Multiple Agency Fiscal Note Summary

Bill Number: 6106 SB	**Title:** DSHS competency rest./PSERS

Estimated Cash Receipts

NONE

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Retirement Systems	.4	0	0	116,000	.1	0	0	19,000	.0	0	0	0
Department of Social and Health Services	.0	3,000	3,000	3,000	.0	454,000	454,000	454,000	.0	454,000	454,000	454,000
Actuarial Fiscal Note - State Actuary	.0	100,000	100,000	100,000	.0	200,000	200,000	200,000	.0	200,000	200,000	200,000
Total $	**0.4**	**103,000**	**103,000**	**219,000**	**0.1**	**654,000**	**654,000**	**673,000**	**0.0**	**654,000**	**654,000**	**654,000**

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Department of Social and Health Services	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

Prepared by: Marcus Ehrlander, OFM	**Phone:** (360) 489-4327	**Date Published:** Revised 2/ 1/2024

FNPID 70209

Individual State Agency Fiscal Note

Bill Number: 6106 SB	Title: DSHS competency rest./PSERS	Agency: 124-Department of Retiremen Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.0	0.9	0.5	0.1	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	0	116,000	116,000	19,000	0
Total $	0	116,000	116,000	19,000	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:	Amanda Cecil	Phone: 360-786-7460	Date: 01/10/2024
Agency Preparation:	Amy McMahan	Phone: 360-664-7307	Date: 01/10/2024
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 01/10/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/11/2024

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

This bill amends RCW 41.37.010 to include competency restoration workers at the Department of Social and Health Services (DSHS) institutional and residential sites that provide services to a specific population of residents and or patients as members of Public Safety Employees' Retirement System (PSERS) Plan 2.

Section 1(19)(d)(iv) expands the definition of "member" to include any DSHS employee who works in institutions and residential sites that serve civilly committed residents and or patients under Not Guilty by Reason of Insanity findings.

Section 2(1) defines the options available to employees who are currently members of the Public Employees' Retirement System (PERS) Plan 2 or Plan 3 before June 1, 2025 (the effective date identified in Section 3 of this bill). More specifically, these employees can (a) choose to remain in PERS Plan 2 or 3, or (b) become a member of the PSERS Plan 2 prospectively, thereby having membership in both systems (known as "dual membership"). Should the employee choose to enter PSERS Plan 2, all service credit earned prospectively will be earned in PSERS Plan 2 only. No PERS Plan 2 or 3 service credit earned prior can be converted to PSERS service credit.

Section 2(2) calls out an election period, for employees making their plan choice, of June 1, 2025 to September 1, 2025.

Section 2(3) states that during the election period, employees who are employed by any employer defined in RCW 41.37.010 will remain members of their current PERS system until they formally opt into PSERS membership.

Section 2(4) identifies that the employee will remain in their current PERS plan if they do not make an election to join PSERS by September 1, 2025.

Section 2(5) declares employees who were members of PERS Plan 1 on or before June 1, 2019, and on or after June 1, 2025, and work for an employer as defined in RCW 41.37.010, will remain in PERS Plan 1.

Section 2(6) affirms that all new employees hired on or after June 1, 2025, by an employer as defined in RCW 41.37.010 and meets the eligibility requirements outlined above, will enter PSERS Plan 2 membership.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

No impact.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ADMINISTRATIVE ASSUMPTIONS:

- There are an estimated 450 current and potential members that would be impacted by this legislation.
- DSHS is responsible for identifying and providing an information packet regarding their election option to the estimated 450 potential employees who would be eligible for this transfer opportunity.
- DRS will provide DSHS with the contents of the aforementioned information packet, including a letter explaining the employee's options and directing them to online resources via the DRS public website (e.g., information on dual

membership, PSERS Plan 2, and PERS Plans 2 and 3), and an election form.
- Once an eligible member elects to join PSERS 2, they will provide their election form to DSHS, so that DSHS can enroll the member through DRS' employer reporting system.
- DRS will provide information to impacted DSHS employer contacts via an employer notice.
- DRS will create and provide additional specialized training for Retirement Specialists to ensure that they are able to address all questions from these members about their choice, including possible scenarios of dual membership.
- DRS will make available webinar training to educate eligible members on the differences between Plan 2 and 3, as well as the benefits of dual membership so that they can make an informed decision.
- DRS will leverage an already existing type code in its automated systems for this population.
- A member who formally elects to join PSERS 2 will have their PSERS membership begin as of the date of their election form (as long as it's by September 1, 2025).

