Supplemental Rate Adoption Final Proposal

LEOFF Plan 2 Retirement Board

July 22, 2009

Key Issues

- Board must decide whether it is necessary to increase contribution rates due to the passage of the bill (SHB 1953) allowing Fish and Wildlife Enforcement Officers (FWEO) the opportunity to transfer their service credit earned in PERS as FWEO to LEOFF Plan 2.

Supplemental Rate Adoption

- Fiscal note review
  - Oliver Consulting – letter available
    - Assumptions are reasonable
    - Costs calculations are accurate

  - Board may need to adopt supplemental rate calculation policy

Options

- Adopt supplemental rate effective 9/1/09
- Delay adoption of supplemental rate

Adopt Supplemental Rate Effective July 1, 2009

- Pros
  - Allows for prefunding of benefit improvement
- Cons
  - Overfunds benefit account temporarily if assumptions not met
  - Budget impact of rate increase
  - Administrative “cost” of rate increase

Delay Adoption of Supplemental Rate

- Pros
  - May provide better information on who transfers

- Cons
  - Lose benefit of prefunding
  - Sets a precedent that may raise concerns for future supplemental rate adoptions
  - Reliability of additional data

Supplemental Rate Adoption

Questions?

Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

Supplemental Rate Adoption

Final Proposal

July 22, 2009

1. Issue

The Board must decide whether it is necessary to increase contribution rates due to the passage of Substitute House Bill 1953 allowing Fish and Wildlife Enforcement Officers (FWEO) the opportunity to transfer their service credit earned in PERS as FWEO to LEOFF Plan 2.

2. Staff

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3. Members Impacted

Based on the actuarial data as of June 30, 2007, there were 16,099 active LEOFF Plan 2 members. Adopting supplemental contribution rates impacts all active LEOFF Plan 2 members, employers and in most cases the state.

4. Current Situation

One of the main goals of the Board is to ensure the actuarial soundness of the plan. In order to maintain that goal, it may be necessary for the Board to pay for any benefit improvements via adoption of a supplemental contribution rate increase.

5. Background Information

When the Board was created with the passage of Initiative 790, one of the duties of the Board is to adopt contribution rates. The Board is required to use an accredited actuary using approved actuarial methods to determine the cost of the plan and the cost of any benefit improvements. The statutes covering adoption of supplemental contribution rates for LEOFF Plan 2 include RCW 41.26.720, 41.45.0604 and 41.45.070. These statutes can be found in Appendix A.

Not all benefit improvements will have costs sufficient to increase contribution rates, but if they do, the Board has the task of adopting a supplemental rate increase, usually effective September 1st following the effective date of the legislation.

During the 2009 Legislative Session, a bill allowing Fish and Wildlife Enforcement Officer (FWEO) members to transfer their service credit earned as FWEOs, while a member of the Public Employees' Retirement System (PERS) Plan 2 or 3 to LEOFF Plan 2, was passed. The Office of the State Actuary (OSA) provided a fiscal note indicating that the cost of that benefit enhancement would require a contribution rate increase of one basis point for the member (0.01%), one basis point for the employer (0.01%) and no increase for the state.

In order for the member to be able to transfer to LEOFF Plan 2, they must make a request in writing electing to transfer their PERS service credit to the Department of Retirement Systems (DRS) no later than December 31, 2009. The fiscal note provided by OSA based their cost on the assumption that 63 members would take advantage of this opportunity.

Policy Issues

The process for adopting a supplemental rate increase is for the Board to take action in July 2009, effective September 1, 2009 based on the recommendation of the Office of the State Actuary (OSA) and the assumptions used in their fiscal note. However, in this specific case, it may be appropriate to defer adoption of the supplemental rate until after December 31, 2009 and the conclusion of the period for members to request a transfer. The estimated cost of this benefit depends on how many and which members transfer. If the 14 most costly members transfer, the cost to LEOFF Plan 2 would be $1 million. If 15-32 of the most expensive members transfer, the cost would be approximately $2 million. If 33 or more of the most expensive members transfer, the cost would rise to around $3 million. OSA assumed 63 members would transfer and the cost would be about $3.1 million [see OSA fiscal note p. 7-8].

By delaying the adoption of the supplemental rate until the conclusion of the transfer window, OSA could recalculate the cost based on actual member elections, rather than just the assumptions. However, there is reason to be cautious about the reliability of the member transfer election data. A member who indicates to DRS in writing they intend to transfer their past service is under no obligation to actually complete the transfer. All the members could indicate to DRS that they want to transfer their service simply to keep their options open even if they are undecided about transferring, or even consider themselves unlikely to transfer.

The supplemental rate is intended to begin prefunding the cost of the benefit improvement rather than waiting until the next actuarial valuation when the benefit liability will be rolled into the base rate. The consequence of delaying the adoption of a supplemental rate is the loss of earnings on the contributions that would be made. In this case, a delay in the adoption of a supplemental rate will not create a significant risk of underfunding the plan due to the relatively modest cost of the benefit improvement and the accordingly small proposed rate increase.

6. Policy Options

Policy Option 1: Adopt Supplemental Rate Effective 9/1/09

Under this option the Board would need to adopt the supplemental contribution rate at the July 22, 2009 Board meeting.

