

# Select Committee on Pension Policy

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

## Regular Committee Meeting

July 21, 2020

10:00 a.m. – 11:40 a.m.\*

Virtual Remote Meeting

Click this link to join, or copy and paste into your web browser:

<https://zoom.us/j/94887963938?pwd=MjIveEhvRnoyZDZkc1loOXFzVUtoZz09>

## AGENDA

- 10:00 a.m.    **1.    Approval of June Minutes**
- 10:05 a.m.    **2.    Rate Recommendation to the PFC – Aaron Gutierrez, Senior Policy Analyst**
- 10:25 a.m.    **3.    2020 Legislative Session Highlights – Melinda Aslakson, Policy Analyst**
- 10:45 a.m.    **4.    Study of Administrative Practices Under Chapter 41.54 RCW – Aaron Gutierrez**
- 11:10 a.m.    **5.    Interruptive Military Service Credit Study – Melinda Aslakson**
- 11:30 a.m.    **6.    Public Comment**
- 11:40 a.m.    **7.    Adjourn**

*\*These times are estimates and are subject to change depending on the needs of the Committee.*

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**John Boesenberg**  
*PERS/Higher Ed Employers*

**Senator John Braun**

**Senator Steve Conway**

**Annette Creekpaum**  
*PERS Employers*

**Randy Davis**  
*TRS Actives*

**\*Representative Joe Fitzgibbon, Vice Chair**

**Beverly Freeman**  
*PERS Employers*

**\*Tracy Guerin, Director**  
*Department of Retirement Systems*

**\*Bev Hermanson**  
*PERS Retirees*

**Senator Steve Hobbs**

**Leanne Kunze**  
*PERS Actives*

**Anthony Murrietta**  
*PERS Actives*

**\*Byron Olson**  
*PERS Employers*

**Representative Timm Ormsby**

**\*Senator Mark Schoesler, Chair**

**David Schumacher, Director**  
*Office of Financial Management*

**Mark Soper**  
*WSPRS Retirees*

**Representative Drew Stokesbary**

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

**Representative Mike Volz**

*\*Executive Committee*

(360) 786-6140  
Fax: (360) 586-8135  
TDD: 711  
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# 1. Approval of June Minutes



# Select Committee on Pension Policy

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

## REGULAR COMMITTEE MEETING JUNE 16, 2020 DRAFT MINUTES

The Select Committee on Pension Policy met remotely, on June 16, 2020.

### Committee Members Attending

Chair Fitzgibbon	Anthony Murrietta
John Boesenberg	Byron Olson
Senator Braun	Representative Ormsby
Senator Conway	Senator Schoesler
Annette Creekpaum	David Schumacher
Randy Davis	Mark Soper
Beverly Freeman	Representative Stokesbary
Tracy Guerin	J. Pat Thompson
Bev Hermanson	Representative Volz
Leanne Kunze	

Chair Fitzgibbon called the meeting to order at 10:02 a.m.

#### (1) INTERIM KICK-OFF

Aaron Gutierrez, Senior Policy Analyst, presented.

*No action taken.*

#### (2) AGENCY UPDATES AND COVID-19 IMPACTS

##### ❖ WASHINGTON STATE INVESTMENT BOARD

Theresa Whitmarsh, Executive Director, presented.

##### ❖ DEPARTMENT OF RETIREMENT SYSTEMS

Seth Miller, Retirement Services Division Assistant Director, presented.

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

Steve Nelsen, Executive Director, presented.

##### ❖ OFFICE OF THE STATE ACTUARY

Matt Smith, State Actuary, presented.

*No action taken.*

#### (3) PRELIMINARY AVR RESULTS AND DEMOGRAPHIC EXPERIENCE STUDY AUDIT

Luke Masselink, Senior Actuary, and Mitch DeCamp, Senior Actuarial Analyst, presented.

*No action taken.*

**John Boesenberg**  
PERS/Higher Ed Employers

**Senator John Braun**

**Senator Steve Conway**

**Annette Creekpaum**  
PERS Employers

**Randy Davis**  
TRS Actives

**\*Representative Joe Fitzgibbon, Chair**

**Beverly Freeman**  
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Department of Retirement Systems

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PERS Actives

**Anthony Murrietta**  
PERS Actives

**\*Byron Olson**  
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**Representative Timm Ormsby**

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**(4) INTERIM PLANNING**

Melinda Aslakson, Policy Analyst, presented.

*No action taken.*

**(5) APPROVAL OF DECEMBER MINUTES**

*It was moved, seconded, and carried to: Approve the Draft Minutes for the Regular Committee Meeting on June 16, 2020.*

**(6) ELECTION OF OFFICERS**

**Nomination for Chair**

*It was moved, seconded, and carried to: Nominate Senator Mark Schoesler for Chair. Senator Mark Schoesler was unanimously elected as Chair.*

Chair Schoesler chaired the rest of the meeting.

**Nomination for Vice Chair**

*It was moved, seconded, and carried to: Nominate Representative Joe Fitzgibbon for Vice Chair.*

*Representative Joe Fitzgibbon was unanimously elected as Vice Chair.*

**Nominations for Executive Committee**

*It was moved, seconded, and carried to: Reelect existing members to represent active members, retirees, and employers.*

*Nominated J. Pat Thompson to represent active members, Bev Hermanson to represent retiree members, and Byron Olson to represent employers. They were unanimously elected for their positions.*

The meeting adjourned at 12:16 p.m.

*Recorded audio of SCPP Full and Executive Committee meetings can be found on the [SCPP Meetings page](#), free of charge. The audio, and occasionally video, of Full Committee meetings can also be found at [www.tvw.org](http://www.tvw.org).*

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## 2. Rate Recommendation to the PFC





# Rate Recommendation to the PFC

## Overview/Executive Summary

Contribution rates for the state's retirement systems are set every two years according to a statutory cycle<sup>1</sup>. In even-numbered years, the Pension Funding Council (PFC) adopts contribution rates; in odd-numbered years, the long-term economic assumptions.

The law also requires the Select Committee on Pension Policy (SCPP) to make a recommendation to the PFC regarding contribution rates for the 2021-23 Biennium.<sup>2</sup>

## What is before the Committee?

Recommend adopting the calculated rates from the [2019 Actuarial Valuation Report](#) using either:

- ❖ Option A: 7.5 percent assumed long-term rate of return.
- ❖ Option B: 7.4 percent assumed long-term rate of return.

Rate and budget impacts for each option will be provided at the meeting. Please note: Due to feedback from the on-going actuarial audit, contribution rates are expected to decrease slightly from what was presented last month. While the Committee is not required to limit its discussion to these two options, members may want to consult with the state actuary before pursuing other options.

## How Did This Come before the Committee?

The SCPP received the preliminary results of the most recent actuarial valuation and demographic experience study at the June meeting.

Please note that demographic assumptions and the demographic experience study are not the same as long-term economic assumptions. Demographic assumptions are reviewed and updated by the state actuary every six years and do not follow a formal adoption process like the economic assumptions. The SCPP receives the results from the demographic experience study since those results help inform the SCPP's recommendation on contribution rates.

## Who Does This Impact?

The adoption of contribution rates directly impacts all Plan 2 members and employers. To the extent employer contributions are paid by tax revenue, these changes also impact taxpayers.

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<sup>1</sup>RCW [41.45.060](#).

<sup>2</sup>RCW [41.04.281](#).

## Highlights

- ❖ In even-numbered years, the Office of the State Actuary reports on the results of an actuarial valuation that calculates contribution rates for the upcoming biennium. The valuation considers, among other things, asset returns, and the impacts of legislative changes.
- ❖ In odd-numbered years, the state actuary also makes a recommendation on long-term economic assumptions, including the assumed rate of investment return.
  - ◇ Option B is consistent with the state actuary's most recent recommendation of a 7.4 percent assumed rate of return.
- ❖ Rates adopted by the PFC in 2020 are effective for the 2021-23 Biennium, but are subject to revision by the Legislature.

