Excess Compensation

Initial Consideration
November 28, 2012

Discussion Points

- Issue
- Current Provision
- Proposal
- Policy Implications
- Potential Impacts

Issue

The Select Committee on Pension Policy is considering legislation which would expand the definition of Excess Compensation for all plans, including LEOFF Plan 2.

Current Provision

Excess Compensation

- Payments above "regular" earnings used to calculate pensions
  - Cash-outs, lump sum payments, overtime, bonuses
  - Payment exceeding twice regular rate of pay
- Employer is responsible for the cost

LEOFF Plan 2 Retirement Board

Proposal

- Same as HB 2441
- Creates additional category of excess compensation
  - Compensation used in benefit calculation exceeding 1 ½ times reportable compensation over the calculation period
  - Targets overtime, bonuses, cash outs, and lump sums

LEOFF Plan 2 Retirement Board

Example

Plan 2 member retires at 53 with 25 years

YR 1	$130,000	$85,000
YR 2	$130,000	$85,000
YR 3	$130,000	$85,000
YR 4	$130,000	$197,500
YR 5	$130,000	$197,500
TOTAL	$650,000	$650,000

- Examples of different possible overtime patterns in FAS

Example

- Total Compensation of $650,000 over FAC period
  - $425,000 regular salary
  - $225,000 overtime
- Overtime would not trigger a billing under current provisions
- Would trigger a billing under proposed bill
  - Excess compensation = $12,500
  - Increase in annual benefit = $1,250.04
  - Cost to the pension system over member's lifetime = $18,947.58
- Employer is billed for the lifetime cost to the pension system

LEOFF Plan 2 Retirement Board

Policy Implications

- Intergenerational equity
- Cost mitigation
- Contractual rights
- Employer Behavior

LEOFF Plan 2 Retirement Board

Potential Impacts

- May generate new billings
  - No LEOFF Plan 2 billings to date
- Indeterminate savings
- Questions about interpretation

LEOFF Plan 2 Retirement Board

Any Questions?

- **Contact:**

  Tim Valencia
  Senior Research and Policy Manager
  360.586.2326
  tim.valencia@leoff.wa.gov

2100 Evergreen Park Dr, Olympia, WA 98502
PO Box 40918 Olympia, WA 98504
360.586.2320 or www.leoff.wa.gov

LEOFF Plan 2 Retirement Board

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LEOFF Plan 2 Retirement Board

November 28, 2012

EXCESS COMPENSATION

INITIAL CONSIDERATION
By Tim Valencia
Senior Research & Policy Manager
360-586-2326
tim.valencia@leoff.wa.gov

ISSUE

The Select Committee on Pension Policy (SCPP) is considering legislation for the 2013 Legislative Session which would expand the definition of excess compensation in all the state-administered retirement systems, including LEOFF Plan 2, to capture additional compensation related to overtime, bonuses, leave cash outs, and lump sum.

MEMBERS IMPACTED

Excess compensation provisions do not directly impact members' benefits. However, this issue may impact any employer required to pay an excess compensation bill due to paying excess compensation. LEOFF Plan 2 provides benefits for 16,775 active members at 471 city, county and state agencies.

CURRENT SITUATION

Statute[1] defines certain types of employee compensation which are beyond regular hourly wages or monthly salary and included in a member's benefit calculation as "excess compensation." Employers are liable for the present value of the increase to the member's lifetime pension benefit; at the time of retirement, the Department of Retirement Systems will calculate and bill the employer for applicable excess compensation costs. An excess compensation bill does not affect a member's monthly benefit payment. To date, no excess compensation billings have been issued under LEOFF Plan 2.

BACKGROUND INFORMATION & POLICY ISSUES

Many states have expressed concerns about the viability of retirement plan benefits and funding that date to the 2001 recession, which continued with the severe investment losses starting in 2008. States have considered and implemented various changes, in public employee pensions, in order to help balance budgets. Many states are continuing to look at areas that can be further adjusted to improve the long-term financial footing of public pensions and reduce budget pressures. The salary that is allowed to be included in the pension calculation has been an issue evaluated by many states, in particular abuse of salary increases which can create extraordinary increase in the pension calculation.

In Washington State, several plan features are designed to mitigate the risk to the fund so that salary used in the benefit calculation is not intentionally or unintentionally inflated such that it creates an

[1] RCW 41.50.150

unusually higher than expected level of benefits paid out. One of these features is excess compensation policy which places liability on the employer for extraordinary salary increases included in the pension.

Excess Compensation

Since 1984 excess compensation has been defined in the pension statutes as consisting of specific types of reportable compensation when the payment increases the member's retirement allowance. If reportable compensation included in a retiree's retirement allowance calculation qualifies as excess compensation, then the applicable employer is responsible for the resulting liability to the pension fund. Without such an employer payment, the excess compensation-related liability would effectively be spread across the plan and paid for through the contribution rate structure.

The employer paying employees reportable compensation that qualifies as excess compensation is liable to the pension fund for the total estimated cost of all present and future retirement benefits attributable to the excess compensation. An employer must pay the excess compensation bill within thirty days of the receipt of the billing. Any unsettled bill will be assessed an interest penalty of one percent of the amount due for each month or fraction thereof beyond the original thirty-day period. The Director of the Department of Retirement Systems may in the director's discretion decline to bill the employer if the amount due is less than fifty dollars. Excess compensation billings do not affect the calculation of individual pension benefits.