Policy Option 2: Delay Adoption of Supplemental Rate

Under this option the Board would wait until after the transfer window closes and the actuary can reevaluate the cost of FWEO transfers.

7. Appendix A – Contribution Rate Statutes

Appendix B – FWEO Service Credit Transfer OSA Fiscal Note – SHB 1953

APPENDIX A – Contribution Rate Statutes

RCW 41.26.720 Board of trustees — Powers — Meeting procedures — Quorum — Judicial review — Budget.

1) The board of trustees have the following powers and duties and shall:

(a) Adopt actuarial tables, assumptions, and cost methodologies in consultation with an enrolled actuary retained by the board. The state actuary shall provide assistance when the board requests. The actuary retained by the board shall utilize the aggregate actuarial cost method, or other recognized actuarial cost method based on a level percentage of payroll, as that term is employed by the American academy of actuaries. The actuary retained by the board shall adjust the actuarial cost method to recognize the actuarial present value of future revenue that will be included in the calculation of the market value of assets pursuant to RCW 41.26.805(2), using the methods and assumptions employed by the state actuary in RCW 41.26.805(9). In determining the reasonableness of actuarial valuations, assumptions, and cost methodologies, the actuary retained by the board shall provide a copy of all such calculations to the state actuary. If the two actuaries concur on the calculations, contributions shall be made as set forth in the report of the board's actuary. If the two actuaries cannot agree, they shall appoint a third, independent, enrolled actuary who shall review the calculations of the actuary retained by the board and the state actuary. Thereafter, contributions shall be based on the methodology most closely following that of the third actuary;

(b)(i) Provide for the design and implementation of increased benefits for members and beneficiaries of the plan, subject to the contribution limitations under RCW 41.26.725. An increased benefit may not be approved by the board until an actuarial cost of the benefit has been determined by the actuary and contribution rates adjusted as may be required to maintain the plan on a sound actuarial basis. Increased benefits as approved by the board shall be presented to the legislature on January 1st of each year. The increased benefits as approved by the board shall become effective within ninety days unless a bill is enacted in the next ensuing session of the legislature, by majority vote of each house of the legislature, repealing the action of the board;

(ii) As an alternative to the procedure in (b)(i) of this subsection, recommend to the legislature changes in the benefits for members and beneficiaries, without regard to the cost limitations in RCW 41.26.725(3). Benefits adopted in this manner shall have the same contractual protections as the minimum benefits in the plan. The recommendations of the board shall be presented to the legislature on January 1st of each year. These measures shall take precedence over all other measures in the legislature, except appropriations bills, and shall be either enacted or rejected without change or amendment by the legislature before the end of such regular session;

(c) Retain professional and technical advisors necessary for the accomplishment of its duties. The cost of these services may be withdrawn from the trust;

(d) Consult with the department for the purpose of improving benefit administration and member services;

(e) Provide an annual report to the governor and the legislature setting forth the actuarial funding status of the plan and making recommendations for improvements in those aspects of retirement administration directed by the legislature or administered by the department;

(f) Establish uniform administrative rules and operating policies in the manner prescribed by law;

(g) Engage administrative staff and acquire office space independent of, or in conjunction with, the department. The department shall provide funding from its budget for these purposes;

(h) Publish on an annual basis a schedule of increased benefits together with a summary of the minimum benefits as established by the legislature which shall constitute the official plan document; and

(i) Be the fiduciary of the plan and discharge the board's duties solely in the interest of the members and beneficiaries of the plan.

(2) Meetings of the board of trustees shall be conducted as follows:

(a) All board meetings are open to the public, preceded by timely public notice;

(b) All actions of the board shall be taken in open public session, except for those matters which may be considered in executive session as provided by law;

(c) The board shall retain minutes of each meeting setting forth the names of those board members present and absent, and their voting record on any voted issue; and

(d) The board may establish, with the assistance of the appropriate office of state government, an internet web site providing for interactive communication with state government, members and beneficiaries of the plan, and the public.

(3) A quorum of the board is six board members. All board actions require six concurring votes.

(4) The decisions of the board shall be made in good faith and are final, binding, and conclusive on all parties. The decisions of the board shall be subject to judicial review as provided by law.

(5) A law enforcement officers' and firefighters' retirement system plan 2 expense fund is established for the purpose of defraying the expenses of the board. The board shall cause an annual budget to be prepared consistent with the requirements of chapter 43.88 RCW and shall draw the funding for the budget from the investment income of the trust. Board members shall be reimbursed for travel and education expenses as provided in RCW 43.03.050 and 43.03.060. The board shall make an annual report to the governor, legislature, and state auditor setting forth a summary of the costs and expenditures of the plan for the preceding year. The board shall also retain the services of an independent, certified public accountant who shall annually audit the expenses of the fund and whose report shall be included in the board's annual report.

[2008 c 99 § 5; 2003 c 2 § 5 (Initiative Measure No. 790, approved November 5, 2002).]

Notes:

Findings -- Purpose -- 2008 c 99: See note following RCW 41.26.800.

RCW 41.45.0604 Contribution rates — Law enforcement officers' and firefighters' retirement system plan 2.

(1) Not later than July 31, 2008, and every even-numbered year thereafter, the law enforcement officers' and firefighters' plan 2 retirement board shall adopt contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 as provided in RCW 41.26.720(1)(a).