To implement this legislation, DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct business analysis and business process design,
- Complete systems changes (which includes defining system requirements, coding system changes in our web applications, testing, and deployment),
- Identify impacted members,
- Update agency WACs,
- Update member plan guides, the employer handbook, all relevant letters, create a PSERS Enrollment form and a PSERS Election form, communicate to employers, and
- Train team members.

To support this implementation DRS will form a project team that will include a project manager, business analyst, web programmers, communication consultant, employer support specialist, and retirement specialist.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
600-1	Department of Retirement Systems Expense Account	State	0	116,000	116,000	19,000	0
		Total $	0	116,000	116,000	19,000	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		0.9	0.5	0.1	
A-Salaries and Wages		88,000	88,000	14,000	
B-Employee Benefits		28,000	28,000	5,000	
C-Professional Service Contracts					
E-Goods and Other 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	116,000	116,000	19,000	0

III. C - Operating FTE 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 2024	FY 2025	2023-25	2025-27	2027-29
Communications Consultant 5	84,396		0.1	0.0	0.0	
Contracts/Rules	86,940		0.0	0.0		
IT Application Development - Journey	96,888		0.1	0.1	0.0	
IT Application Development - Snr/Spec	112,176		0.0	0.0		
IT Business Analyst - Journey	96,888		0.3	0.1	0.0	
IT Project Manager - Mgr	123,636		0.1	0.1	0.0	
Management Analyst 3	69,264		0.2	0.1	0.0	
Retirement Specialist 3	61,224		0.1	0.1	0.0	
Total FTEs			0.9	0.5	0.1	0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

No impact.

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Relevant WACs may need to be updated.

Individual State Agency Fiscal Note

Revised

Bill Number: 6106 SB	Title: DSHS competency rest./PSERS	Agency: 300-Department of Social and Health Services

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
Account					
General Fund-State 001-1	0	3,000	3,000	454,000	454,000
Total $	0	3,000	3,000	454,000	454,000

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:	Amanda Cecil	Phone: 360-786-7460	Date: 01/10/2024
Agency Preparation:	Sara Corbin	Phone: 360-902-8194	Date: 01/29/2024
Agency Approval:	Dan Winkley	Phone: 360-902-8236	Date: 01/29/2024
OFM Review:	Arnel Blancas	Phone: (360) 000-0000	Date: 01/30/2024

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 1 (19)(d)(iv) adds Department of Social and Health Services (DSHS) institutions that serve civilly committed residents, and/or serve patients under Not Guilty by Reason of Insanity findings to the definition of "Member" for the Public Safety Employees' Retirement System (PSERS)

Section 2 (1) An employee of an employer as defined in RCW 41.37.010 who was a member of the Public Employees' Retirement System (PERS) Plan 2 or 3 before June 1, 2025, and on June 1, 2025, meets the eligibility requirements in RCW 41.37.010 (19)(f) has the option to become a member of the PSERS.

Section 2 (2) The election period for an employee to become a member of PSERS is the period between June 1, 2025, to September 1, 2025.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

None

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

The forecasted 2025 rates for employer contributions to PERS is 8.83%, and the rate for PSERS is 9.20%. For every $80,950 in salary costs DSHS would pay an additional $300 in retirement contributions.

Combined Rates*

	PERS	PSERS
2025	8.83%	9.20%
2026	7.80%	9.20%
2027	6.80%	8.20%

*Office of State Actuary forecasted rates.

DSHS is bringing Residential Treatment Facility (RTF) staff online prior to the bill going into effect. Of the approximately 333 eligible staff at the RTF's and SCC, it is estimated that 80 RTF staff and 120 Special Commitment Center (SCC) staff eligible would elect to transfer to PSERS as of the June 1, 2025, effective date of the bill.

The total fiscal cost if 200 staff elect to transfer to PSERS is determined by calculating the difference between PERS rate and PSERS rate by year, at an average salary of $80,950.