Excess compensation includes the following payments, when used in the calculation of the member's retirement allowance:

- a cash-out of more than 240 hours of annual leave;
- a cash-out of any other form of leave;
- a cash-out in lieu of the accrual of annual leave;
- any payment added to salary or wages, concurrent with a reduction of annual leave;
- a payment for, or in lieu of, any personal expenses or transportation allowance, to the extent that the payment qualifies as reportable compensation in the member's retirement system;
- any termination or severance payment; or
- the portion of any payment, including overtime payments, that exceeds twice the regular daily or hourly rate of pay.

The excess compensation statutes apply to all of the retirement systems administered by the Department of Retirement Systems, including the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, and the Washington State Patrol Retirement System. The provision regarding overtime is the only type of payment applicable to LEOFF Plan 2 for excess compensation.

Excess Compensation Billings in LEOFF Plan 2

According to the Department of Retirement Systems, there have not been any excess compensation billings issued under LEOFF Plan 2.

Recent Legislative History
During the 2012 Legislative Session, House Bill 2441 Modifying Excess Compensation Provisions was introduced (see Appendix A). This bill would have created an additional category of excess compensation to include the portion of total reportable compensation used in the calculation of the employee's retirement allowance that exceeds one and one-half times the employee's reportable compensation over the calculation period, excluding reportable compensation from overtime, bonuses, cash outs of any form of leave, or lump-sum payments. This bill would have impacted all of the state-administered retirement systems, including LEOFF Plan 2. The actuarial fiscal note for HB 2441 indicated that, due to lack of data, the savings that could emerge under the bill were indeterminate (see Appendix B).

LEOFF Plan 2 Retirement Board Activity
The Board received a briefing on HB 2441 as part of a Legislation Session Review at the April 25, 2012 Board Meeting. The excess compensation issue was also discussed as part of an Initial Consideration report on Salary Growth at the July 25, 2012 Board Meeting. Employer liability for additional salary in retirement calculations, such as the excess compensation billings used in Washington, was identified as a best practice for mitigating retirement salary abuses such as salary spiking. The data reviewed was identified as lacking in specific detail, but did not seem to suggest any immediate issues or problems with regard to salary in LEOFF Plan 2.

Select Committee on Pension Policy Activity
The SCPP discussed excess compensation as part of an educational briefing on pension spiking presented during the SCPP May 15, 2012 meeting. A more detailed full committee briefing was provided at the SCPP October 16, meeting. Proposed legislation, which included LEOFF Plan 2, was considered at the November 20, 2012 SCPP meeting. Questions were raised regarding the interpretation of the proposed legislation and how it would be implemented (see Appendix C). New drafts of the proposal are expected.

Other States
Information on excess compensation in other states plans is being gathered by the Washington State Institute for Public Policy (WSIPP) as part of a statutorily mandated pension study. WSIPP will be reporting the results of their study to the Legislature in December and will be available to the LEOFF Plan 2 Retirement Board and the SCPP.

Policy Impacts
The October 16, 2012 report provided to the full committee of the SCPP highlighted areas of policy that are affected by this issue. The areas highlighted in the SCPP report included:

- Excess compensation can create unexpected costs for the pension system, which may impact intergenerational equity.
- Excess compensation provisions mitigate financial impacts on the retirement systems. They do not prohibit any pay practices or directly impact benefit calculations.

- The impact of overtime and bonuses on member’s benefits is not determinable at this time.
- Overtime and bonuses may serve human resources needs.
- Current members likely have contractual rights to use excess compensation in the calculation of their pension benefits.
- Changing employer billings for excess compensation does not impact contractual rights.
- Increasing employer billings for excess compensation has implications for cost sharing and plan costs. It may also provide an incentive for employers to change certain pay practices.

SUPPORTING INFORMATION

Appendix A: HB 2441 (2012) Modifying Excess Compensation

Appendix B: HB 2441 - Actuarial Fiscal Note

Appendix C: Excess Compensation Example

APPENDIX A

HB 2441 (2012) MODIFYING EXCESS COMPENSATION

APPENDIX B

HB 2441 - ACTUARIAL FISCAL NOTE

APPENDIX C
EXCESS COMPENSATION EXAMPLE

Example: Plan 2 member retires at 53 with 25 years

Variables				
Regular Salary (over Five years)	$85,000 ($425,000)			
Overtime Included in FAS	$225,000			
Final Average Salary, INCLUDING overtime	$425,000 + 225,000 = $650,000			
5 year Cumulative – Two different overtime accrual patterns, same total.		YR 1	$130,000	$85,000
		YR 2	$130,000	$85,000
		YR 3	$130,000	$85,000
		YR 4	$130,000	$197,500
		YR 5	$130,000	$197,500
		TOTAL	$650,000	$650,000
Actuarial Factor (WAC 415-02-340)	0.0054978			

Calculations

1. Monthly Benefit Calculation
   - $650,000/60mo = $10,833.33 (FAS/Month)
   - 2%*25y*$10,833.33 = $5416.67

2. Excess Compensation Threshold
   - $425,000 x 1 ½ = $637,500
   - $637,500/60 mo =$10,625
   - 2%*25y*$10,625 = $5,312.50

3. Monthly Benefit Over Threshold
   - $5,416.67 - $5,312.50 = $104.17

4. Excess Compensation Billing to Employer
   - $104.17 ÷ 0.0054978 = $18,947.58

Excess Compensation Provisions: RCW 41.50.150, WAC 415-02-140
Actuarial Factor: WAC 415-02-340

H-3415.1

HOUSE BILL 2441

State of Washington 62nd Legislature 2012 Regular Session

By Representatives Bailey and Alexander

Read first time 01/13/12. Referred to Committee on Ways & Means.

