

# Select Committee on Pension Policy

P.O. Box 40914  
Olympia, WA 98504-0914  
actuary.state@leg.wa.gov

## Regular Committee Meeting

**June 19, 2007**  
10:00 a.m. - 12:00 p.m.  
Senate Hearing Room 4  
Olympia

### AGENDA

- 10:00 a.m.      **(1) Approval of Minutes**
- 10:05 a.m.      **(2) Proposed Rules of Procedure**, Darren Painter,  
Research Analyst
- 10:15 a.m.      **(3) Washington State Investment Board Update**,  
Gary Bruebaker, Chief Investment Officer
- 10:45 a.m.      **(4) Contribution Rates**, Matthew M. Smith, State  
Actuary
- 11:00 a.m.      **(5) Disability Retirement**, Robert Wm. Baker,  
Senior Research Analyst
- 11:30 a.m.      **(6) 2007 Interim Issues**  
• Public Testimony
- 12:00 p.m.      **(7) Adjourn**

**\*Elaine M. Banks**  
*TRS Retirees*

**Representative Barbara Bailey**

**Lois Clement**  
*PERS Retirees*

**\*Representative Steve Conway,**  
**Chair**

**Representative Larry Crouse**

**Charles E. Cuzzetto**  
*TRS and SERS Employers*

**\*Randy Davis**  
*TRS Actives*

**Senator Karen Fraser**

**Representative Bill Fromhold**

**Senator Janea Holmquist**

**Robert Keller**  
*PERS Actives*

**\*Sandra J. Matheson**, Director  
*Department of Retirement Systems*

**Corky Mattingly**  
*PERS Employers*

**Doug Miller**  
*PERS Employers*

**Victor Moore**, Director  
*Office of Financial Management*

**\*Glenn Olson**  
*PERS Employers*

**Senator Craig Pridemore**

**\*Senator Mark Schoesler,**  
**Vice Chair**

**J. Pat Thompson**  
*PERS Actives*

**David Westberg**  
*SERS Actives*

**\* Executive Committee**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 786-6140. TDD 1-800-635-9993.

(360) 786-6140  
Fax: (360) 586-8135  
TDD: 1-800-635-9993

## 2007 Meeting Dates

*Full - 10:00am-12:00pm*  
*Exec. - 9:00-10:00am/12:30-2:30pm*  
 SHR4/ABC, Olympia, WA  
 \*SHR 1

JANUARY						
M	T	W	T	F	S	S
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29	30	31				

FEBRUARY						
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30						

January 16, 2007. *meeting cancelled*  
 February 13, 2007. *meeting cancelled*  
 March 20, 2007. *meeting cancelled*  
 April 17, 2007. *meeting cancelled*  
 May 22, 2007  
 June 19, 2007  
 July 17, 2007  
 August 14, 2007  
 September 18, 2007  
 October 16, 2007  
 November 13, 2007\*  
 December 18, 2007

MAY						
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*Reserved Subgroup Dates*  
 SHR4  
 \* SHR 1, *Wednesday*  
 2:00-4:00pm - Mondays

JULY						
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27	28	29	30	31		

May 21, 2007 . *none scheduled*  
 June 18, 2007 . *none scheduled*  
 July 16, 2007  
 August 13, 2007  
 September 17, 2007  
 October 15, 2007  
 November 14, 2007\*  
 December 17, 2007

SEPTEMBER						
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OCTOBER						
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NOVEMBER						
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DECEMBER						
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31						

# Select Committee on Pension Policy

## Goals for Washington State Public Pensions

*Revised and Adopted September 27, 2005*

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1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.
2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.
3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.
4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.
5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:
  - a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
  - b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
  - c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
  - d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
  - e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

# Select Committee on Pension Policy

## REGULAR COMMITTEE MEETING DRAFT MINUTES

May 22, 2007

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on May 22, 2007.

Committee members attending:

Elaine Banks	Corky Mattingly
Representative Bailey	Victor Moore
Representative Conway	Glenn Olson
Representative Crouse	Senator Pridemore
Charles Cuzzetto	Senator Schoesler
Randy Davis	David Westberg
Robert Keller	

Senator Pridemore, Chair, called the meeting to order at 10:05 a.m.

### (1) Approval of Minutes

*It was moved to approve the December 12, 2006 Full Committee Draft Minutes. Seconded.*

**MOTION CARRIED**

### (2) Election of Officers

#### **Nominations for Chair**

*Representative Conway was nominated for Chair. Seconded.*

**MOTION CARRIED**

Representative Conway chaired the remainder of the meeting. He thanked Senator Pridemore for his leadership on the committee last interim.

#### **Nominations for Vice-Chair**

Senator Schoesler and Senator Pridemore were nominated for Vice-Chair

Senator Pridemore withdrew his nomination

*Senator Schoesler was nominated for Vice-Chair. Seconded.*

**MOTION CARRIED**

**\*Elaine M. Banks**  
*TRS Retirees*

**Representative Barbara Bailey**

**Lois Clement**  
*PERS Retirees*

**\*Representative Steve Conway,**  
**Chair**

**Representative Larry Crouse**

**Charles E. Cuzzetto**  
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**\*Randy Davis**  
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**Senator Karen Fraser**

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**\* Executive Committee**

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**Nominations for Executive Committee**

*Randy Davis was nominated to represent active members. Seconded.*

**MOTION CARRIED**

*Elaine Banks was nominated to represent retiree members. Seconded.*

**MOTION CARRIED**

*Glenn Olson was nominated to represent employers. Seconded.*

**MOTION CARRIED**

**(3) Rules of Procedure**

Darren Painter, Research Analyst, reported on "Proposed Rules of Procedure."

Discussion followed.

*It was moved to further discuss this issue at the May 22, 2007 Executive Committee meeting. Seconded.*

**MOTION CARRIED**

**(4) 2007 Legislative Session Update**

Robert Baker, Senior Research Analyst, reported on "2007 Legislative Session Update."

*Discussion followed.*

**(5) Hot Topics**

**Pension Protection Act**

Laura Harper, Senior Research Analyst/Manager, reported on "Pension Protection Act."

Jeff Wickman, Senior Assistant Director of Policy, Department of Retirement Systems, answered committee member questions. *Discussion followed.*

**Accounting for OPEB**

Troy Dempsey, Actuarial Assistant, reported on "Accounting for OPEB."

*Discussion followed.*

The meeting adjourned at 11:55 a.m.

## 2007 Rules of Procedure

- RULE 1. Membership. The Committee shall consist of 20 members: two from each caucus of the legislature, four active members or representatives of active members of the state retirement systems, two retired members or representatives of retired members of the state retirement systems, four employer representatives, and the Directors of the Department of Retirement Systems and the Office of Financial Management.

The Directors of the Department of Retirement Systems and the Office of Financial Management may appoint alternates from their respective agencies for membership on the SCPP.

- RULE 2. Meetings. The Select Committee on Pension Policy (SCPP) will typically meet once each month during the Legislative Interim. Meetings may be called or cancelled by the Chair of the SCPP or Executive Committee as deemed necessary.
- RULE 3. Rules of Order. All meetings of the SCPP, its Executive Committee, or any subcommittee created by the SCPP shall be governed by Reed's Parliamentary Rules, except as specified by applicable law or these Rules of Procedure.
- RULE 4. Quorum. A majority of the 20 committee members shall constitute a quorum of the Full Committee (11 members). A majority of the members appointed to a subcommittee shall constitute a quorum of the subcommittee.
- RULE 5. Voting. A majority of the 20 committee members must vote in the affirmative for an official action of the SCPP to be valid (11 members); a majority of those committee members present must vote in the affirmative on procedural matters (at least six members), unless provided otherwise in statute or these Rules of Procedure. Examples of official actions of the SCPP include: recommendations, endorsements, statements, or requests made by the SCPP to the Legislature, the Pension Funding Council, or any other body; election of officers; approval of minutes; adopting rules of procedure; and adopting goals. Examples of procedural matters include: convening or adjourning meetings; referring issues to the Executive Committee or subcommittees; and providing direction to staff. A majority of the members appointed to a subcommittee must vote in the affirmative for an official action of a subcommittee to be valid; a majority of those subcommittee members present must vote in the affirmative on procedural matters, unless provided otherwise in statute or these Rules of Procedure.

RULE 6. Minutes. Minutes summarizing the proceedings of each SCPP meeting and subcommittee shall be kept. These minutes will include member attendance, official actions taken at each meeting, and persons testifying.

RULE 7. SCPP Chair, Vice Chair, Executive Committee and Subcommittees. An Executive Committee shall be established and shall include six members. Reorganization elections shall take place at the first meeting of the year as follows: First the Chair shall be elected and then the Vice Chair shall be elected. The Chair shall be a member of the Senate in even-numbered years and a member of the House of Representatives in odd-numbered years. The Vice Chair shall be a member of the House in even-numbered years and a member of the Senate in odd-numbered years. Three members of the Executive Committee shall then be elected, one member representing active members, one member representing employers, and one member representing retirees. In addition, the Director of the Department of Retirement Systems shall serve on the Executive Committee.

Executive Committee members may designate an alternate to attend Executive Committee meetings in the event they cannot attend. Designations shall be made in the following manner:

- a. The Chair and Vice Chair shall designate an SCPP member who is a legislator from the same house.
- b. The Director of the Department of Retirement Systems shall designate an employee of the department.
- c. Active, Employer, and Retiree member representatives shall designate an SCPP member representing their member group.

Subcommittees of the SCPP may be formed upon recommendation of the Executive Committee. The creation of the subcommittee and appointment of members shall be voted on by the full SCPP.

RULE 8. Duties of Officers.

- A. The Chair shall preside at all meetings of the SCPP and Executive Committee, except that the Vice Chair shall preside when the Chair is not present. In their absence, an Executive Committee member may preside.
- B. The State Actuary shall prepare and maintain a record of the proceedings of all meetings of the SCPP Committee, Executive Committee, and SCPP Subcommittees.

- C. The Executive Committee shall perform all duties assigned to it by these Rules of Procedure, such other duties delegated to it by the SCPP, and shall set meeting agendas and recommend actions to be taken by the SCPP.
- D. A recommendation to refer an issue to the Assistant Attorney General will be approved by the Chair or by a majority vote of the Executive Committee. The Chair or the Committee will consider priorities of the SCPP of all legal issues and budget constraints in making this decision.

Advice from the Attorney General's Office to the Chair or the Committee may be subject to the attorney client privilege. When subject to the privilege, Committee members are advised to maintain the advice as confidential. The privilege may be waived only by vote of the Committee.

- E. The State Actuary may refer requests for information or services by Select Committee on Pension Policy members that are directly related to current Committee projects or proposals and/or require a significant use of OSA resources to either the Chair of the SCPP or the Executive Committee. Such requests will be approved by either the Chair or by a majority vote of the Executive Committee prior to initiation and completion by the OSA. The Executive Committee will consider priorities of all current OSA projects and budget constraints in making this decision.
- F. The State Actuary shall submit the following to the Executive Committee and the full SCPP for approval: the biennial budget submission for the OSA, and any personal services contract of \$20,000 or more that is not described in the biennial budget submission.
- G. The Chair and Vice Chair shall appoint four members of the SCPP to serve on the State Actuary Appointment Committee. At least one member shall represent state retirement systems' active or retired members, and one member shall represent state retirement system employers. The Chair and Vice Chair may designate an alternate for each appointee from the same category of membership.

RULE 9. Expenses. Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other SCPP members' travel expenses shall be reimbursed by the Office of the State Actuary in accordance with RCW 43.03.050 and 43.03.060.

**RULE 10. Staff.** The OSA shall provide staff and technical assistance to the Committee. The State Actuary has the statutory authority to select and employ such research, technical, clerical personnel, and consultants as the State Actuary deems necessary. The State Actuary shall inform the Executive Committee of final personnel actions. Any employee terminated by the State Actuary shall have the right of appeal to the Executive Committee. The State Actuary has also implemented a grievance procedure within the OSA. Any employee who has followed the OSA grievance process and disagrees with the outcome may appeal to the Executive Committee. Employee appeals must be filed in writing with the Chair within 30 days of the action being appealed.

**Effective Date June 19, 2007.**

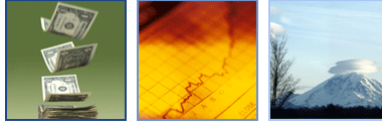
**Revised June 19, 2007 by the Select Committee on Pension Policy.**

  
Chair - Representative

  
Vice Chair - Senator

O:\SCPP\2007\6-19-07 Exec\B.2007\_Rules\_of\_Procedure.doc

## Select Committee on Pension Policy



**Gary Bruebaker**  
**Chief Investment Officer**  
**June 19, 2007**

### Overview



- ◆ Mission
- ◆ Fiduciary Duty
- ◆ Organizational Structure
- ◆ Investment Responsibility
- ◆ Capital Markets
- ◆ Assets Under Management
- ◆ Commingled Trust Fund
- ◆ Performance
- ◆ Future Challenges
- ◆ Summary

## Our Mission



Invest with integrity, prudence, and skill to meet or exceed the financial objectives of those we serve.

## Fiduciary Duty



“The Board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.” (RCW 43.33A.110)

“The State Investment Board shall invest and manage the assets entrusted to it with reasonable care, skill, prudence, and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose.” (RCW 43.33A.140)

“The Board shall consider investments not in isolation, but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for that fund.” (RCW 43.33A.140)

## Organizational Structure



- ◆ **Board comprised of 15 members**
  - Ten voting
  - Five non-voting
- ◆ **65 staff**
- ◆ **120 investment managers under contract**

## Board Members

Name	Position	Appointment Authority
<b>10 Voting Members</b>		
Michael J. Murphy	State Treasurer	Ex-Officio
Sandra J. Matheson	Director, DRS	Ex-Officio
Judy Schurke	Director, Labor & Industries	Ex-Officio
Mason Petit	Active Member, PERS	Governor
George Masten	Retired Member, PERS	Governor
Patrick McElligott, Chair	Active Member, LEOFF	Governor
David Scott	Active Member, TRS	Superintendent of Public Instruction (SPI)
Glenn Gorton, Vice Chair	Active Member, SERS	SPI
Helen Sommers	State Representative	House Speaker
Lisa Brown	State Senator	Senate President
<b>5 Non-voting Members</b>		
Charles Kaminski	All investment professionals appointed by voting members.	
John Magnuson		
Robert S. Nakahara		
Jeff Seely		
David Nierenberg		

## Investment Responsibility

### Retirement Funds

- ◆ Public Employees' Retirement System (PERS) Plan 1, 2, 3 \*
- ◆ School Employees' Retirement System (SERS) Plan 2, 3 \*
- ◆ Teachers' Retirement System (TRS) Plan 1, 2, 3 \*
- ◆ Law Enforcement Officers' and Firefighters' (LEOFF) Plan 1, 2
- ◆ Judicial Retirement Account (JRA) – Defined Benefit
- ◆ Judicial Retirement Account (JRA) – Defined Contribution
- ◆ Washington State Patrol Retirement System (WSP) Plan 1, 2
- ◆ Volunteer Firefighters' Relief and Pension Fund (VFF)
- ◆ Deferred Compensation Program (DCP)
- ◆ PSERS 2

### Industrial Insurance (Labor and Industries) Funds

- ◆ Accident Fund
- ◆ Medical Aid Fund
- ◆ Pension Reserve Fund
- ◆ Supplemental Pension Fund

\* All Plan 1s are closed to new participants. The Plan 3s are hybrid plans with both defined benefit and defined contribution assets.

