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ABSTRACT

The purpose of this report is to present findings and recommendations of the Joint Committee on Higher Education in the state of Washington. The specific mandate of the Committee in this instance was to study the retirement programs currently in force at the various state institutions of higher education and to make any necessary recommendations concerning the existing programs, including any legislation necessary to meet the recommendations. Some of the recommendations of the Committee are: (1) The fundamental provisions of the formula which provides retirement benefits for faculty members in all systems of higher education in Washington State should be parallel. (2) A formal retirement goal should be adopted, providing the following: At age 65 and after 25 years of service, a retirement income based on a joint and two-thirds survivor annuity, equivalent to 50% of the average compensation of the highest 2 years' service. (3) That portion of retirement benefits generated by supplementation should be extended to the surviving spouse at actuarially reduced rates. (4) Retirement annuity and supplementation payments should be exempted from the inheritance tax. (Author/HS)

# Faculty Retirement Systems



January, 1973

JOINT COMMITTEE ON HIGHER EDUCATION

## Task Force 111 Membership

| | |
|---|---|
| Senator Joe Stortini<br>Task Force Co-Chairman | Jt. Committee on Higher Education |
| Representative Floyd Conway<br>Task Force Co-Chairman | Public Pension Commission |
| Representative Carlton Gladder<br>Task Force Vice-Chairman | Jt. Committee on Higher Education |
| Jim Bricker<br>Executive Secretary | Jt. Committee on Higher Education |
| Jack Cameron<br>Research Director | Public Pension Commission |
| Denis Curry<br>Deputy Director<br>Information Systems | Council on Higher Education |
| Gilbert Carbone<br>Assistant Director | State Board for Community College Education |
| Paul W. Barkley**<br>Faculty Member | Washington State University |
| Ken Harsha<br>Faculty Member | Central Washington State College |
| David Williams<br>Personnel Director | University of Washington |
| Norm Phelps<br>Retirement & Insurance Officer | Central Washington State College |
| Edgar Tronson<br>Vice-President<br>Business & Personnel | Shoreline Community College |
| Dave Gould<br>Faculty Member | Bellevue Community College |

Dr. Barbara Howard
Study Research Director, JCHE

**Replacing Bill Iulo
Washington State University

Revised 9/72

State of Washington

# JOINT COMMITTEE ON HIGHER EDUCATION

J. ARNOLD BRICKER, Executive Secretary



January 2, 1973

Governor Daniel J. Evans and
Members of the Legislature:

By the terms of Senate Resolution 71-111, the Joint Committee was directed to study, with the advice and assistance of the Public Pension Commission, "the retirement programs currently in force at the various state institutions of higher education."

In its deliberations, the Joint Committee adopted the goal of achieving equity in retirement systems for faculty, both as among the universities, the state colleges, and the community colleges, and as related to retirement programs for other public employees. The legislative proposal which was developed was designed to bring state policy in this field into consonance for the first time.

The report of the Joint Committee on Higher Education is submitted herewith for your consideration. We believe that the recommendations, which envision both legislative action and implementation by the governing bodies of the institutions, will accomplish the goal described.

Respectfully submitted,

Gordon Sandison

GORDON SANDISON
Chairman

GS:IK

218, HOUSE OFFICE BUILDING OLYMPIA, WASHINGTON 98504 TELEPHONE 753-5390 AREA CODE 206

# FACULTY RETIREMENT IN HIGHER EDUCATION

(S. R. 71-111)

## PURPOSE

The purpose of this report is to present findings and recommendations in compliance with Senate Resolution 1971-Ex. 111, which requested the Joint Committee on Higher Education, with the advice and assistance of the Public Pension Commission, to "study the retirement programs currently in force at the various state institutions of higher education and to make any necessary recommendations concerning the existing programs, including any legislation necessary to meet the recommendations." (See Appendix A)

## RECOMMENDATIONS

The Committee recommends the following:

1. *The fundamental provisions of the formula which provides retirement benefits for faculty members in all systems of higher education in Washington State should be parallel.*

2. *A formal retirement goal should be adopted, providing the following: At age 65 and after 25 years of service, a retirement income based upon a joint and two-thirds survivor annuity, equivalent to 50 percent of the average compensation of the highest two years of service, including TIAA dividends, but exclusive of Federal Social Security.*