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## 3. 2020 Legislative Session Highlights



# 2020 Legislative Session Highlights

Highlighted Pension Bills Impacting State Administered Retirement Systems						
<i>Bills that Passed the Legislature</i>						
Bill Number/Title	Comp.	Requested By	Sponsor	Cost <sup>1</sup> (In Millions)	Immediate Rate Impact? <sup>2</sup>	Final Bill Status
<b>EHB 1390</b>	<b>SSB 5400</b>	<b>SCPP</b>	<b>Leavitt</b>	<b>381.4<sup>3</sup></b>	<b>Yes</b>	<b>C 329, 2020 L</b>
◇ PERS/TRS Plans 1 Benefit Increase		<i>Providing for all eligible PERS 1 and TRS 1 retirees, a one-time permanent increase equal to 3.0 percent of their benefit, not to exceed a maximum of \$62.50 per month.</i>				
<b>2SHB 1661</b>	<b>None</b>	<b>N/A</b>	<b>Chandler</b>	<b>(31.4)</b>	<b>Yes</b>	<b>C 103, 2020 L</b>
Higher Education Retirement Plans		<i>Replacing the higher education institution contribution rate (0.50 percent) with institution-specific rates to maintain progress towards paying future plan benefits.</i>				
<b>HB 2051</b>	<b>SB 5920</b>	<b>N/A</b>	<b>Lovick</b>	<b>No Expected Cost</b>	<b>No</b>	<b>C 107, 2020 L</b>
Pension and Disability Boards LEOFF 1		<i>Concerning firefighters and law enforcement officers pension and disability boards.</i>				
<b>HB 2189</b>	<b>None</b>	<b>N/A</b>	<b>Leavitt</b>	<b>No Expected Cost</b>	<b>No</b>	<b>C 108, 2020 L</b>
PSERS/Comp Restoration Work		<i>Including specified competency restoration workers at department of social and health services institutional and residential sites in PSERS.</i>				
<b>SHB 2544</b>	<b>None</b>	<b>N/A</b>	<b>Paul</b>	<b>1.3</b>	<b>Yes</b>	<b>C 178, 2020 L</b>
Concerning the Definition of Veteran		<i>Expanding the definition of veteran to include individuals who received the respective campaign medal (or badge) during any armed conflict.</i>				
<b>SHB 2758</b>	<b>None</b>	<b>N/A</b>	<b>Corry</b>	<b>2.2</b>	<b>No</b>	<b>C 234, 2020 L</b>
911 Dispatch Personnel/PTSD		<i>Recognizing posttraumatic stress disorders of 911 emergency dispatch personnel by allowing claims as an occupational disease.</i>				
<b>ESSB 5829</b>	<b>EHB 1912</b>	<b>N/A</b>	<b>Mullet</b>	<b>No Expected Cost</b>	<b>No</b>	<b>C 144, 2020 L</b>
Volunteer Firefighter Pensions		<i>Increasing pension benefits for members in the VFFRPF by providing larger monthly retirement payments to current and future annuitants. This bill also increases annual contributions paid by members and employers while actively volunteering.</i>				
<b>SB 6218</b>	<b>HB 2339</b>	<b>SCPP</b>	<b>Schoesler</b>	<b>2.8</b>	<b>Yes</b>	<b>C 97, 2020 L</b>
◇ WSP Retirement/Salary Definition		<i>Modifying the definition of salary to allow WSPRS troopers who were commissioned from July 1, 2001, to December 31, 2002, to include cash-outs of vacation and holiday pay when calculating retirement benefits.</i>				

<b>SB 6383</b>	<b>HB 2341</b>	<b>SCPP</b>	<b>Conway</b>	<b>No Expected Cost</b>	<b>No</b>	<b>C 160, 2020 L</b>
◇ Retirement Strategy Funds (TAP into TDF)		Allowing WSIB to alter the asset mix of TDFs to include investment in the TAP, which may directly affect the DC accounts for members of PERS, TRS, and SERS Plans 3 as well as participants of the DCP.				
<b>SB 6417</b>	<b>HB 2678</b>	<b>LEOFF 2</b>	<b>Holy</b>	<b>No Expected Cost</b>	<b>No</b>	<b>C 161, 2020 L</b>
Survivor Option Change		Allowing current and future LEOFF 2 retirees to change their survivor option election within 90 days after receipt of their first retirement allowance.				

◇ Denotes SCPP-requested bills.

<sup>1</sup> Cost = 25-Year Total Employer Cost, unless otherwise noted.

<sup>2</sup> The cost of the bill is sufficient under current actuarial methods to result in an additional contribution rate being collected effective 9/1/2020.

<sup>3</sup> This is a 10-year cost according to Plan 1 UAAL requirements

# 2020 Legislative Session Highlights

## Highlighted Pension Bills Impacting State Administered Retirement Systems

*Bills that did not Pass the Senate*

Bill Number/Title	Comp.	Requested By	Sponsor	Cost <sup>1</sup> (In Millions)	Immediate Rate Impact? <sup>2</sup>	Final Bill Status
<b>SB 5178</b>	<b>HB 1132</b>	<b>N/A</b>	<b>Hunt</b>	<b>N/A</b>	<b>N/A</b>	<b>S Ways &amp; Means</b>
TRS & SERS Early Retirement		<i>Allows TRS and SERS Plans 2/3 members with at least 30 years of service to retire at age 60 with no reduction in benefits.</i>				
<b>SB 5268</b>	<b>None</b>	<b>N/A</b>	<b>Hunt</b>	<b>N/A</b>	<b>N/A</b>	<b>S Local Governme</b>
County Sheriff Salaries		<i>Requires that county sheriffs must be paid no less than that of the county prosecuting attorney.</i>				
<b>SB 5335</b>	<b>HB 1414</b>	<b>SCPP, LEOFF 2</b>	<b>Bailey</b>	<b>183.7</b>	<b>Yes</b>	<b>S Ways &amp; Means</b>
◇ Retirement Benefits Month of Death	<i>Requiring DRS to pay a full month of benefits for the month in which an annuitant dies.</i>					
<b>SSB 5400</b>	<b>EHB 1390</b>	<b>N/A</b>	<b>Conway</b>	<b>381.4<sup>3</sup></b>	<b>Yes</b>	<b>S Rules 3</b>
PERS/TRS Plans 1 Benefit Increase		<i>Providing for all eligible PERS 1 and TRS 1 retirees, a one-time permanent increase equal to 3.0 percent of their benefit, not to exceed a maximum of \$62.50 per month.</i>				
<b>SB 5430</b>	<b>HB 1388</b>	<b>N/A</b>	<b>Conway</b>	<b>N/A</b>	<b>N/A</b>	<b>S Ways &amp; Means</b>
Post-Retirement Options		<i>Allows recipients of the 2008 ERFs to return to work prior to age 65 without benefit suspension.</i>				
<b>SSB 5687</b>	<b>None</b>	<b>N/A</b>	<b>Bailey</b>	<b>(50.20)</b>	<b>No</b>	<b>S Rules X</b>
Retirement System Opt-Out		<i>Allows new government employees to opt out of retirement system membership when first hired, or when an employer opts into retirement plan participation, if the employee is age 60 or older.</i>				
<b>SSB 5801</b>	<b>None</b>	<b>N/A</b>	<b>Wellman</b>	<b>1.8</b>	<b>No</b>	<b>S Rules X</b>
TRS Post-Retirement Employment		<i>Temporarily allows TRS 2/3 members who retire under the 2008 ERFs to work in certain positions up to 867 hours per year while under age 65 without benefit suspension.</i>				
<b>SB 5821</b>	<b>HB 2012</b>	<b>N/A</b>	<b>Das</b>	<b>96.5</b>	<b>No</b>	<b>S EL/K-12</b>
K-12 National Certification Bonuses		<i>Providing certain K-12 certificated instructional staff to receive salary bonuses for obtaining national certification through professional associations in their relevant fields.</i>				