AN ACT Relating to limiting the impact of excess compensation on state retirement system contribution rates; and amending RCW 41.50.150.

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

Sec. 1. RCW 41.50.150 and 2004 c 242 s 47 are each amended to read as follows:

(1) The employer of any employee whose retirement benefits are based in part on excess compensation, as defined in this section, shall, upon receipt of a billing from the department, pay into the appropriate retirement system the present value at the time of the employee's retirement of the total estimated cost of all present and future benefits from the retirement system attributable to the excess compensation. The state actuary shall determine the estimated cost using the same method and procedure as is used in preparing fiscal note costs for the legislature. However, the director may in the director's discretion decline to bill the employer if the amount due is less than fifty dollars. Accounts unsettled within thirty days of the receipt of the billing shall be assessed an interest penalty of one percent of the amount due for each month or fraction thereof beyond the original thirty-day period.

(2) "Excess compensation," as used in this section, includes the following payments, if used in the calculation of the employee's retirement allowance:

(a) A cash out of unused annual leave in excess of two hundred forty hours of such leave. "Cash out" for purposes of this subsection means:

(i) Any payment in lieu of an accrual of annual leave; or

(ii) Any payment added to salary or wages, concurrent with a reduction of annual leave;

(b) A cash out of any other form of leave;

(c) A payment for, or in lieu of, any personal expense or transportation allowance to the extent that payment qualifies as reportable compensation in the member's retirement system;

(d) The portion of any payment, including overtime payments, that exceeds twice the regular daily or hourly rate of pay; ((~~and~~))

(e) The portion of total reportable compensation used in the calculation of the employee's retirement allowance that exceeds one and one-half times the employee's reportable compensation over the calculation period, excluding reportable compensation from overtime, bonuses, cash outs of any form of leave, or lump-sum payments; and

(f) Any termination or severance payment.

(3) This section applies to the retirement systems listed in RCW 41.50.030 and to retirements occurring on or after March 15, 1984. Nothing in this section is intended to amend or determine the meaning of any definition in chapter 2.10, 2.12, 41.26, 41.32, 41.40, 41.35, 41.37, or 43.43 RCW or to determine in any manner what payments are includable in the calculation of a retirement allowance under such chapters.

(4) An employer is not relieved of liability under this section because of the death of any person either before or after the billing from the department.

--- END ---

Appendix B

Multiple Agency Fiscal Note Summary

Bill Number: 2441 HB	**Title:** Retirement/excess comp.

Estimated Cash Receipts

Agency Name	2011-13		2013-15		2015-17	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Enterprise Services	0	138,576	0	0	0	0
Total $	**0**	**138,576**	**0**	**0**	**0**	**0**

Estimated Expenditures

Agency Name	2011-13			2013-15			2015-17		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Retirement Systems	.3	0	63,667	.0	0	0	.0	0	0
Department of Enterprise Services	.1	0	138,576	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	Non-zero but indeterminate cost and/or savings. Please see discussion.								
SWF Statewide Fiscal Note - OFM	.0	55,430	138,576	.0	0	0	.0	0	0
Total	**0.4**	**$55,430**	**$340,819**	**0.0**	**$0**	**$0**	**0.0**	**$0**	**$0**

Local Gov. Courts *									
Local Gov. Other **	Non-zero but indeterminate cost. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Impact

NONE

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Revised 2/17/2012

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

** See local government fiscal note

FNPID 32134

Appendix B

Individual State Agency Fiscal Note

Bill Number: 2441 HB	Title: Retirement/excess comp.	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.7	0.0	0.3	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	63,667	0	63,667	0	0
Total $	63,667	0	63,667	0	0

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 01/13/2012
Agency Preparation:	Merchant Shawn	Phone: 360-664-7303	Date: 01/26/2012
Agency Approval:	Marcie Frost	Phone: 360-664-7224	Date: 01/26/2012
OFM Review:	Cherie Berthon	Phone: 360-902-0659	Date: 01/26/2012

Request # 12-008-1

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 revises the definition of excess compensation to limit the impact of excess compensation on state retirement system contribution rates.

Section 1 adds additional reportable compensation, included in the employee's retirement allowance, to the definition of "excess compensation." This calculation is the portion of the reportable compensation that exceeds one and one-half times the employee's reportable compensation over the calculation period, excluding reportable compensation for overtime, bonuses, cash-outs of any form of leave, or lump-sum payments.