3. *To meet the new retirement goal, the following provisions -- some of which require legislation, and some of which can be accomplished by action by the respective boards of regents or trustees -- should be adopted:*

   a. *The current supplement to TIAA/CREF benefits, which is paid to bring the total retirement payment to a guaranteed minimum, should be calculated on the basis of 50 percent of the average compensation of the highest two years of service, instead of the average of the last ten years. (Requires legislation)*

b. *Contribution rates by both the employer and the employee should be increased for persons aged 35 and older to 7.5 percent of salary. (Requires legislative authority for the community colleges, and requires appropriation)*

c. *Faculty members at all institutions should be given the option at age 50 to increase their retirement contributions to 10 percent of salary, the employer to match that amount. (Requires legislative authority for the community colleges, and would require appropriation)*

d. *To the greatest possible extent, the faculty retirement program should be funded entirely through regular contributions to TIAA/CREF, but where this is not possible, supplementation should be made available to all faculty members, not only those employed before October 1, 1955. (Requires legislative authority for the community colleges, and would require appropriation)*

e. *The basis for calculating supplementation should be as follows: (1) as if the retiree had selected a joint and two-thirds survivor's option including dividends; (2) as if all TIAA/CREF contributions had been made on a 50-50 basis; and (3) as if the retiree had taken the 10 percent option at age 50. (Does not require legislation)*

4. *That portion of retirement benefits generated by supplementation should be extended to the surviving spouse at actuarially reduced rates. (Requires legislation)*

5. *Retirement annuity and supplementation payments should be exempted from the inheritance tax. (Requires legislation)*

6. *Retirement and other non-salary benefits for faculty members in higher education should be subject to continuing review by the four-year institutions and by the State Board for Community College Education. (Does not require legislation)*

## BACKGROUND

In contrast to the traditional programs for state employees, retirement benefits for most faculty members in institutions of higher education are funded through what is known as a "money-purchase" annuity plan, usually administered through a private carrier. The biggest such carrier in the United States -- with more than 2,000 institutions participating -- is the Teachers Insurance Annuity Association of America and College Retirement Equities Fund (commonly known as TIAA or TIAA/CREF). The major attraction of such a program is that it provides faculty members -- who are much more mobile than most professional people -- with a means of building up an accumulation of funds for retirement which is "portable," that is, which continues to build even though the faculty member may transfer employment several times during his career.

Faculty members at the two universities in Washington State have been members of the TIAA/CREF system since 1939, and at the state colleges since 1957. Soon after the state's community college system was established, faculty members in the two-year schools were given an option to join TIAA or to stay with systems to which they had formerly belonged (primarily the Teachers Retirement System); those employed subsequent to 1969 have been required to join TIAA if they were not already members of WSTRS or PERS. Approximately half of the faculty members of the community college system were members of TIAA/CREF in the 1971-72 academic year.

Over a period of several years, faculty members at the four-year institutions became concerned that the benefits of their retirement program were not keeping pace with the revisions that were being made in other benefit formulas, and initiated a dialog with their respective administrations which resulted in several studies and a mass petition requesting improvements in the system. Senate Resolution 71-111 was an outgrowth of these developments.

In response to the resolution, the Joint Committee created a special task force composed of legislators; staff of the Joint Committee, the Public Pension Commission, the State Board for Community College Education, and the Council on Higher Education; and faculty and administrative representatives of the universities, the state colleges, and the community colleges (see roster, Appendix B).

Several working agreements were paramount for this study; chief among these was the consensus that the primary objective would be to seek equity in faculty retirement formulas, both as between retirement programs, and as among the three elements of the higher education system in the state (the universities, the state colleges, and the community colleges).

## FINDINGS

Shortly after this study was undertaken, the 1972 Special Session of the Legislature made substantial revisions in the Public Employees Retirement System (PERS) program (Ch. 151, Laws of 1971, 2d Ex). Chief among these was a shift from the former pension-annuity concept to a guaranteed-benefit plan. The new goal is retirement at age 55 after 25 years of service, with a guaranteed minimum of 50 percent of the highest consecutive two years' compensation, but with a provision that benefits can go as high as 60 percent.