<b>SB 5920</b>	<b>HB 2051</b>	<b>N/A</b>	<b>Conway</b>	<b>No Expected Cost</b>	<b>No</b>	<b>S Rules X</b>
Pension and Disability Boards LEOFF 1		<i>Concerning firefighters and law enforcement officers pension and disability boards.</i>				
<b>SB 5983<sup>4</sup></b>	<b>None</b>	<b>N/A</b>	<b>Van De Wege</b>	<b>No Expected Cost</b>	<b>No</b>	<b>S Ways &amp; Means</b>
LEOFF 2 Benefit Funding		<i>Repeals the Public Safety Enhancement Account and transfers \$300 million from the LEOFF Plan 2 trust fund to the LEOFF 2 Benefit Improvement Account.</i>				
<b>SB 5999<sup>5</sup></b>	<b>None</b>	<b>N/A</b>	<b>Braun</b>	<b>(109.80)</b>	<b>No</b>	<b>S Rules</b>
TRS 1 UAAL		<i>Transfers \$183.749 million from the budget stabilization account to the TRS 1 trust fund to reduce the TRS 1 UAAL.</i>				
<b>SB 6125</b>	<b>None</b>	<b>N/A</b>	<b>Hunt</b>	<b>Indeterminate</b>	<b>No</b>	<b>S Ways &amp; Means</b>
PERS Retirees and Elected Positions		<i>Allowing retirees who are elected to city and county councils to work up to 1,080 hours per year without a suspension of benefits</i>				
<b>SB 6165</b>	<b>None</b>	<b>N/A</b>	<b>Rolfes</b>	<b>144.1<sup>3</sup></b>	<b>Yes</b>	<b>S Ways &amp; Means</b>
PERS/TRS Plans 1 Benefit Increase		<i>Providing a benefit increase to certain retirees of PERS Plan 1 and TRS Plan 1.</i>				
<b>SB 6219</b>	<b>HB 2340</b>	<b>SCPP</b>	<b>Conway</b>	<b>No Expected Cost</b>	<b>No</b>	<b>S Rules X</b>
◇ WSP Retirement/Index Definition	<i>Amending RCW 43.43.260 to change the definition of the CPI used for calculating annual COLAs for WSPRS.</i>					
<b>SB 6337</b>	<b>None</b>	<b>N/A</b>	<b>Hunt</b>	<b>N/A</b>	<b>N/A</b>	<b>S Ways &amp; Means</b>
Early Retirement/TRS and PSERS		<i>Concerning early retirement reduction factors for certain members of TRS and PSERS.</i>				
<b>SB 6418</b>	<b>HB 2655</b>	<b>LEOFF 2</b>	<b>Holy</b>	<b>0.7</b>	<b>No</b>	<b>S Rules X</b>
Pensions/"Period of War"		<i>Creating the definition of "period of war" in LEOFF 2 statute to determine eligibility for pension benefits related to interruptive military service credit.</i>				
<b>SB 6516</b>	<b>None</b>	<b>N/A</b>	<b>Nguyen</b>	<b>N/A</b>	<b>N/A</b>	<b>S Labor &amp; Commerc</b>
Thirty-Two Hour Work Week		<i>Reducing the workweek to 32 hours unless the employee receives compensation for employment in excess of these hours at a rate not less than one and one-half times their regular rate.</i>				
<b>SB 6616</b>	<b>None</b>	<b>N/A</b>	<b>Liias</b>	<b>N/A</b>	<b>N/A</b>	<b>S Ways &amp; Means</b>
EMS Employees/Retirement		<i>Concerning retirement benefits for certain employees that provided emergency medical services prior to July 27, 2003.</i>				



<b>SB 6662</b>	<b>None</b>	<b>N/A</b>	<b>Saldana</b>	<b>N/A</b>	<b>N/A</b>	<b>S Ways &amp; Means</b>
PERS, TRS, SERS Plans 2 Earlier Ages			<i>Providing retirement benefits at earlier ages in the Plans 2 and 3 of PERS, TRS, and SERS.</i>			

◇ Denotes SCPP-requested bills.

Note: Bills with "N/A" cost and rate impact were not priced by the Office of the State Actuary.

<sup>1</sup> Cost = 25-Year Total Employer Cost, unless otherwise noted.

<sup>2</sup> The cost of the bill is sufficient under current actuarial methods, and if passed, would have resulted in an additional contribution rate being collected effective 9/1/2020.

<sup>3</sup> This is a 10-year cost according to Plan 1 UAAL requirements

<sup>4</sup> This bill had an unofficial companion in HB 2144 that passed in the 2019 Legislative Session.

<sup>5</sup> Represents net savings after including the initial General Fund-State cost associated with early contribution to the TRS 1.

# 2020 Legislative Session Highlights

## Highlighted Pension Bills Impacting State Administered Retirement Systems

*Bills that did not Pass the House*

Bill Number/Title	Comp.	Requested By	Sponsor	Cost <sup>1</sup> (In Millions)	Immediate Rate Impact? <sup>2</sup>	Final Bill Status
HB 1132	SB 5178	N/A	(blank)	N/A	N/A	H Approps
TRS & SERS Early Retirement		<i>Allows TRS and SERS Plans 2/3 members with at least 30 years of service to retire at age 60 with no reduction in benefits.</i>				
SHB 1179	None	N/A	Tarleton	N/A	N/A	H Approps
Uniform Unclaimed Property		<i>Concerning the revised uniform unclaimed property act.</i>				
HB 1362	None	N/A	Klippert	N/A	N/A	H Approps
Post-Retirement Employment Benefits		<i>Removes the 2000 ERFs and allows recipients of the 2008 ERFs to return to work prior to age 65.</i>				
HB 1388	SB 5430	N/A	Doglio	N/A	N/A	H Approps
Post-Retirement Options		<i>Allows recipients of the 2008 ERFs to return to work prior to age 65 without benefit suspension.</i>				
◇ HB 1414	SB 5335	SCPP, LEOFF 2	Volz	183.7	Yes	H Approps
Retirement Benefits Month of Death		<i>Requiring DRS to pay a full month of benefits for the month in which an annuitant dies.</i>				
EHB 1912	ESSB 5829	N/A	Blake	No Expected Cost	No	H Approps
Volunteer Firefighter Pensions		<i>Increasing pension benefits for members in VFFRPF by providing larger monthly retirement payments to current and future annuitants. This bill also increases annual contributions paid by members and employers while actively volunteering.</i>				
HB 2012	SB 5821	N/A	Boehnke	96.5	No	H Education
K-12 National Certification Bonuses		<i>Providing certain K-12 certificated instructional staff to receive salary bonuses for obtaining national certification through professional associations in their relevant fields.</i>				
HB 2127	None	N/A	Stokesbary	Indeterminate	No	H Approps
Pensions/Additional Contributions		<i>Concerning additional contribution rates for contributions made after the date the service is rendered for individual employers of Washington state retirement systems.</i>				

<b>HB 2234</b>	<b>None</b>	<b>N/A</b>	<b>Tarleton</b>	<b>N/A</b>	<b>N/A</b>	<b>H Finance</b>
Uniform Unclaimed Property		<i>Concerning the revised uniform unclaimed property act.</i>				
<b>HB 2264</b>	<b>None</b>	<b>N/A</b>	<b>Doglio</b>	<b>Indeterminate</b>	<b>No</b>	<b>H Rules R</b>
Accrued Vacation Leave Cap		<i>Increasing the cap on accrued vacation leave.</i>				
<b>HB 2339</b>	<b>SB 6218</b>	<b>SCPP</b>	<b>Fitzgibbon</b>	<b>2.8</b>	<b>Yes</b>	<b>H Rules C</b>
◇ WSP Retirement/Salary Definition	<i>Modifying the definition of salary to allow WSPRS troopers who were commissioned from July 1, 2001, to December 31, 2002, to include cash-outs of vacation and holiday pay when calculating retirement benefits.</i>					
<b>HB 2340</b>	<b>SB 6219</b>	<b>SCPP</b>	<b>Fitzgibbon</b>	<b>No Expected Cost</b>	<b>No</b>	<b>S Rules 2</b>
◇ WSP Retirement/Index Definition	<i>Amending RCW 43.43.260 to change the definition of the CPI used for calculating annual COLAs for WSPRS.</i>					
<b>HB 2341</b>	<b>SB 6383</b>	<b>SCPP</b>	<b>Fitzgibbon</b>	<b>No Expected Cost</b>	<b>No</b>	<b>H Rules C</b>
◇ Retirement Strategy Funds (TAP into TDF)	<i>Allowing WSIB to alter the asset mix of TDFs to include investment in TAP, which may directly affect the DC accounts for members of PERS, TRS, and SERS Plans 3 as well as participants of the DCP.</i>					
<b>HB 2423</b>	<b>SSB 6267</b>	<b>N/A</b>	<b>Riccelli</b>	<b>No Expected Cost</b>	<b>No</b>	<b>H HC/Wellness</b>
Long-Term Services Trust	<i>Modifying the long-term services and supports trust program by clarifying the ability for individuals with existing long-term care insurance to opt-out of the premium assessment and making technical corrections.</i>					
<b>HB 2533</b>	<b>None</b>	<b>N/A</b>	<b>Fitzgibbon</b>	<b>Indeterminate</b>	<b>N/A</b>	<b>H Approps</b>
PSERS Enhanced Disability Benefits	<i>Providing an enhanced disability benefit for PSERS members who experience a qualifying catastrophic disability on the job. The enhanced disability benefit from PSERS may be reduced ("offset") for benefits the member receives from L&amp;I and SSA.</i>					
<b>HB 2655</b>	<b>SB 6418</b>	<b>LEOFF 2</b>	<b>Griffey</b>	<b>0.7</b>	<b>No</b>	<b>H Approps</b>
Pensions/"Period of War"	<i>Creating the definition of "period of war" in LEOFF 2 statute to determine eligibility for pension benefits related to interruptive military service credit.</i>					
<b>HB 2678</b>	<b>SB 6417</b>	<b>LEOFF 2</b>	<b>Bergquist</b>	<b>No Expected Cost</b>	<b>No</b>	<b>H Approps</b>
Survivor Option Change	<i>Allowing current and future LEOFF 2 retirees to change their survivor option election within 90 days after receipt of their first retirement allowance.</i>					