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

- As of January 1, 2013, employers will be required to report excess compensation to DRS using new transmittal reporting status codes.
- Electronic systems used by employers and vendors, including HRMS, have the ability to be updated to include new status codes.
- Prior to the automated process being implemented, a manual process will be developed to identify earnable compensation that qualifies as excess compensation.
- Employers will not be required to retroactively report overtime previously reported for periods prior to the automated changes.
- The definition of overtime that employers currently use to determine reportable earnable compensation will not change.
- Retirement Services Analysts will need to review all overtime in an average final compensation (AFC), final average salary (FAS) or average final salary (AFS) period to determine if the increase overall will result in an excess compensation bill.
- In 2010 and 2011 there was an average of 6,690 retirements calculated per year in the retirement systems covered by the bill. It is anticipated that the number of retirements per year will continue to increase.
- It is estimated that an additional 30 minutes per retirement calculation is required for any retiree with questionable compensation and hours in their AFC, FAS or AFS period.
- An excess compensation bill (invoice) can only be created during a recalculation. It is estimated that three percent of all retirements for affected plans will require a recalculation as a result of this legislation (approximately 200 accounts).

This will be a manual calculation for all accounts where all or part of the AFC, FAS or AFS period is prior to January 1, 2013.

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

BENEFITS/CUSTOMER SERVICE

Retirement Services Analysts (RSAs) will support the modifications of DRS' automated systems, the update of employer communications, and the modification of internal procedures to support this legislation. The specific tasks associated with implementing this legislation are:

- A team of RSAs will develop and implement a manual process to identify earnable compensation that qualifies as excess compensation
- All RSAs will be trained on new processes to identify reportable earnings that result in excess compensation
- The Retirement Services Division (RSD) Online Manual will be updated to reflect new procedures to process retirement benefits
- RSAs will participate in business requirement development and user acceptance testing activities

Retirement Services Analyst 3 – 569 hours (salaries/benefits) = $17,851
Total Estimated Benefits/Customer Service Costs = $17,851

EMPLOYER SERVICES

Employers will be trained on new reporting requirements, including the effects of reporting earnable compensation that results in excessive compensation. The following employer support tasks have been identified to implement this legislation:

- Create training materials and provide employer training, including web sessions
- Develop technical reporting requirements and communications associated with reporting new status codes
- Participate in business requirement development and user acceptance testing activities

Info Tech Specialist 3 – 72 hours (salaries/benefits) = $2,851
Total Estimated Employer Services Costs = $2,851

AUTOMATED SYSTEMS

To accommodate new reporting requirements and generate accurate employer excess compensation invoices, DRS will be required to modify the automated employer and member information mainframe systems and the web-based employer reporting system. The following resources will be required to complete this work:

Programming – Info Tech Syst/App Spec 6 – 730 hours (salaries/benefits) = $37,668
Documenting business requirements, system testing – IT Spec 4 – 30 hrs (sal/ben) = $1,297
CTS computer costs* – 8 weeks at $500 a week = $4,000

Total Estimated Automated Systems Costs = $42,965

*cost for mainframe computer processing time and resources at Consolidated Technology Services

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

2011-13
BENEFITS/CUSTOMER SERVICE = $17,851
EMPLOYER SERVICES = $2,851
AUTOMATED SYSTEMS = $42,965
ESTIMATED TOTAL COSTS = $63,667

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.7		0.3		
A-Salaries and Wages	45,750		45,750		
B-Employee Benefits	13,917		13,917		
C-Personal Service Contracts					
E-Goods and Services	4,000		4,000		
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:	$63,667	$0	$63,667	$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 2012	FY 2013	2011-13	2013-15	2015-17
Info Tech Specialist 3	62,796	0.0		0.0		
Info Tech Specialist 4	69,348	0.0		0.0		
IT Syst/App Specialist 6	84,480	0.4		0.2		
Retirement Services Analyst 3	47,892	0.3		0.1		
Total FTE's	264,516	0.7		0.4		0.0

Part IV: Capital Budget Impact

NONE

No impact.

Part V: New Rule Making Required

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

Some rules may need to be revised.

Individual State Agency Fiscal Note

Bill Number: 2441 HB	Title: Retirement/excess comp.	Agency: 179-Department of Enterprise Services

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2012	FY 2013	2011-13	2013-15	2015-17
Data Processing Revolving Account-Non-Appropriated 419-6	138,576		138,576		
Total $	138,576		138,576		

Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.1	0.0	0.1	0.0	0.0
Account					
Data Processing Revolving Account-Non-Appropriated 419 -6	138,576	0	138,576	0	0
Total $	138,576	0	138,576	0	0

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 01/13/2012
Agency Preparation:	Kelly Moore	Phone: (360) 407-8427	Date: 02/09/2012
Agency Approval:	Bob Van Schoorl	Phone: (360)407-9222	Date: 02/09/2012
OFM Review:	Diamatris Winston	Phone: (360) 902-7657	Date: 02/09/2012

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 amends RCW 41.50.150 by redefining 'excess compensation' to exclude reportable compensation from overtime, bonuses, cash outs of any form of leave, or lump-sum payments of any employee whose retirement benefits are based in part on excess 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.

The Human Resource System (HRMS) system is funded through the Data Processing Revolving Fund (419) and is charged to agencies based on usage. The cost to make modifcations to the HRMS would be recovered through charges to agencies.