As the deliberations continued during 1972, several developments were taking place among the institutions. The Council of Faculty Representatives of the six four-year schools presented a series of recommendations to their Council of Presidents. The regents of the two universities, after retaining the actuarial firm of Milliman and Robertson to review the faculty recommendations, concluded that there were deficiencies in the system and adopted a set of uniform recommendations for revision of the retirement formula. The Council of Presidents approved the overall proposal adopted by the universities' regents, and the trustees of each of the state colleges accepted it in principle. The State Board for Community College Education has the proposal under consideration, and is expected to act as soon as the item can be formally scheduled on an agenda.

Comparison of existing retirement formulas revealed considerable disparities, not only among the major retirement programs, but also among the institutions of higher education themselves. (See comparison tables, Appendix C). The more significant differences will be outlined in turn in this report.

Retirement guarantee. Under the current statutes (see Appendix D), faculty members covered by TIAA at the universities receive retirement benefits under a combination of a money-purchase annuity and a state-funded supplement to bring the minimum payment to the equivalent of 50 percent of the average compensation of the highest 10 years of service. This supplementation is available only to faculty members employed before October 1, 1955. Faculty at the state colleges and TIAA participants at the community colleges receive only the proceeds of the annuity, without supplementation.

As outlined above, the new guarantee of the PERS system is the equivalent of 50 percent of the highest consecutive two years' compensation, and can reach 60 percent.

Survivors' benefits. Under TIAA, all faculty members have several options as to the method by which retirement benefits may be collected. One of these is a single-life annuity in which the retiree receives regular payments for the rest of his life. Some faculty members have taken options which permit reduced benefits during retirement, in order to provide some continued benefits to a surviving spouse after the retiree's death. The so-called joint and two-thirds survivors' option is not available with respect to supplementation for university retirees, which in some cases has meant considerable hardship for widows of retirees.

Survivors' options at reduced rates are available for the full benefit package under both Teachers and PERS.

Contribution rates. The pattern of contribution rates varies considerably, and is relatively complex (see Appendix C). In summary, at the two universities, the employee rates -- which are matched by the employer -- are as follows:

| | UW | WSU |
|---|---|---|
| Under age 35 | 5% of salary | 5% of salary |
| Over age 35 | 5% of $4,800<br>7 1/2% above $4,800 | 5% of $9,000<br>7 1/2% above $9,000 |
| Over age 50 (Optional) | 10% of salary if over 40 when participation begins | 5.4% of $9,000 then 10% above $9,000 (not dependent on age of entry) |

The rate differentials after age 35 were established as an offset to Federal Social Security benefits, and are frequently referred to as "step-rating" or "the Social Security corridor."

At the state colleges, the basic contribution rate is 4.5 percent of the first $4,800 salary, and 7.5 percent above $4,800, with no option for higher contributions after age 50. At the community colleges, the TIAA contribution is a flat 5 percent of all remuneration. The Teachers' contribution is 5 percent. The new rates for PERS are employer share, 7 percent of all compensation, employee share, 6 percent, without the Social Security corridor (effective July 1, 1973).

The TIAA/CREF split. As the TIAA/CREF annuity program has evolved, a faculty member may now elect to have a portion of his contributions invested under the more traditional TIAA plan, and another portion invested in the growth equities provided by CREF. The rationale for this option is to provide a hedge against inflation. The contribution "split" options vary among the institutions (see Appendix C). This feature, like portability, is not available under other state systems.

Inheritance taxation of retirement benefits. It was learned that, unlike the situation with other public retirement benefits, TIAA annuity death benefits are not specifically exempt from the state's inheritance tax.

## CONCLUSIONS

A wide range of proposals for revision in the retirement formula were considered. Those upon which consensus was reached included the following:

Retirement goal. While there was considerable discussion of making the faculty formula parallel to PERS, Task Force members generally agreed that there must be some tradeoff to take into account the special advantage of portability in TIAA. The consensus on this subject is reflected in Recommendation #2, which provides that "A formal retirement goal should be adopted, providing the following: At age 65 and after 25 years of service, a retirement income based upon a joint and two-thirds survivor annuity, equivalent to 50 percent of the average compensation of the highest two years of service, including TIAA dividends, but exclusive of Federal Social Security."