<b>HB 2748</b>	<b>None</b>	<b>N/A</b>	<b>Ramel</b>	<b>No Expected Cost</b>	<b>No</b>	<b>H Rules C</b>
Parking Cash Out Programs		<i>Concerning parking cash out programs.</i>				
<b>HB 2902</b>	<b>None</b>	<b>N/A</b>	<b>Walen</b>	<b>N/A</b>	<b>N/A</b>	<b>H Approps</b>
County EMTs/ LEOFF 2		<i>Providing service credit in LEOFF Plan 2 for certain emergency medical technicians providing emergency medical services for a county.</i>				
<b>HB 2937</b>	<b>None</b>	<b>N/A</b>	<b>Dolan</b>	<b>N/A</b>	<b>N/A</b>	<b>H Approps</b>
K-12 Instructional Staff Salaries		<i>Creating a three-tiered salary schedule for certificated instructional staff.</i>				
<b>HB 2956</b>	<b>None</b>	<b>N/A</b>	<b>Stokesbary</b>	<b>N/A</b>	<b>N/A</b>	<b>H Approps</b>
PERS/TRS Plans 1 Unfunded Liabilities		<i>Providing funding for the unfunded liabilities in TRS and the PERS Plans 1.</i>				

◇ Denotes SCPP-requested bills.

Note: Bills with "N/A" cost and rate impact were not priced by the Office of the State Actuary, except HB 2533.

<sup>1</sup> Cost = 25-Year Total Employer Cost, unless otherwise noted.

<sup>2</sup> The cost of the bill is sufficient under current actuarial methods to result in an additional contribution rate being collected effective 9/1/2020.

# Glossary

**AFC:** Average Final Compensation  
**BVFF:** Board for Volunteer Fire Fighters and Reserve Officers  
**COLA:** Cost-of-Living Adjustment  
**DC:** Defined Contribution  
**DRS:** Department of Retirement Systems  
**EMT:** Emergency Medical Technician  
**ERFs:** Early Retirement Factors  
**HB:** House Bill  
**L2B:** LEOFF 2 Board  
**LEOFF:** Law Enforcement Officers' and Fire Fighters' Retirement System  
**OFM:** Office of Financial Management  
**OSA:** Office of the State Actuary  
**OSPI:** Office of Superintendent of Public Instruction  
**PEBB:** Public Employees Benefits Board  
**PERS:** Public Employees' Retirement System  
**PSERS:** Public Safety Employees' Retirement System  
**PTSD:** Post-Traumatic Stress Disorder  
**SB:** Senate Bill  
**SERS:** School Employees' Retirement System  
**TRS:** Teachers' Retirement System  
**WSIB:** Washington State Investment Board  
**WSP:** Washington State Patrol  
**WSPRS:** Washington State Patrol Retirement System





# 2020 Legislative Session Highlights

Melinda Aslakson  
Policy Analyst

*July 21, 2020*

Select Committee on Pension Policy

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## Today's Presentation

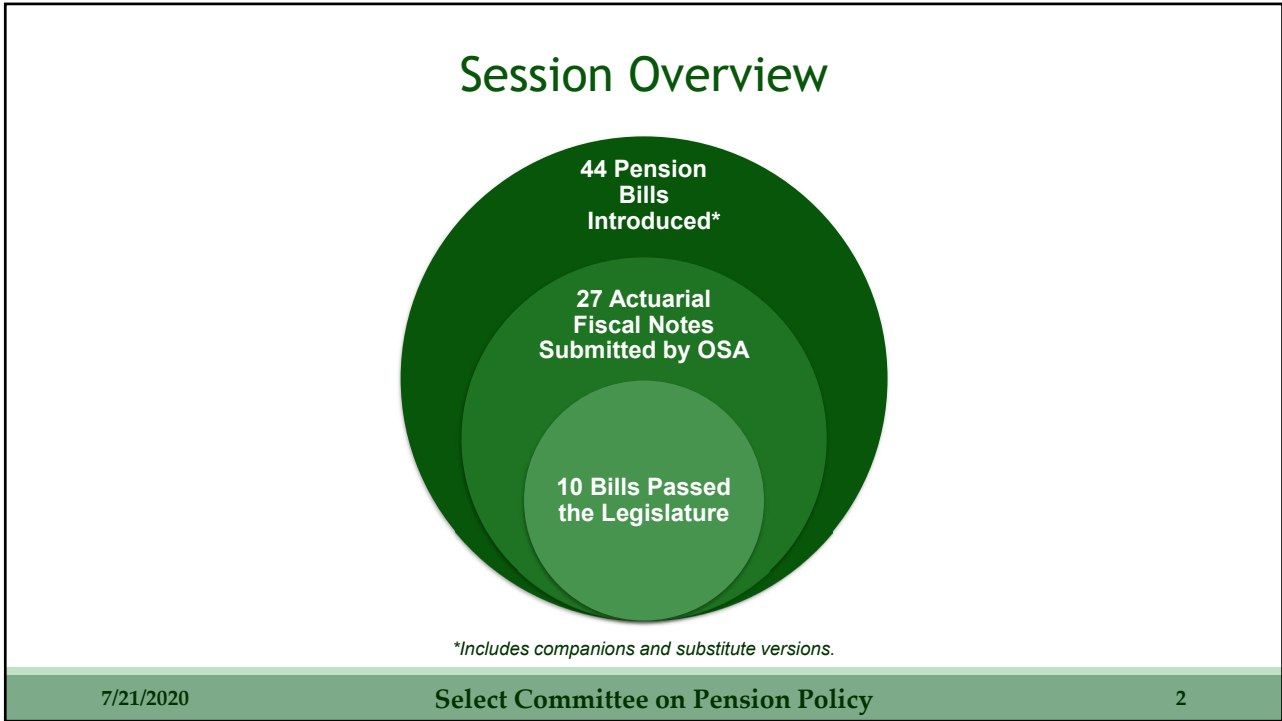
- Session Overview
- Bill Highlights
  - Requested by the SCPP
  - Of possible interest to the SCPP
- A Look Ahead
  - Studies
  - Budget provisos and OSA related

7/21/2020

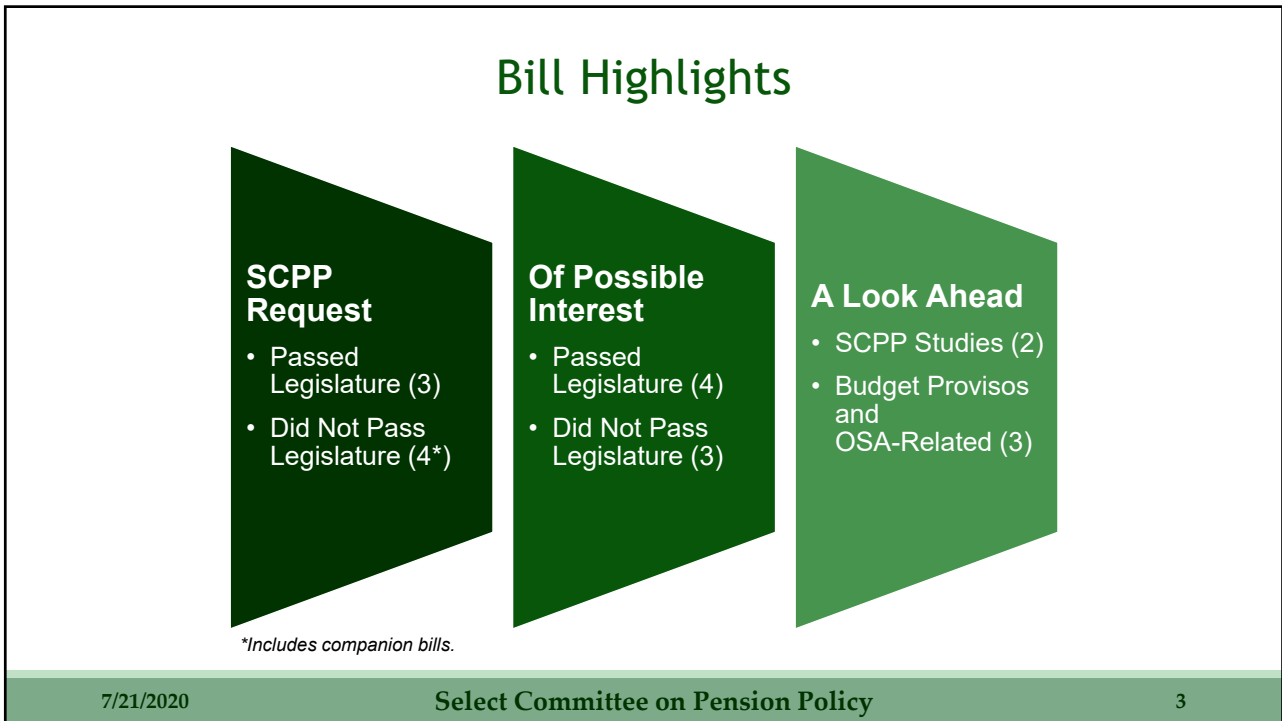
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## SCPP Bills *Passed Legislature*