## Investment Responsibility

### Permanent Funds

- ◆ Agricultural College Permanent Fund
- ◆ Common School Permanent Fund
- ◆ Normal School Permanent Fund
- ◆ Scientific Permanent Fund
- ◆ State University Permanent Fund
- ◆ Millersylvania Park Trust Fund
- ◆ American Indian Endowed Scholarship Fund (July)
- ◆ Foster Care Endowed Scholarship Fund (July)

### Other Trusts

- ◆ Guaranteed Education Tuition Program (GET)
- ◆ Developmental Disabilities Endowment Trust Fund (DDEF)
- ◆ Game and Special Wildlife Fund
- ◆ State Employees' Insurance Reserve Fund
- ◆ Radiation Perpetual Fund
- ◆ Reclamation Revolving Fund
- ◆ Emergency Reserve Fund
- ◆ Pension Stabilization Fund
- ◆ Basic Health Plan Self Insurance Reserve Account
- ◆ Family and Medical Leave Insurance Fund

### Capital Markets

#### The Callan Periodic Table of Investment Returns Annual Returns for Key Indices (1987-2006)

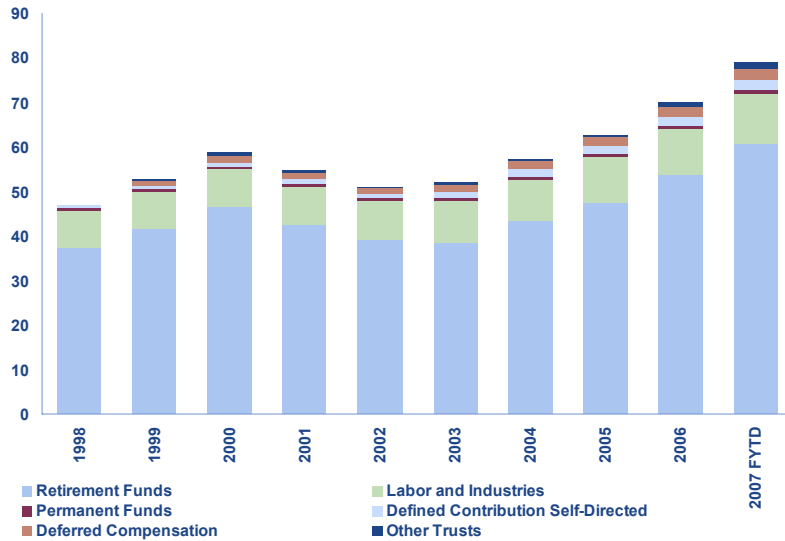
Ranked in order of performance (Best to Worst)

Ranked in order of performance (Best to Worst)

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
MSCI EAFE 28.44%	Russell 2000 Value 26.87%	S&P 500 Value 26.89%	18 Aug 1.88%	Russell 2000 Value 31.19%	Russell 2000 Value 29.14%	MSCI EAFE 32.67%	MSCI EAFE 7.78%	S&P 500 Value 38.12%	S&P 500 Value 29.67%	S&P 500 Value 26.62%	S&P 500 Value 42.93%	Russell 2000 Value 43.09%	Russell 2000 Value 14.02%	Russell 2000 Value 14.02%	18 Aug 11.20%	Russell 2000 Value 48.54%	Russell 2000 Value 22.23%	MSCI EAFE 13.54%	MSCI EAFE 26.34%
S&P 500 Value 8.80%	MSCI EAFE 28.26%	S&P 500 Value 21.52%	S&P 500 Value 5.80%	Russell 2000 Value 44.84%	Russell 2000 Value 18.41%	Russell 2000 Value 23.77%	S&P 500 Value 3.13%	S&P 500 Value 41.78%	S&P 500 Value 21.70%	S&P 500 Value 21.70%	S&P 500 Value 25.20%	S&P 500 Value 28.24%	S&P 500 Value 11.30%	S&P 500 Value 8.44%	Russell 2000 Value 11.42%	Russell 2000 Value 47.23%	MSCI EAFE 20.25%	MSCI EAFE 5.82%	S&P 500 Value 23.48%
Russell 2000 Value 1.80%	Russell 2000 Value 35.02%	S&P 500 Value 28.13%	S&P 500 Value 21.17%	Russell 2000 Value 41.70%	Russell 2000 Value 18.32%	Russell 2000 Value 18.48%	S&P 500 Value 1.22%	S&P 500 Value 38.99%	S&P 500 Value 22.00%	S&P 500 Value 31.73%	MSCI EAFE 20.00%	MSCI EAFE 26.96%	S&P 500 Value 6.08%	S&P 500 Value -3.49%	-15.94%	MSCI EAFE 18.22%	Russell 2000 Value 16.32%	S&P 500 Value -1.90%	S&P 500 Value 35.81%
S&P 500 Value 3.84%	S&P 500 Value 21.87%	Russell 2000 Value -8.88%	S&P 500 Value -6.88%	S&P 500 Value 26.37%	Russell 2000 Value 7.77%	Russell 2000 Value 18.81%	S&P 500 Value -0.84%	Russell 2000 Value 31.84%	Russell 2000 Value 21.37%	S&P 500 Value 29.98%	MSCI EAFE 14.68%	MSCI EAFE 21.20%	Russell 2000 Value -8.82%	Russell 2000 Value -9.23%	MSCI EAFE 120.44%	MSCI EAFE 38.59%	S&P 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 Value 18.37%
18 Aug 12.73%	Russell 2000 Value 16.26%	Russell 2000 Value -17.41%	Russell 2000 Value 36.47%	S&P 500 Value 13.37%	Russell 2000 Value 1.54%	Russell 2000 Value 38.44%	Russell 2000 Value 14.48%	Russell 2000 Value 22.38%	Russell 2000 Value 8.76%	18 Aug 21.44%	18 Aug 8.54%	Russell 2000 Value -11.71%	S&P 500 Value -25.68%	S&P 500 Value 31.73%	Russell 2000 Value 14.31%	Russell 2000 Value 14.31%	Russell 2000 Value 4.85%	Russell 2000 Value 15.13%	
Russell 2000 Value 7.11%	S&P 500 Value 19.81%	18 Aug 14.82%	Russell 2000 Value 19.88%	S&P 500 Value 22.88%	18 Aug 7.44%	S&P 500 Value 18.08%	Russell 2000 Value -1.82%	Russell 2000 Value 25.73%	Russell 2000 Value 11.26%	Russell 2000 Value 12.95%	Russell 2000 Value 1.23%	MSCI EAFE 12.73%	S&P 500 Value -14.17%	MSCI EAFE 11.58%	S&P 500 Value 22.57%	S&P 500 Value 18.94%	S&P 500 Value 10.86%	Russell 2000 Value 4.15%	Russell 2000 Value 13.95%
Russell 2000 Value 8.80%	S&P 500 Value 11.88%	Russell 2000 Value -21.77%	18 Aug 15.08%	S&P 500 Value 5.98%	S&P 500 Value 6.73%	18 Aug -2.43%	MSCI EAFE 11.80%	MSCI EAFE 6.05%	MSCI EAFE 5.84%	18 Aug 3.83%	MSCI EAFE 8.86%	18 Aug 22.88%	18 Aug 12.20%	S&P 500 Value -23.59%	S&P 500 Value 25.89%	S&P 500 Value 8.13%	S&P 500 Value 4.80%	S&P 500 Value 11.81%	
Russell 2000 Value -18.48%	18 Aug 7.86%	MSCI EAFE 19.53%	MSCI EAFE -23.45%	MSCI EAFE 12.14%	MSCI EAFE -12.18%	S&P 500 Value 1.48%	18 Aug -3.62%	MSCI EAFE 11.21%	18 Aug 2.84%	MSCI EAFE 1.78%	Russell 2000 Value -4.43%	Russell 2000 Value -1.48%	Russell 2000 Value -22.43%	MSCI EAFE 21.44%	Russell 2000 Value -36.26%	18 Aug -4.19%	18 Aug 4.34%	18 Aug 3.83%	18 Aug 8.20%

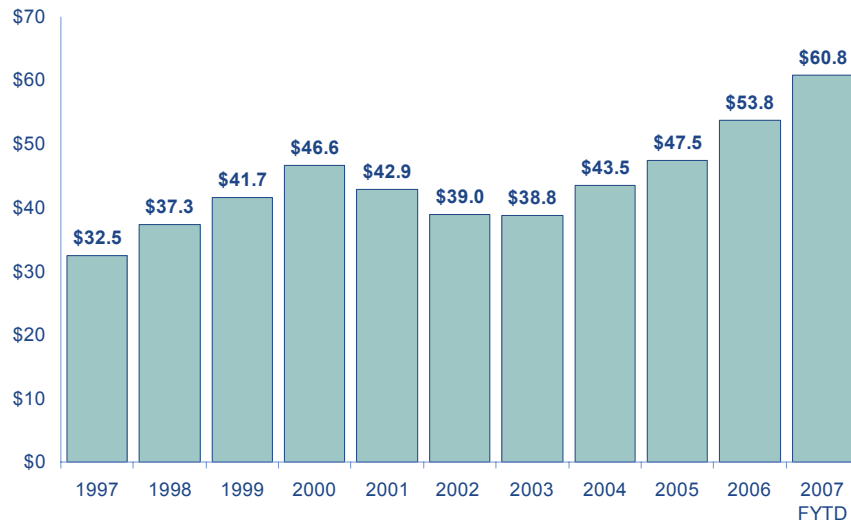
### Assets Under Management (Past 10 Fiscal Years)

Fiscal Year ended June 30, FYTD as of March 31, 2007



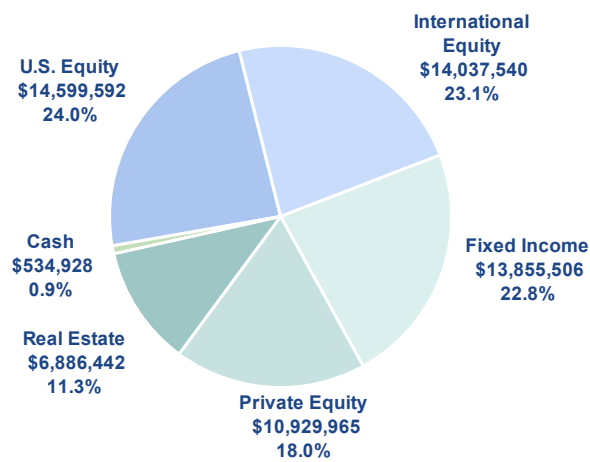
### Commingled Trust Fund Assets Under Management

Fiscal Year ended June 30, FYTD as of March 31, 2007



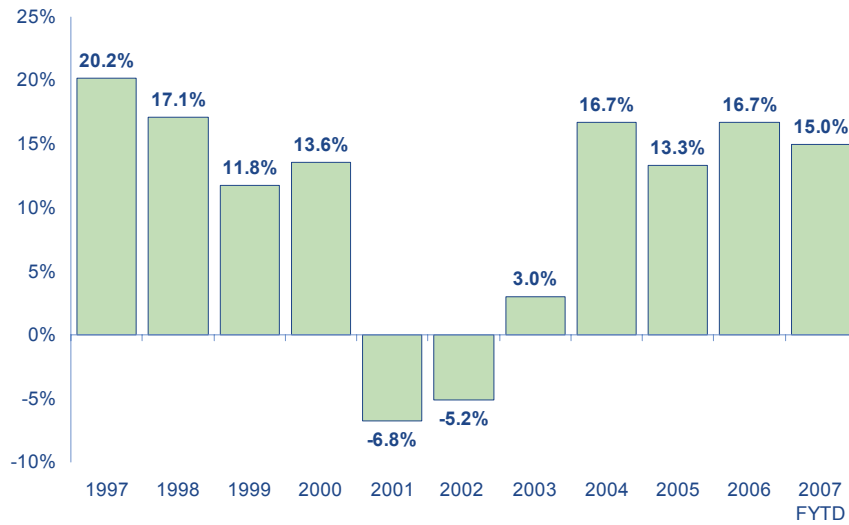
### CTF Market Value (\$000s) and Asset Allocation

March 31, 2007



### CTF Annual Returns

Fiscal Year ended June 30, FYTD as of March 31, 2007



### CTF Market Value and Net Performance

March 31, 2007

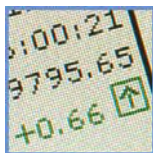
	1 Year	3 Year	5 Year	10 Year
<b>Total Fund \$60.8 billion</b>	<b>16.16 %</b>	<b>15.22 %</b>	<b>11.82 %</b>	<b>10.16 %</b>
Passive Benchmark	12.31	11.27	9.19	8.56
Implementation Value Added Benchmark	14.45	12.79	10.61	N/A
TUCS Public Fund >\$1B Median	11.65	11.15	9.35	8.70
TUCS Public/Corporate Fund >\$1B Median	11.51	11.13	9.36	9.00

## Future Challenges



- ◆ Managing investment return expectations
- ◆ Meeting the 8 percent assumed rate of return in tough environment.
- ◆ Pressure to use pension fund money to influence social and political change.
- ◆ Need for enhanced risk management across entire portfolio to deal with increasing complexity of investment program.

## Summary



- ◆ Manage \$81.5 billion within 40 funds
- ◆ Long-term investor with a proven record of success
- ◆ Disciplined approach to investment with the highest standards of integrity
- ◆ Dedicated to working for the best interests of our beneficiaries
- ◆ Dedicated to continuous improvement



## Contribution Rates

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

June 19, 2007



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"Securing tomorrow's pensions today."