The following is an example of the increased retirement contributions in 2024 for the 200 staff that may elect to transfer to PSERS:

- 330 eligible staff
- 60% elect to transfer to PSERS (200 positions)
- $80,950 average salary of a position
- $16,190,000 in salary costs
- $3,000 increase in employer retirement contributions for FY 2025, and $227,000 annually starting in FY 2026.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	0	3,000	3,000	454,000	454,000
		Total $	0	3,000	3,000	454,000	454,000

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits		3,000	3,000	454,000	454,000
C-Professional Service Contracts					
E-Goods and Other 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	3,000	3,000	454,000	454,000

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

Program	FY 2024	FY 2025	2023-25	2025-27	2027-29
Behavioral Health Administration (BHA) (030		1,000	1,000	182,000	182,000
Special Commitment Center (SCC) (135)		2,000	2,000	272,000	272,000
Total $		3,000	3,000	454,000	454,000

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

None

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 6106 SB	Title: DSHS competency rest./PSERS	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

		FY 2024	FY 2025	2023-25	2025-27	2027-29
Account						
General Fund-State	001-1	0	100,000	100,000	200,000	200,000
	Total $	0	100,000	100,000	200,000	200,000

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:	Amanda Cecil	Phone: 360-786-7460	Date: 01/10/2024
Agency Preparation:	Melinda Aslakson	Phone: 360-786-6161	Date: 02/01/2024
Agency Approval:	Luke Masselink	Phone: 360-786-6154	Date: 02/01/2024
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/01/2024

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	0	100,000	100,000	200,000	200,000
		Total $	0	100,000	100,000	200,000	200,000

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits		100,000	100,000	200,000	200,000
C-Professional Service Contracts					
E-Goods and Other 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	100,000	100,000	200,000	200,000

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill expands PSERS to include members who work at facilities serving residents who are civilly committed, or patients considered not guilty by reason of insanity. This bill also provides current eligible PERS 2/3 members with a prospective transfer option to PSERS.

COST SUMMARY

During FY 2025, a supplemental contribution rate is collected from PSERS members and employers to fund the cost of this bill. For FY 2030 and beyond, the budget impacts identified below also capture the cost to DSHS of paying PSERS instead of PERS contribution rates for transferring members. We have excluded those costs prior to FY 2030 as we believe they are captured in the DSHS fiscal note. Approximately 75% of the 25-year budget cost is attributable to DSHS paying PSERS contribution rates.

Impact on Contribution Rates *(Effective 9/1/2024)*		
FY 2025	PERS	PSERS
Employee (Plan 2)	0.00%	0.03%
Total Employer	**0.00%**	**0.03%**

Budget Impacts			
(Dollars in Millions)	2024-2025	2025-2027	25-Year
General Fund-State	$0.1	$0.2	$9.4
Local Government	$0.0	$0.1	$0.7
Total Employer	**$0.2**	**$0.3**	**$10.2**

Note: 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.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- Moving members from PERS to PSERS results in an expected cost because members can retire earlier and receive larger benefits under PSERS.
- We relied on data from DRS and DSHS to identify the members who work at the Special Commitment Center (SCC) and Residential Treatment Facilities (RTFs). We then identified all eligible PERS members that would benefit from transferring to PSERS (138 members). This group served as the basis for calculating the supplemental rate in FY 2025. Once the transfer window is complete, the data will be incorporated into our next rate-setting valuation and contribution rates will adjust accordingly. This actual experience will dictate the actual long-term cost of this bill.
- The supplemental rate calculated for this bill depends, in part, on the number of members electing to immediately transfer to PSERS. Please see the **How the Results Change When the Assumptions Change** section for sensitivity of the results to the size of the transfer group.
- We anticipate the changes in financial risks to be minor in the context of all the state pensions systems but could be material to PSERS.

See the remainder of this fiscal note for additional details on this summary and highlights.

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

This bill impacts the following systems:

- ❖ Public Employees' Retirement System (PERS) Plans 2/3.
- ❖ Public Safety Employees' Retirement System (PSERS).

This bill expands PSERS membership to include eligible staff working in institutions or residential worksites that serve civilly committed residents or serve patients under not guilty by reason of insanity findings. Based on information provided by the Department of Social and Health Services (DSHS), the effect of this change is that eligible staff working in RTFs and the SCC employed by DSHS would be eligible for PSERS. This bill provides a transfer option for current PERS 2/3 members in PSERS-eligible positions to transfer to PSERS for future service only.