(2) The law enforcement officers' and firefighters' plan 2 retirement board shall immediately notify the directors of the office of financial management and department of retirement systems of the state, employer, and employee rates adopted. Thereafter, the director shall collect those rates adopted by the board. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

[2007 c 280 § 3; 2003 c 92 § 4.]

Notes:

Severability -- Effective date -- 2003 c 92: See RCW 41.26.905 and 41.26.906.

RCW 41.45.070 Supplemental rate.

***** CHANGE IN 2009 *** (SEE 6161-S.SL) *****

(1) In addition to the basic employer contribution rate established in RCW 41.45.060 or *41.45.054, the department shall also charge employers of public employees' retirement system, teachers' retirement system, school employees' retirement system, public safety employees' retirement system, or Washington state patrol retirement system members an additional supplemental rate to pay for the cost of additional benefits, if any, granted to members of those systems. Except as provided in subsections (6), (7), and (9) of this section, the supplemental contribution rates required by this section shall be calculated by the state actuary and shall be charged regardless of language to the contrary contained in the statute which authorizes additional benefits.

(2) In addition to the basic member, employer, and state contribution rate established in RCW 41.45.0604 for the law enforcement officers' and firefighters' retirement system plan 2, the department shall also establish supplemental rates to pay for the cost of additional benefits, if any, granted to members of the law enforcement officers' and firefighters' retirement system plan 2. Except as provided in subsection (6) of this section, these supplemental rates shall be calculated by the actuary retained by the law enforcement officers' and firefighters' board and the state actuary through the process provided in RCW 41.26.720(1)(a) and the state treasurer shall transfer the additional required contributions regardless of language to the contrary contained in the statute which authorizes the additional benefits.

(3) The supplemental rate charged under this section to fund benefit increases provided to active members of the public employees' retirement system plan 1, the teachers' retirement system plan 1, and Washington state patrol retirement system, shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit not later than June 30, 2024.

(4) The supplemental rate charged under this section to fund benefit increases provided to active and retired members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, the public safety employees' retirement system plan 2, or the school employees' retirement system plan 2 and plan 3 shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit, as calculated under RCW 41.45.060, 41.45.061, or 41.45.067.

(5) The supplemental rate charged under this section to fund postretirement adjustments which are provided on a nonautomatic basis to current retirees shall be calculated as the percentage of pay needed to fund the adjustments as they are paid to the retirees. The supplemental rate charged under this section to fund automatic postretirement adjustments for active or retired members of the public employees' retirement system plan 1 and the teachers' retirement system plan 1 shall be calculated as the level percentage of pay needed to fund the cost of the automatic adjustments not later than June 30, 2024.

(6) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to chapter 340, Laws of 1998.

(7) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to **chapter 41.31A RCW; section 309, chapter 341, Laws of 1998; or section 701, chapter 341, Laws of 1998.

(8) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members and survivors pursuant to chapter 94, Laws of 2006.

(9) A supplemental rate shall not be charged to pay for the cost of the additional benefits granted to members of the teachers' retirement system and the school employees' retirement system plans 2 and 3 in sections 2, 4, 6, and 8, chapter 491, Laws of 2007 until September 1, 2008. A supplemental rate shall not be charged to pay for the cost of the additional benefits granted to members of the public employees' retirement system plans 2 and 3 under sections 9 and 10, chapter 491, Laws of 2007 until July 1, 2008.

[2007 c 491 § 12; 2006 c 94 § 3; (2005 c 327 § 10 expired July 1, 2006); 2004 c 242 § 41. Prior: (2003 1st sp.s. c 11 § 3 repealed by 2005 c 327 § 11); 2003 c 92 § 5; prior: 2001 2nd sp.s. c 11 § 16; 2001 2nd sp.s. c 11 § 15; 2000 c 247 § 505; 1998 c 340 § 10; 1995 c 239 § 310; 1990 c 18 § 2; 1989 1st ex.s. c 1 § 1; 1989 c 273 § 7.]

Notes:

Reviser's note: *(1) RCW 41.45.054 was decodified by 2005 c 370 § 5, effective September 1, 2005.

**(2) Chapter 41.31A RCW was repealed by 2007 c 491 § 13, effective January 2, 2008, however, RCW 41.31A.020 was also amended by 2007 c 491 § 1 and 2007 c 492 § 10. For rule of construction, see RCW 1.12.025(1).

Severability -- Conflict with federal requirements -- 2007 c 491: See notes following RCW 41.32.765.

Effective date -- 2006 c 94 § 3: "Section 3 of this act takes effect July 1, 2006." [2006 c 94 § 4.]

Expiration date -- 2005 c 327 § 10: "Section 10 of this act expires July 1, 2006." [2005 c 327 § 13.]

Effective date -- 2004 c 242: See RCW 41.37.901.

Effective date -- 2003 1st sp.s. c 11: See note following RCW 41.45.035.

Severability -- Effective date -- 2003 c 92: See RCW 41.26.905 and 41.26.906.

Effective date -- 2001 2nd sp.s. c 11: See note following RCW 41.45.010.

Effective date -- 2001 2nd sp.s. c 11: See note following RCW 41.45.030.

Effective dates -- Subchapter headings not law -- 2000 c 247: See RCW 41.40.931 and 41.40.932.