### EHB 1390: PERS, TRS 1 Benefit Increase (Plans 1 COLA)

- Provides eligible PERS and TRS Plan 1 retirees with a one-time permanent, benefit increase of 3% of their benefit with a cap.
- Sponsor: Leavitt/Conway | Cost: 381.4m | Immediate Rate Impact?: Yes

### SB 6218: WSPRS Salary Definition

- Modifies the definition of salary to allow WSPRS troopers commissioned from July 1, 2001, to December 31, 2002, to include cash-outs of vacation and holiday pay when calculating retirement benefits.
- Sponsor: Schoesler | Cost: 2.8m | Immediate Rate Impact?: Yes

### SB 6383: Retirement Strategy Funds (TAP into TDF)

- Allows WSIB to alter the asset mix of TDFs to include investment in the TAP.
- Sponsor: Conway | No expected cost | Immediate Rate Impact?: No

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## SCPP Bills *Did Not Pass Legislature*

### HB 1414/SB 5335: Month of Death

- Requiring DRS to pay a full month of benefits for the month in which an annuitant dies.
- Sponsor: Volz/Bailey | Cost: 183.7m | Immediate Rate Impact?: Yes

### HB 2340/SB 6219: WSPRS Salary Index

- Amending RCW 43.43.260 to change the definition of the CPI used for calculating annual COLAs for WSPRS.
- Sponsor: Fitzgibbon/Conway | No Expected Cost | Immediate Rate Impact?: No

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## Bills of Possible Interest *Passed Legislature*

### SHB 1661: Higher Education Retirement

- Replaces the 0.5 percent employer contribution rate with a lower, institution-specific rate for higher education supplemental retirement plans.
- Higher education plans are separate from state plans, though the Committee has addressed them in the past.
- Sponsor: Chandler | Savings: \$31.4m\* | Immediate Rate Impact?: Yes

*\*Estimated total employer savings from reduced contribution rates through 2023-25 Biennium.*

### SB 6417: Survivor Option Change (*all plans*)

- Allows current and future LEOFF 2 retirees to change their survivor option election within 90 days after receipt of their first retirement allowance.
- Sponsor: Holy | No Expected Cost | Immediate Rate Impact?: No

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## Bills of Possible Interest *Passed Legislature*

### SHB 2189: PSERS Competency Restoration Workers

- Includes specified competency restoration workers at department of social and health services institutional and residential sites in PSERS.
- Sponsor: Leavitt | No Expected Cost | Immediate Rate Impact?: No

### HB 2051: LEOFF 1 Pension Disability Boards

- Expands who can serve on a pension disability board for LEOFF Plan 1.
- Sponsor: Lovick | No Expected Cost | Immediate Rate Impact?: No

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## Bills of Possible Interest *Did Not Pass Legislature*

### SHB 1179 and HB 2234: Uniform Unclaimed Property

- Concerning the revised uniform unclaimed property act.
- Sponsor: Tarleton | Cost: N/A | Immediate Rate Impact?: N/A

### HB 2533: PSERS Disability Benefits

- Providing an enhanced disability benefit for PSERS members who experience a qualifying catastrophic disability on the job. The enhanced disability benefit from PSERS may be reduced (“offset”) for benefits the member receives from L&I and SSA.
- Sponsor: Fitzgibbon | Indeterminate Cost | Immediate Rate Impact?: N/A

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## A Look Ahead Studies and Budget Provisos

### SHB 2544: Interruptive Military Service Credit Study

- Modifying the definition of “period of war” to expand veterans benefits.
  - Sponsor: Paul | Cost: 1.3m | Immediate Rate Impact?: Yes
- 
- The SCPP and LEOFF 2 Board are required to study the cost of expanding free military service credit to members who received an expeditionary medal.

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## A Look Ahead Studies and Budget Provisos

### ESSB 6168: Operating Budget – Supplemental

- The SCPP is required to study the administrative practices under the portability provisions of chapter 41.54 RCW. [OSA Budget Proviso, Sec. 106 (2)]

### Other - Supplemental

- OSA is required to conduct a benchmark analysis of the value of public employee benefits and how those benefits compare to other employees.
- LEOFF 2 Board is required to look into the pension benefits provided to EMTs providing services in King county between 10/1/1978, and 1/2003. [LEOFF 2 Board Proviso, Sec. 151 (2)]

## A Look Ahead

**Administrative Practices under Portability Provisions RCW 42.52**

**Interruptive Military Service Credit**

**Unclaimed Property (Inactive Accounts)**

**Other Bills or Topics**

## Thank You

The Select Committee on Pension Policy is staffed by the Office of the State Actuary.

Questions? Contact us:

**Office of the State Actuary**

PO Box 40914

Olympia, WA 98504

(360) 786-6140

[state.actuary@leg.wa.gov](mailto:state.actuary@leg.wa.gov)



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## 4. Study of Administrative Practices Under Chapter 41.54 RCW





# Study of Administrative Practices Under Chapter 41.54 RCW

## Executive Summary

The Select Committee on Pension Policy (SCPP) has been tasked with studying the consistencies in administrative practices as they relate to dual membership ([Chapter 41.54 RCW](#)). This study will involve representatives of the Department of Retirement Systems (DRS), the Office of the State Actuary (OSA), higher education, and the First Class Cities (Seattle, Tacoma, and Spokane).

## What is before the Committee?

At the July meeting, the members can make changes to the draft study plan. At a later meeting, members will be tasked with adopting a report to the Legislature.

## How Did This Come before the Committee?

This year's state [supplemental operating budget](#)<sup>1</sup> requires the SCPP to study consistencies in how portability provisions under Chapter 41.54 RCW are administered.

In doing so, the SCPP must convene a group consisting of staff from OSA, DRS, the state institutions of higher education, and the cities of Seattle, Tacoma, and Spokane.

## Who Does This Impact?

The impacts will depend on the findings of the study and any actions taken by the Legislature in response. However, it could potentially impact any dual member; for example, a dual member of both a First Class City retirement plan and a state retirement plan.

## Draft Study Plan

The following steps are subject to revision. Staff plans to discuss the study plan with the other participants in the study group before proceeding, and may adjust it as needed based on their feedback.

- ❖ Gather list of participants for discussion (completed).
- ❖ Convene group to discuss the study plan.
- ❖ Staff will prepare a report of facts.
  - ◇ Survey group on how their agency applies the portability rules.
  - ◇ SCPP staff will write the report.

---

<sup>1</sup>[ESSB 6168](#), Section 106(2).

- ◇ Review with participants.
- ◇ Present at September meeting.
- ❖ If the SCPP is interested, staff will prepare policy analysis and potential recommendations for the SCPP's review.
  - ◇ This could be included in the final report or analyzed separately.
  - ◇ To be presented to the SCPP in October and November.

The final report is due to the Legislature by December 15, 2020. That is the same day as the SCPP's December meeting, so the current draft plan targets finalizing the report in November.

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# Study of Administrative Practices Under Chapter 41.54 RCW

*This briefing paper will be expanded upon and updated as the study proceeds.*

## Issue Summary

The Select Committee on Pension Policy (SCPP) has been tasked with studying the consistencies in administrative practices as they relate to dual membership ([Chapter 41.54 RCW](#)). This study will involve representatives of the Department of Retirement Systems (DRS), the Office of the State Actuary (OSA), higher education, and the First Class Cities (Seattle, Tacoma, and Spokane).

## Background

### Study Requirement

This year's state [supplemental operating budget](#)<sup>1</sup> requires the SCPP to study consistencies in how portability provisions under Chapter 41.54 RCW are administered.

In doing so, the SCPP must convene a group consisting of staff from OSA, DRS, the state institutions of higher education, and the cities of Seattle, Tacoma, and Spokane.

For convenience, here is the relevant text with slight edits for clarity:

*During the 2020 legislative interim, the select committee on pension policy shall study the consistency of administrative practices under the portability provisions of chapter 41.54 RCW. In conducting this study, the select committee on pension policy shall:*

- ❖ *Convene a study group including representatives of the department of retirement systems, the office of the state actuary, the state institutions of higher education, and the cities of Seattle, Tacoma, and Spokane. The purpose of this study group is to:*
  - ◇ Facilitate the sharing of information and data needed for the select committee on pension policy to conduct the analysis and draft its report.
  - ◇ Review and compare written policies of each of the entities in (a) of this subsection enacted pursuant to carrying out dual membership provisions under chapter 41.54 RCW, as well as any participant data needed to make reasonable comparisons of administrative practices.