Under this bill, eligible new employees hired on or after June 1, 2025, will automatically become members of PSERS. Current PERS 2/3 members meeting the PSERS eligibility requirements are allowed to transfer to PSERS between June 1, 2025, and September 1, 2025. This includes PERS 2/3 members who declined the opportunity to transfer to PSERS when the plan was first opened. If an employee elects to transfer, they will become a dual member and no PERS service credit may be transferred.

Effective Date: June 1, 2025.

In this summary, we only include changes pertinent to our Actuarial Fiscal Note (AFN). See the legislative bill report for a complete summary of the bill.

What Is the Current Situation?

PSERS membership has changed over the years, and initially began with limited authority law enforcement. The plan has evolved to include other jobs with a high degree of physical risk, such as nurses working with offenders or patient populations. More recently the plan was expanded to include certain positions with exposure to other workplace risks.

Current law requires a DSHS employee to meet certain job duty requirements **and** work location requirements in order to be PSERS eligible. See the Revised Code of Washington 41.37.010 for definitions of "member" and "employer". Current law does not expressly include the SCC or RTFs as eligible work locations, therefore while employees may meet certain job duty requirements, they are PERS eligible, instead of PSERS eligible.

Who Is Impacted and How?

This bill will affect certain active PERS members at SCC and RTFs through an option of prospectively changing their plan membership to PSERS (with no transfer of prior service credit). Additionally, these members and their employers may pay higher or lower contribution rates in PSERS than PERS.

Based on information provided by the Department of Retirement Systems (DRS) and DSHS, we identified 183 active PERS members in our June 30, 2022, valuation data that may be eligible to transfer to PSERS. Of those members, we determined 138 are under age 55 and thus would benefit from transferring prospectively to PSERS. Please see the **Special Data Needed** section for additional information.

This bill could impact all employers and Plan 2 members in PERS and PSERS through changes in contribution rates due to changes in plan membership. Additionally, this bill will not affect member contribution rates in PERS 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

Future new hires in positions identified by this bill will join PSERS instead of PERS. Adding these members to PSERS may change future contribution rates if their demographics or behavior is materially different than current PSERS members.

PSERS provides more valuable benefits than PERS 2/3 in terms of retirement eligibility and unreduced benefits at an earlier age. This bill would benefit a typical member by making at least part of their retirement benefit available earlier than under current law, resulting in a higher lifetime retirement benefit for that member.

For example, a future PERS 2 member who enters at age 30 could retire as early as age 55 under current law, with a total of 25 Years Of Service (YOS) at retirement. The benefit would be actuarially reduced to recognize retirement before age 65. If the member's Average Final Compensation (AFC) is $50,000, their retirement benefit would be as follows:

$$\$50{,}000 \times 25 \times 2\% \times 0.4092 = \$10{,}230 \text{ per year}$$

The same future member who starts service in PSERS could retire as early as age 53, with a more favorable early retirement factor. To keep this example consistent, the PSERS retirement benefit at age 55 with 25 YOS and a $50,000 AFC is calculated as follows:

$$\$50{,}000 \times 25 \times 2\% \times 0.85 = \$21{,}250 \text{ per year}$$

The PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) contribution rate paid by employers is the same for members of PERS 2/3 and PSERS. Therefore, there is no expected change in UAAL contributions.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has a Cost

For the following reasons, we expect this bill will impact all Plan 2 members and employers in PERS and PSERS.

- **PERS Impact (All PERS 2 Members and PERS 2/3 Employers):** The removal of PERS members can have a cost or savings in PERS depending on the demographics of the group removed. In this case, we expect a small savings because removing future benefit accruals has a greater impact than removing future salaries.
- **PSERS Impact (All PSERS Members and Employers):** Providing a transfer option for PERS members into PSERS is expected to have a cost due to employees transferring to PSERS who are more experienced and are more likely to receive a retirement benefit than current PSERS members.

- **Affected Employers Impact:** Moving employees from PERS to PSERS will result in a cost to employers equal to the difference between employer contribution rates in PSERS and PERS for the affected transfer group and new hires in the future. Please see the **How We Applied These Assumptions** section for further details.

Who Will Pay For These Costs?

The costs to the affected retirement systems that result from this bill will be divided between members and employers according to standard funding methods that vary by plan.