II. C - Expenditures

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

Section 1(2) of this bill would require the Department of Enterprise Services (DES) to make modifications to the Human Resource Management System (HRMS).

HRMS will need to be modified to allow the payroll information to be captured and then transmitted differently than it is set up to do now. Currently the payroll is captured and transmitted to the Department of Retirement Systems on one line per employee regardless of the type of wages being reported for retirement purposes.

The payroll functional team would need to create new lines or transmittal codes to accommodate the separation of regular compensation vs. excess compensation. This would require adding a new grouping in HRMS to track the different transmittal codes for retirement reporting and is broken down as follows:

Identifying wage types – 8 hours in each category
Configuration to add one new group (T52D5 table) - 1 hour
Configuration to add wage types to the new grouping (T52D7) per grouping – 1 hour
System Testing - 2 hours

12 hours per wage type/grouping combination x 2 (one for overtime (OT) and one for other excessive compensation types i.e., lump sum) = 24 hours

24 hours of total staff time estimated to complete this work.

The development team estimates an additional 480 hours to complete the programming for the retirement transmittal.

The work involved is outlined below:

Based on high level requirements the approach outlined by the payroll functional team above, will have high impacts on Interface Gap 46 DRS (the transmittal of retirement contributions from HRMS to the Department of Retirement Systems) program. The proposed new design requires compensation/time/contributions to be reported based on type of status code which requires that the custom apportionment engine needs to be enhanced as it does not currently break-down earnings based on status codes. This involves re-design of supporting apportionment tables/configuration tables to identify list of new status codes and finally enhancing existing code to report data in the requested format. Total time involved in this step is 480 hours and would require the use of contractors. The time is broken down as follows:

Programming Code: 340 hours
Unit Testing: 120 hours
Technical Design: 20 hours
Total = 480 hours

Testing is estimated to take an additional 178 hours and is outlined below:
Retirement System/Plan combinations will be tested to ensure a Defined Benefit Record is created on the Retirement Transmittal Report for overtime and bonuses, cash out of leave, lump sum payments, compensation time and non-cash.

Research – 18 hours
Test Preparation – 40 hours
Test Execution – 80 hours
Documentation – 40 hours
Total hours - 178
Testing would be completed by staff.

Total Estimated hours to implement bill: 682 hours.
Total Estimated hours and cost for contractor development: 480 hours x $260.00 (contractor rate) = $124,800 in FY2012 as a one-time cost.
Total Estimated hours remaining for state staff: 24 hours (configuration) + 178 hours (testing) = 202 hours.

Assumptions made in determining these estimates:

1) Contractor(s) would be used for the custom development portion to implement this bill.
2) State staff would be used for other portions to implement this bill.
3) This is the only modification being made to HRMS during the same time frame.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.1		0.1		
A-Salaries and Wages	7,654		7,654		
B-Employee Benefits	2,373		2,373		
C-Personal Service Contracts	124,800		124,800		
E-Goods and Services	3,749		3,749		
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:	$138,576	$0	$138,576	$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 2012	FY 2013	2011-13	2013-15	2015-17
Information Technology Specialist 5	76,536	0.1		0.1		
Total FTE's	76,536	0.1		0.1		0.0

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

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

Individual State Agency Fiscal Note

Bill Number: 2441 HB	Title: Retirement/excess comp.	Agency: AFN-Actuarial Fiscal Note - State A

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

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

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 01/13/2012
Agency Preparation:	Darren Painter	Phone: 360-786-6155	Date: 01/30/2012
Agency Approval:	Matt Smith	Phone: 360-786-6147	Date: 01/30/2012
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/30/2012

Request # HB 2441-1

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.

II. B - Cash receipts Impact

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

II. C - Expenditures

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

Part III: Expenditure Detail

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

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

Actuary's Fiscal Note

SUMMARY OF RESULTS

This bill expands the definition of excess compensation used for the state's retirement systems to include reportable compensation exceeding one and one-half times a base salary amount. However, due to a lack of data, the savings that could emerge under this bill is indeterminate.

More specifically, this bill could reduce retirement system liabilities if employers change their pay practices and/or could increase system assets through the collection of larger excess compensation billings from employers. The latter is essentially a cost-sharing shift from, (a) members and employers to, (b) specific employers, thus reducing contribution rates for the entire system.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

This bill requires two key assumptions, including:

- ❖ Will employers change their pay practices as a result of this bill? In other words, will employers reduce or eliminate certain compensation during a member's Average Final Compensation (AFC) period or transfer such compensation to other retirement system members.
- ❖ By how much and how often will a retiring member's AFC exceed the 150 percent of base salary threshold for triggering an additional employer payment?

For illustrative purposes only, we prepared an example of how the savings could emerge if we assume that employers do not change their pay practices and assume a certain percentage of each year's new retirees trigger an excess compensation payment from employers. The results of that analysis can be found in the body of the fiscal note.

As a reminder, the savings that could emerge under this fiscal note are indeterminate. We caution the readers of this fiscal note that the actual savings the affected plans will experience could be significantly higher or lower than presented. See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This bill impacts the following systems:

- Public Employees' Retirement System (PERS).
- Teachers' Retirement System (TRS).
- School Employees' Retirement System (SERS).
- Public Safety Employees' Retirement System (PSERS).
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).
- Washington State Patrol Retirement System (WSPRS).
- Judicial Retirement System (JRS).

