nonmoney maintenance compensation and lump sum or other  
23 payments for deferred annual sick leave, unused accumulated vacation,  
24 unused accumulated annual leave, or any form of severance pay.

25 "Compensation earnable" for plan 2 and plan 3 members also includes  
26 the following actual or imputed payments, which are not paid for  
27 personal services:

28 (i) Retroactive payments to an individual by an employer on  
29 reinstatement of the employee in a position, or payments by an employer  
30 to an individual in lieu of reinstatement in a position which are  
31 awarded or granted as the equivalent of the salary or wage which the  
32 individual would have earned during a payroll period shall be  
33 considered compensation earnable to the extent provided above, and the  
34 individual shall receive the equivalent service credit;

35 (ii) In any year in which a member serves in the legislature, the  
36 member shall have the option of having such member's compensation  
37 earnable be the greater of:

1 (A) The compensation earnable the member would have received had  
2 such member not served in the legislature; or

3 (B) Such member's actual compensation earnable received for  
4 nonlegislative public employment and legislative service combined. Any  
5 additional contributions to the retirement system required because  
6 compensation earnable under (b)(ii)(A) of this subsection is greater  
7 than compensation earnable under (b)(ii)(B) of this subsection shall be  
8 paid by the member for both member and employer contributions;

9 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,  
10 and 72.09.240;

11 (iv) Compensation that a member would have received but for a  
12 disability occurring in the line of duty only as authorized by RCW  
13 41.40.038;

14 (v) Compensation that a member receives due to participation in the  
15 leave sharing program only as authorized by RCW 41.04.650 through  
16 41.04.670; and

17 (vi) Compensation that a member receives for being in standby  
18 status. For the purposes of this section, a member is in standby  
19 status when not being paid for time actually worked and the employer  
20 requires the member to be prepared to report immediately for work, if  
21 the need arises, although the need may not arise.

22 (9)(a) "Service" for plan 1 members, except as provided in RCW  
23 41.40.088, means periods of employment in an eligible position or  
24 positions for one or more employers rendered to any employer for which  
25 compensation is paid, and includes time spent in office as an elected  
26 or appointed official of an employer. Compensation earnable earned in  
27 full time work for seventy hours or more in any given calendar month  
28 shall constitute one service credit month except as provided in RCW  
29 41.40.088. Compensation earnable earned for less than seventy hours in  
30 any calendar month shall constitute one-quarter service credit month of  
31 service except as provided in RCW 41.40.088. Only service credit  
32 months and one-quarter service credit months shall be counted in the  
33 computation of any retirement allowance or other benefit provided for  
34 in this chapter. Any fraction of a year of service shall be taken into  
35 account in the computation of such retirement allowance or benefits.  
36 Time spent in standby status, whether compensated or not, is not  
37 service.

1 (i) Service by a state employee officially assigned by the state on  
2 a temporary basis to assist another public agency, shall be considered  
3 as service as a state employee: PROVIDED, That service to any other  
4 public agency shall not be considered service as a state employee if  
5 such service has been used to establish benefits in any other public  
6 retirement system.

7 (ii) An individual shall receive no more than a total of twelve  
8 service credit months of service during any calendar year. If an  
9 individual is employed in an eligible position by one or more employers  
10 the individual shall receive no more than one service credit month  
11 during any calendar month in which multiple service for seventy or more  
12 hours is rendered.

13 (iii) A school district employee may count up to forty-five days of  
14 sick leave as creditable service solely for the purpose of determining  
15 eligibility to retire under RCW 41.40.180 as authorized by RCW  
16 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW  
17 28A.400.300 is equal to two service credit months. Use of less than  
18 forty-five days of sick leave is creditable as allowed under this  
19 subsection as follows:

20 (A) Less than twenty-two days equals one-quarter service credit  
21 month;

22 (B) Twenty-two days equals one service credit month;

23 (C) More than twenty-two days but less than forty-five days equals  
24 one and one-quarter service credit month.

25 (b) "Service" for plan 2 and plan 3 members, means periods of  
26 employment by a member in an eligible position or positions for one or  
27 more employers for which compensation earnable is paid. Compensation  
28 earnable earned for ninety or more hours in any calendar month shall  
29 constitute one service credit month except as provided in RCW  
30 41.40.088. Compensation earnable earned for at least seventy hours but  
31 less than ninety hours in any calendar month shall constitute one-half  
32 service credit month of service. Compensation earnable earned for less  
33 than seventy hours in any calendar month shall constitute one-quarter  
34 service credit month of service. Time spent in standby status, whether  
35 compensated or not, is not service.

36 Any fraction of a year of service shall be taken into account in  
37 the computation of such retirement allowance or benefits.