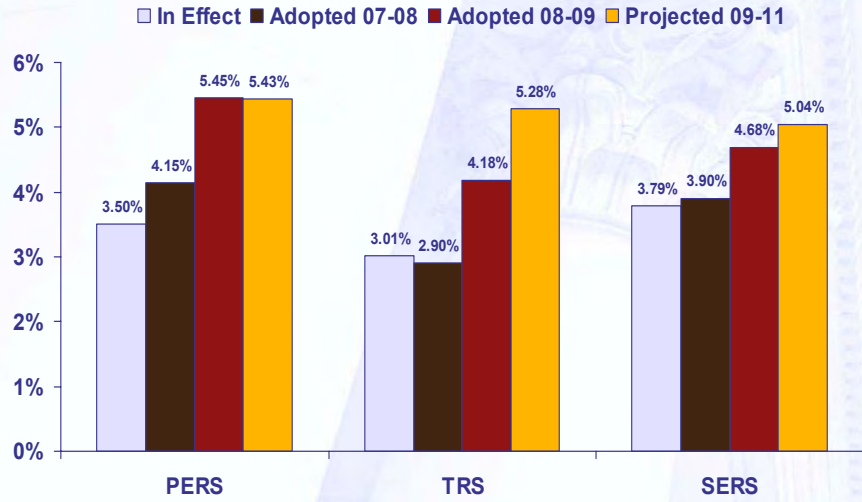
## Contribution Rates

- In Effect
  - Currently collected by DRS
- Adopted
  - Approved by Pension Funding Council (PFC) or LEOFF 2 Retirement Board
  - Include the cost of 2007 legislation
- Projected

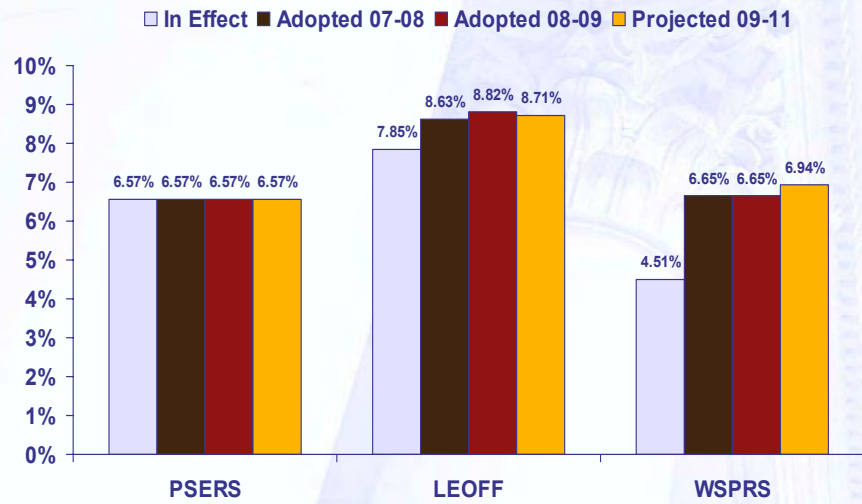


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## Plan 2 Member Rates

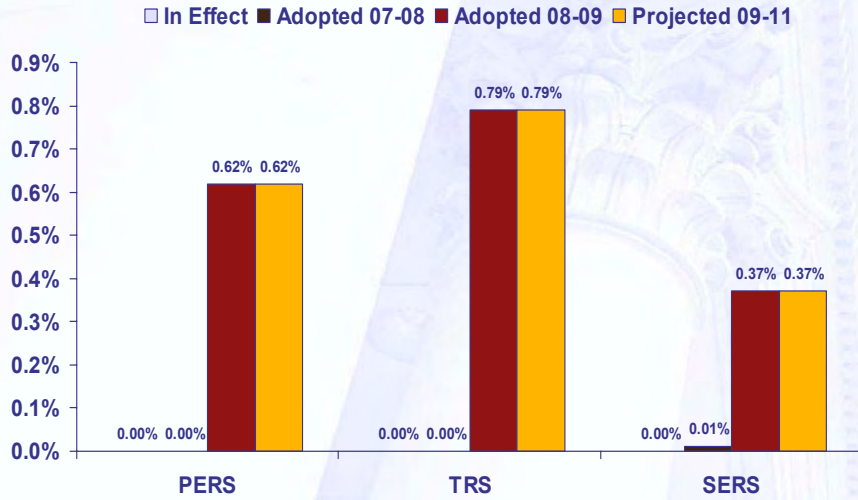


## Plan 2 Member Rates\*



\* WSPRS rates apply to all plan members.

## Plan 2 Member Rates - 2007 Benefit Improvements\*



\* Rates included in the previous charts.

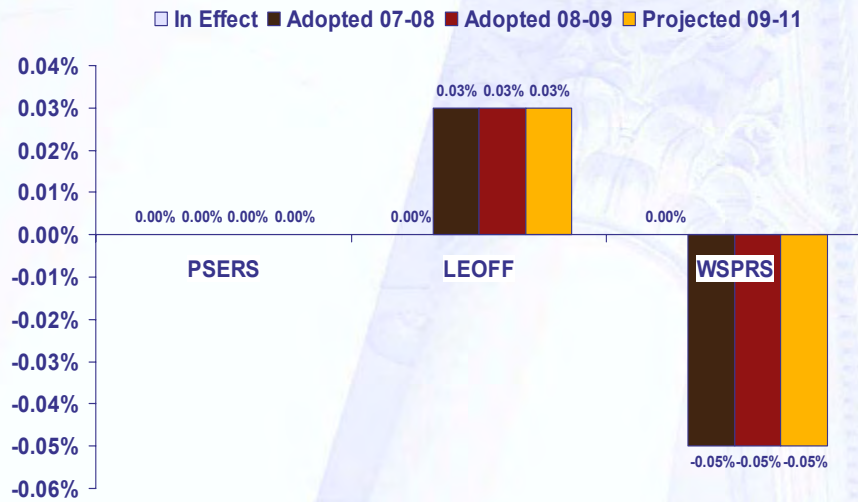


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## Plan 2 Member Rates - 2007 Benefit Improvements\*



\* Rates included in the previous charts. Preliminary rates for LEOFF 2. WSPRS rates apply to all plan members.

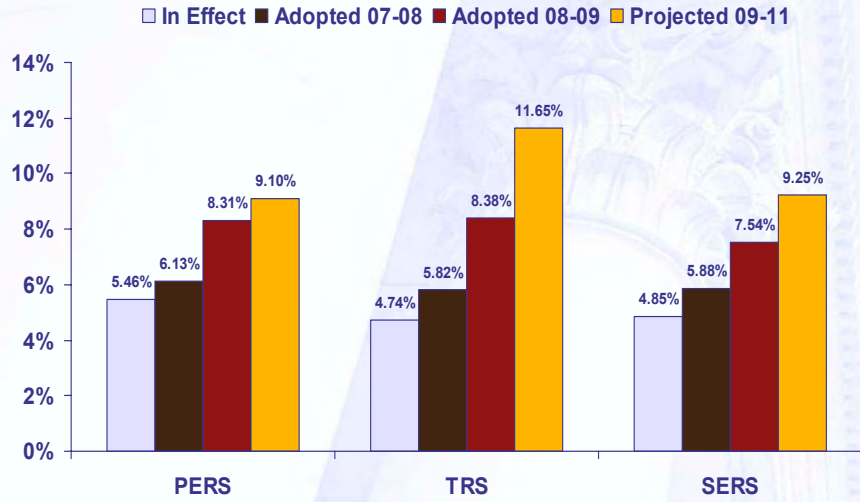


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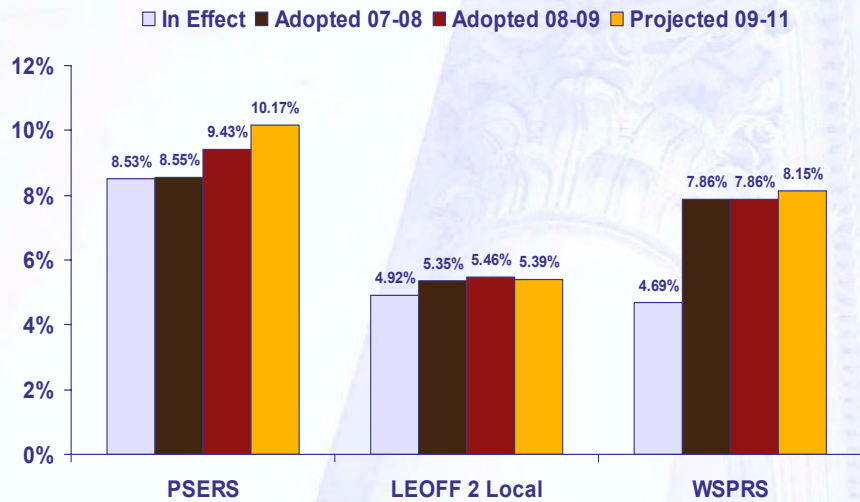
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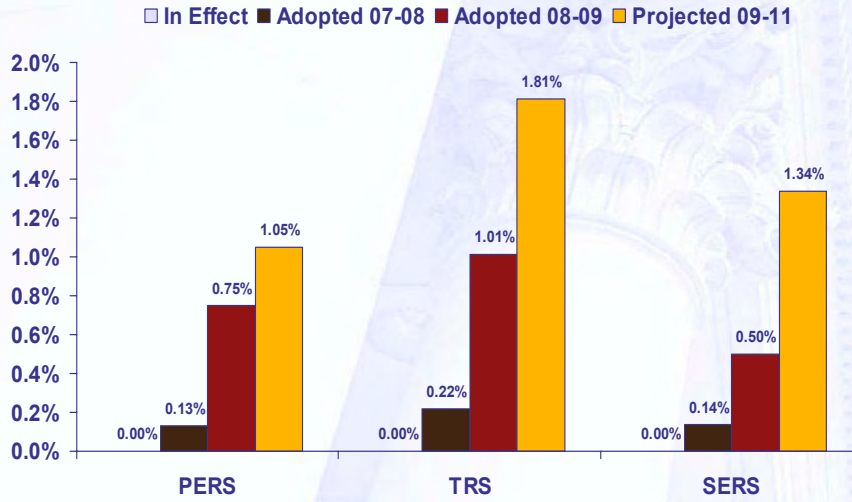
## Employer Rates



## Employer Rates



## Employer Rates - 2007 Benefit Improvements\*



\* Rates included in the previous charts.

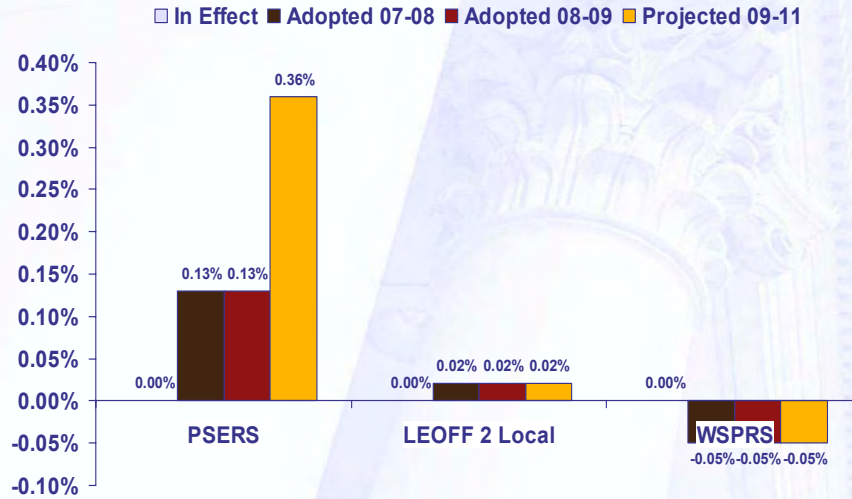


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## Employer Rates - 2007 Benefit Improvements\*



\* Rates included in the previous charts. Preliminary rates for LEOFF 2.



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## SCPP Goal

“To establish and maintain adequate, predictable and stable contribution rates, with equal cost sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems”



## Summary

- Plan 2 member rates projected to increase
  - Cost of improved early retirement benefit
- Employer contribution rates for PERS, TRS, and SERS also projected to increase
  - Cost of improved Plan 1 COLA and improved early retirement benefit in Plan 2/3
  - Phase-in of the Plan 1 unfunded liability payments
  - 2008 gain-sharing distribution



## Summary

---

- SPPP goal to establish stable and adequate contribution rates for the systems' financial soundness
- Projections based on results of the 9/30/2005 actuarial valuation
- Updated projections available this summer



## In Brief

### ISSUE

*Disability retirement is a complex and sensitive subject with a multitude of underlying issues. This report provides in-depth analysis on the following elements to assist the SCPP in its deliberations:*

- *Guaranteed and earned benefit policies,*
- *Duty and non-duty determinations,*
- *Coverage of general employees and public safety employees,*
- *Disability standards,*
- *Access to disability benefits outside the retirement plans, and*
- *Off-sets against other benefits.*

### MEMBER IMPACT

*This issue impacts all members who experience a disability to the extent that it limits their ability to continue working in their existing job.*

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# Disability Retirement

## Current Situation

Currently, there are several methods of providing disability benefits in Washington's state-administered retirement systems/plans. The following systems/plans provide an earned retirement benefit based on age, years of service, and compensation to members with a disability:

- ❖ Public Employees' Retirement System Plans 2/3 (PERS 2/3),
- ❖ Teachers' Retirement System Plans 2/3 (TRS 2/3),
- ❖ Public Safety Employees' Retirement System (PSERS),
- ❖ School Employees' Retirement System Plans 2/3 (SERS 2/3), and
- ❖ Law Enforcement Officers' and Fire Fighters Plan 2 (LEOFF 2), for a non-duty disability.

The following systems/plans provide members with a guaranteed disability benefit regardless of age and years of service:

- ❖ PERS 1,
- ❖ TRS 1,
- ❖ LEOFF 1,
- ❖ Washington State Patrol Retirement System (WSPRS),
- ❖ Volunteer Fire Fighters' and Reserve Officers' Relief and Benefits System (Vol-Fire),
- ❖ The Judges and Judicial systems, and
- ❖ LEOFF 2 (for a total disability).

Yet another method is a combination of the preceding two, where a portion of the benefit is guaranteed and a portion is earned, as in the LEOFF 2 duty-disability benefit.

Currently, members are also eligible to receive disability benefits from sources outside the retirement systems. Members disabled because of an on-the-job injury may receive time-loss benefits from the Workers' Compensation

program through the Department of Labor and Industries (L&I). Members may also purchase supplemental Long-Term Disability (LTD) insurance through the Public Employees Benefits Board (PEBB), or through other private insurers. Other disability benefits are also available for any member covered under the Federal Social Security program.

## History

With the creation of the Plans 2 in 1977, there was a definitive shift in disability benefit policy. The Plans 1 in each system tended to have guaranteed duty-disability benefits for members who become disabled on the job regardless of a member's age and years of service. Disability benefits in the Plans 2 became earned benefits, and no longer distinguished duty from non-duty disabilities. That design carried into the creation of the Plans 3 in the middle and late 1990s.

Legislative improvements in disability benefits have occurred over the past several years. In 2004, legislation was sponsored by the Select Committee on Pension Policy (SCPP) that created PSERS. The disability provision in the PSERS plan allows members with ten years of service credit to retire with a benefit actuarially reduced from age sixty, five years earlier than in PERS, TRS, or SERS.

*The most recent improvements in disability benefits have focused on LEOFF 2 and have moved the plan away from the earned-benefit design and towards the guaranteed-benefit design.*

The recent improvements in LEOFF 2 disability benefits have moved the plan away from the earned-benefit design and towards the guaranteed-benefit design. For instance, the disability benefit improvement in 2004 created a minimum guaranteed duty-disability retirement that provided a tax-free component to the existing LEOFF 2 duty-disability retirement benefit.

In 2005, legislation removed the actuarial reduction for duty-disability retirements in LEOFF 2.

Then in 2006, legislation established a total (catastrophic) disability benefit. LEOFF 2 members who experience a total disability to the extent that they are unable to perform any substantial gainful activity due to a physical or mental condition may receive a benefit equal to 70 percent of their average final salary (AFS). This benefit may be off-set by Workers' Compensation and Social Security disability

benefits so that a member may not receive a combination of benefits exceeding 100 percent of their AFS.

### Plan 2 Disability Benefit Example

*The disability benefit for a Plan 2/3 member retiring at age 55 can be reduced to 37% of its base amount.*

As noted, the disability retirement benefit for members of the Plans 2/3 is actuarially reduced from age 65. An actuarial reduction for early retirement can average more than 8 percent per year compounded (see Figure 1).