- Plan 2: 50 percent member and 50 percent employer.
- Plan 3: 100 percent employer.

HOW WE VALUED THESE COSTS

We modeled the current law cost of the retirement systems using our most recent Actuarial Valuation Report (AVR) – the June 30, 2022, AVR – as well as the assumptions and methods found on our Projections webpage. To analyze the impact of this bill, we then adjusted the following assumptions, methods, or data.

Assumptions We Made

Using our June 30, 2022, valuation data and the list of employees at SCC and RTFs provided by DRS and DSHS, we found 183 active PERS members who could potentially transfer to PSERS under this bill. The costs identified in this AFN were based on the 138 members under the age of 55 who could take advantage of the larger benefits in PSERS by transferring. We assume all members aged 55 or older would not transfer because the benefits are similar between PERS and PSERS for this group. The actual number of members eligible to transfer could be higher or lower than we identified.

For purposes of this pricing, we assumed the economic and demographic assumptions, as well as the future new entrant profile assumptions in PERS and PSERS would not change as a result of this bill. We further assumed no change in the PERS 1 UAAL rates since the total payroll used to amortize the PERS 1 UAAL rate will not change.

We assumed the cost of DSHS paying PSERS instead of PERS contribution rates is funded from the General Fund-State (GF-S) in Fiscal Year (FY) 2030 and beyond. The DSHS fiscal note for this bill displays the FY 2025-29 cost of paying higher PSERS contribution rates for those employees that transfer in GF-S dollars.

Lastly, we assumed the projected salaries for members eligible to transfer and their replacements would be the same if they are in PERS or PSERS.

How We Applied These Assumptions

To price this bill, we calculated the contribution rate change based on the members identified (who would benefit from transferring) terminating from PERS and accruing future service within PSERS. We also modeled all eligible members eventually being replaced by PSERS members.

The fiscal impact of this bill represents the change in projected contributions. To estimate the fiscal impact of this bill, we compared projected pension contributions under current law to the projected contributions we expect under this bill using a Microsoft Excel model we developed. This model uses projected salary data from ProVal to calculate contribution rate and budget impacts based on the change in liabilities between current law and the provisions of this bill. The projected pension contributions reflect contributions from the current members as well as assumed future hires. We assessed this model as part of our annual update of it, and we compare the results of this model to simplified by-hand estimates as part of individual pricings.

For more detail on how we applied these assumptions, please see **Appendix A**.

Special Data Needed

We received a list of 316 member IDs from DRS for all employees that DSHS determined met the transfer eligibility requirements of the bill. We relied on all data provided by DRS as complete and accurate. We identified the impacted members provided by DRS in our 2022 AVR data. Therefore, the number of impacted members differs from the DSHS fiscal note. The member IDs that did not match may represent new hires since June 30, 2022. In **How the Results Change When Our Assumptions Change** section of this AFN, we model how the estimated costs could change if more members transfer than what we assumed.

The table below shows some details about the potentially impacted members, along with similar information on PERS and PSERS under current law, as of our 2022 AVR.

Active Membership – 2022 Actuarial Valuation				
		Average		
	Count	Age	Service	Annual Salary
PERS 2/3	164,468	46.2	10.5	$77,410
PSERS	8,322	41.7	6.3*	$79,452
Transfer Group**	138	41.4	7.3	$78,791
All SCC and RTFs	183	45.9	9.4	$77,768

**PSERS service only. The average PSERS member also has approximately 2.4 years of prior PERS service.*
***Excludes members age 55+ who would not benefit from transferring.*

ACTUARIAL RESULTS

How the Liabilities Changed

This bill will impact the actuarial funding of PERS and PSERS by, respectively, decreasing and increasing the present value of future benefits payable to the members. The impact of the changing present value of future benefits payable for current members is shown below.

Impact on Pension Liability *(As of 6/30/2022)*			
(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	$67,129	($14.5)	$67,114
PSERS 2	$2,302	$20.9	$2,323
Unfunded Entry Age Accrued 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	$1,384	($2.2)	$1,381
PSERS 2	($7)	$0.1	($7)

Note: Totals may not agree due to rounding.

How the Assets Changed

This bill does not change current asset values, so there is no impact on the actuarial funding of the affected plans due to asset changes.