---

<sup>1</sup>[ESSB 6168](#), Section 106(2).

- ◇ Identify differences in administrative practices, and consider the implications for making those practices consistent between entities
- ◇ Report any findings to the appropriate committees of the legislature by December 15, 2020.

## First Class City Retirement Systems

A First Class City is a city with at least 10,000 citizens, and has adopted a charter in accordance with the state constitution.<sup>2</sup> According to the Municipal Research Services Center<sup>3</sup>, currently ten cities meet that definition: Aberdeen, Bellingham, Bremerton, Everett, Seattle, Spokane, Richland, Tacoma, Vancouver, and Yakima.

Under [Chapter 41.28 RCW](#)<sup>4</sup>, any First Class City formed after July 1, 1939 can form its own pension system. However, only three cities have done so: Seattle, Tacoma, and Spokane.<sup>5</sup>

These systems are for general employees only. Police, fire, and K-12 staff participate in the state systems (the Law Enforcement Officers' and Fire Fighters' Retirement System and the Teachers' Retirement System, respectively).<sup>6</sup>

Each system has an oversight board responsible for plan administration, and investment of funds.<sup>7,8,9</sup>

While the plans differ in many details, their structure is reasonably similar to the state Public Employees' Retirement System (PERS) Plan 2 for comparison purposes. For example, PERS 2 and the city systems all calculate member benefits as follows:

$$\text{Years of Service} \times \text{Salary Average} \times \text{Benefit Multiplier}$$

However, the city systems use different multipliers, and calculate average salary using different timeframes. The complexity of the details makes them difficult to restate here.<sup>10</sup> For reference, please see the respective plan handbooks available on each system's website:

- ❖ [Seattle City Employees' Retirement System](#) (SCERS).

<sup>2</sup>[RCW 35.22.010](#).

<sup>3</sup>[MRSC webpage on First Class Cities](#).

<sup>4</sup>First Class City retirement systems are generally governed by Chapter 41.28 RCW. However, additional provisions apply when a First Class City works with another local government unit to provide a service, and the employees are not all in the same retirement system. These additional provisions are in [RCW 41.04.405-430](#).

<sup>5</sup>While it is outside the scope of this paper, it may be helpful to note that the other seven First Class Cities may no longer be eligible to form their own retirement system since they have joined the statewide PERS system. While joining PERS is optional for cities, it is generally an irrevocable decision. However, any city that has not joined PERS and attains First Class City status in the future may be eligible to create its own retirement system.

<sup>6</sup>[RCW 41.28.030](#).

<sup>7</sup>[RCW 41.28.060](#).

<sup>8</sup>[RCW 41.28.080](#).

<sup>9</sup>As noted by Committee members at the June 2020 meeting, Legislation has been introduced over the years that would consolidate one or more aspects with the state systems (e.g., allowing the Washington State Investment Board to invest the funds), but these have not passed.

<sup>10</sup>For example, two of the three use a large table to determine the benefit multiplier, as opposed to using a flat percentage. They also use tables to determine retirement eligibility, and/or early retirement factors. Each system also has at least two tiers of benefits based on hire date.

- ❖ [Tacoma Employees' Retirement System](#) (TERS).
- ❖ [Spokane Employees' Retirement System](#) (Spokane).<sup>11</sup>

<b>Comparing First Class City Retirement Systems and PERS</b>					
<i>All numbers approximate; rounded for comparison; numbers in Millions.</i>					
	Seattle (SCERS)	Tacoma (TERS)	Spokane (SERS)	PERS 1	PERS 2/3
<b>Funded Status</b>	68.2% <sup>1</sup>	98% <sup>2</sup>	58.4% <sup>3</sup>	65% <sup>4</sup>	95% <sup>4</sup>
<b>Fund Size (MVA)<sup>5</sup></b>	\$2,700 <sup>1</sup>	\$1,800 <sup>2</sup>	\$280 <sup>5</sup>	\$7,900	\$42,500 <sup>4</sup>
<b>Membership</b>					
<b>Actives</b>	9,400	3,000	1,500	1,500	160,500
<b>Annuitants</b>	7,000	2,500	1,400	45,600	60,600
<b>Total</b>	<b>19,000</b>	<b>6,200</b>	<b>3,000</b>	<b>47,100</b>	<b>221,100</b>

<sup>1</sup>As of Jan 1, 2019.  
<sup>2</sup>As of Jan 1, 2020.  
<sup>3</sup>As of Dec 31, 2018.  
<sup>4</sup>Preliminary results as of June 30, 2019.  
<sup>5</sup>As of Dec 31, 2017.

## Higher Education Retirement Plans (HERPs)

Higher education institutions have historically had the option of offering HERPs to employees in lieu of membership in a DRS-administered retirement system.<sup>12</sup> While there have been some changes, this option has existed in substantially similar form since 1937.

HERPs are not part of a retirement plan administered by DRS. Retirees from PERS who go to work in a position covered by a HERP are treated as though they are ineligible for PERS benefits.

## Draft Study Plan

The following steps are subject to revision. Staff plans to discuss the study plan with the other participants in the study group before proceeding, and may adjust it as needed based on their feedback.

- ❖ Gather list of participants for discussion (completed).
- ❖ Convene group to discuss the study plan.
- ❖ Staff will prepare a report of facts.
  - ◇ Survey group on how their agency applies the portability rules.
  - ◇ SCPP staff will write the report.
  - ◇ Review with participants.
  - ◇ Present at September meeting.

<sup>11</sup>This report avoids using the acronym "SERS" to avoid confusion with the state's School Employees' Retirement System.

<sup>12</sup>[RCW 28B.10.400](#).

- ❖ If the SCPP is interested, staff will prepare policy analysis and potential recommendations for the SCPP's review.
  - ◇ This could be included in the final report or analyzed separately.
  - ◇ To be presented to the SCPP in October and November.

The final report is due to the Legislature by December 15, 2020. That is the same day as the SCPP's December meeting, so the current draft plan targets finalizing the report in November.

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# Study of Administrative Practices Under Chapter 41.54 RCW

Aaron Gutierrez, MPA, JD  
Senior Policy Analyst

*July 21, 2020*

Select Committee on Pension Policy

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## Today's Presentation

- Background
  - Study Requirements
  - First Class City Retirement Systems
  - Higher Education Retirement Plans
- Portability under Chapter 41.54 RCW
- Study Plan
- Next Steps

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## Study Language

- Proviso in Supplemental Operating Budget
  - Section 106(2)
- SCPP must study consistencies in how portability provisions under Chapter 41.54 RCW are administered

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## Study Requirements

- Convene a study group
  - DRS
  - OSA
  - Higher education
  - First Class City retirement systems
- Review and compare existing policies
- Identify differences, and implications for making those practices consistent

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## First Class City Retirement Plans

- Defined benefit plans
- Pension boards administer the plan and invest the funds
- Members are general employees
  - Not police/fire\*, or education
- Provisions similar to state plans, but differ in details
  - Each has at least 2 tiers of benefits based on hire date
  - Next 2 slides cover the tiers for new employees only

*\*Pre-LEOFF benefits may be administered by the city, but all members are retired and not impacted by this discussion.*

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## Benefits Comparison

- Benefits follow the same basic formula as the state systems

**Years of Service x Salary Average x Benefit Multiplier**

- Systems calculate each piece differently, for example
  - Salary average in Seattle: highest consecutive 130 pay periods
  - Salary average in Tacoma: highest consecutive 24 months

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## Retirement Eligibility Comparison

Retirement Eligibility		
	Normal/Unreduced	Early Retirement
<b>Seattle</b>	Age 65	Age 60 & 5-9 YOS
	30 YOS	Age 57 & 10-19 YOS
	Rule of 85	Age 55 & 20 YOS
<b>Tacoma</b>	Age 60	Age 55 & 10 YOS
	30 YOS	Age 40 & 20 YOS
	Rule of 80	
<b>Spokane</b>	Age 65	Age 50
	Rule of 90	
	Age 50 & 30 YOS	

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## First Class Cities Comparisons

Comparing First Class City Retirement Systems and PERS					
<i>All numbers approximate; rounded for comparison; Numbers in Millions.</i>					
	Seattle (SCERS)	Tacoma (TERS)	Spokane (SERS)	PERS 1	PERS 2/3
<b>Funded Status</b>	68.2% <sup>1</sup>	98% <sup>2</sup>	58.4% <sup>3</sup>	65% <sup>4</sup>	95% <sup>4</sup>
<b>Fund Size (MVA)<sup>5</sup></b>	\$2,700 <sup>1</sup>	\$1,800 <sup>2</sup>	\$280 <sup>5</sup>	\$7,900	\$42,500 <sup>4</sup>
<b>Membership</b>					
<b>Actives</b>	9,400	3,000	1,500	1,500	160,500
<b>Annuitants</b>	7,000	2,500	1,400	45,600	60,600
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<sup>1</sup>As of Jan 1, 2019.<sup>2</sup>As of Jan 1, 2020.<sup>3</sup>As of Dec 31, 2018.<sup>4</sup>Preliminary results as of June 30, 2019.<sup>5</sup>As of Dec 31, 2017.