This bill expands the definition of excess compensation to include reportable compensation exceeding one and one-half times a base salary amount. Base salary is reportable compensation excluding overtime, bonuses, leave cash-outs, and lump sum payments.

Effective Date: 90 days after session.

What Is The Current Situation?

Certain types of employee compensation used in the calculation of pensions are defined in statute as "excess compensation." Employers paying excess compensation are generally billed for the present value of the excess compensation's lifetime increase to the member's pension benefit.

Excess compensation is defined in RCW 41.50.150 as including:

- A cash-out of annual leave in excess of 240 hours.
- A cash-out of any other form of leave.
- A payment for any personal expense that is reportable compensation.
- The portion of any payment, including overtime or bonuses, that exceed twice the regular rate of pay.
- Any termination or severance payment.

Who Could Be Impacted And How?

We estimate this bill could affect all employers of these systems by requiring additional contributions to pay for excess compensation as defined under this bill. This bill could impact all 171,698 Plan 2 members of these systems through decreased contribution rates. Assuming employers do not change their pay practices, the potential decrease in contribution rates will be offset by additional assets paid by the specific employers whose retiring members' AFC triggers an excess compensation billing.

With the exception of WSPRS members, this bill will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

WHY THIS BILL COULD HAVE A SAVINGS AND WHO RECIEVES IT

Why This Bill Could Have A Savings

If employers do not modify their pay practices as a result of this bill, additional contributions will be required by individual employers to pay for the present value of the excess compensation's increase to the member's lifetime pension benefit. However, if employers do change their pay practices as a result of this bill, the AFC for retiring members could decrease.

The former will increase plan assets, whereas the latter will decrease plan liabilities. Either scenario, or a combination of both, will result in a decrease to contribution rates for the affected systems.

Who Could Receive These Savings?

The potential reduction in contribution rates from this bill will be divided between members, local employers, and the state according to standard funding methods that vary by plan:

- Plan 1 and Plan 3: 100 percent employer.
- Plan 2, WSPRS: 50 percent member and 50 percent employer.
- LEOFF 2: 50 percent member, 30 percent employer, and 20 percent state.

All employers of PERS, SERS, and PSERS members could pay lower PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) contribution rates. Similarly, all employers of TRS members could pay lower TRS Plan 1 UAAL contribution rates.

HOW WE VALUED THE SAVINGS THAT COULD EMERGE

Below we illustrate an example of how the savings could emerge assuming that employers do not change their pay practices as a result of this bill.

Assumptions We Made

For the example below, we assumed that 0.50 percent of Plan 1 AFC and 0.25 percent of Plan 2/3 AFC would be attributable to excess compensation as defined under this bill, the cost of which would be paid by employers as a lump sum of the expected Present Value of Future Benefits (PVFB).

To get a sense for what this assumption truly represents, let's convert it into an example. Let's assume that 100 members are retiring with an average base salary of $50,000. Under this bill, any AFC greater than 150 percent of base salary would be considered excess compensation, or rather any amount more than $75,000. For the illustration below, we assumed 0.50 percent of Plan 1 AFC would be attributable to excess compensation. In our example, this is equivalent to 95 of the 100 members having an AFC of $50,000 and five members having an AFC of $80,000. The extra $5,000 AFC, or excess compensation ($80,000 - $75,000), from each of the five new retirees will be funded by their employers paying a lump sum equal to the present value of the lifetime increase in pension benefit attributable to the excess compensation.

See the How the Results Change When the Assumptions Change section of this fiscal note for details on how the results of this example could change if we assume that employers do change their pay practices.

Otherwise, we developed these costs using the same assumptions as disclosed in the *June 30, 2010, Actuarial Valuation Report* (AVR). We assumed that two-thirds of all future entrants into PERS, TRS, and SERS will choose to join Plan 2, and that the remaining one-third will enter Plan 3.

How We Applied These Assumptions

For the illustration below, we developed a model to estimate the additional assets that could be paid by individual employers. Since employers will pay for the present value of the excess compensation's increase to the member's lifetime pension benefit, we separately modeled all plan retirement benefits as a lump sum upon retirement for future new retirees instead of an on-going annuity.

From there, we assumed a certain percentage of those lump sums would be paid by individual employers (from Assumptions We Made section) as excess compensation billings. We compared and recorded projected contribution rates with and without the additional assets from increased excess compensation billings.

Otherwise, we developed these costs using the same methods as disclosed in the AVR. We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members and future new entrants.

Special Data Needed

The valuation data we receive from the Department of Retirement Systems currently does not separately identify actual compensation in excess of base salary. Or rather, the reported salaries include additional payments such as overtime, cash-outs, etc. In turn, we were not able to make a reasonable comparison of AFC to the base salary.

This prevented us from setting an assumption for how prevalent and to what extent excess compensation will trigger additional payments from individual employers. As a result, the savings from this bill are indeterminate.