**Figure 1**  
**Plan 2/3 Early Retirement Factors**  
Source: WAC 415-02-320

Years Early	PERS, SERS, TRS 2/3	LEOFF 2
1	91%	92%
2	82%	84%
3	73%	76%
4	67%	71%
5	61%	66%
6	55%	61%
7	49%	56%
8	43%	51%
9	40%	47%
10	37%	43%

A Plan 2 member of PERS, TRS, or SERS who becomes disabled, retires at age 55, and is not eligible for an alternate early retirement, would receive a benefit reduced to 37 percent of its base amount (see Figure 2, next page).

<b>Figure 2</b> <b>PERS, TRS, or SERS Plan 2</b> <b>Benefit Reduction for Disability Retirement</b> Source: OSA	
Age	55
Average Final Compensation (AFC)	\$4,000
Years of Service	20
Base Percent	40%
Base Benefit (monthly)	\$1,600
Actuarial Adjustment Factor (10 yrs early)	37%
Adjusted Benefit (monthly)	\$592

Note: A Plan 3 member of the same age and AFC would have a defined benefit based on a 1 percent formula; the base percent, base benefit, and adjusted benefit would be half the amounts in the above table. The Plan 3 member would also have access to the accumulations in their defined contribution account.

*There are no age and service requirements to qualify for a disability benefit in the Plans 2/3, but the benefit is still actuarially reduced.*

In this example, the benefit for a disability retirement would be identical to the benefit for a member who opted for an early retirement. The principal difference between early retirement and disability retirement is the age/service requirements. To qualify for an actuarially reduced early retirement benefit, a member must be age 55 with 20 years of service. To qualify for an alternate early retirement benefit (reduced 3 percent per year prior to age 65), a member must be age 55 with 30 years of service. There are no age and service requirements to qualify for a disability benefit, but the benefit is still actuarially reduced to reflect the age at which the member retires. The actuarial reduction may have an impact on the number of members taking a disability retirement.

As of September 30, 2005, there were a total of 1,683 disability retirees from the PERS, SERS, and TRS Plans 2/3 (see Figure 3). The number of disability retirees in the Plans 3 are quite modest: 28 in PERS 3, 36 in TRS 3, and 37 in SERS 3. The fact that these are young plans may have a bearing on the number of members receiving a disability retirement benefit. These figures may understate the incidence of disability because members also have the options to receive the benefit in the form of a lump-sum or a refund of the member's contributions and interest.

<b>Figure 3</b>						
<b>Plan 2/3 Disability Retirements*</b>						
Source: 2005 Actuarial Valuation Report						
	<b>PERS</b>		<b>TRS</b>		<b>SERS</b>	
	Plan 2	Plan 3	Plan 2	Plan 3	Plan 2	Plan 3
Count	1,385	28	72	36	125	37
Avg. Ret Age	57.0	56.4	56.0	53.8	57.9	57.8
Avg. Member Service	12.6	15.9	12.0	14.8	13.9	17.7
AFC (Monthly)	\$2,617	\$3,875	\$3,629	\$4,067	\$1,838	\$2,244
Avg. Base Benefit	\$659	\$617	\$867	\$601	\$512	\$396
Avg. Benefit Received	\$351	\$259	\$500	\$218	\$275	\$205

\* All considered non-duty

In general, the base benefit of those currently receiving a disability benefit was reduced by about 50 percent, meaning that the average member became disabled approximately seven years before full retirement eligibility.

The average Plan 2/3 retiree receiving a disability benefit was relatively short-tenured, with about 13 years of service. Based on age and member service, the average retiree receiving a disability benefit was a mid-career hire.

This information should be interpreted with caution as it may simply be reflecting that point in a member's age and service at which it becomes worthwhile to take a disability retirement benefit in lieu of a lump-sum or return-of-contributions benefit.

## LEOFF 2 Disability Benefit Example

**LEOFF 2 uses three methods to provide disability benefits.**

The LEOFF 2 system is unique in Washington because it uses three methods of providing disability benefits depending on whether a member experiences a non-duty, duty, or total disability. Changes to the disability benefits in LEOFF 2 have been very recent, and data are not yet available that reveal the impact of those changes. As a result, comparisons with the disability experience in the other plans would be premature. A member who experiences a non-duty disability is eligible for an earned benefit that is actuarially reduced for early retirement. A member who experiences a duty disability is eligible for a combined guaranteed benefit and earned benefit that is not actuarially reduced for early retirement. A member who

experiences a total disability is eligible for a guaranteed benefit. Figure 4 illustrates all three types of disability benefits for a member who is 45 years of age with a monthly average final salary (AFS) of \$5,000, and 15 years of service.

<b>Figure 4</b> <b>Comparison of LEOFF 2 Non-duty, Duty,</b> <b>and Total Disability Benefits</b> Source: OSA	
Age	45 years
Monthly Average Final Salary (AFS)	\$5,000
Years of Service (YOS)	15 years
Base Benefit (2%×YOS×AFS)	\$1,500
Non-duty Disability Benefit (Base benefit × 51%)	\$765
Duty Disability Benefit (Base Benefit Unreduced)	\$1,500
Total Disability Benefit* (70% of AFS)	\$3,500

\* Benefit may be off-set so that the combination of total disability benefit, Workers' Compensation, and Social Security do not exceed 100% of pay at time of disability.

Because the non-duty benefit is actuarially reduced for early retirement, and because this member is retiring eight years early, the monthly benefit is reduced to 51 percent of the base amount, or \$765. The duty disability benefit is not reduced for early retirement, so the member will receive the entire base amount of \$1,500. The member experiencing a total disability is eligible for 70 percent of AFS, resulting in a monthly benefit of \$3,500.

## Policy Analysis

*Disability policy can treat benefits in the nature of insurance or as an earned benefit.*

There are several forms of disability benefits; duty and non-duty; occupational and total; public safety and non-public safety. A key to distinguishing these benefits is in the policy approach that drives them. Currently, disability policy for Washington's retirement systems differs depending on the system and plan. One policy provides that disability benefits should be in the nature of insurance – a member who experiences a disability may receive a guaranteed benefit regardless of age or service. Another policy provides that disability benefits should be an earned

retirement benefit with additional financial protection provided from sources outside the retirement plans. Still another policy provides that disability benefits should be a combination of guaranteed benefits and earned benefits. This section of the report will examine the policy implications of those differences.

Figure 5 summarizes policy implications of the guaranteed benefit and earned benefit approaches using views from the fiscal, member, employer, plan administrator, and policy maker perspectives. These implications will be discussed in greater depth below.

Figure 5 Views on Disability Benefit Policies		
View	Earned Benefit	Guaranteed Benefit
<b>Fiscal</b>	Less costly to the plans	More costly to the plans
<b>Employee</b>	Potential gaps in coverage; more costs shifted to members	Possibility of broad coverage regardless of age and service
<b>Employer</b>	Less costly; recruitment challenges in high-risk sectors; employer education to fill gaps	More costly; may enhance employee recruitment; early retirement risk if benefit is very attractive or too easily available
<b>Retirement System</b>	Easier to administer	More administrative impacts; due process requirements.
<b>Political</b>	Open to criticism from those desiring more coverage.	Broader coverage may lead to less criticism of existing policy

*Guaranteed disability benefits are not dependant on a member's age or service.*

**Disability Benefits as Guaranteed Benefits**

Disability benefits that are a guaranteed portion of a member's salary can be considered a form of insurance. The analogy to insurance coverage comes from the fact that benefits awarded under a typical insurance policy are not based on length of coverage. Consider the usual home-owner's insurance policy: if a tree falls on a policy holder's house one month after the member establishes coverage, the insurer does not prorate an award based on how long the homeowner has been insured. Coverage is specified in the policy, less deductibles, and is awarded to the policy holder based on the term of the insurance policy.

*The guaranteed benefit approach is common for police and fire fighting jobs which have a significant risk of occupational disability.*

Disability benefits via this guaranteed benefit approach are common in police and fire fighter plans in Washington State: LEOFF and WSPRS. PSERS uses an earned benefit approach.

### **Significant Risk of Occupational Disability**

The disability retirement benefits in LEOFF and WSPRS are related to the inherent danger associated with law enforcement and fire fighting professions. It is understood that an injury that may not cause a significant impediment in a civilian job may reduce a law enforcement officer's or fire fighter's effectiveness, possibly to the point of endangering the member, the public, or both.

The risks inherent in performing law enforcement and fire fighting duties can and do result in a comparatively high frequency of work-related injuries and illness. If these injuries or illnesses lead to a disabling condition, that is considered an occupational disability. Some injuries and illnesses are more frequent among fire fighters than in the population at large. A member with such a condition is presumed to have contracted that injury or illness while on the job; this is known as a presumptive condition or illness.

### **Duty and Non-Duty Disabilities**

In the LEOFF and WSPRS systems there is also a distinction between a duty-related disability and a non-duty-related disability. A duty disability occurs while the member is on-the-job, as a direct result of their work or occupation. A non-duty disability occurs while the member is off-the-job, but it still interferes with the member's ability to perform their job.

In terms of benefits, duty disabilities are generally treated more favorably than non-duty disabilities. In the LEOFF 2 plan, members with a non-duty disability may receive an earned retirement benefit that is actuarially reduced. A LEOFF 2 member with a duty disability may receive an earned retirement benefit that is unreduced, and a portion of it is tax-free.

*In plans with guaranteed disability benefits, members with duty disabilities receive higher benefits than members with non-duty disabilities.*

### ***Disability Determinations***

Because of these differences in the benefits between duty and non-duty disabilities, determinations of how a disabling injury occurred are of significant importance. Under the LEOFF 1 plan (closed to new members since 1977), those determinations are made by city or county Disability Boards. Determinations by the Disability Boards are subject to approval by the director of the Department of Retirement Systems (DRS). Under the remaining retirement plans, disability determinations are made by DRS. In these remaining determinations, DRS does not have to establish whether the disability was a duty or non-duty as the plans make no such distinction. These disability determinations are also important because of their potential financial impact on member and employers, and therefore add administrative costs.

### ***Tax Consequences for Public Safety Duty-Disability Benefits***

The duty-disability benefits in the LEOFF and WSPRS plans also tend to have tax advantages. These advantages apply when disability benefits are a fixed portion of a member's salary at the time of disability, or when a portion of the benefit is fixed. Under IRS regulations, the fixed portions of these public safety benefits are not subject to Federal income tax.

### ***Policy Implications of the Guaranteed Benefit Approach***

Under the guaranteed benefit approach, employers and members pay for more of the disability coverage through retirement contribution rates. As a result, neither has to seek out disability insurance coverage from an alternate provider. Members who have a pre-paid benefit may be better able to perform their jobs without financial worry.

Such benefits may provide employers with a recruitment tool, particularly those in the high-risk sectors, and employers would not have to educate their workers about the need to obtain adequate insurance from another provider.

On the cautionary side, duty-disability benefits tend to be more substantial under the guaranteed benefit approach; members may be enticed to retire earlier under a disability

pension. As a result, the determination of whether a disability is for duty or non-duty reasons is of greater significance.

Guaranteed disability benefits within large umbrella plans that cover a wide variety of occupations can have subsidy issues. The various occupations may have dissimilar disability patterns. A guaranteed approach to disability benefits may result in one occupational group subsidizing the disability benefits of another.

*Under guaranteed types of disability benefits a member with very little service can receive lifetime benefits.*

It should also be noted that under the guaranteed benefit approach to disability benefits, members who experience a disability with very little time on the job may be eligible for lifetime benefits. In such instances, their benefits far surpass the member and employer contributions and earnings. Under the concept of intergenerational equity a member's retirement benefit is paid for over their working lives. In that manner, taxpayers only pay for the benefits of those public employees from whom they have received services. Guaranteed benefits would be inconsistent with this approach.

The guaranteed benefit approach to disability is also less reliant on outside sources of benefits. For example, because of the LEOFF 1 benefit design and disability determination process, members do not participate in the Workers' Compensation program. In comparison, LEOFF 2 members do participate in Workers' Compensation; however, the benefit of a member who experiences a total disability is off-set so that the member's combined benefits (retirement, Workers' Compensation, and Social Security) do not exceed 100 percent of the member's pay at time of disability.

*Even though the benefits are actuarially reduced, the earned-benefit design for disability benefits allows members to have access to benefits earlier than they would otherwise have been eligible.*

### **Disability Benefits as Earned Retirement Benefits**

A number of Washington's retirement plans provide members experiencing a disability with an earned retirement benefit. The Plans 2/3 of PERS, TRS, and SERS have disability benefits that are based on a member's earned benefit actuarially reduced from age 65. PSERS has disability benefits that are based on a member's earned benefits actuarially reduced from age 60. In each instance, the benefit design allows members to have access to retirement benefits earlier than they would otherwise have been eligible. The actuarial reduction

“compensates” the plan for the member’s early receipt of the benefit.

### **Lower Risk of Disability**

Unlike law enforcement or fire fighting occupations, most public employment tends to involve service-related occupations in a service industry. As a result, most public employees may be considered at a relatively low risk of experiencing a disability or contracting an occupational disability. A PERS member working in an administrative position may be inconvenienced by a broken leg, but are likely able to continue performing their job; it would be a different story for a police officer or fire fighter.

### **Duty and Non-Duty Treated the Same**

Unlike the plans that provide guaranteed disability benefits, Washington’s plans that provide members who experience a disability with earned retirement benefits do not differentiate between duty and non-duty disabilities. The criterion for receipt of a disability benefit is that a disability renders the member incapable of performing their job; whether the member was experience a disability from an on-the-job injury or from an off-the-job injury is immaterial.

### **Availability of Other Disability Benefits**

When disability benefits are treated as earned retirement benefits, there tend to be other benefit programs available to members to cover the risk of financial loss. Members of the Plans 2/3 are covered under Workers’ Compensation benefits, Social Security disability benefits, and if they so choose, supplemental LTD insurance through PEBB. Members may also purchase other private disability insurance.

*Under this state’s earned-benefit policy, there is more reliance on benefits outside the retirement system*

### **Policy Implications of the Earned Benefit Approach**

One of the implications of an earned-benefit approach to disability is that it requires greater Individual responsibility. Most employees are provided basic LTD coverage as an employment benefit. If they are unable to work because of an injury that occurs outside the workplace, they may

*Not all plan members covered under the earned-benefit approach are in low-risk occupations.*

be eligible to receive a monthly benefit--currently \$240 per month. A member who wants greater financial protection must seek out and purchase supplemental LTD insurance.

An earned benefit approach to disability also tends to assume that plan members are in low risk occupations. That may not always be the case. Some members may work in hospitals or on construction sites that are measurably more risky than a typical office environment. This may result in a relatively modest level of employer-provided financial protection for those in higher-risk jobs.

In addition, if the earned benefit is reduced, it may compel members who were injured away from the workplace, where they are not covered by Workers' Compensation, to work longer, possibly aggravating an injury.

On the other side of the ledger, the earned-benefit approach in Washington means the plan administrator does not have to make duty and non-duty determinations; which may make the administration of disability benefits easier, and the decision-making process quicker.

Another characteristic of the earned-benefit approach is that there is a greater dependence on other benefit sources. As a result, there is less likelihood of a duplication of benefits within the plans.