1 (i) Service in any state elective position shall be deemed to be  
2 full time service, except that persons serving in state elective  
3 positions who are members of the Washington school employees'  
4 retirement system, teachers' retirement system, public safety  
5 employees' retirement system, or law enforcement officers' and  
6 firefighters' retirement system at the time of election or appointment  
7 to such position may elect to continue membership in the Washington  
8 school employees' retirement system, teachers' retirement system,  
9 public safety employees' retirement system, or law enforcement  
10 officers' and firefighters' retirement system.

11 (ii) A member shall receive a total of not more than twelve service  
12 credit months of service for such calendar year. If an individual is  
13 employed in an eligible position by one or more employers the  
14 individual shall receive no more than one service credit month during  
15 any calendar month in which multiple service for ninety or more hours  
16 is rendered.

17 (iii) Up to forty-five days of sick leave may be creditable as  
18 service solely for the purpose of determining eligibility to retire  
19 under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of  
20 plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal  
21 to two service credit months. Use of less than forty-five days of sick  
22 leave is creditable as allowed under this subsection as follows:

- 23 (A) Less than eleven days equals one-quarter service credit month;
- 24 (B) Eleven or more days but less than twenty-two days equals one-  
25 half service credit month;
- 26 (C) Twenty-two days equals one service credit month;
- 27 (D) More than twenty-two days but less than thirty-three days  
28 equals one and one-quarter service credit month;
- 29 (E) Thirty-three or more days but less than forty-five days equals  
30 one and one-half service credit month.

31 (10) "Service credit year" means an accumulation of months of  
32 service credit which is equal to one when divided by twelve.

33 (11) "Service credit month" means a month or an accumulation of  
34 months of service credit which is equal to one.

35 (12) "Prior service" means all service of an original member  
36 rendered to any employer prior to October 1, 1947.

37 (13) "Membership service" means:

- 38 (a) All service rendered, as a member, after October 1, 1947;

1 (b) All service after October 1, 1947, to any employer prior to the  
2 time of its admission into the retirement system for which member and  
3 employer contributions, plus interest as required by RCW 41.50.125,  
4 have been paid under RCW 41.40.056 or 41.40.057;

5 (c) Service not to exceed six consecutive months of probationary  
6 service rendered after April 1, 1949, and prior to becoming a member,  
7 in the case of any member, upon payment in full by such member of the  
8 total amount of the employer's contribution to the retirement fund  
9 which would have been required under the law in effect when such  
10 probationary service was rendered if the member had been a member  
11 during such period, except that the amount of the employer's  
12 contribution shall be calculated by the director based on the first  
13 month's compensation earnable as a member;

14 (d) Service not to exceed six consecutive months of probationary  
15 service, rendered after October 1, 1947, and before April 1, 1949, and  
16 prior to becoming a member, in the case of any member, upon payment in  
17 full by such member of five percent of such member's salary during said  
18 period of probationary service, except that the amount of the  
19 employer's contribution shall be calculated by the director based on  
20 the first month's compensation earnable as a member.

21 (14)(a) "Beneficiary" for plan 1 members, means any person in  
22 receipt of a retirement allowance, pension or other benefit provided by  
23 this chapter.

24 (b) "Beneficiary" for plan 2 and plan 3 members, means any person  
25 in receipt of a retirement allowance or other benefit provided by this  
26 chapter resulting from service rendered to an employer by another  
27 person.

28 (15) "Regular interest" means such rate as the director may  
29 determine.

30 (16) "Accumulated contributions" means the sum of all contributions  
31 standing to the credit of a member in the member's individual account,  
32 including any amount paid under RCW 41.50.165(2), together with the  
33 regular interest thereon.

34 (17)(a) "Average final compensation" for plan 1 members, means the  
35 annual average of the greatest compensation earnable by a member during  
36 any consecutive two year period of service credit months for which  
37 service credit is allowed; or if the member has less than two years of

1 service credit months then the annual average compensation earnable  
2 during the total years of service for which service credit is allowed.

3 (b) "Average final compensation" for plan 2 and plan 3 members,  
4 means the member's average compensation earnable of the highest  
5 consecutive sixty months of service credit months prior to such  
6 member's retirement, termination, or death. Periods constituting  
7 authorized leaves of absence may not be used in the calculation of  
8 average final compensation except under RCW 41.40.710(2) or (c) of this  
9 subsection.

10 (c) In calculating average final compensation under this subsection  
11 for a member of plan 1, 2, or 3, the department of retirement systems  
12 shall include any compensation forgone by the member during the 2009-  
13 2011 fiscal biennium as a result of reduced work hours, voluntary leave  
14 without pay, or temporary furloughs if the reduced compensation is an  
15 integral part of the employer's expenditure reduction efforts, as  
16 certified by the employer.