How the Present Value of Future Salaries (PVFS) Changed

This bill will impact the actuarial funding of PERS and PSERS by, respectively, decreasing and increasing the PVFS of the members. The impact of the changing PVFS for current members is shown below.

Present Value of Future Salaries *(As of 6/30/2022)*			
(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	$88,854	($87.9)	$88,766
PERS 3	26,523	(36.1)	26,487
PERS 2/3	**$115,376**	**($124.0)**	**$115,252**
PSERS 2	**$6,671**	**$118.6**	**$6,790**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate for PSERS shown on page 1 that applies in the current Biennium. However, we will use the unrounded rate increase shown below to measure the budget changes in future biennia.

Impact on Contribution Rates		
System/Plan	**PERS**	**PSERS**
Current Members		
Employee (Plan 2)	(0.0003%)	0.027%
Employer	(0.0003%)	0.027%
New Entrants*		
Employee (Plan 2)	0.000%	0.000%
Employer	0.000%	0.000%

Note: There is no impact to the Plan 1 UAAL under this bill.
**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets and Employees

The budget impacts to PERS reflect (1) the decrease in PERS contribution rates noted above, and (2) the removal of prospective PERS contributions for the members that transfer from PERS to PSERS. The budget impacts in PSERS reflect (1) the increase in PSERS contribution rates noted above, and (2) the addition of prospective PSERS contributions for the members that transfer from PERS to PSERS. The budget impacts also capture the cost of replacement members being hired into PSERS instead of PERS. We display the net impact in the Total column below.

Budget Impacts			
(Dollars in Millions)	**PERS**	**PSERS**	**Total***
2024-2025			
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	0.0	0.0
Total Employer	**$0.0**	**$0.2**	**$0.2**
2025-2027			
General Fund	($0.0)	$0.2	$0.2
Non-General Fund	(0.0)	0.0	0.0
Total State	**($0.0)**	**$0.2**	**$0.2**
Local Government	(0.0)	0.1	0.1
Total Employer	**($0.1)**	**$0.4**	**$0.3**
2024-2049			
General Fund	($33.9)	$43.3	$9.4
Non-General Fund	(0.2)	0.3	0.1
Total State	**($34.0)**	**$43.5**	**$9.5**
Local Government	(0.3)	0.9	0.7
Total Employer	**($34.3)**	**$44.5**	**$10.2**

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.
**Approximately 75% of the 25-year total employer cost is attributable to DSHS paying PSERS instead of PERS contribution rates.*

Given we won't know until after the transfer window closes how many members ultimately elect to transfer, the supplemental rate is temporarily charged to pre-fund costs. The actual transfer data will be included in the subsequent rate-setting valuation and contribution rates will adjust accordingly. As such, the emerging costs of the systems will vary from those presented above to the extent actual experience differs from the actuarial assumptions.

PERS 3 members contribute to their Defined Contribution (DC) account; whereas their employers contribute to the Defined Benefit (DB) portion of their retirement. Plan 3 members transferring to PSERS will have their contribution rate change from the self-selected Plan 3 DC rate to the PSERS DB rate. We did not provide employee budget impacts because information on Plan 3 member contribution rates was not available.

In addition to the impacts for all current PERS and PSERS employers as a result of the change in contribution rates, beginning in FY 2030, the budget impacts shown also include the cost to DSHS associated with members who will now pay PSERS instead of PERS contribution rates. We reflected these costs beginning in FY 2030, since we believe estimated costs prior to this point are captured in the DSHS fiscal note.

The analysis of this bill does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

Comments on Risk

Our office performs risk assessments to help us demonstrate and assess the effect of unexpected experience on pension plans. The risk assessment allows us to measure how affordability and funded status can change if investment experience, expected state revenue growth, and inflation do not match our long-term assumptions. Our risk assessment also considers past practices, for funding and benefit enhancements, and their impact on pension plan risk if those practices continue.

The following table displays our risk measurements as of June 30, 2021. The figures in this table were not reproduced for the 2022 valuation or for this bill, as we are in the process of revisiting how we convey these risk metrics. For more information, please see our Risk Assessment, Commentary on Risk, and Glossary webpages.