*Under the earned-benefit approach there are no additional costs to the plans for early retirement.*

Employer costs are more contained under the current earned-benefit approach. Because disability benefits are actuarially reduced, this means there are no additional costs to the plans when a member leaves employment early because of a disability.

Finally, the earned-benefit approach also assures that no large disability benefits could be awarded to those who would never have been able to qualify for a full retirement. For example, a member who was hired late in their career and experienced a disability could not receive a benefit greater than what he or she would have been able to earn as a normal retirement benefit.

*Under the combined approach, part of the disability benefit is guaranteed, and part is earned.*

### **Combined Guaranteed Benefits and Earned Benefits**

The duty disability benefit in LEOFF 2 is a combination of guaranteed benefits and earned benefits. The member is guaranteed a minimum of 10 percent of AFS – the equivalent benefit for a member with five years of service.

If the member has more than five years of service, the member's benefit will be increased for each year of service over five years. In addition, these benefits are not actuarially reduced for early retirement.

### ***Not Prevented from Working***

This disability design can provide financial protection for those in high-risk jobs. However, it also recognizes that while a member may be unable to perform the job from which they experienced a disability, they may still be capable of performing some other job.

### ***Other Benefits Too***

This combined approach also may take advantage of other benefits outside the retirement system as in the typical earned benefit approach.

### ***Tax Advantages***

For members of police and fire plans, the combined approach to disability benefits allows members who experienced a disability to accrue a portion of their benefit tax-free, as under the guaranteed benefit (insurance) approach.

### ***Policy Implications of the Combined Approach***

By borrowing elements from the guaranteed benefit approach and the earned benefit approach, the combined approach walks the line between both disability methods. This is similar to another combined approach in the Washington retirement plans – the Plan 3 design. In the Plans 3, members earn both a defined benefit and make contributions to a defined contribution account. This allows member to take advantage of the positive elements of each approach to benefits.

In summary, this benefit design combines employer cost controls, differentiation of duty and non-duty disabilities, access to other benefits, and in the case of police and fire members, use the available tax advantages.

*The combined benefit approach can take advantage of the positive elements of each method.*

*In Washington, the older plans tended to have guaranteed disability benefits, and the newer plans tend to have earned disability benefits.*

### **Washington State Systems and Plans**

Disability benefits in the Washington systems and plans are nearly as varied as the systems and plans themselves. In general, however, guaranteed (insurance-type) benefits are found in the older plans (LEOFF 1, PERS 1, TRS 1, WSPRS, Judges, and Judicial), and earned benefits are found in the newer plans (PERS 2/3, TRS 2/3, SERS2/3, and PSERS). The exceptions to that generality are in LEOFF 2, which has a combination of guaranteed and earned benefits – and in the Vol-Fire System that has a guaranteed disability benefit (see Figure 6).

<b>Figure 6 Disability Benefits by Washington System and Plan: 2007</b>	
<b>System/Plan</b>	<b>Benefit</b>
<b>LEOFF 1</b>	Duty and Non-duty: 50% of Final Average Salary (FAS), plus 5% of FAS for each dependent child, not to exceed 60% of FAS.
<b>LEOFF 2</b>	Total Duty: 70 % of FAS, offset by Workers' Compensation and social security, not to exceed 100% of FAS. Duty: 10% of FAS, plus 2% of FAS for each year of service beyond 5. Non-duty: Earned benefit, actuarially reduced from age 53.
<b>WSPRS</b>	Duty: 50% of compensation earned at time of disability, less Workers' Compensation. Non-duty & other employment: 50% of compensation earned at time of disability, less Workers' Compensation, social security, group insurance, or other pension plans. If member is less than age 50, earnings off-set is also applied.
<b>PERS 1</b>	Duty: $\frac{2}{3}$ AFC or \$4,200 per year, whichever is less. At age-60, benefit converts to service retirement allowance in which service credit is granted for the disability period. Offset by Workers' Compensation. Non-duty: Earned benefit reduced 2% for each year under age 55.
<b>TRS 1</b>	Temporary: Allowance of \$180/month for up to 2 yrs. Permanent: Service retirement, if eligible; or an annuity based on member's contributions and service pension, if eligible; or a refund of member's contributions, plus accrued interest.
<b>PERS, SERS, and TRS 2/3</b>	Allowance based upon years of service. Actuarially reduced from age-65.
<b>PSERS</b>	Allowance based upon years of service, Actuarially reduced from age-60.
<b>Higher Education Retirement Plans</b>	The supplemental amount. No actuarial reduction taken on account of age.
<b>Volunteer Fire</b>	Short-term disability: \$2,994 per month or \$99.80 per day for a maximum of 6 months. Total disability: \$1,497 per month, plus additional awards for spouse and children.
<b>Judges, Judicial</b>	50% of FAS for any member having 10+ yrs. of credited service.

**Disability Utilization in Washington**

Because of the variety of disability retirement benefits within the public plans administered by Washington State, and because of the various levels of occupational risk, the disability utilization of these plans varies a great deal. Figure 7 compares the total number of retirees and disability retirees in Washington's plans.

<b>Figure 7</b>			
<b>Disability Retirements as a Share of Total Retirements</b>			
Source: 2005 Actuarial Valuation Report			
	<b>Total Retirees</b>	<b>Disability Retirees</b>	<b>Percent Disability</b>
PERS 1	54,795	1,694	3.1%
PERS 2	13,471	1,385	10.3%
PERS 3	343	28	8.2%
TRS 1	35,264	800	2.3%
TRS 2	1,351	72	5.3%
TRS 3	706	36	5.1%
SERS 2	1,426	125	8.8%
SERS 3	705	37	5.2%
LEOFF 1	8,149	4,197	51.5%
LEOFF 2	574	60	10.5%
WSPRS*	850	58	6.8%

\* It should be noted that members in WSPRS who experience a disability are not paid their benefits out of the pension funds. For this reason they are not technically considered annuitants. However, we have included them with other annuitants in this report strictly for illustrative purposes.

The plans with lowest share of retirees receiving a disability benefit are PERS 1 and TRS 1 – this is likely a result of the modest disability provisions in these plans as well as the ability of members to retire with 25 years of service at age 55; In contrast, the average age at disability for Plan 2/3 members was over age 55.

The highest share of disability retirees is found in LEOFF 1 – over half of the existing retirees are receiving a disability benefit. LEOFF 1 members who experience a disability may receive 50 percent of their salary at time of disablement as a life annuity, plus additional amounts if the member has children. While that would appear to be the similar to the

*Over half of the current retirees in LEOFF 1 receive a disability retirement benefit.*

benefit they would receive after 25 years of service, the duty disability benefit is tax free.

Caution should be used in how these data are interpreted. The table only illustrates the incidence and selection of the disability benefit by plan; it does not include those who chose the lump-sum cash-out. The frequency of disability can't be used as a proxy for the cost of disability benefits. Disability benefits in the Plans 2/3 are actuarially reduced; as a result, they have no additional costs to the plans.

### ***Disability Benefit Policies in Comparative Systems***

*The one provision that is commonplace in the comparative systems is the absence of an actuarial reduction in calculating a duty or non-duty disability benefit.*

Among the comparative systems there is similar variability in disability retirement benefit policies. Some systems use the "earned-benefit" policy, while others use the "guaranteed-benefit" (insurance) policy. The one provision that tends to be commonplace is the absence of an actuarial reduction in calculating either a duty or non-duty disability benefit.

Several of the comparative systems use the "earned-benefit" approach to disability benefits. CalPERS has a capped earned benefit with members also eligible for Workers' Compensation benefits. Iowa and Minnesota provide an earned benefit without a reduction for early retirement. The benefit in Minnesota is offset by Workers' Compensation and LTD insurance.

A number of other comparative systems use the guaranteed approach to disability benefits. Colorado, Florida, Missouri, and Seattle use specific percentages of a member's salary at time of disability. Iowa, Ohio, Oregon, and Wisconsin provide disability benefits based on what the member would receive at an assumed "normal" retirement age.

For more complete descriptions of the disability benefits in the comparative systems see Appendix A.

*The standard to define disability has a recurring theme - members are unable to perform their job duties.*

### ***Disability Standards in the Comparative Systems***

Among the comparative retirement systems, and in Washington, the standard to define disability has a recurring theme – members must demonstrate illness or injury that causes them to be unable to perform their job duties. Because the standard is a near constant, it is easier

to compare how the policies and benefits in other systems may affect the utilization of disability benefits.

Missouri also has a secondary standard – in addition to the member being unable to perform their job, the member must also be unable to perform any other job in which the member could earn at least 60 percent of their pre-disability earnings.

Iowa uses an outside standard: public employees must meet the Social Security or Railroad Retirement Board standard of disability in order to qualify for a state disability retirement benefit.

Several States use disability standards based on various losses of earnings. Some are relatively general, such as the “reasonably comparable pay and benefits” standard in CalPERS. Others use specific percentages of pre-disability earnings (75 percent in Colorado, loss of 20 percent in Missouri, 60 percent in Wisconsin).

*In the comparative systems, members tend to be immediately eligible for duty-disability benefits, but must meet age and service requirements for non-duty benefits.*

Another common element among the comparable systems is the immediate eligibility for receipt of a duty-disability. But among those systems that provide non-duty or “regular” disabilities there are a variety of length-of-service qualifying standards: Seattle and Oregon require ten years of service, Florida requires eight years, Idaho and Ohio require five years, and Minnesota requires three years.

For further detail on disability standards in the comparative systems see Appendix B.

### ***Disability Utilization in the Comparative Systems***

Because of the variety of disability retirement benefits within the comparative systems, and because of the absence of Social Security benefits in some of the systems, the disability utilization of these systems varies a great deal. Figure 8 (next page) provides data on the total number of retirees in the comparable systems and how many of those retirees receive a disability retirement benefit.

<b>Figure 8</b>				
<b>Total and Disability Retirees by Comparative Retirement System</b>				
Source: Individual State Comprehensive Annual Financial Reports 2005 and 2006				
<b>System</b>	<b>Total Retirees</b>	<b>Disability Retirees</b>		<b>% Disability Retirees</b>
<b>California CalPERS</b>	448,271	Regular Industrial	42,383 31,157	Regular 9.5% Industrial 7.0%
<b>Colorado PERA</b>	71,712		7,470	10.4%
<b>Florida FRS</b>	250,496		13,937	5.6%
<b>Idaho PERSI</b>	28,438		1,168	4.1%
<b>Iowa IPERS</b>	82,204		2,988	3.6%
<b>Minnesota MSRS</b>	24,204		1,495	6.2%
<b>Missouri MOSERS</b>	27,364		16	0.1%
<b>Ohio OPERS</b>	156,745		21,563	13.8%
<b>Oregon PERS</b>	101,519	Duty Non-duty	639 3,538	Duty 0.6% Non-duty 3.5%
<b>Seattle SCERS</b>	3,993		76	1.9%
<b>Wisconsin WRS</b>	129,289		6,505	5.0%
<b>Washington Plans</b>	117,576		8,492	7.2%

Despite the common themes found in the disability standards, the share of disability retirements to total retirements differs widely among the comparative retirement systems. The low percentage of disability retirement in Missouri may be a result of the Workers' Compensation and social security benefit off-sets. The high percentage of disability retirement in Colorado and Ohio may also be due to the absence of Social Security coverage – states whose members do not participate in Social Security tend to have more generous benefits.

### Other Disability Benefits

Most plan members' financial protection from disability is not limited to their earned retirement benefit. The following sections of this report will describe the alternate sources of disability benefits for members – Workers' Compensation, LTD insurance, and Social Security. In general, these alternate sources of benefits are independent of each other.

### **Workers' Compensation Time-Loss Benefits**

*A member who experiences a total disability may be eligible for time-loss benefits equal to 60-75 percent of their gross income.*

All retirement system members (except LEOFF 1 members) who experience a permanent disability, and are unable to work as a result of injury or disease incurred in the course of employment, may be eligible to be paid a portion of their regular wages under the Workers' Compensation program. This is in addition to any benefits received from their retirement plan. The amount of a time-loss benefit is 60 to 75 percent of a worker's gross income (includes wages/salary plus medical, dental, and vision benefits, room and board, bonuses, and tips). The percentage depends on the worker's marital status and number of dependents. On an annual basis these benefits cannot exceed 120 percent of the state's average wage as measured by the Washington State Employment Security Department; as of 2005 the State's annual average wage was \$40,385 and 120 percent of the annual average wage was \$48,462.

Workers' Compensation is available for members experiencing partial permanent disabilities, or total permanent disabilities. These disabilities can have awards that are specified in law, awards that need to be determined through an administrative process, or awards providing a full pension.

*Time-loss benefits are tax-free.*

Workers' Compensation benefits are tax-free. The actual value of a benefit will depend on the tax-status of the recipient. A recipient eligible for the maximum annual time-loss benefit of \$48,462, who had formerly been in the 28 percent tax bracket, would receive a benefit equivalent to \$67,308.

Few workers actually qualify for a total permanent disability through the Workers' Compensation program. When they do, receipt of a time loss benefit can off-set other retirement benefits. The total disability benefit in LEOFF 2, the line duty disability benefit in WSPRS, and the duty disability benefit in PERS 1 are off-set by Workers' Compensation. The benefit of a LEOFF 2 member who qualified for a total permanent disability would be subject to off-sets so that the combination of the retirement benefit, Workers' Compensation, and Social Security would not exceed 100 percent of the member's pay at the time of disability.

A more complete description of Workers' Compensation benefits can be found in Appendix C.

### **Long-Term Disability Insurance**

*LTD benefits can pay up to 60% of the first \$10,000 of pre-disability monthly earnings.*

Eligible retirement plan members may protect themselves from a disabling injury outside the work-place by purchasing LTD insurance. This insurance is available to State, K-12, and Higher Education employees through PEBB in basic and optional coverage. Basic coverage is an employer-provided benefit that provides up to \$240 per month. Optional coverage, in combination with basic coverage, will pay 60 percent of the first \$10,000 of pre-disability monthly earnings. These payments continue for a maximum benefit period – in most cases, up to the age of 65 – the age of normal retirement. At the end of the maximum benefit period LTD payments cease and the member transitions to a normal retirement benefit with service credit normally awarded for the period of disability.

As is characteristic with disability insurance, shorter waiting periods have higher premiums and longer waiting periods have lower premiums. For members who are willing to wait 120 days before receiving benefits, the monthly premiums are 0.43 percent of pay for Higher Education Retirement Plan employees and 0.37 percent of pay for TRS, PERS, and other employees.

A note of caution – not all public employees receive PEBB coverage. State, K-12, and Higher Education employees are automatically covered under PEBB programs. City and county public employees may or may not be covered depending on whether their employer opted to participate. Those city or county public employees not covered by PEBB would need to acquire LTD coverage through their employer.

If a member has LTD insurance and is injured on the job, their LTD benefits are off-set against Workers' Compensation.

A more complete description of LTD benefits can be found in Appendix D.

*Social Security pays only for a total disability where an individual is completely and permanently unable to work.*

### **Social Security Disability Benefits**

Most members pay into the Social Security system and are covered under the system's disability provisions. The definition of disability under Social Security, however, is quite narrow. Social Security pays only for a total disability where an individual is completely and permanently unable to work. No benefits are payable for partial disability or for short-term disability. An individual is considered disabled under Social Security rules if they cannot do the work they did before, and they cannot adjust to other work because of their medical condition(s). An individual's disability must also be expected to last for at least one year or to result in death.