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

ILLUSTRATION OF HOW SAVINGS COULD EMERGE

No Impact to the Liabilities

Assuming employers don't change pay practices, this bill does not change the PVFB of the members as shown below, so there is no impact on the actuarial funding of the affected plans due to PVFB changes.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$12,721	$0.0	$12,721
PERS 2/3	26,041	0.0	26,041
PERS Total	**$38,762**	**$0.0**	**$38,762**
TRS 1	$9,305	$0.0	$9,305
TRS 2/3	9,111	0.0	9,111
TRS Total	**$18,416**	**$0.0**	**$18,416**
SERS 2/3	**$3,461**	**$0.0**	**$3,461**
PSERS 2	**$425**	**$0.0**	**$425**
LEOFF 1	$4,401	$0.0	$4,401
LEOFF 2	7,904	0.0	7,904
LEOFF Total	**$12,306**	**$0.0**	**$12,306**
WSPRS 1/2	**$953**	**$0.0**	**$953**
Unfunded Actuarial Accrued Liability			
*(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
PERS 1	**$3,094**	**$0.0**	**$3,094**
TRS 1	**$1,345**	**$0.0**	**$1,345**
LEOFF 1	**($1,161)**	**$0.0**	**($1,161)**

Note: Totals may not agree due to rounding.
** PERS 1 and TRS 1 are amortized over a ten-year period. LEOFF 1 must be amortized by June 30, 2024.*

No Impact to Future Salaries

Assuming retirement behavior does not change, this bill does not change the Present Value of Future Salaries (PVFS) of the members as shown below so there is no impact on the actuarial funding of the affected plans due to PVFS changes.

Present Value of Future Salaries			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Future Salaries			
(The Value of the Future Salaries Expected to be Paid to Current Members)			
PERS 2	$59,223	$0.0	$59,223
PERS 3	14,119	0.0	14,119
PERS 2/3	**$73,341**	**$0.0**	**$73,341**
TRS 2	$5,559	$0.0	$5,559
TRS 3	36,138	0.0	36,138
TRS 2/3	**$41,697**	**$0.0**	**$41,697**
SERS 2	$4,436	$0.0	$4,436
SERS 3	7,248	0.0	7,248
SERS 2/3	**$11,684**	**$0.0**	**$11,684**
PSERS 2	**$2,543**	**$0.0**	**$2,543**
LEOFF 2	**$17,360**	**$0.0**	**$17,360**
WSPRS 1/2	**$801**	**$0.0**	**$801**
UAAL Present Value of Future Salaries			
(The Value of the Future Salaries Used to Fund the UAAL)			
PERS	**$94,801**	**$0.0**	**$94,801**
TRS	**38,667**	**0.0**	**38,667**
LEOFF	**$14,581**	**$0.0**	**$14,581**

Note: Totals may not agree due to rounding.

How Contribution Rates Could Change

The decrease in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01 percent, therefore the bill will not affect contribution rates in the current biennium. However, we will use the un-rounded rate decrease shown below to measure the budget changes in future biennia for our selected example.

Employer Rate Change (2013-2037) Example Only			
	Smallest	Average	Largest
PERS 1*	0.00%	**0.00%**	0.00%
PERS 2/3	0.00%	**(0.02%)**	(0.03%)
TRS 1*	0.00%	**0.00%**	(0.01%)
TRS 2/3	0.00%	**(0.02%)**	(0.03%)
SERS 2/3	(0.01%)	**(0.02%)**	(0.03%)
PSERS 2	0.00%	**(0.01%)**	(0.02%)
LEOFF 2**	0.00%	**0.00%**	0.00%
WSPRS	0.00%	**(0.06%)**	(0.12%)

**UAAL rate change.*

***Total ER Normal Cost rate change.*

How This Could Impact Budgets And Employees

Budget Impacts – Example Only							
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**	**Total**
Fiscal Year 2013							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2013-2015							
General Fund	$0.0	($0.7)	($0.2)	$0.0	$0.0	$0.0	($0.9)
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**($0.7)**	**($0.2)**	**$0.0**	**$0.0**	**$0.0**	**($0.9)**
Local Government	0.0	(0.4)	(0.2)	0.0	0.0	0.0	(0.6)
Total Employer	**$0.0**	**($1.1)**	**($0.4)**	**$0.0**	**$0.0**	**$0.0**	**($1.4)**
Total Employee	**$0.0**	**$0.0**	**($0.2)**	**$0.0**	**$0.0**	**$0.0**	**($0.2)**
2012-2037							
General Fund	($17.3)	($31.7)	($6.1)	($0.7)	$0.0	($0.2)	($56.1)
Non-General Fund	(24.7)	0.0	0.0	(0.1)	0.0	(2.5)	(27.4)
Total State	**($42.1)**	**($31.7)**	**($6.1)**	**($0.8)**	**$0.0**	**($2.8)**	**($83.5)**
Local Government	(45.0)	(16.1)	(7.6)	(0.2)	0.0	0.0	(68.9)
Total Employer	**($87.1)**	**($47.9)**	**($13.6)**	**($1.1)**	**$0.0**	**($2.8)**	**($152.4)**
Total Employee	**($60.1)**	**($23.8)**	**($8.2)**	**($1.1)**	**$0.0**	**($0.5)**	**($93.6)**

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

The analysis of this bill does not consider any other proposed changes to the systems. Our example above does not analyze the impact on JRS. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

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

How the Risk Measures Could Change

We have not analyzed this bill using the risk assessment model. We chose not to use the risk assessment model because we do not have the resources to perform risk analysis on every bill and we don't believe this bill will materially change the risk profile of the affected systems.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

We explain how the results of our example could change if we varied our example assumption:

- Employers would not change their pay practices as a result of this bill.
- Percentage of AFC over the excess compensation threshold.