Effective date -- 1998 c 341: See RCW 41.35.901.

Effective date -- 1998 c 340: See note following RCW 2.10.146.

Intent -- Purpose -- 1995 c 239: See note following RCW 41.32.831.

Effective date -- Part and subchapter headings not law -- 1995 c 239: See notes following RCW 41.32.005.

Effective date -- 1990 c 18: See note following RCW 41.45.060.

Benefits not contractual right until date specified: RCW 41.34.100.

Multiple Agency Fiscal Note Summary

Bill Number: 1953 S HB	**Title:** Fish & wildlife officers

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Total $						

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	0	0	.0	100,000	100,000	.0	0	0
Department of Retirement Systems	.1	0	34,813	.0	0	0	.0	0	0
Department of Fish and Wildlife	.0	0	0	.0	0	0	.0	0	0
Total	**0.1**	**$0**	**$34,813**	**0.0**	**$100,000**	**$100,000**	**0.0**	**$0**	**$0**

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

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Pending Distribution

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

** See local government fiscal note

FNPID 23552

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 1953 S HB	Title: Fish & wildlife officers	Agency: 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

		FY 2010	FY 2011	2009-11	2011-13	2013-15
Fund						
General Fund-State	001-1	0	0	0	100,000	0
Total $		0	0	0	100,000	0

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: 03/04/2009
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OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 03/09/2009

Request # -2

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-					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER
Office of the State Actuary	**035**	**3/06/09**	**SHB 1953**

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 would allow enforcement officers for the Department of Fish & Wildlife (DFW) to convert prior Public Employees' Retirement System (PERS) Plan 2 or PERS Plan 3 service to Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$26,784	$4.4	$26,788
Earned Pensions Not Covered by Today's Assets	$0	$0	$0

Impact on Contribution Rates: (Effective 09/01/2009)

2009-2011 State Budget	**PERS**	**LEOFF**
Employee (Plan 2)	0.00%	0.01%
Employer:		
Current Annual Cost	0.00%	0.01%
Plan 1 Past Cost	0.00%	0.00%
Total	0.00%	0.01%
State		0.00%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.1	$0.9
Total Employer	$0.3	$0.2	$2.3

See the Actuarial Results section of this fiscal note for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts Plan 2 of the LEOFF Retirement System, as well as Plans 2 and 3 of PERS. This bill allows LEOFF Plan 2 members to transfer into LEOFF Plan 2 their prior PERS Plan 2 or PERS Plan 3 service credit for periods of employment as enforcement officers for DFW. The bill specifies Department of Retirement Systems (DRS) may not transfer the service credit prior to June 30, 2014, except for members who become disabled or die during the waiting period. Members have until June 30, 2014, to make their payments. The bill also specifies DRS may only transfer service credit after members complete their payments.

Finally, the bill provides that members who elect to transfer their service credit must transfer all their service as an enforcement officer with DFW under PERS Plan 2 or PERS Plan 3. Furthermore, upon transfer this bill permanently excludes members from using service related to time served as an enforcement officer with the DFW in PERS Plan 2 or PERS Plan 3.

The substitute bill differs from the original bill in that it removes the requirement that DFW will pay an additional amount sufficient to ensure the contribution level to LEOFF Plan 2 will not increase due to this transfer.

Effective Date: 90 days after session.

What Is The Current Situation?

Currently, LEOFF Plan 2 members who were members of PERS Plan 2 or PERS Plan 3 while serving as enforcement officers for DFW cannot transfer their prior PERS service to LEOFF Plan 2. They are dual members of PERS Plan 2 or PERS Plan 3 and LEOFF Plan 2 and can retire under portability provisions (Chapter 41.54 RCW).

Who Is Impacted And How?

We estimate this bill could affect 81 members out of the total 104 active DFW enforcement officers because they have eligible prior service credit in PERS. Furthermore, we expect 63 members will actually receive improved benefits. We expect the remaining members would not elect to transfer service credit because it would not be financially advantageous for them. This bill would not affect inactive members in LEOFF Plan 2.

We estimate that for a typical member impacted by this bill, the increase in benefits would be the opportunity for a full retirement at age 53 instead of 65, or a benefit at age 50 with 20 years of service reduced 3 percent for each year under age 53.

This bill requires Plan 3 members who elect to transfer their eligible service to transfer their entire defined contribution (DC) account balances attributable to the transferred service.

The terms of this bill include transfer payments made by members and the employer from PERS to LEOFF Plan 2.

This bill would also impact all LEOFF Plan 2 members through increased contribution rates.

Please see Appendix A for more details.

WHY THIS PROPOSL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill has a cost because service credit in LEOFF Plan 2 is more valuable than service credit in PERS. While the original bill provided that there should be no impact to LEOFF Plan 2 contribution rates, this version of the bill removes that provision.

This bill results in a slight savings in PERS because the reduction in liability from the service credit transfer exceeds the value of assets transferred from PERS to LEOFF Plan 2.

Who Will Pay For These Costs?