This is a strict definition of disability. Social Security program rules assume that working families have access to other resources to provide support during periods of short-term disabilities, including Workers' Compensation, insurance, savings, and investments.

Generally, disability retirement benefits in Washington's plans are not off-set by Social Security disability benefits. The exceptions are the LEOFF 2 total disability benefit, and the WSPRS non-duty (other employment) disability benefit.

A more complete description of Social Security benefits can be found in Appendix E.

### **Policy Questions**

Because of the distinct disability benefits and policies in Washington's systems and plans, the Committee may want to consider the following policy questions:

Are disability benefits adequate under the current policies and benefit structure?

If disability benefits are not adequate, can any shortcomings be addressed within the current policy and benefit structure?

If not, which policy or policies should drive any changes in benefits?

***How much disability coverage should be provided within the retirement systems?***

## Conclusion

This report covered a wide variety of topics on the Disability Retirement issue. Emphasis was placed on the distinct policies that provide members with either guaranteed benefits or with earned benefits. Comparisons were made between the systems/plans administered by Washington State, and among a select group of comparative systems. The report also covered the range of disability benefits available to members outside the retirement systems. And finally the report left the readers with some broad policy questions.

## Stakeholder Inputs

Senator Tracey J. Eide (see attached letter)

George A. Compton, c/o Representatives Fromhold and Crouse (see attached letter)

Jeffry Allan Graves (see attached letter)

Attachments to the letters are on file at the Office of the State Actuary.

## Next Steps

The executive committee of the SCPP will consider whether to recommend pursuit of any changes to the current system and will forward any matters for further consideration to the full committee.

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# Disability Retirement Report

## Appendices

### Appendix A

#### Disability Benefits in the Comparative Systems

System	Benefit
<b>California CalPERS</b>	Earned monthly retirement benefit (not to exceed 33.3% of salary) for life or until recovered from injury. Members also eligible for Workers' Compensation benefits.
<b>Colorado PERA</b>	50% of Highest Average Salary or greater if accrued service credit is 20+ yrs. Disability plus Workers' Compensation cannot exceed 100% of AFC
<b>Florida FRS</b>	Regular: Minimum 25% of AFC Line-of-Duty: Minimum 42% of AFC Special Risk: Minimum 65% of AFC Members also eligible for Workers' Compensation benefits offset by Social Security.
<b>Idaho PERSI</b>	Age 65 benefit or 30 yr. benefit, whichever is less for regular members. Age 60 benefit or 30 yr. benefit, whichever is less for police and fire members. Members Workers' Compensation benefits may offset the disability benefit.
<b>Iowa IPERS</b>	Earned benefit without reduction for early retirement.
<b>Minnesota MSRS</b>	Earned benefit without reduction for early retirement. Workers' Compensation benefits are reduced by disability benefit. Long-Term-Disability (LTD) benefits are also reduced by disability benefit.
<b>Missouri MOSERS</b>	60% of member's monthly salary on their last full day of active work or the average monthly salary for the highest 36 months of employment, whichever is greater. Off-set by soc. sec., Workers' Compensation, wages, other insurance, and sick leave. LTD provided at no cost.
<b>Ohio OPERS</b>	Original plan: Earned benefit member would receive at age 60, with no reductions for early retirement. Cannot be less than 30% or exceed 75% of FAS. Revised plan: Earned benefit. Cannot be less than 45% or exceed 60% of FAS.
<b>Oregon PERS</b>	Age 55 retirement benefit for police officers and firefighters. Age 58 retirement benefit for general service Tier 1 members. Age 60 retirement benefit for general service Tier 2 members. Tier 2 members are eligible for Workers' Compensation; combined benefits may not exceed salary at time of disability.
<b>Seattle SCERS</b>	Earned benefit that is at least $\frac{1}{3}$ of the member's Average Salary. LTD benefits are reduced by the disability benefit.
<b>Wisconsin WRS</b>	Benefit assumed at normal retirement age – 65 for general employees and teachers, age 62 for Executive Retirement Plan employees and elected officials, age 54 for Protective Occupation employees with less than 25 years of service, and age 53 for Protective Occupation employees with at least 25 years of service.

## Appendix B

### Disability Standards in the Comparative Systems

<b>California CalPERS</b>	Illness or injury that prevents member from performing job duties with current employer or any other CalPERS employer; and there are no positions reasonably comparable in pay, benefits, and promotional opportunities that member can perform.
<b>Colorado PERA</b>	Totally and permanently disabled from engaging in any regular and substantial gainful employment (75% of pre-disability earnings).
<b>Florida FRS</b>	Totally and permanently disabled to the extent that they are unable to work. (Regular disability requires 8 YOS, duty, or special risk eligibility from the first day.)
<b>Idaho PERSI</b>	A physical or mental impairment that is considered total and permanent - prevents member from earning a livelihood. (Regular disability requires 5 YOS, duty eligibility from the first day.)
<b>Iowa IPERS</b>	Member is receiving Social Security disability or Railroad Retirement disability benefits.
<b>Minnesota MSRS</b>	Member has 3 or more YOS, and is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that has existed or is expected to continue for a period of at least 1 year.
<b>Missouri MOSERS</b>	Own occupation: Unable to perform with reasonable continuity the material duties of own occupation and loss of at least 20% of pre-disability earnings. Any occupation: Unable to perform the material duties of any occupation – one that they could earn at least 60% of their pre-disability earnings in.
<b>Ohio OPERS</b>	5 YOS credit (immediate eligibility for law enforcement), permanent disabling condition, either mental or physical, that prevents member from doing their job.
<b>Oregon PERS</b>	Member unable to perform any work that they are qualified for a min. of 90 consecutive days because of injury or illness. Duty: Eligible immediately Non-duty: 10 YOS.
<b>Seattle SCERS</b>	Duty: If, due to on-the-job injury, member is permanently and totally disabled, regardless of length of service. Non-duty: Unable to work due to illness and have at least 10 YOS, 5 that must have been earned during the 10 yrs. prior to disablement.
<b>Wisconsin WRS</b>	Total and permanent disability, confirmed by 2 physicians, that prevents member from any further gainful employment (60% of final average earnings.) Plan assumes member would also qualify for soc. sec. disability benefit.

## Appendix C

### Workers' Compensation Time-Loss Benefits

Workers who are unable to work as a result of injury or disease incurred in the course of employment may be eligible to be paid a portion of their regular wages under L&I's Workers' Compensation program. These time-loss compensation payments will not provide the same income as when the members were working. The amount of a time-loss benefit is 60 to 75 percent of a worker's gross income (includes wages/salary plus medical, dental, and vision benefits, room and board, bonuses, and tips). The percentage depends on the worker's marital status and number of dependents. On an annual basis these benefits cannot exceed 120 percent of the state's average wage as measured by the Washington State Employment Security Department; as of 2005 the State's annual average wage was \$40,385 and 120 percent of the annual average wage was \$48,462.

#### **Awards for Partial Permanent Disabilities**

If an injury or occupational disease causes permanent loss of bodily function, the injured worker will receive a permanent partial disability award. The amount received for any physical loss is established by the Legislature and does not include compensation for pain and suffering. There are two types of permanent partial disabilities:

*Specified disabilities:* Some disabilities have awards that are already set by law, such as loss of vision or hearing, or the loss of an eye, leg, foot, toe, arm, or finger by amputation (see RCW 51.32.080).

*Unspecified disabilities:* These disabilities include every other type of impairment caused by an on-the-job injury or occupational illness, including the partial loss of function to a limb.

The degree of a partial loss of function is determined by a disability rating. These ratings are conducted either by the attending physician or by one or more independent medical examiners using established medical standards and guidelines. Normally, ratings are performed after all services have been completed, the injured worker is medically stable, and no further treatment is appropriate.

A permanent partial disability award is not jeopardized by working. Workers are encouraged to return to their job as soon as their doctor releases them for work. Any permanent partial disability award is based on the degree of damage suffered, not on whether an employee can work.

**Pensions for Total Permanent Disabilities**

If an accident results in the loss or total paralysis of both legs or arms, one leg and one arm, or a total loss of eyesight, a worker is eligible for a pension by law, even if able to return to work.

If vocational and medical evaluations determine that an injury prevents a worker from ever becoming gainfully employed, they may be paid a monthly pension for life. However, this type of "non-statutory" pension may not be payable if a worker is able to return to work.

Pension benefits are paid monthly. They are based on the amount of time-loss compensation to which a worker is entitled. As with time-loss compensation benefits, the amount a worker is eligible to receive depends on factors such as wages, marital status, number of dependents, health care benefits, Social Security benefits, and the state's average wage at the time of injury. In some cases, a pension benefit amount may be reduced for previously paid permanent partial disability awards.

**Pension Survivor Options**

If a worker is granted an L&I pension, they can choose one of these survivor options:

- ❖ An unreduced single life pension.
- ❖ A reduced joint and 50 percent pension.
- ❖ A further reduced joint and 100 percent pension.

**Tax Free**

Workers' Compensation benefits are tax-free. The actual value of a benefit will depend on the tax-status of the recipient. A recipient eligible for the maximum annual time-loss benefit of \$48,462, who had formerly been in the 28 percent tax bracket, would receive a benefit equivalent to \$67,308.

## Appendix D

### Public Employees Benefits Board

### Long Term Disability Insurance

(Underwritten by Standard Insurance Company)

The PEBB-sponsored LTD plan has two parts—Basic and Optional.

*Basic Plan:* This plan is included in the full PEBB package at no additional cost for employees. The Basic Plan provides a benefit of 60 percent of the first \$400 of pre-disability earnings, reduced by any deductible income. The maximum benefit payable is \$240 per month. The minimum benefit is \$50 per month. Benefits begin after 90 days of total disability or after the period of accumulated sick leave, whichever is longer, and continue during disability up to the Maximum Benefit Period. The Maximum Benefit Period is determined by the type of disability and the age of the enrollee when he or she becomes disabled.

*Optional Plan:* This plan allows most employees eligible for the Basic Plan to apply for additional benefits. If the coverage is applied for within 31 days of the eligibility date, the member doesn't need to provide evidence of insurability. When combined with the Basic Plan benefits, the Optional Plan will pay 60 percent of the first \$10,000 of your pre-disability monthly earnings, reduced by any deductible income. The minimum combined benefit is \$100 per month. The Optional Plan benefit will increase in accordance with the Cost of Living Adjustment (COLA) provision. Optional Plan benefits begin after the end of the Benefit Waiting Period and continue during disability up to the Maximum Benefit Period -- in most cases up to the age of 65.

Payroll Deductions as a Percent of Pre-disability Earnings		
Waiting Period	Higher Education Employees	TRS, PERS, and Other Employees
30 days	2.67%	2.11%
60 days	1.35%	1.12%
90 days	0.74%	0.61%
120 days	0.43%	0.37%
180 days	0.32%	0.29%
240 days	0.31%	0.28%
300 days	0.29%	0.26%
360 days	0.28%	0.25%

To calculate an Optional Plan LTD premium, multiply the monthly base pay (up to \$10,000) by the percentage shown for the desired Benefit Waiting Period.

**Examples:**

A Higher Education Retirement Plan (TIAA-CREF) employee purchasing the LTD benefit with the 60-day waiting period would pay \$13.50 per month for each \$1,000 of pay ( $1.35\% \times \$1,000 = \$13.50$ ).

A TRS, PERS, or other retirement plan employee purchasing the LTD benefit with the 60-day waiting period would pay \$11.20 per month for each \$1,000 of pay ( $1.12\% \times \$1,000 = \$11.20$ ).

## Appendix E

### Social Security Disability

Most Plan 2/3 members pay into the Social Security system and are covered under the system's disability provisions. The definition of disability under Social Security, however, is quite narrow. Social Security pays only for a total disability where an individual is completely unable to work. No benefits are payable for partial disability or for short-term disability. An individual is considered disabled under Social Security rules if they cannot do work they did before and they cannot adjust to other work because of their medical condition(s). An individual's disability must also last, or be expected to last, for at least one year or to result in death.

This is a strict definition of disability. Social Security program rules assume that working families have access to other resources to provide support during periods of short-term disabilities, including Workers' Compensation, insurance, savings, and investments.

#### **Social Security Standard for Disability**

Those applying for a Social Security disability benefit are evaluated via a progressive series of questions beginning with . . .

. . . Are they working? Those currently working and earning more than \$900 a month generally are not disabled. For those not working . . .

. . . Is their condition "severe"? A condition must interfere with basic work-related activities to be a disability. If it does not, there is no disability. If it does . . .

. . . Is their condition on the list of disabling conditions? Social Security maintains a list of medical conditions that automatically mean a worker is disabled. If the condition is not on the list, Social Security determines if it is of equal severity to a condition on the list. If it is, the worker is disabled. If it is not . . .

. . . Can they do the work they did previously? If the condition is severe, but not at the same or equal level of severity as a medical condition on the list, then Social Security determines if it interferes with their ability to do the work they did previously. If it doesn't, the claim will be denied. If it does . . .

. . . Can they do any other type of work? If they cannot adjust to other work, their claim will be approved. If they can adjust to other work, their claim will be denied.

**How Much Work is Needed?**

In addition to meeting the Social Security definition of disability, a worker must have worked long enough, and recently enough, to qualify for disability benefits. Social Security work credits are based on total yearly wages or self-employment income. Up to four credits can be earned each year. The amount needed for a credit changes from year to year. For 2007, \$1,000 of wages will earn one credit and \$4,000 of wages will earn the maximum four credits.

The number of work credits needed to qualify for disability benefits depends on the age of disability. Generally, a worker needs 40 credits, 20 of which were earned in the last ten years ending with the year they become disabled. However, younger workers may qualify with fewer credits.