Select Measures of Pension Risk *(As of 6/30/2021)**		
	FY 2022-41	**FY 2042-71**
Affordability Measures		
Chance of Pensions Double their Current Share of GF-S**	1%	2%
Chance of Pensions Half their Current Share of GF-S**	44%	42%
Solvency Measures		
Chance of PERS 1, TRS 1, in Pay-Go***	<1%	2%
Chance of Open Plan in Pay-Go***	<1%	1%
Chance of PERS 1, TRS 1, Total Funded Status Below 60%	5%	1%
Chance of Open Plans Total Funded Status Below 60%	20%	31%

**Prior to law changes from the 2023 Legislative Session.*
***Pensions approximately 4.9% of current GF-S budget; does not include higher education.*
****When today's value of annual pay-go cost exceeds $50 million.*

In terms of risk, we expect this bill would worsen the affordability and solvency risk measures relative to PSERS and improve the measures relative to PERS. However, we expect the changes in financial risks to be minor in the context of all the state pensions systems but could be material to PSERS.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results displayed above are sensitive to the number of people who join PSERS as a result of this bill. To demonstrate this, we also priced the impact if 100 additional members joined PSERS along with our best estimate transfer group. The demographics of these additional members are similar to the current PSERS population, but with lower service levels.

Additional Member Demographics	
Count	100
Hire Age	35
PSERS YOS	0
Total DRS YOS	1
Salary (rounded)	$79,500
Percent Male / Female	65%/35%

Assuming the 100 additional members and our best estimate transfer group join PSERS results in an increase to the PSERS member and employer contribution rate. Our best estimate resulted in a 0.027 percent increase, this scenario results in a 0.033 percent increase. While the 25-year costs would increase, the rounded supplemental rate of 3 basis points collected in FY 2025 would not change.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, data, and models used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods, data, and models may also be reasonable and might produce different results.
2. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment.
3. We prepared this AFN based on our current understanding of the bill as of the date shown in the footer. If the bill or our understanding of the bill changes, the results of a future AFN based on those changes may vary from this AFN. Additionally, the results of this AFN may change after our next annual update of the underlying actuarial measurements.
4. We prepared this AFN 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 AFN.

We prepared this AFN to support legislative deliberations during the 2024 Legislative Session. This AFN may not be appropriate for other purposes.

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

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this AFN is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Luke Masselink

Luke Masselink, ASA, EA, MAAA
Senior Actuary

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APPENDIX A

How We Applied These Assumptions

We estimated the fiscal impact of this bill by comparing projected pension contributions under this bill to contributions under current law. The projected pension contributions reflect contributions from the current members as well as assumed future hires.

- To determine the projected contributions under current law, we relied on our base model described in the **How We Valued These Costs** section. For current members, contribution rates from the base model are multiplied by future payroll. For future hires, contribution rates under the Entry Age Normal Cost method are multiplied by future new entrant payroll.
- To determine the projected contributions under this bill, we modified the base model to reflect the provisions of the bill, and the assumptions and data noted above. We then multiplied the respective new contribution rates reflecting these changes by future payroll. We assumed the projected salaries for eligible members and their replacements would be the same if they are in PERS or PSERS.

We developed changes to the expected system growth rate of PSERS to accurately model the new projected salary of the system and resulting contribution amounts. PERS projected salaries were assumed to change by the same amount as estimated for PSERS.

We adjusted PSERS growth rates to reflect (1) the initial transfer group along with their future replacements, and (2) new entrants that join PSERS when replacing PERS members we assumed would not transfer. We further assumed the population eligible to transfer under this bill grows at the PERS and PSERS long-term growth rate of 0.60 percent annually. We relied on our valuation model to estimate when members under (2) would exit PERS and be replaced with a PSERS new hire.

Our current law PSERS system growth assumption includes a select period growth rate of 3.60 percent through 2035, followed by an ultimate growth rate of 0.60 percent. We developed annual rates for the 25-year period to calculate the budget impacts identified in the body of this AFN. For simplicity, the table below shows the average growth rate for the select period and the ultimate rate (the remainder of the 25-year budget impact period) for Current Law and the Transfer Group.

PSERS Average System Growth Rates Assumption		
	Current Law	Transfer Group*
Select Period**	3.60%	1.74%
Ultimate Rate	0.60%	0.60%

**Excludes members age 55+ who would not benefit from transferring.*

***Select period runs through 2035 for Current Law and through 2046 for the Transfer Group.*