Members electing to transfer eligible service pay the difference between the PERS contributions they paid while earning the service credit and the contributions they would have paid as a member of LEOFF Plan 2. Members with past service in PERS Plan 3 must pay the balance in their DC accounts attributable to service credit earned as an enforcement officer in DFW, plus an additional amount, if any, to cover the difference between that balance and the contributions they would have paid in LEOFF Plan 2. These amounts are increased with interest as determined by the director of DRS. DRS will transfer the assets associated with the PERS Plan 2 member and PERS employer contributions with interest from PERS to LEOFF Plan 2.

The remaining cost of this bill will be divided between members, local employers, and the state according to LEOFF Plan 2's standard funding method:

- 50 percent member.
- 30 percent employer.
- 20 percent state.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed this bill makes all past PERS service with DFW eligible for transfer to LEOFF Plan 2, and only active DFW enforcement officers may transfer prior service. We assumed members eligible to transfer service credit would elect to transfer that service if the increase in benefits exceeds the additional costs they must pay. See Appendix A for more detail.

We assumed members who transfer service will not receive additional benefits from the transfer until after June 30, 2014.

We assumed DRS would charge 8 percent interest when calculating additional contributions due from members electing to transfer their service to LEOFF Plan 2. We also assumed an 8 percent rate of return on DC accounts for Plan 3 members.

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

How We Applied These Assumptions

We calculated the additional contributions for each member with prior eligible PERS Plan 2 service by finding the difference between historical LEOFF Plan 2 and PERS Plan 2 contribution rates and multiplying that difference by their estimated past salaries. We estimated salaries at the time the service was earned. We accumulated those contributions with interest to the present. For members with past PERS Plan 3 service, we calculated the contributions they would have paid if they had been in LEOFF Plan 2, accumulated the contributions with interest to the present, and subtracted their DC account balances.

We estimated the assets transferred from PERS Plan 2 to LEOFF Plan 2 as twice the members' contribution account balances. The assets transferred from PERS Plan 3 to LEOFF Plan 2 equal the employer contributions made during the PERS Plan 3 service, with interest.

To estimate the liability in LEOFF Plan 2, we projected members' age, service, and salary to June 30, 2014, or their LEOFF Plan 2 normal retirement age, whichever was later. Then we calculated the members' final average salary at retirement and multiplied it by a deferred annuity factor.

This bill also affects PERS by decreasing liabilities and assets when members transfer their service to LEOFF. We used a similar method to find the liability savings in PERS, except we found age, service, and salary for these members under PERS rules for retirement.

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

Special Data Needed

We relied in part on information from the LEOFF Plan 2 Retirement Board and DRS to determine members eligible for the improved benefits under this bill. The PERS Plan 3 DC balances for eligible members came from annual data provided by DRS.

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

Please see Appendix A for a detailed description of how we determined who we expect to transfer service under this bill.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill would increase the liability in LEOFF Plan 2 by about $7.4 million. Assets transferred from PERS and additional member contributions will partially offset this cost. This results in an increase in LEOFF contributions.

The liability in PERS would decrease by about $3 million under this bill. The estimated transfer of assets from PERS to LEOFF Plan 2, which consists of the member and employer contributions, with interest, would not completely offset this gain to PERS. This results in a small contribution decrease in PERS.

The members eligible to transfer service credit are currently dual members eligible for portability benefits. The transfer could result in additional experience gains for PERS Plans 2 and 3.

The next table shows a summary of costs/(savings) for all parties:

Summary of Costs/(Savings) for All Parties

(Dollars are in Millions)	**PERS**	**LEOFF 2**	**Total**
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($3.0)	$7.4	$4.4
Assets Transferred from PERS to LEOFF 2	$2.3	($2.3)	$0.0
Additional Member Contributions	$0.0	($2.3)	($2.3)
Net Change in Present Value of Unfunded Fully Projected Benefits	($0.7)	$2.8	$2.1

Note: Totals may not agree due to rounding.

We based these costs on the assumption that 63 out of 81 eligible DFW enforcement officers will transfer past PERS service credit to LEOFF Plan 2. The actual cost of this bill will depend on the number of affected members who elect to transfer past service.

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 2/3	**$20,634**	**($3.0)**	**$20,631**
LEOFF 2	**$6,149**	**$7.4**	**$6,156**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 2/3	**N/A**	**N/A**	**N/A**
LEOFF 2	**N/A**	**N/A**	**N/A**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 2/3	**($2,470)**	**($0.7)**	**($2,470)**
LEOFF 2	**($974)**	**$2.8**	**($971)**

How Contribution Rates Changed

The rounded increase/decrease in the required actuarial contribution rate results in the supplemental contribution rate shown on page 1 that applies in the current biennium. However, we will use the un-rounded rate increase/decrease to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 09/01/2009)		
System/Plan	**PERS**	**LEOFF**
Current Members		
Employee (Plan 2)	(0.0006%)	0.0092%
Employer:		
Normal Cost	(0.0006%)	0.0055%
Plan 1 UAAL	0.0000%	0.0000%
Total	(0.0006%)	0.0055%
State		0.0037%
New Entrants*		
Employee (Plan 2)	0.0000%	0.0000%
Employer:		
Normal Cost	0.0000%	0.0000%
Plan 1 UAAL	0.0000%	0.0000%
Total	0.0000%	0.0000%
State		0.0000%