If employers were to change their pay practices to minimize the amount of excess compensation billings, the AFC for retiring members could decrease. Lowering the average salary over which retirement benefits are calculated would decrease liabilities of the affected plans. As a result, this could also lower contribution rates in the future.

The assumed percentage of AFC over the excess compensation threshold could be higher or lower than what we assumed for the example outlined in this fiscal note. This assumption is scalable; as such, doubling the assumed AFC over the excess compensation threshold would double the amount that employers would have to pay. This could be characterized as doubling the number of retirees who trigger a payment, doubling the amount of salary considered excess compensation, or a combination of both. As a result, the contribution rate decreases would also double. Similarly, cutting the assumption in half would reduce the plan savings by half.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2012 Session only.

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

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the 2012 Legislature.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

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

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

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

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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 actuarial accrued 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 actuarial accrued 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 that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded 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.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 2441 HB	**Title:** Retirement/excess comp.

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [X] Cities: Indeterminate savings from reduced retirement contributions
- [X] Counties: Same as above
- [X] Special Districts: Same as above
- [X] Specific jurisdictions only: Jurisdictions that use LEOFF, PERS, or PSERS retirement plans
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [X] Key variables cannot be estimated with certainty at this time: Change in employer contribution rates

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

Indeterminate Impact

Part III: Preparation and Approval

Fiscal Note Analyst: Grete Willis	Phone: 360/725-5040	Date: 02/17/2012
Leg. Committee Contact: David Pringle	Phone: 360-786-7310	Date: 01/13/2012
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 02/17/2012
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/17/2012

Part IV: Analysis

A. SUMMARY OF BILL

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

The legislation would revise the definition of excess compensation to limit the impact of excess compensation on state retirement system contribution rates.

Section 1 would expand the definition of "excess compensation" to include additional reportable compensation. The calculation of the employee's retirement allowance is the portion of the reportable compensation that exceeds one and one-half times the employee's reportable compensation over the calculation period, excluding reportable compensation for overtime, bonuses, cash-outs of any form of leave, or lump-sum payments.

B. SUMMARY OF EXPENDITURE IMPACTS

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

Indeterminate reduction in expenditure expected as local agencies spend less on retirement contributions.

SAVINGS TO LOCAL GOVERNMENT:
The potential reduction in contribution rates would be shared between the employer, the member, and the state, according to the Office of the State Actuary (OSA). Cities, counties, and special districts that use PERS, PSERS, or LEOFF retirement plans could experience savings from reduced contribution rates. Retirement systems administered by the Department of Retirement Systems (DRS) are used by 245 cities and towns, 39 counties, and over 400 special purpose districts. The value of the potential savings to these jurisdictions is indeterminate, as discussed in detail in the OSA fiscal note.

(The retirement plans of school districts and courts would also be affected by the legislation, but these local jurisdictions are included in the fiscal notes of the Office of the Superintendent of Public Schools and the Administrative Office of the Courts.)

IMPLEMENTATION COSTS:
The cost to implement the legislation for local government is expected to be minimal. Local agencies would need to report excess compensation to DRS using new transmittal reporting status codes. DRS assumes that all employers use an electronic system and have the ability to update the system to include new status codes. The staff time to update reporting systems would vary by jurisdiction depending on the sophistication of the system, according to the Association of Washington Cities.

C. SUMMARY OF REVENUE IMPACTS

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

None

SOURCES:
Association of Washington Cities
Department of Retirement Systems
Office of the State Actuary fiscal note
Washington Fire Chiefs

Appendix B

Individual State Agency Fiscal Note

Bill Number: 2441 HB	Title: Retirement/excess comp.	Agency: SWF-SWF Statewide Fiscal Note - OFM

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2012	FY 2013	2011-13	2013-15	2015-17
Account						
All Other Funds-State	000-1	83,146	0	83,146	0	0
General Fund-State	001-1	55,430	0	55,430	0	0
	Total $	138,576	0	138,576	0	0

Estimated Capital Budget Impact:

NONE

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

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 01/13/2012
Agency Preparation:	Stephanie Lidren	Phone: (360) 902-5555	Date: 02/14/2012
Agency Approval:	Aaron Butcher	Phone: (360) 902-5555	Date: 02/14/2012
OFM Review:	Diamatris Winston	Phone: (360) 902-7657	Date: 02/14/2012

Request # 032-1

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 amends RCW 41.50.150 by redefining ‘excess compensation’ to exclude reportable compensation from overtime, bonuses, cash outs of any form of leave, or lump-sum payments of any employee whose retirement benefits are based in part on excess compensation. This will result in costs from Department of Enterprise Services for HRMS modifications which will be recovered through charges to agencies.

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.

The Human Resource System (HRMS) system is funded through the Data Processing Revolving Fund (419) and is charged to agencies based on usage. The cost to make modifcations to the HRMS would be recovered through charges to agencies.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

NONE

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

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