17 (18) "Final compensation" means the annual rate of compensation  
18 earnable by a member at the time of termination of employment.

19 (19) "Annuity" means payments for life derived from accumulated  
20 contributions of a member. All annuities shall be paid in monthly  
21 installments.

22 (20) "Pension" means payments for life derived from contributions  
23 made by the employer. All pensions shall be paid in monthly  
24 installments.

25 (21) "Retirement allowance" means the sum of the annuity and the  
26 pension.

27 (22) "Employee" or "employed" means a person who is providing  
28 services for compensation to an employer, unless the person is free  
29 from the employer's direction and control over the performance of work.  
30 The department shall adopt rules and interpret this subsection  
31 consistent with common law.

32 (23) "Actuarial equivalent" means a benefit of equal value when  
33 computed upon the basis of such mortality and other tables as may be  
34 adopted by the director.

35 (24) "Retirement" means withdrawal from active service with a  
36 retirement allowance as provided by this chapter.

37 (25) "Eligible position" means:

1 (a) Any position that, as defined by the employer, normally  
2 requires five or more months of service a year for which regular  
3 compensation for at least seventy hours is earned by the occupant  
4 thereof. For purposes of this chapter an employer shall not define  
5 "position" in such a manner that an employee's monthly work for that  
6 employer is divided into more than one position;

7 (b) Any position occupied by an elected official or person  
8 appointed directly by the governor, or appointed by the chief justice  
9 of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which  
10 compensation is paid.

11 (26) "Ineligible position" means any position which does not  
12 conform with the requirements set forth in subsection (25) of this  
13 section.

14 (27) "Leave of absence" means the period of time a member is  
15 authorized by the employer to be absent from service without being  
16 separated from membership.

17 (28) "Totally incapacitated for duty" means total inability to  
18 perform the duties of a member's employment or office or any other work  
19 for which the member is qualified by training or experience.

20 (29) "Retiree" means any person who has begun accruing a retirement  
21 allowance or other benefit provided by this chapter resulting from  
22 service rendered to an employer while a member.

23 (30) "Director" means the director of the department.

24 (31) "State elective position" means any position held by any  
25 person elected or appointed to statewide office or elected or appointed  
26 as a member of the legislature.

27 (32) "State actuary" or "actuary" means the person appointed  
28 pursuant to RCW 44.44.010(2).

29 (33) "Plan 1" means the public employees' retirement system, plan  
30 1 providing the benefits and funding provisions covering persons who  
31 first became members of the system prior to October 1, 1977.

32 (34) "Plan 2" means the public employees' retirement system, plan  
33 2 providing the benefits and funding provisions covering persons who  
34 first became members of the system on and after October 1, 1977, and  
35 are not included in plan 3.

36 (35) "Plan 3" means the public employees' retirement system, plan  
37 3 providing the benefits and funding provisions covering persons who:

38 (a) First become a member on or after:

1 (i) March 1, 2002, and are employed by a state agency or institute  
2 of higher education and who did not choose to enter plan 2; or

3 (ii) September 1, 2002, and are employed by other than a state  
4 agency or institute of higher education and who did not choose to enter  
5 plan 2; or

6 (b) Transferred to plan 3 under RCW 41.40.795.

7 (36) "Index" means, for any calendar year, that year's annual  
8 average consumer price index, Seattle, Washington area, for urban wage  
9 earners and clerical workers, all items, compiled by the bureau of  
10 labor statistics, United States department of labor.

11 (37) "Index A" means the index for the year prior to the  
12 determination of a postretirement adjustment.

13 (38) "Index B" means the index for the year prior to index A.

14 (39) "Index year" means the earliest calendar year in which the  
15 index is more than sixty percent of index A.

16 (40) "Adjustment ratio" means the value of index A divided by index  
17 B.

18 (41) "Annual increase" means, initially, fifty-nine cents per month  
19 per year of service which amount shall be increased each July 1st by  
20 three percent, rounded to the nearest cent.

21 (42) "Separation from service" occurs when a person has terminated  
22 all employment with an employer. Separation from service or employment  
23 does not occur, and if claimed by an employer or employee may be a  
24 violation of RCW 41.40.055, when an employee and employer have a  
25 written or oral agreement to resume employment with the same employer  
26 following termination. Mere expressions or inquiries about  
27 postretirement employment by an employer or employee that do not  
28 constitute a commitment to reemploy the employee after retirement are  
29 not an agreement under this subsection.

30 (43) "Member account" or "member's account" for purposes of plan 3  
31 means the sum of the contributions and earnings on behalf of the member  
32 in the defined contribution portion of plan 3.

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