**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			
(Dollars in Millions)	**PERS**	**LEOFF**	**Total**
2009-2011			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.3	0.3
Total Employer	**$0.0**	**$0.3**	**$0.3**
Total Employee	**$0.0**	**$0.3**	**$0.3**
2011-2013			
General Fund	$0.0	$0.1	$0.1
Non-General Fund	0.0	0.0	(0.0)
Total State	**$0.0**	**$0.1**	**$0.1**
Local Government	0.0	0.2	0.1
Total Employer	**($0.1)**	**$0.3**	**$0.2**
Total Employee	**($0.1)**	**$0.3**	**$0.2**
2009-2034			
General Fund	($0.1)	$1.1	$0.9
Non-General Fund	(0.2)	0.0	(0.2)
Total State	**($0.3)**	**$1.1**	**$0.8**
Local Government	(0.3)	1.9	1.6
Total Employer	**($0.6)**	**$3.0**	**$2.3**
Total Employee	**($0.5)**	**$3.0**	**$2.4**

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 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 RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The liabilities under this bill are sensitive to the number of members we assume will transfer their PERS service to LEOFF Plan 2. For this pricing exercise we assumed the members who benefit financially from making the transfer would do so. For the sensitivity analysis, we assumed that the members who benefit the most would be the members most likely to transfer their service.

If only the 14 most costly members transfer, the cost to LEOFF Plan 2 would be $1 million. If between 15 and 32 of the most expensive transfers occur, the cost would be about $2 million. If the top 33 or more members transfer, the cost would go to around

$3 million. We assumed 63 members would transfer and this generates a $3 million estimated cost.

Plan 3 members' DC accounts can be impacted by poor stock market performance. We found our estimated Plan 3 transfer count by comparing their DC account balances to the increased value of their benefits if they were to transfer to LEOFF (see Appendix A for more detail). Therefore, given recent economic events, the number of members electing to transfer their past service from PERS to LEOFF could differ from our assumptions.

To model this sensitivity we decreased the DC account balance for each Plan 3 member by 25 percent and compared the new balances to the increased value of benefits under this bill. We expect that all nine PERS Plan 3 members would transfer under these conditions. The table below shows that under this scenario, the liability in LEOFF Plan 2, member contributions, asset transfers from PERS to LEOFF, and the net LEOFF Plan 2 liability would all increase. The net liability decrease in PERS would also grow slightly.

Summary of Costs/(Savings) for All Parties if PERS 3 DC Balances were 25% Lower

(Dollars are in Millions)	**PERS**	**LEOFF 2**	**Total**
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($3.5)	$8.4	$4.9
Assets Transferred from PERS to LEOFF 2	$2.6	($2.6)	$0.0
Additional Member Contributions	$0.0	($2.7)	($2.7)
Net Change in Present Value of Unfunded Fully Projected Benefits	($0.9)	$3.1	$2.2

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

APPENDIX A – Additional Information About the Data We Used

Of the 104 DFW enforcement officers active as of June 30, 2007, we found 81 who had prior service credit in PERS Plans 2 and 3. Among the DFW active records we found a few members with more than the approximately four years of service they could have earned in their current positions since joining LEOFF Plan 2 in 2003. These members probably have past service with other LEOFF agencies. We also observed some active members with no past service in PERS because they began employment after July 2003. Of the LEOFF members with prior PERS service, we found 63 who would likely transfer that service. To determine which members we expect to transfer prior service, we compared estimated liabilities in LEOFF Plan 2 under this bill with liabilities under current benefit provisions.

We excluded members who become eligible for normal retirement in PERS by June 30, 2014. These members would get the same benefits under portability as provided in this bill. We also excluded members who become eligible for alternate early retirement in PERS by June 30, 2014. These members would receive smaller reductions in their benefits for early retirement than members with less than 30 years of service. The reduction in PERS benefits would be less costly than the additional contributions they would pay to transfer their PERS service to LEOFF Plan 2.

We excluded members with prior PERS Plan 3 service whose DC account balances were more valuable than the increased lifetime LEOFF benefits they would get under this bill. These members received a transfer bonus of about 100 percent when they moved their service to Plan 3. Investment returns for these accounts had also been higher than expected from 2003 through 2007. As a result, we found that only six of nine eligible members with past Plan 3 service would likely transfer that service.

If we consider the current market volatility in our analysis, we realize this estimate could change. Recent losses in the stock market could translate to lower future DC account balances. If so, more Plan 3 members might elect to transfer their past service to LEOFF. Please see the section "How the Results Change When the Assumptions Change" for a more thorough description.

The table on the following page shows a demographic summary of the affected members under our best estimate analysis.

Demographic Summary of the Affected Members				
	Count	**Average Service (Years)**	**Average Savings Fund***	**Average Current Salary****
LEOFF Actives	104	4.42	$19,657	$68,776
LEOFF Actives with PERS Service	63	7.93	$26,359	$71,369
PERS Service Range (Rounded, in years)				
0 - 2	17	1.11	$607	$66,981
3 - 5	14	3.38	$2,624	$70,273
6 - 10	8	7.82	$12,916	$71,322
11 - 15	14	13.85	$52,408	$74,481
16+	10	17.71	$77,651	$76,045

**PERS 3 amounts are DC account balances effective June 30, 2008.*

***LEOFF 2 salary, effective June 30, 2007, is used for all records, including PERS inactive records.*

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

Bill Number: 1953 S HB	Title: Fish & wildlife officers	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.2	0.0	0.1	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	34,813	0	34,813	0	0
Total $	34,813	0	34,813	0	0

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: 03/04/2009
Agency Preparation:	Michelle Hardesty	Phone: 360-664-7193	Date: 03/06/2009
Agency Approval:	Cathy Cale	Phone: 360-664-7305	Date: 03/06/2009
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 03/06/2009

Request # 09-053-1

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 service credit earned as a Department of Fish and Wildlife (F&W) Enforcement Officer in Plan 2 and Plan 3 of the Public Employees' Retirement System (PERS) to be transferred to Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System. The member must make the election to transfer their time, in writing, to the Department of Retirement Systems (DRS) no later than December 31, 2009. The transfer of service credits will not take place until July 1, 2014.