Survivors' benefits. It was agreed that a survivorship option should be extended to all retirement benefits. Recommendation #4 provides "That portion of retirement benefits generated by supplementation should be extended to the surviving spouse at actuarially reduced rates."

Contribution rates. In order to meet the retirement goal, it was concluded that contribution rates would need to be increased to approximately 7 1/2 percent by both the employer and employee. This would include full separation of retirement contributions from Social Security. Recommendation #3b provides, "Contribution rates by both the employer and the employee should be increased to 7.5 percent of salary."

Supplementation. A basic assumption is that the new contribution rate structure would ultimately eliminate the need for supplementation. Undoubtedly, however, supplementation will continue to be necessary for some time to cover faculty members who have been contributing under the lower rates. To make the system as equitable as possible, several policy changes are necessary:

1. Supplementation should be available to all faculty, not just those employed before October 1, 1955, at the two universities. Recommendation #3d provides "To the greatest possible extent, the faculty retirement program should be funded entirely through regular contributions to TIAA/CREF, but where this is not possible, supplementation should be made available to all faculty members, not only those employed before October 1, 1955.

2. All faculty members should be given the option of increasing their contribution to 10 percent of salary after age 50, that amount to be matched by the employer. In addition, the supplement should then be calculated as though the 10-10 option had been taken. This in effect reduces the potential cost of supplementation by encouraging members to participate at the higher level. Recommendations #3c and #3e (3) provide as follows: "Faculty members at all institutions should be given the option at age 50 to increase their retirement contributions to 10 percent of salary, the employer to match that amount" and "as if the retiree had taken the 10 percent option at age 50."

Miscellaneous recommendations. Retirement benefits for faculty should be exempt from the inheritance tax, as is true for PERS (see Recommendation #5); and faculty benefits should be the subject of continued study (see Recommendation #6).

* * * * * *

## CALCULATING COSTS OF RECOMMENDATIONS

One of the major staff responsibilities in this study was to provide supporting fiscal data for the recommendations. The basic data were furnished by institutional representatives; for the universities by David E. Williams, Director of Personnel Services for University of Washington; for the state colleges, by Bob Carr, Director of the Office of Interinstitutional Business Studies, with the assistance of the colleges' finance officers; and for the community colleges, by Dr. Gil Carbone, Assistant Director for Policy and Research of the State Board for Community College Education.

As noted earlier in the report, the Seattle firm of Milliman and Robertson did an extensive survey of the recommendations for the universities. To complement that study, the Joint Committee, with the cooperation of the state colleges and the State Board for Community College Education, retained Milliman and Robertson to estimate the cost of extending supplementation to the state college and community college faculty in TIAA. Their report to the Joint Committee is attached as Appendix F. To support the inquiry by Milliman and Robertson, George Harrison, Second Vice President of TIAA-CREF, furnished data on the accumulations of individual participants. Sincere appreciation is due to all of these individuals for their timely cooperation.

The details of the costs of the recommendations are included in the attached fiscal note (see Appendix D). The three major elements which will carry additional costs are: (1) extending supplementation to all faculty members to attain the benefit goal; (2) increasing the contribution rate to 7 1/2 percent, so that the effective contribution rate by both employer and employee reaches the level where it can most nearly approach the benefit goal; and (3) providing for faculty members to take the 10 percent contribution option at age 50. In summary, the preliminary cost estimates are as follows:

| | Biennial Cost |
|---|---|
| Increasing the contribution rate to 7 1/2 percent | $2,486,752 |
| Increasing the contribution rate to 10 percent at age 50 | 653,575 |
| Extending supplementation | 646,000 |
| TOTAL | $ 3,786,327 |

Calculating the costs of retirement benefits is a highly complex effort, and requires a number of assumptions, including projected faculty sal[illegible]ses, enrollment projections which affect the to[illegible]f faculty positions, life expectancies, earning[illegible] for investments, and so on. The volatility of a[illegible]ese elements lend considerable uncertainty to fiscal estimates. However, the basic data for the universities, plus the calculations for supplementation at all institutions, were provided by Milliman and Robertson. The specific calculations for the fiscal note were provided by the four-year institutions and by the State Board for Community College Education.