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## Higher Education Retirement Plans

- Defined contribution plans
- Intended to provide portability for faculty and some administration
- HERPs are not administered by DRS or covered by Chapter 41.54
  - There's no portability between HERPs and the other systems mentioned
  - Higher education representatives included in the process just in case
  - Likely to find no impact

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## Portability: Chapter 41.54 RCW

- For illustration, assume an employee with
  - 15 years with the state PERS, and
  - 15 years with Seattle
- At retirement
  - Receives 2 separate 15-year benefits
  - Can combine service in both systems to qualify
  - Can use the base salary from either system to calculate benefit
- SCPP is asked to look at consistencies in how these rules are administered

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## Report on Facts and/or Policy

- As proviso is drafted, a report on the facts would seem to satisfy the requirement
- As a policy committee, you have the option of also reviewing and recommending policy
- Study plan includes options for both
- Will aim for final adoption of report and optional recommendations at November meeting
  - Report is due to the Legislature the same day as the December meeting

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## Study Plan

- Gather participants for discussion [complete]
- Convene group to discuss and get input on study plan
- Likely plan; subject to input
  - Survey participants about how they apply the portability rules
  - SCPP staff prepares a report of the facts
    - Review with participants
    - Present at next meeting (September)
  - If SCPP is interested, staff prepares policy analysis and potential recommendations for the SCPP's review
    - Reviewed in October and November

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## Next Steps

- Staff will convene group to discuss and agree on study plan
- Will update the SCPP on progress in September

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## Thank You

The Select Committee on Pension Policy is staffed by the Office of the State Actuary.

Questions? Contact us:

**Office of the State Actuary**

PO Box 40914

Olympia, WA 98504

(360) 786-6140

[state.actuary@leg.wa.gov](mailto:state.actuary@leg.wa.gov)



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## 5. Interruptive Military Service Credit Study





# Interruptive Military Service Credit Study

## Executive Summary

The Select Committee on Pension Policy (SCPP) has been tasked with studying interruptive military service credit. This study requires assistance from the Department of Retirement Systems, the Office of the State Actuary (OSA), the Department of Veterans Affairs, and the Military Department. The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board is also required to study this provision with LEOFF 2 and the SCPP coordinating to encourage consistent treatment of military service across pension plans.

## What is before the Committee?

During the 2020 Interim, the SCPP is to examine the costs and difference in service credit for current members and retirees that would be generated by expanding fully subsidized military service credit to all members who received an expeditionary medal. During the July meeting the Committee has an opportunity to provide input to the study plan. A final report is due to the Legislature by January 2, 2021.

## How Did This Come before the Committee?

[Substitute House Bill 2544](#), passed during the 2020 Legislative Session, modifies the definition of "period of war" and requires the SCPP and the LEOFF 2 Board to conduct a study of interruptive military service credit and the impact of expanding fully subsidized military service credit.

## Who Does This Impact?

The study potentially impacts all plans, however the number of members and/or retirees who may have been awarded an expeditionary medal by plan is unknown.

## Highlights of Study Plan

The following summarizes the study plan, however is subject to revision.

- ❖ Staff is coordinating with the LEOFF 2 Board.
- ❖ Staff is conducting research and gathering data, including a review of federal resources, peer states, and partnering with state agencies named in the bill who are required to provide assistance, information, or conduct research, as needed.
- ❖ Staff will prepare a policy briefing for the SCPP meeting in September.
- ❖ OSA will prepare actuarial analysis for the SCPP meeting in October.
- ❖ The bill states, to encourage consistency among the treatment of military service among the Washington state retirement systems, the SCPP must:

- ◇ Communicate preliminary recommendations to the LEOFF 2 Board prior to October 30, 2020.
- ◇ Consider adjustments to the SCPP report as a result of reviewing the LEOFF 2 Board's study on the same topic.
- ◇ Transmit a report containing recommendations and analysis of the potential cost of those recommendations to the Legislature by January 2, 2021.

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# Interruptive Military Service Credit Study

*This briefing paper will be expanded upon and updated as the study proceeds.*

## Issue Summary

[Substitute House Bill \(SHB\) 2544](#), passed during the 2020 Legislative Session, requires the Select Committee on Pension Policy (SCPP) and the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board to examine interruptive military service credit and the impact of expanding eligibility to those who have been awarded an expeditionary medal.

## Background

### Study Requirements

During the 2020 Interim, the SCPP is required to study the impacts of providing fully subsidized interruptive military service credit and the costs and difference in service credit to current members and retirees who received an expeditionary medal.

This study requires assistance from the Department of Retirement Systems (DRS), the Office of the State Actuary (OSA), the Department of Veterans Affairs, and the Military Department. The LEOFF 2 Board is also required to conduct a study on the same topic.

According to SHB 2544, to encourage consistency among the treatment of military service among the Washington state retirement systems, the SCPP and the LEOFF 2 Board must communicate their preliminary recommendations to each other prior to October 30, 2020. Considering the preliminary recommendations of the other body, the SCPP and LEOFF 2 Board must issue final reports containing recommendations and analysis of the potential cost of those recommendations to the appropriate committees of the legislature by January 2, 2021.

### Key Terms and Concepts

Campaign, Expeditionary, and Service medals recognize service members for participation in military campaigns, expeditions, significant military operations, and for otherwise meritorious military service. Eligibility and criteria are based on a service member's:

- ❖ Degree of personal risk (e.g., proximity to the enemy, service in a combat zone, imminent threat of hostilities).
- ❖ Degree of personal hardship.
- ❖ Participation in designated military operations.
- ❖ Extent of military service during specified time periods, duration, or types of duty.

There are four categories of medals:

- ❖ **Campaign Medals** – Recognize deployed participation in large-scale or long-duration combat operations. Campaign medals are associated with the highest level of personal risk and hardship. They are awarded to service members who are deployed to the geographic areas where the combat is actually occurring.
- ❖ **Expeditionary Medals** – Recognize deployed participation in small scale and/or short-duration combat operations or military operations where there is an imminent threat of hostilities. Expeditionary medals are also awarded to members deployed in support of combat operations, but who are not in the geographic area where the actual combat is occurring. Expeditionary medals are associated with high levels of personal risk and hardship.
- ❖ **Deployed Service Medals** – Recognize deployment or assignment to a designated Area of Eligibility to participate in, or directly support, a designated military operation where there is no foreign armed opposition or imminent threat of hostile action.
- ❖ **Individual Service Medals** – Recognize individual merit, direct participation in a Department of Defense approved military activity, undertaking, event or operation, or service during a specified period. Some individual service medals, such as the Prisoner of War medal, may recognize service involving significant personal risk and hardship, while others only recognize being in active military service during a particular period of time.

Currently, members of the pension system qualify for interruptive military service credit when they take a leave of absence from their DRS-covered position to serve in the U.S. military (see [RCW 41.04.005](#)) and return to work within 90 days of being honorably discharged. There are two types of interruptive military service credit:

- ❖ **Fully Subsidized** – Members can receive up to five years of no-cost service credit if the member's service took place during a period of war, or when the member was awarded a campaign medal during certain armed conflicts. In this scenario, the employer/state pays their contributions and interest, and the system subsidizes the member contributions and interest.
- ❖ **Partially Subsidized** – Members can receive up to five years of service credit if their service did not take place during a period of war or defined armed conflict in which a campaign medal was obtained. In this scenario, the employer/state pay their contributions and interest, the member pays the member contributions, and interest on member contribution is subsidized by the plan. Upon returning to work, the member has five years to pay those contributions in order to be eligible for the service credit (or, pay those contributions prior to retirement, whichever comes first).

## Legal Context

Employees have federal and state employment and reemployment rights regarding military service. For example, this is included in the Public Employees' Retirement System statute and also covered by the federal Uniformed Services Employment and Reemployment Rights Act (USERRA).