In addition, the legislation provides options for the surviving spouse or eligible minor child should a member die or retire for disability prior to the transfer.

The substitute bill removes a requirement that F&W make a payment, no later than June 30, 2015, sufficient to ensure that the contribution rates for LEOFF Plan 2 would not increase as a result of the transfer of service credit under the bill. This change does not impact DRS' cost to implement the legislation.

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

- This bill affects approximately 70 current LEOFF Plan 2 members.
- If the invoice is not paid in full by the deadline, all payments made by the member will be refunded.
- An ex-spouse's benefit is not impacted by the member's decision to transfer service credit.
- Only full months of service can be transferred to LEOFF Plan 2. Partial service transfers are not allowed.
- The option for actuarial reduction of a retirement benefit is only available to members who die or retire for disability prior to five years from their election date.
- If the PERS 2 Enforcement Officer service credit has been withdrawn, it must be restored before it can be transferred to LEOFF.
- The entire dollar amount in the member's Plan 3 Defined Contribution account will be transferred to LEOFF 2 upon election. The member will be billed for any amount under the required contributions.
- The service credit will remain in PERS until June 30, 2014.

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

BENEFITS/CUSTOMER SERVICE

In order to implement the legislation, the following tasks will be accomplished:
- Send a letter to those members affected, notifying them when the transfer election is available
- Provide individual cost estimates for the affected members
- Modify the Election to Transfer Membership form
- Create content material for the informational packet provided to each eligible member (e.g., Service Credit Worksheet, Benefit Comparison, Estimate of Benefits)
- Update policies and procedures
- Update the online operations manual
- Participate in the business requirements definition for the agency's automated systems
- Conduct user acceptance testing of automated system modifications
- Conduct staff training
- Process the transfer of service credit

Retirement Services Analyst 3 – 266 hours (salaries/benefits) = $8,483
Total Estimated Benefits/Customer Service Costs = $8,483

AUTOMATED SYSTEMS
The billings for contributions will require modifications in DRS' automated Member Information System (MIS) to create a new optional bill type in order to distinguish those eligible for this legislation. Resources required for development, modification and testing are:

Information Technology Specialist 4 – 180 hours (salaries/benefits) = $7,955
Programmer time of 150 hours @ $95 per hour = $14,250
DIS* cost of $500 per week for 8.25 programmer weeks = $4,125
Total Estimated Automated Systems Costs = $26,330

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

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

BENEFITS/CUSTOMER SERVICE = $8,483
AUTOMATED SYSTEMS = $26,330

ESTIMATED TOTAL COSTS = $34,813

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years	0.2		0.1		
A-Salaries and Wages	12,451		12,451		
B-Employee Benefits	3,987		3,987		
C-Personal Service Contracts					
E-Goods and Services	18,375		18,375		
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:	$34,813	$0	$34,813	$0	$0

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

Job Classification	Salary	FY 2010	FY 2011	2009-11	2011-13	2013-15
Info Tech Specialist 4	71,496	0.1		0.1		
Retirement Services Analyst 3	49,368	0.1		0.1		
Total FTE's	120,864	0.2		0.1		0.0

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

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

New rules will need to be created.

Individual State Agency Fiscal Note

Bill Number: 1953 S HB	Title: Fish & wildlife officers	Agency: 477-Department of Fish and Wildlife

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: 03/04/2009
Agency Preparation:	Garret Ward	Phone: 360-902-2794	Date: 03/06/2009
Agency Approval:	Jeff Olsen	Phone: 3609022204	Date: 03/06/2009
OFM Review:	Alicia Dunkin	Phone: 360-902-0582	Date: 03/06/2009

Request # 09-FN091-1

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.

Section 1(1) - This bill allows WDFW Enforcement Officers to transfer service credit in PERS Plan 2 and 3 to LEOFF Plan 2. Officers must request transfer of their service credit by December 31, 2009.

Section 1(2)(a) - WDFW Enforcement Officers who elect to transfer service credit shall make payments required prior to having their credits transferred.

Section 1(2)(b) and (c) - WDFW Enforcement Officers who choose to transfer credit shall pay the difference between the contributions he or she paid in PERS 2 or PERS 3 and the contributions he or she would have paid to LEOFF 2. This payment must be made no earlier than June 30, 2014, and must be completed prior to retirement.

Section 2(g) - This subsection explains the process for calculating the member's benefits if he or she dies or retires for disability prior to June 30, 2014.