LIST OF APPENDICES

APPENDIX A

IN THE LEGISLATURE of the

# STATE OF WASHINGTON

THE SEAL OF THE STATE OF WASHINGTON 1889

SENATE RESOLUTION
1971 - Ex. 111

By Senators Francis E. Holman, Elmer C. Huntley, Bruce A. Wilson and Gordon Sandison

WHEREAS, The faculties of the respective state institutions of higher education are currently covered under a private retirement program, Teacher's Insurance and Annuity Association/College Retirement Equities Fund, which provides for investment of funds; and

WHEREAS, A failure of a private retirement plan to provide an adequate retirement income for members would place a possible burden upon state taxpayers; and

WHEREAS, There exist differences in the coverage, contribution rates, and programs of retirement under TIAA/CREF at the various state institutions of higher education in the state;

NOW, THEREFORE, BE IT RESOLVED, By the Senate, That the Joint Committee on Higher Education, with the advice and assistance of the Public Pension Commission, is requested to study the retirement programs currently in force at the various state institutions of higher education and to make any necessary recommendations concerning the existing programs, including any legislation necessary to meet the recommendations; and

BE IT FURTHER RESOLVED, That the results of the study and any recommendations be presented to the members of the 1973 Legislature prior to January, 1973.

I, Sidney R. Snyder, Secretary of the Senate, do hereby certify this is a true and correct copy of Senate Resolution No. 1971 - Ex. 111 adopted by the Senate May 10, 1971.

SIDNEY R. SNYDER
Secretary of the Senate

APPENDIX B

TASK FORCE 111 MEMBERSHIP

| | |
|---|---|
| Senator Joe Stortini<br>Task Force Co-Chairman | Joint Committee on Higher Ed. |
| Representative Floyd Conway<br>Task Force Co-Chairman | Public Pensions Commission |
| Rep[illegible] Carlton Gladder<br>Ta[illegible] Force Vice-Chairman | Joint Committee on Higher Ed. |
| Jim Bricker<br>Executive Secretary | Joint Committee on Higher Ed. |
| Jack Cameron<br>Research Director | Public Pension Commission |
| Denis Curry<br>Deputy Director, Info. Systems | Council on Higher Education |
| Gil Carbone<br>Assistant Director | State Board for Comm. Coll. Ed. |
| Paul W. Barkley**<br>Faculty Member | Washington State University |
| Ken Harsha<br>Faculty Member | Central Washington State College |
| David Williams<br>Personnel Director | University of Washington |
| Norm Phelps<br>Retirement & Insurance Officer | Central Washington State College |
| Edgar Tronson<br>Vice-Pres. for Business & Personnel | Shoreline Community College |
| Dave Gould<br>Faculty Member | Bellevue Community College |

Dr. Barbara Howard
Study Research Director
Joint Committee on Higher Education

JCHE:revised 9/72
**Replacing Bill Iulo
Washington State University

APPENDIX C
TABLES OF COMPARISON
CURRENT RETIREMENT FORMULAS

| | University of Washington Faculty | Washington State University Faculty | State College Faculty | Community College Faculty In TIAA/CREF | Public Employees |
|---|---|---|---|---|---|
| Eligibility | Faculty, Civil Service Exempt | Faculty, Civil Service[a] | Faculty, Administrators | Professional Staff Members (optional to 1/1/70, mandatory thereafter for new hires unless in WSTRS or PERS) | Classified Staff |
| Retirement Age | Permissive 65 Mandatory 70 | Mandatory 65 Annual extensions to 70 | Normal 65-67[b] Mandatory 70 | Normal 65 Mandatory 70 | Any age after 30 years; age 60 with 5 years service credit; age 55 with 25 years |
| Employee Contribution | a) Under 35-5% b) Over 35-5% of $4800, 7.5% over $4800 c) Over 50 (optional)-10% if entered after age 40 | a) Under 35-5% b) Over 35-5% of $900, 7.5% over $9000 c) Over 50 (optional)-5.4% of $9000 then 10% above $9000 (regardless of entry age) | 4.5% of $4800 7.5% over $4800 | 5% of all remuneration exclusive of Social Security base | As of 7/1/73-6% of total compensation exclusive of Social Security base |
| Employer Contribution | Equal Matching | Equal Matching | Equal Matching | Equal Matching | As of 7/1/73-7% |
| TIAA/CREF Split | 100% TIAA or CREF | 100% TIAA or CREF | 100% TIAA or CREF[c] | 100% TIAA or CREF | n/a |