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## Disability Retirement

Robert Wm. Baker, Senior Research Analyst  
June 19, 2007



## Fundamental Question

- What should be provided in a retirement plan?
  - Retirement Benefits
  - Death benefits
  - Disability benefits



## Disability Presentation

- Policies
- Comparisons
- Other disability benefits
- Policy questions



## Disability Policies

- Guaranteed benefit
- Earned benefit
- Combination guaranteed benefit & earned benefit



## Guaranteed Disability Benefits: Like Insurance



## Guaranteed Disability Benefit Characteristics

- A form of insurance
- Differentiate duty and non-duty disabilities
- Determinations by board or plan administrator



## Guaranteed Disability Benefit Policy Implications

- **Cost implications**
  - May require higher contributions
  - Members with little service can receive lifetime benefits
  - Less reliance on benefits from outside sources
- **Human resource implications**
  - Members in high-risk sectors receive financial protection
  - Employers have a recruitment tool



## Earned Disability Benefit Characteristics

- **Members with less service receive a lower benefit**
  - Provides earlier access to benefits already earned
- **Duty and non-duty disabilities tend to be treated the same**
- **Greater reliance on disability benefits from outside sources**



## Earned Disability Benefit Policy Implications

- Greater individual responsibility
- Not all members in low-risk occupations
- Members with similar injuries could receive dissimilar benefits
- A greater portion of benefits funded by individual and employer contributions



## Combined Disability Benefit Characteristics

- Part guaranteed - part earned
- Other benefits also available



## Disability Benefit Comparisons

- Washington Systems/Plans
- Other States/Systems



## Disability Policies in Washington

- Guaranteed benefit
  - PERS 1, TRS 1, LEOFF 1, Judges, and Judicial
  - Volunteer Fire, WSPRS, and LEOFF 2 (total)
- Earned benefit
  - PERS 2/3, TRS 2/3, and SERS 2/3
  - PSERS and LEOFF 2 (non-duty)
- Combined benefit
  - LEOFF 2 (duty)



## Disability Policies: Comparative States/Systems

- **Guaranteed benefit**
  - Percent of salary at time of disability
    - Colorado, Florida, Missouri, and Seattle
  - What member would receive at normal retirement age or service
    - Idaho, Ohio, Oregon, and Wisconsin
- **Earned benefit (unreduced)**
  - California, Iowa, and Minnesota



## Disability Standards

- **Primary standard (comparative systems and Washington)**
  - Unable for perform job duties
- **Secondary standards (comparative systems)**
  - Unable to perform any other job
  - Unable to earn specific amounts
- **Outside standards (Missouri and Iowa)**
  - Social Security or Railroad Retirement Board



## Duty and Non-Duty Disability Issues

- Length of service standards
  - Specific service required for non-duty disability benefits
  - Immediate eligibility for duty disability benefits
- Tax consequences
  - Duty disability benefits may be tax-free
- Administrative impacts in making determinations
- Human resource implications

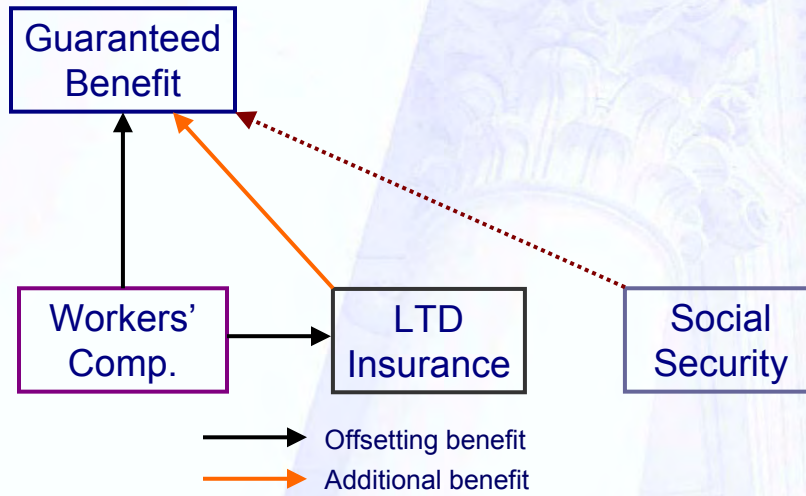


## Other Disability Benefits

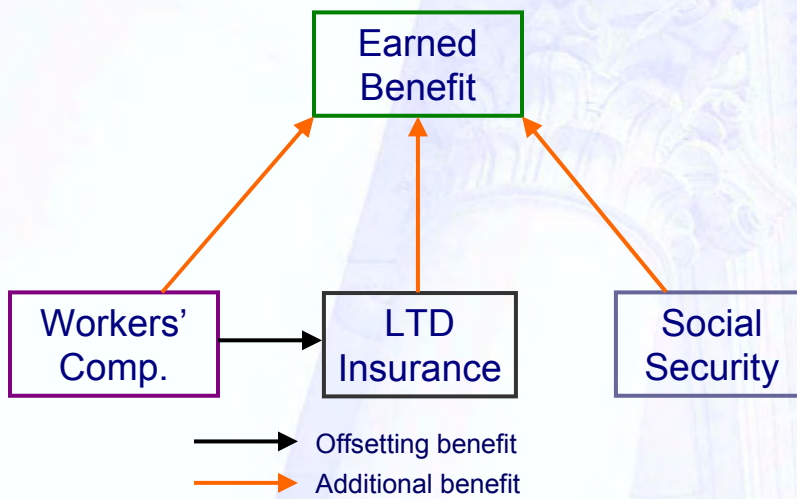
- Workers' Compensation
  - Coverage for on-the-job injury or illness
  - Tax-free
- Long-term disability insurance
  - Coverage for off-the-job injuries or illness
  - Employees must purchase supplemental coverage
- Social Security
  - Benefits for total disabilities
  - Most members covered
- Different standards



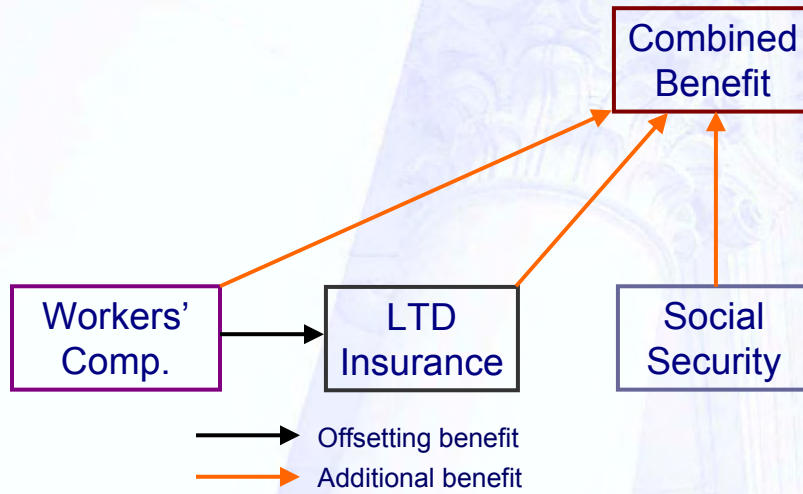
## Disability Benefit Interrelationships



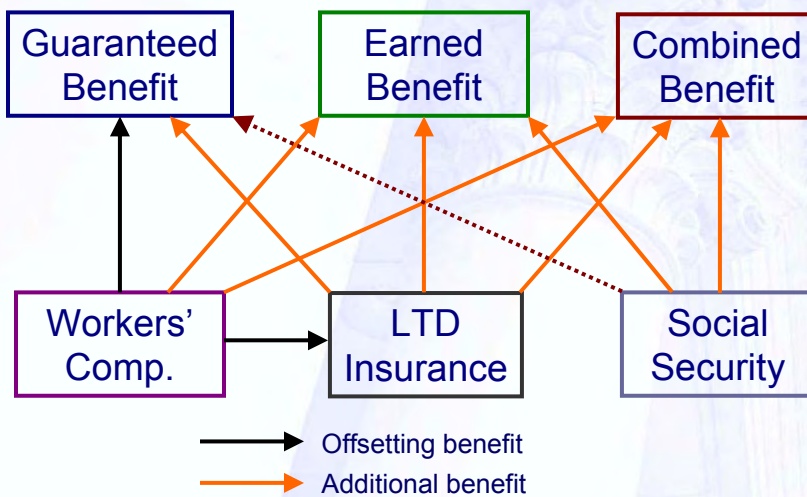
## Disability Benefit Interrelationships



## Disability Benefit Interrelationships



## Disability Benefit Interrelationships



## Policy Questions

- Is the retirement system the best vehicle to provide disability coverage?
- How much disability coverage should be provided within the retirement systems?
- Are disability benefits adequate under the current policy and benefit structures?
- If disability benefits are not adequate, can any shortcomings be addressed within the current policy and benefit structure?
- If not, which policy or policies should drive any changes in benefits?

## Disability Presentation

- Policies
- Comparisons
- Other disability benefits
- Policy questions

## Next Steps

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The Executive Committee of the SCPP will consider whether to recommend pursuit of any changes to the current system and will forward any matters for further consideration to the full committee.





## Washington State Senate

**Olympia Office:**  
PO Box 40430  
Olympia, WA 98504-0430  
e-mail: eide\_tr@leg.wa.gov

**Senator Tracey J. Eide**  
**Floor Leader**  
30th Legislative District

**RECEIVED**

FEB 28 2006

Office of  
The State Actuary

**Telephone:**  
(360) 786-7658  
FAX: (360) 786-1999  
Legislative Hotline: 1-800-562-6000

The Honorable Bill Fromhold  
Chair, Joint Committee on Pension Policy  
239 John L. O'Brien Building  
PO Box 40600  
Olympia, WA 98504-0600

Dear Representative Fromhold: *Bill*

February 24, 2006

I am writing on behalf of a constituent, Les Kniffen, and the Washington Federation of State Employees. They have asked me to assist them with the idea of reducing actuarial penalties associated with state employees who retire due to medical reasons.

This issue is one that could be studied by the Joint Committee on Pension Policy during the next interim. As a starting point, I have drafted a bill, S-3657.1, that I wrote based on the recommendation of my constituent and the Washington Federation of State Employees. A copy of the draft bill is attached with my letter.

Can you please add the issue of reducing actuarial penalties associated with state employees who retire for medical reasons to the interim work plan of the Joint Committee on Pension Policy? Thank you for your consideration.

Sincerely,

Tracey J. Eide  
State Senator  
30<sup>th</sup> Legislative District

cc: Senator Karen Fraser  
Mr. Les Kniffen  
Mr. Dennis Eagle, Washington Federation of State Employees.  
Mr. Matthew Smith, Washington State Actuary

Enclosure

January 31, 2006

Representative Larry Crouse  
Select Committee on Retirement Policy

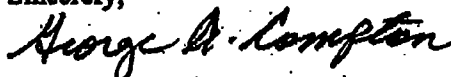
Hello, my name is George Compton, and I am a resident of Washington state legislative district 6. Let me begin by telling you that I am 56 years old and was employed by the Department of Social and Health Services (DSHS) for just short of 24 years, the last 17 years as a social worker with Home and Community Services (HCS).

In October 2004, I voluntarily terminated my employment after it became apparent that I was no longer able to adequately perform my job duties. This was not an easy decision for me to make, but, due to the circumstances, I believe this decision was the wisest and fairest one possible for the department, the clients I served, and myself. I was drafted and sent to Vietnam as infantry in 1967. I was injured by a land mine explosion and suffered fractures to both ankles as well as my spine. I now have Degenerative Joint Disease in these joints and experience chronic (and sometimes severe) pain. I also have Post Traumatic Stress Disorder (PTSD) and since the events of September 11, 2001, this condition has increased in severity to the point that I am not able to function well enough to maintain employment. I have been awarded a disability pension from the Veterans' Administration, but this is less than a third of what I had been earning as a social worker. I qualify for retirement benefits from the State of Washington, but due to my age and the rules concerning actuarial reduction in these pension benefits for being under age 65, I would not receive much. This is where I am hoping you could help me.

I am requesting that you work with your fellow legislators to make needed changes to the rules governing the State Public Employees Retirement System. Veterans who have suffered severe service-connected disabilities while serving their country and are no longer able to maintain employment due to these disabilities should be entitled to receive the retirement benefits they have earned without having them actuarially-reduced.

Right now there are men and women from this state serving our country in Iraq and Afghanistan. Some of them were called up from the Reserves or National Guard and may be State Employees. If they are injured while serving and are unable to return to work, should they have to wait until they are 65-years old to receive their retirement benefits without being penalized by the actuarially-reduced amount? Is that how this state is going to tell them "Thank you for your sacrifice"? I did not get a "Thank You" when I came home from Nam. In fact I came home to ridicule and contempt. I hope that these men and women are treated much, much better. Now, at age 56, I am unable to work as a consequence of my serving this country. Is it asking too much to get my retirement without the actuarial penalty? Can this state finally tell me and my fellow (state employee) veterans "thank you" by allowing us to retire with dignity under these less than ideal circumstances? Thank you for your consideration.

Sincerely,



George A Compton  
3624 N. Garfield Rd.  
Spokane, WA. 99224  
(509)244-9457  
georgecompton@highstream.net

7/26/05

Dear Senator Berkey and Members of the Select Committee on Pension Policy,

This letter is in response to your request for information about my situation.

My retirement plan is with the Washington State Retirement System, PERS II. My Social Security number is [REDACTED] and the full spelling of my name is Jeffry Allan Graves.

I was with the Port of Seattle for 26 years. I was injured in a car accident off the job and have severe median nerve damage in my right arm. My right arm and hand are half numb and I have severe constant pain in both the arm and hand. This is not covered by Labor and Industries. I also have degenerative disc disease in my spine and a herniated disc C-6 & C-7 in my neck. These are secondary to the nerve damage in my right arm.

The herniated disc did happen on the job in 1990 and that case was closed even though I still have pain from that injury. I did not think at the time that the pain would return and that I would have trouble with it for the rest of my life. I tried to reopen this case at one point but I was denied by Labor and Industries Doctors. I got so tired of trying to deal with them, I just quit trying! My Doctors say that I am in very bad shape for a 52 year old man!

Here is the problem in a nutshell. I had to quit working because of my disability and filed for disability retirement benefits the Washington State Retirement System under PERS II. My reduced benefit is \$593.00 a month! There is no provision for someone injured off the job to collect full disability retirement benefits under PERS II like there is under LEOFF II. They removed the actuarial reduction for disability retirement for its members. That Legislation passed as chapter 451, Laws of 2005.

You might say, well I can collect Social Security Disability Benefits and Disability benefits under the Port group disability insurance policy. While this may be true, so can LEOFF II and any person retiring for a disability, wither they are getting full retirement benefits or not.

I have applied for both, but they both have different requirements for a disability and I can be denied even though the Washington State Retirement System approved benefits for my disability. I am still waiting to hear from both of them.

I would like you to consider removing the actuarial reduction for disability retirements for PERS II members. It only seems fair. I wish I could be at the meeting so you could actually see me and what I am going through, but my finances are limited. I reside in California now to be near my Family.

Regards,

  
Jeffry Allan Graves

cc: Select Committee on Pension Policy

## 2007 Interim Issues

### Inventory as of June 6, 2007

Referred from 2006 SCPP	Status
<p><b>Disability Retirement</b> – Continue review of disability benefits and policies under the Washington State retirement systems, including reduction of actuarial penalties associated with early retirement for medical reasons (Sen. Eide).</p>	Briefing June 19, 2007
Significant Amendments to SCPP Legislative Proposals	Status
<p><b>Index \$150,000 Death Benefit</b> – The SCPP's 2007 recommendation concerning the \$150,000 death benefit included indexing for this benefit, and the indexing provision was removed by the legislature.</p> <p><b>Washington State Patrol Cost-Sharing</b> – The SCPP recommended that members pay one-third of the difference between the total cost of the system and the “Truman liability” or 7 percent, whichever is less. The bill was amended to specify that members would pay the lesser of one-half of the adjusted total contribution rate or 7 percent, plus one-half of any benefit improvements effective on or after July 1, 2007.</p>	
SCPP Member Requests	Status
<p><b>Pension Protection Act (Fraser)</b> – Study implications of recent federal legislation for Washington State retirement systems.</p> <p><b>Member Flexibility at Member Cost (Olson)</b> – Continue to explore ways that members can obtain additional benefit flexibility with no cost to employers.</p> <p><b>Benefits History (Olson)</b> – Review cost of Plans 2/3 from creation to present.</p>	Briefing May 22, 2007

SCPP Executive Committee Requests	Status
<b>Contribution Rates</b> – Identify impacts of 2007 legislation on contribution rates.	Briefing June 19, 2007
<b>Rules of Procedure</b> – Update current SCPP rules.	Initial briefing May 22, 2007; proposed changes heard June 19, 2007.
Legislator Requests	Status
<b>Former Judges (Sen. Honeyford)</b> – Allow inactive vested judges, or judges who have separated from service but not yet retired, to apply to increase their benefit multiplier and pay the full actuarial cost.	
<b>Service Credit (Sen. Kilmer)</b> - Allow TRS and SERS 2/3 members “with half-year contracts” to receive a half-credit per month of employment.	
Co-ordination with LEOFF 2 Board	Status
<b>Deferred compensation</b> – Treat employer contributions to deferred compensation plans as “salary.”	
<b>Annuities</b> – Authorize the purchase of actuarially equivalent annuities (like Plan 3).	
<b>Military Service Death Benefit</b> – Extend application of new (2007) PERS 2 survivor benefit authorizing a refund of 200% of member contributions.	
<b>Fish and Wildlife Officer Service Credit Transfer</b> – Allow eligible members to transfer prior PERS 2 service to LEOFF 2.	
<b>\$150,000 Death Benefit</b> – Index the benefit to changes in the CPI-W for Seattle-Tacoma-Bremerton, with a maximum change of 3% per year.	