- ❖ [RCW 41.40.710](#) – “A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.”
- ❖ [Per the Justice Dept.](#) – “USERRA is a federal statute that protects servicemembers' and veterans' civilian employment rights. Among other things, under certain conditions, USERRA requires employers to put individuals back to work in their civilian jobs after military service. USERRA also protects servicemembers from discrimination in the workplace based on their military service or affiliation.”

## Legislative History<sup>1</sup>

Fully subsidized interruptive military service credit was first established after [HB 1548](#) was passed during the 2009 Legislative Session. Since then, several bills have been considered or passed related to these benefits in the pension system; most recently:

- ❖ **2020 Legislative Session**
  - ◇ [SHB 2544](#) – Concerning the definition of veteran (all plans; passed).
  - ◇ [HB 2655/SB 6418](#) – Concerning the definition of period of war for pensions (LEOFF 2).
- ❖ **2018 Legislative Session**
  - ◇ [HB 2645](#) – Addressing the definition of veterans of armed conflicts (all plans).
  - ◇ [ESHB 2701/SB 6377](#) – Addressing the definition of veteran (all plans).

## Current Situation

Members of all plans qualify for interruptive military service credit when they take a leave of absence from their DRS-covered position to serve in the United States military and return to work within 90 days of honorable discharge. Members can receive up to ten years of interruptive military service credit, of which:

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<sup>1</sup>Additional bill history by session year may be added in a future update to this briefing paper.

- ❖ Up to five years of fully subsidized service credit if the member's service took place during a period of war.
- ❖ Up to five years of partially subsidized service credit if the member's service did not take place during a period of war.

Additionally, if a Plans 2/3 member becomes totally incapacitated for continued employment or dies as a result of service in the U.S military, the member's surviving spouse, registered domestic partner, or guardian of their minor children can apply for their interruptive military service credit, and may be entitled to an unreduced benefit.

"Period of war" is defined in RCW 41.04.005. Prior to the 2020 Legislative Session, the definition of "period of war" included<sup>2</sup>:

- ❖ World War I.
- ❖ World War II.
- ❖ The Korean Conflict.
- ❖ The Vietnam Era.
- ❖ The Persian Gulf War.
- ❖ The following armed conflicts, if the participant was awarded the respective campaign badge or medal:
  - ◇ The Crisis in Lebanon.
  - ◇ The Invasion of Grenada.
  - ◇ Panama, Operation Just Cause.
  - ◇ Somalia, Operation Restore Hope.
  - ◇ Haiti, Operation Uphold Democracy.
  - ◇ Bosnia, Operation Joint Endeavor.
  - ◇ Operation Noble Eagle.
  - ◇ Southern or Central Asia, Operation Enduring Freedom.
  - ◇ Persian Gulf, Operation Iraqi Freedom.
  - ◇ Iraq and Syria, Operation Inherent Resolve.
  - ◇ Afghanistan, Operation Freedom's Sentinel.

SHB 2544 changes the definition of "period of war" by removing the list of armed conflicts:

- ❖ Any armed conflicts, if the participant was awarded the respective campaign badge or medal, or if the service was such that a campaign badge or medal would have been awarded, except that the member already received a campaign badge or medal for a prior deployment during that same conflict.

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<sup>2</sup>See [RCW 41.04.005](#) for complete statute language as SHB 2544 is not yet codified.

## Draft Study Plan

The following key milestones cover the activities needed to support the study of the costs and difference in providing fully subsidized military service credit to current members and retirees who received an expeditionary medal. The study plan activities are subject to revision.

- ❖ Staff is coordinating with the LEOFF 2 Board.
- ❖ Staff is conducting research and gathering data, including a review of federal resources, peer states, and partnering with state agencies named in the bill who are required to assist, share information, or conduct research, as needed.
- ❖ Staff will prepare a policy briefing for the SCPP meeting in September.
- ❖ OSA will prepare actuarial analysis for the SCPP meeting in October.
- ❖ To encourage consistency among the treatment of military service among the Washington state retirement systems, the SCPP must:
  - ◇ Communicate preliminary recommendations to the LEOFF 2 Board prior to October 30, 2020.
  - ◇ Consider adjustments to the SCPP report as a result of reviewing the LEOFF 2 Board's study on the same topic.
  - ◇ Transmit a report containing recommendations and analysis of the potential cost of those recommendations to the Legislature by January 2, 2021.

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# Interruptive Military Service Credit Study

Melinda Aslakson  
Policy Analyst

*July 21, 2020*

Select Committee on Pension Policy

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## Today's Presentation

- Background
  - Basics
  - Current Law
  - Study Requirements
- SCPP Study Plan
- Next Steps

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## Background: Basics

- What is interruptive military service?
  - A member who takes a leave of absence from a DRS covered position to serve in the military and returns to employment with their employer within 90 days of honorable discharge
  - Employment is “interrupted” to serve, [RCW 41.40.710](#)
- Who is eligible?
  - Members of all retirement system plans
- When was this created?
  - [HB 1548](#) passed in 2009
  - Two types of service credit available
- Why is this before the SCPP?
  - [SHB 2544](#) passed in 2020

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## Background: Current Law

- Current law provides for interruptive military service
  - Plans 2/3 members can be eligible for a total of up to 10 years of interruptive military service credit
 

Fully subsidized for members who received a campaign medal and served during a period of war (up to 5)

Partially subsidized for members who did not receive a campaign medal or serve during a period of war (up to 5)
  - Plans 1 members can be eligible for up to 5 years of interruptive military service credit
    - It varies based on certain factors

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## Background: Current Law

- Chapter 178, Laws of 2020, concerning the definition of veteran
  - Sec. (1) Modifies the definition of “period of war” to include any conflict for which a *campaign medal* was awarded
  - Sec. (2) Requires the SCPP and LEOFF 2 Retirement Board to study interruptive military service credit particularly expanding fully subsidized service credit to members who received an *expeditionary medal*

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## Background: Federal

- Service medals recognize service members for participating in military operations or otherwise meritorious service
  - Degree of personal risk
  - Degree of personal hardship
  - Participation in designated military operations
  - Extent of military service during specified time periods
- Various Medal Categories

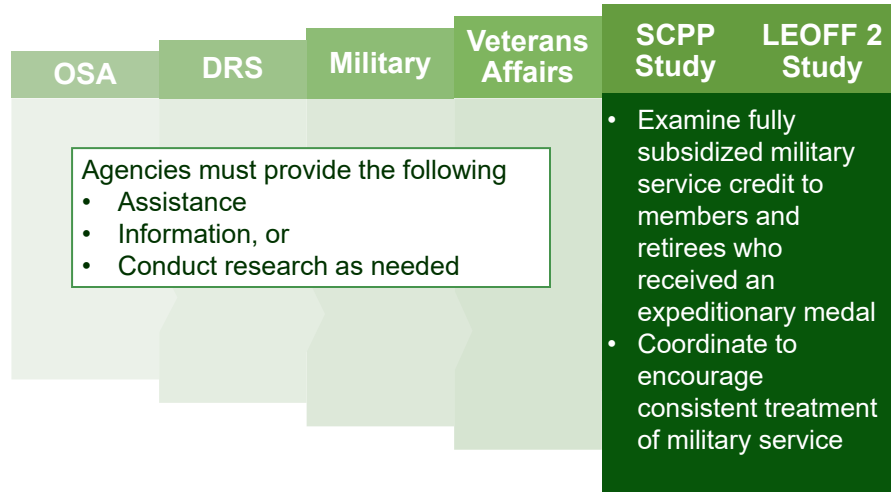
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## Background: Study Requirements



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## SCPP Study Plan

- Coordinate with the LEOFF 2 Retirement Board
- Research and gather data
  - Federal data on medals, such as
    - Defense Manpower Data Center's Reporting System
    - Department of Defense
    - Each military department's award guidance
  - Peer states
  - Data requests to DRS, DVA [complete]
- Prepare Committee briefing and recommendations
- Prepare actuarial analysis
- Opportunity for end of year Committee action

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## SCPP Study Plan

Month	Planned Activity
July	Initial briefing
September	Policy briefing
October	Preliminary analysis (actuarial analysis included)
November	Share LEOFF 2 preliminary recommendations with SCPP
December	Opportunity for SCPP action on final report
January	Report transmitted by January 2, 2021

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## Next Steps

- Continue research to support
  - Policy briefing in September
  - Actuarial analysis in October
- Ongoing coordination with LEOFF 2 Board
- SCPP may provide input on the study plan

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## Thank You

The Select Committee on Pension Policy is staffed by the Office of the State Actuary.

Questions? Contact us:

**Office of the State Actuary**

PO Box 40914

Olympia, WA 98504

(360) 786-6140

[state.actuary@leg.wa.gov](mailto:state.actuary@leg.wa.gov)



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## 6. Public Comment