JCHE:11/72

[a]Under SR 72-63, a proposal is being made to transfer the classified employees at WSU from TIAA to PERS.
[c]Except Evergreen-maximum CREF 75%.

[b]Central-early retirement at 65, normal retirement 67; Eastern & Evergreen-normal retirement 65; Western-normal retirement 67.

| | University of Washington Faculty | Washington State University Faculty | State College Faculty | Community College Faculty In TIAA/CREF | Public Employees |
|---|---|---|---|---|---|
| <u>Supplementation</u> Eligibility | Employed before 10/1/55 with 10 years service | Employed before 10/1/55 with 10 years service | None | None | None |
| Computation of Benefits<br>a) Length of service<br>b) Benefit goal | More than 10 and up to 25 years<br>50% of final 10 years' aver. sal. | More than 10 and up to 25 years<br>50% of final 10 years' aver. sal. | -- | -- | -- |
| c) TIAA/CREF annuity<br>1) Option | Single life annuity | Joint and 2/3 survivors as if 10% option selected after age 50 | -- | -- | -- |
| 2) Post retirement dividends | Excluded from calculation | Included in calculation | -- | -- | -- |
| Vesting | Immediate and full TIAA/CREF | Immediate and full TIAA/CREF | Immediate and full | Immediate and full | 5 years of service credit and leave saving in system |

Form FN-1 (Rev. 12-71).

# FISCAL NOTE

APPENDIX D

Jt. Committee on Higher Education

Responding Agency Title  Code No.

REQUEST NUMBER

Concerning  SB NO.  HB NO.

Original .................... XX

House Committee Amendment ☐

Senate Committee Amendment ☐

Engrossed House Bill ........ ☐

Engrossed Senate Bill........ ☐

Substitute .................. ☐

Requested By

Reviewed By OPP&FM

Bill Requested By: Executive ☐; Department ☐; Legislative Committee JCHE Title

New Program or Activity ☐; Change in Existing Program or Activity XX

Title of Bill: An Act Relating to . . . Faculty Retirement Benefits

## ESTIMATED FISCAL IMPACT OF PROPOSED LEGISLATION

| | BIENNIAL IMPACT FIRST YEAR Increase (Decrease) | SECOND YEAR Increase (Decrease) | TOTAL Increase (Decrease) | FIVE-YEAR IMPACT Increase (Decrease) |
|---|---|---|---|---|
| **A. Revenue Impact by Fund and Source:** | | | | |
| Fund Title: | | | | |
| Source Title: | | | | |
| State | | | | |
| Federal | | | | |
| Local | | | | |
| TOTAL | | | | |
| **B. Expenditure Impact by Source of Funds:** | | | | |
| Fund Title: | | | | |
| State | | | | |
| Federal | | | | |
| Local | | | | |
| TOTAL | | | | |
| **C. Expenditure Impact Detail:** | | | | |
| Man Years | | | | |
| Salaries and Wages | | | | |
| Personal Service Contracts | | | | |
| Goods and Services | | | | |
| Travel | | | | |
| Equipment | | | | |
| Employee Benefits | $1,777,056 | $1,996,271 | $3,786,327 | $11,085,321 |
| Grants and Subsidies | | | | |
| Debt Service | | | | |
| | | | | |
| | | | | |
| | | | | |
| Capital Outlay: | | | | |
| Land | | | | |
| Buildings | | | | |
| Improvements Other Than Buildings | | | | |
| | | | | |
| TOTAL * | $1,777,056 | $1,996,271 | $3,786,327 | $11,085,321 |

D. Attach Explanation of Estimate (Use Form FN-2)

Barbara Howard

Prepared By  Title  Date

Revised 12/72  *See detail on explanatory sheets

Form FN-2 (10-70).