Constituent/Stakeholder Requests	Status
<b>Disability Retirement (ATULC)</b> – Eliminate actuarial reductions for disability pensions.	
<b>PERS 1 Benefit Cap (Wagner, Von Moos, Fortune, Madden, Esparza, Webster)</b> – Remove or increase the 60 percent cap on retirement pensions for PERS 1.	
<b>TRS 3 Benefits (Cunningham)</b> – Improve benefits by creating a rule of 85 and/or increasing the benefit multiplier.	
<b>Out-of-State Service Credit (Nardella)</b> – Authorize service credit purchases for all time served as a public employee in another state.	
<b>PERS Benefits (Hudson)</b> – Improve benefits by creating a rule of 85, allowing service credit for two jobs, and authorizing the conversion of service credit from Plan 2 to Plan 1.	
<b>LEOFF 1 Surplus (Lindquist)</b> – Use any surplus to improve pension payments to disabled police officers and firefighters (before using for medical benefits).	
<b>Plan 3 Vesting (tentative, WASA &amp; AWSP; WEA; WSRA)</b> – Allow vesting after five years regardless of age.	
<b>Survivor Benefits (tentative, WASA &amp; AWSP)</b> – Improve survivor benefits for members of Plans 1, 2, and 3 of TRS, SERS, and PERS.	
<b>Plan 3 Benefits (tentative, WASA &amp; AWSP)</b> – Provide additional benefits to Plan 3 members to improve the gain-sharing trade-off.	
<b>Military Service (tentative, WASA &amp; AWSP)</b> – Review 2007 legislative proposals to improve Plan 1 military service credit provisions and make a recommendation for 2008.	
<b>“Plans 2/3 Final Year Contract” (tentative, WASA &amp; AWSP)</b> - Allow TRS 2/3 members to receive a full year (12 months) of service credit for their final year’s work when retiring on July 1.	
<b>Gain-Sharing (numerous requests on file with OSA)</b> – Restore gain-sharing or improve trade-off options.	

Constituent/Stakeholder Requests <i>(Continued)</i>	Status
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**Public Safety Subcommittee (WSP Troopers' Association)** – Convene a subcommittee to address WSPRS demographics, benefit changes paralleling LEOFF Plan 2, death benefit changes for troopers killed while serving on active military duty, and formation of a WSPRS board.

**Out-of-State Service (WASA, AWSP, WEA)** – Allow TRS 2/3 members to purchase out-of-state service credit after serving two years instead of five.

**Plan 2 Access to PEBB (WASA, AWSP)** - Allow Plan 2 members to access PEBB health care plans upon separation from service at age 55 with at least 10 years of service.

**Rule of 85 (WEA)**

**Salary Bonuses (WEA)** – Include certain salary bonuses in pension calculations.

**Health Care Premiums (WEA)** – Seek authority for retirees to pay for health care benefits on a pre-tax basis.

**Service Credit (WEA)** – Allow TRS and SERS 2/3 members with “half-year contracts” to receive a half credit per month of employment.

**ESA's Back to Plan 2 (WEA)** – Allow TRS 3 Educational Staff Associates to return to PERS.

**Plan 1 Purchasing Power (WSRA)** – Change COLA eligibility to one-year after retirement and establish a COLA based on the Consumer Price Index.

**Plan 2/3 Benefits (WSRA)** – Provide for normal retirement eligibility below age 62; improve Plan 3 retiree and SERS 3 member benefits to compensate for loss of gain-sharing.

**Service Credit (WFSE)** – Improve provisions granting military service credit and allow Department of Fish & Wildlife Enforcement Officers to transfer service credit.

**Military Service Credit (Danielson)** – Allow members of other plans to have the same service credit provisions as in PERS 1 and WSPRS 1.

Requests from Members to DRS	Status
<p><b>SERS Auto-Transfer of Prior Plan Service Credit</b> – Adapt plan provisions to current conditions.</p>	
<p><b>Expand Plan 1 Post-30 Year Contribution Program</b> – Include an annual window for opting in prospectively.</p>	
<p><b>PERS 1 Death While Retirement Eligible</b> – Allow survivors to get a monthly benefit instead of just member contributions.</p>	
<p><b>Veterans’ Benefits</b> – Allow twice the contributions to surviving spouses of members killed while on military duty in other Plans besides PERS 2.</p>	

DRS Request for Endorsement	Status
<p><b>DRS plans to bring a proposal to the SCPP regarding how to address contributions for approximately 50,000 inactive non-vested members.</b></p>	

SCPP Statutory Obligations	Status
<p>None for 2007.</p>	

Actuarial Work	Status
<p><b>2008 Gain-Sharing Distributions</b> – Calculate required distribution amounts and notify plan administrator.</p>	
<p><b>LEOFF 1 Medical Study</b> – (Required in OSA budget) Identify local government employer liability for LEOFF 1 medical benefits.</p>	
<p><b>OPEB Actuarial Valuation</b> – Using new governmental accounting standards, identify (and facilitate others in identifying) public employer obligations for “other post-employment benefits” (OPEB), the most significant of which is health care.</p>	<p>Initial briefing                      May 22, 2007</p>
<p><b>Review of Economic Assumptions</b> – Make recommendations to Pension Funding Council regarding long-term economic assumptions.</p>	

**Experience Study Preparation** – Much of the work for the 2008 Experience Study will be done in 2007. OSA can provide the SCPP with “previews” of the data that will be reviewed, the study methodology, the standards of practice involved, and the assumptions that will be examined (e.g. retirement rates, mortality, etc).

**2006 Actuarial Valuation**

SCPP Staff	Status
<b>State Actuary</b> – Annual Evaluation.	

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## Washington State School Retirees Association

4726 Pacific Ave. SE

Lacey, WA 98503-1216

PHONE (360) 413-5496

### Testimony before the Select Committee on Pension Policy

June 19, 2007

#### Re: Legislative Priorities for 2007-08

Honorable Chair and Committee members, the Washington State School Retirees' Association (WSSRA) thank you for the opportunity to offer testimony regarding our legislative objectives for 2007-08. WSSRA requests that the following legislative objectives be placed on the SCPP's agenda for the 2007 Interim:

#### **GOAL: Recovery of lost purchasing power for all TRS/PERS 1 retirees.**

##### **Objective:**

- ◆ *Preservation and protection of the full value of the TRS/PERS 1 defined benefit from inflation:*
  - ◇ *Short-term - Improvement of the Uniform Plan 1 COLA (i.e. eligibility one year after retirement).*
  - ◇ *Long-term - Establishment of a Plan 1 Cost-of-Living Adjustment (COLA) based on the Consumer Price Index.*

The measure of a defined pension plan's worth is how it retains its value over the retirement years of plan members. The value of TRS/PERS Plan 1 pension benefits need to be protected from substantial losses in purchasing power.

The Plan 1 post-retirement adjustment known as the Uniform COLA is not a true Cost-of-Living Adjustment. Instead of being based on a member's base salary or an economic indicator such as the Consumer Price Index (CPI), the Uniform COLA is based on a dollars per month per year of service formula. Due to the age 66 eligibility criteria for the Uniform COLA, the value of the TRS/PERS 1 pension begins to decline from the date of retirement and continues to decline during those years prior to the member becoming eligible for the post-retirement adjustment. Even with the Uniform COLA, TRS/PERS 1 members who retired in the mid-1970s have lost approximately 50% of their purchasing power.

Over the short-term, major improvements to the Uniform Plan 1 COLA would help to retain the value of TRS/PERS 1 pension benefits. Over the long-term, establishment of a CPI based COLA which begins a year after retirement is needed to ensure that the full value of the TRS/PERS 1 pensions are retained.

#### **GOAL: Pension plan improvements for members of TRS/SERS/PERS 2/3.**

##### **Objectives:**

- ◆ *A full retirement benefit for TRS/SERS/PERS Plan 2/3 members below the current eligibility requirement of age of 62.*
- ◆ *Improvement of pension benefits for classified school employees which address concerns unique to SERS 2/3 and current Plan 3 retirees from TRS/SERS/PERS.*
- ◆ *Unencumbered 5 year vesting eligibility criteria for members of TRS/SERS/PERS Plan 3.*

The improved Early Retirement Reduction Factor (ERRF) criteria established in EHB 2391 (2007) is a major step forward in addressing Plan 2/3 retirement eligibility issues. However, a strong concern remains among many employer and employee interests regarding the negative impact the Plan 2/3 retirement eligibility criteria is having on the recruitment of new employees and retention of current members of TRS/SERS/PERS. WSSRA seeks legislation to provide eligibility for a full, unreduced, defined benefit in the TRS/SERS/PERS Plan 2/3 retirement programs below age 62.

The "Gain Sharing replacement" benefits enacted in 2007 (EHB 2391) which pertained to Plan 3 provided no benefit beyond the 2008 Gain Sharing distribution to current Plan 3 retirees. Additionally, due to members' demographics, members of SERS 3 do not benefit as much from the "Gain Sharing replacement" benefits as do

members of other systems and plans. WSSRA looks forward to working with the Select Committee on Pension Policy during the 2007 Interim and full Legislature during the 2008 Session to achieve the enactment of legislation which improves the pension benefits of SERS 2/3 members and current TRS/PERS/SERS Plan 3 retirees.

A relatively small, yet important objective is to bring true equity to the vesting criteria between all PERS/TRS/SERS plans. WSSRA requests the SCPP's consideration and support of legislation which repeals the age requirement contained in the 5-year vesting criteria for Plan 3 members.

To conclude, WSSRA brings one of its "non-pension" retiree benefit objectives to your attention:

**GOAL: Improved health insurance benefits and lower premiums for school retirees.**

***Objective:***

***A "2<sup>nd</sup> chance" Public Employees Benefits Board (PEBB) enrollment window for those who missed their one-time enrollment opportunity.***

K-12 retirees gained access to PEBB sponsored health insurance plans in 1993. During the fall of '93, K-12 retirees received PEBB enrollment materials via the Department of Retirement System regarding PEBB health plans available. However, a significant number of K-12 retirees failed to realize the opportunity to enroll in PEBB plans within established enrollment periods and have thus been excluded from joining the PEBB system.

For a number of years WSSRA has sought enactment of legislation which would have provided an additional enrollment window for all previously eligible (state and K-12) retirees currently locked out of the PEBB program because they missed their one-time enrollment option. WSSRA proposes that those retiring on or after 10/1/93, which can provide proof of continuous health insurance coverage, would be granted a "2<sup>nd</sup> chance" opportunity to join PEBB plans. WSSRA requests the support of the SCPP in addressing this issue related to retiree benefit.

We appreciate the dedication of Committee members and look forward to working with you to improve the pensions of Washington State's current and future school retirees. If you have any questions regarding WSSRA's legislative objectives for 2007-08, please contact the WSSRA office by calling 1-800-544-5219 / 360-413-5496. Thank you.

cc: Matt Smith, Office of the State Actuary

# Public Testimony

Exhibit to testimony by Wendy Rader-Konofalski under  
2007 Interim Issues.

**RETIREMENT BENEFITS**

STATES DIFFER IN AGE AND ELIGIBILITY REQUIREMENTS FOR FULL RETIREMENT BENEFITS

States differ in age and eligibility requirements for full retirement benefits. The majority of states require teachers to contribute between 3 and 11 percent of their salary towards retirement. Florida and California are the only two states that do not require teachers to contribute to retirement. In Florida, teachers are eligible for full retirement benefits after working 30 years or upon reaching 62 years of age with 6 years of service, whichever event occurs first. Additionally, most states do not include retirement benefits as a part of average teacher salary. In Connecticut, the only retirement money that may be included in average teacher salary is a \$500 bonus for giving one year's notice of retirement.

Figure 26

Retirement Benefits				
State	Minimum Number of Years for Retirement	Do Teachers Contribute to Retirement?	% of Contribution	Expected Contribution Based on NEA Average Teacher Salary, 2004-05
Florida	30 years of service; or age 62 with 6 years of service	No	0%	\$0
Alabama	25 years of service; or age 59 or 60 with 10 years of service	Yes	5%	\$1,909
Arizona	Earliest of the following: age 65; age 62 with 10+ years of service; or a combination of age and number of years of service totals 80	Yes	7.4%	\$3,175
California	Age 60; teachers with 5 years of credible service become eligible for benefits after age 50.	No	0%	\$0
Colorado	Varies by district; age 65 and served 20 years in CO school district; 40 years of service	Yes	8%	\$3,516
Connecticut	20 years and age 60 or any age w/ 35 years experience (at least 25 years in CT)	Yes	6%	\$3,521
Georgia	30 years of service; or age 60 with 10 years of service	Yes	5%	\$2,326
Kentucky	27 years of Kentucky service; or age 55 with 5 years of Kentucky service	Yes	5%	\$2,026
Massachusetts	No minimum number of years; % of benefits is a formula based on age and years of service	Yes	5%-11%	\$2,716 - \$5,976
New York	20 years of service; generally age 55	Yes	[a] 3%	\$1,686
North Carolina	30 years of service; age 65 with 5 years of service; age 60 with 25 years experience	Yes	6%	\$2,601
Oregon	Minimum of 5 years to be vested, 30 years of service for full retirement and age 62 [b]	Yes	6%	\$2,900
South Carolina	Age 65 or 28 years of service credit, 5 years of which must be earned service	Yes	6.25%	\$2,683
Tennessee	Age 60 and vested, or 30 years of service (regardless of age)	Yes	5%	\$2,104
Texas	Age 65 with 5 or more years of service credit or combination of age and number of years of service totals 80	Yes	6.4%	\$2,625

Note: Represents 2004-05 data

[a] New York teachers contribute 3% for 10 years.

[b] Tier One members may retire with full benefits at age 58 and Tier Two members may retire at age 60. These benefits are different depending on the year the employee entered public service. The 1995 Oregon Legislature established a different level of benefits for people who first began their six-month waiting period on or after January 1, 1996. This level is called Tier Two. Tier Two has a higher retirement age (age 60) for full benefits.