The substitute bill removes a requirement that WDFW make a payment, no later than June 30, 2015, sufficient to ensure that the contribution rates for LEOFF Plan 2 would not increase as a result of the transfer of service credit under the bill.

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.

N/A

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.

N/A

Part III: Expenditure Detail

Part IV: Capital Budget Impact

N/A

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.

N/A

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July 12, 2009

Law Enforcement Officers' & Firefighters' Plan 2 Retirement Board
P.O. Box 40918
Olympia, Washington 98504-0918

Re: Actuarial Review: of 1953 SHB March 6, 2009 Fiscal Note

Chairman Fox and Members of the Board:

There follow the results of our actuarial review of the above fiscal note.

Background

SHB 1953 allows fish and wildlife officers covered by LEOFF 2 to elect to convert previous PERS 2/3 benefit service earned while a fish and wildlife enforcement officer to LEOFF 2 benefit service. Members electing to convert service must pay a portion of the conversion cost based on the accumulated value of the difference in LEOFF 2 and PERS member contribution rates over the service period purchased. The election must be made by the end of 2009. The service is converted on June 30, 2014 assuming that the member's portion of the conversion costs is paid by that date. Tranfers to LEOFF 2 of member and employer PERS accounts are also made at the same time.

The estimated increases in contribution rates calculated by the Office of the State Actuary are shown below.

Employee	0.01%
Employer	0.01%
State	0.00%
Total	0.02%

Results of Review

Assumptions

In addition to assumptions used in the June 30, 2007 valuation of the plan, a number of special assumptions were made in costing this benefit. The more significant assumptions are listed below:

- Fish and wildlife officers will elect the most valuable alternative. (i.e. the service purchase will only be elected if the value of the additional benefit exceeds the added contribution required.)
    - For PERS Plan 2 members, the comparison is made between the value of the LEOFF 2 benefit after transfer and (the value of the member's benefit if no transfer occurs, including the PERS 2 dual benefit, plus the portion of the conversion cost paid by the member).

  - For PERS Plan 3 members, the comparison is made between the value of the LEOFF 2 benefit after transfer and (the value of the member's benefit if no transfer occurs, including the Plan 3 account, plus the portion of the conversion cost paid by the member).
- The value of the LEOFF 2 benefit is calculated assuming retirement at age 53 or age as of 6/30/2014, if older. The value of PERS 2/3 dual benefits are calculated assuming retirement at age 55 or age as of 6/30/2014, if older.
- Members reaching age 65 before 6/30/2014 are excluded from the calculations.

We agree that these assumptions are reasonable.

In the comparison and calculations the Plan 3 member accounts were implicitly assumed to earn 8% until the transfer date. As mentioned in the fiscal note, the recent adverse experience in the markets introduces uncertainty in evaluating these member's choices and the ultimate costs of their choice. Certainly most member's account balances would be assumed to have declined substantially. However, we do not believe that a more realistic assumption would significantly impact the supplemental rates.

Contribution Rate Methodology
In the course of our review we noticed that the Board had not established a methodology for calculating supplemental contribution rates when the basic rate equals the 90% entry age normal cost (EANC) minimum. We recommend that the Board consider establishing a methodology that would apply to supplemental contribution rates when this situation exists.

The method used in OSA's calculation was to set the supplemental rate to the increase in the aggregate cost contribution rate.

Alternatively the calculation could be performed by recalculating the total aggregate cost rate and applying the recalculated normal cost minimum. Because the aggregate cost calculation and the normal cost minimum may be affected differently by a plan change, these methods may produce a different result.

Background
The aggregate cost method produces one contribution rate that takes into account both total liabilities and available assets.

The EANC method calculates a contribution rate with two components:
- A normal cost component, and
- An unfunded actuarial accrued liability component

Thus, generally the EANC minimum will not reflect the entire cost of the plan change for two reasons: first because only the normal cost component of the EANC contribution is used, while plan changes will often have an unfunded component, and second because the minimum is based on 90% of that normal cost.

Advantages and Disadvantages
In our opinion both methods are supportable for supplemental rate calculation from an actuarial perspective.

The method used by OSA, Method A, provides more consistent funding in that it results in consistent funding of the full cost of plan changes under one method, the aggregate cost method.

The alternate method, Method B, is more consistent with the calculation of the Basic Rate and results in a total plan cost equivalent to that which would have been experienced if a full plan valuation had been performed.

However, in terms of fiscal note pricing we consider Method A more appropriate. Given a variety of potential plan changes, Method B could produce anomalies in pricing if the minimum rate is close to the aggregate cost rate.

Application to HSB 1953
In the case of HSB 1953, because a substantial portion of the cost is being paid by asset transfers that are not generally considered in an EANC normal cost component, it is possible that the application of Method B would increase the supplemental rate.

Summary
We reviewed the actual calculations performed by OSA based on Method A and did not find any differences that would have changed the supplemental rates shown on page 1.

Prediction of member's choices is difficult, particularly in the current financial markets. However, we agree that these supplemental rates represent reasonable estimates.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely,

Marilyn M. Oliver, F.S.A., M.A.A.A.
Actuary and Principal
Oliver Consulting
Contractor

John E. Bartel, A.S.A., M.A.A.A.
President
Bartel Associates, LLC
Peer Review

Cc. Steve Nelsen, Executive Director; Matthew M. Smith, State Actuary