# FISCAL NOTE

REQUEST NUMBER

Joint Committee on Higher Education
Responding Agency Title  Code No.  Concerning  SB NO.  HB NO.

Date Submitted

The major faculty retirement programs in higher education in Washington consist of a "money-purchase" annuity formula with the Teachers Insurance Annuity Association and the College Retirement Equities Fund (TIAA/CREF). Several proposals have been made which are designed to accomplish a new formal goal for such programs:

> At age 65 and after 25 years of service, a retirement income based upon a joint and two-thirds survivor annuity, equivalent to 50 percent of the average compensation of the highest two years of service, including TIAA dividends, but exclusive of Federal Social Security.

Three of these proposals will involve an increased fiscal impact above the present institutional (and therefore, state general fund) expenditures for retirement. These include: (1) providing that the retirement contribution rates will equal 7.5 percent of total salary; (2) granting the option of 10 percent matching contributions after age 50; and (3) providing supplementation for all TIAA faculty members at the universities, the state colleges, and the community colleges to bring the TIAA annuity up to the retirement goal.

The preliminary calculations have been furnished by representatives of the institutions, detail of which are shown on the following pages, together with general assumptions on which they were based.

Form FN-2 (10-70).

# FISCAL NOTE

Joint Committee on Higher Education — REQUEST NUMBER

Responding Agency Title — Code No. — Concerning — SB NO. — HB NO.

Date Submitted

| | UW | WSU | Comm. Colls. |
|---|---|---|---|
| Increase contribution rate to 7 1/2% | | | |
| 1st year | $160,000 | $260,000 | $581,152 |
| 2nd year | 165,000 | 268,100 | 678,492 |
| 3rd year | 170,100 | 276,500 | 742,338 |
| 4th year | 175,400 | 285,100 | 811,413 |
| 5th year | 180,900 | 294,000 | 851,984 |
| 10/10 option at age 50 | | | |
| 1st year | 142,000 | N/A | 51,464 |
| 2nd year | 153,400 | N/A | 67,489 |
| 3rd year | 165,700 | N/A | 83,168 |
| 4th year | 179,000 | N/A | 100,249 |
| 5th year | 193,300 | N/A | 118,828 |
| Supplementation at "highest two" level | | | |
| 1st year | 170,000 | 85,000 | 6,000 |
| 2nd year | 190,000 | 111,000 | 7,000 |
| 3rd year | 210,000 | 144,000 | 8,000 |
| 4th year | 230,000 | 187,000 | 10,000 |
| 5th year | 248,000 | 243,000 | 12,000 |
| TOTAL 2-yr impact | $980,000 | $724,100 | $1,391,597 |
| TOTAL 5-yr impact | $2,732,400 | $2,153,700 | $4,129,577 |

Form FN-2 (10-70).

# FISCAL NOTE

Joint Committee on Higher Education
Responding Agency Title ............ Code No.

REQUEST NUMBER ............
Concerning ............ SB NO. ............ HB NO.

............
Date Submitted

| | CWSC | EWSC | TESC | WWSC |
|---|---|---|---|---|
| Increase contribution rate to 7 1/2% | | | | |
| 1st year | $69,408 | $16,333 | $25,920 | $67,536 |
| 2nd year | 73,746 | 17,340 | 31,968 | 71,757 |
| 3rd year | 78,355 | 18,424 | 38,016 | 76,242 |
| 4th year | 83,252 | 19,576 | 44,064 | 81,007 |
| 5th year | 88,455 | 20,800 | 50,112 | 86,070 |
| 10/10 option at age 50 | | | | |
| 1st year | $35,896 | $30,667 | $ 6,139 | $42,541 |
| 2nd year | 38,140 | 32,560 | 8,079 | 45,200 |
| 3rd year | 40,524 | 34,595 | 10,472 | 48,025 |
| 4th year | 43,057 | 36,757 | 13,044 | 51,027 |
| 5th year | 45,748 | 39,054 | 16,122 | 54,216 |
| Supplementation at "highest two" level | | | | |
| 1st year | $ 2,000 | $ 5,000 | $ --- | $26,000 |
| 2nd year | 5,000 | 9,000 | --- | 30,000 |
| 3rd year | 11,000 | 14,000 | --- | 36,000 |
| 4th year | 20,000 | 21,000 | --- | 43,000 |
| 5th year | 32,000 | 33,000 | --- | 52,000 |
| TOTAL 2-yr impact | $224,190 | $110,900 | $72,106 | $283,034 |
| TOTAL 5-yr impact | $666,581 | $348,106 | $243,936 | $810,621 |

Form FN-2 (10-70).

# FISCAL NOTE

Joint Committee on Higher Education
Responding Agency Title Code No.

REQUEST NUMBER
Concerning
SB NO. HB NO.

Date Submitted

SUMMARY OF FISCAL NOTE ASSUMPTIONS FOR THE UNIVERSITIES

## Increase of Contribution Rate to 7 1/2%

1. It is estimated that this benefit will apply to 70 and 87% of eligible faculty and civil service exempt staff at UW and WSU respective who are on general fund budgets. (The numbers of participants at the two universities differ because of the number of self-sustaining and grant budgets.)

2. Since the projected staff growth is expected to be approximately 3% per year, general fund cost is estimated to increase at that rate from the first year.

3. Salary increases will not affect the level of expenditures, sin most salary increases will occur at the level above the so-called "Socia Security corridor."

4. First-year cost estimates are based on the budgeted general fund projections for the two universities for the biennium 1973-75.

## 10/10 Option at Age 50

1. General fund expenditures are estimated to apply to 20% of eligible participants and 50% of those eligible will elect the ten perce contribution. (It is estimated at the UW that 20% of participants are over age 50 and from present experience, 50% of those eligible will elect the option.)

2. Salaries are anticipated to increase at the rate of 5% per year

3. The number of participants selecting the option is expected to increase 3% per year.

## Supplementation at "Highest Two" Level

1. Approximately 75% of eligible retirees at UW and 95% of eligibl retirees at WSU would be paid from state operating funds. (The percent of eligible retirees varies between the two universities because the difference is related to the number of persons on self-sustaining budgets

2. Using the first- and fifth-year projections for cost of supplementation estimated for the two universities by Milliman and Robertson, the general fund expense is expected to increase proportionately during those five years.

Form FN-2 (10-70).

# FISCAL NOTE

Joint Committee on Higher Education
Responding Agency Title Code No.

REQUEST NUMBER
Concerning SB NO. HB NO.

Date Submitted

## SUMMARY OF FISCAL NOTE ASSUMPTIONS FOR COMMUNITY COLLEGES

The estimates are consistent with the staffing and salary increases requested in the community college 1973-75 operating budget proposal, and adjust the part-time/full-time faculty ratios to achieve a better system-wide balance.

### Increase of Contribution Rate to 7 1/2%

The current contribution rate for the community colleges is 5%. Built into the estimates are assumptions covering current salary averages, staff increases due to increases in enrollment, the budget formula increase, and budget requests for salary increases. The estimates cover both 10-month and 12-month salary contracts.

### 10/10 Option at Age 50

The estimates assume that all faculty would take the 10/10 option, which is probably high, but that is offset by the fact that this group is likely to be receiving higher than average salaries.

### Supplementation

Figures for the first, second, and fifth year were provided by the actuarial firm of Milliman and Robertson; the third and fourth year figures follow the apparent progression established by the other three.

## SUMMARY OF FISCAL NOTE ASSUMPTIONS FOR THE STATE COLLEGES

### Increase of Contribution Rate to 7 1/2%

The fiscal staff at each affected state college provided the first-year figure, with the exception of The Evergreen State College. It was assumed that the number of positions affected would remain constant, due to stabilizing enrollments, but that the costs would increase due to salary increases and turnover by 6.25% each year.

The figures for The Evergreen State College assume growth, plus turnover and salary increases of 6.25% each year.

Form FN-2 (10-70).

# FISCAL NOTE

Joint Committee on Higher Education
Responding Agency Title Code No.

REQUEST NUMBER
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SB NO. HB NO.

Date Submitted

10/10 Option at Age 50

Same as indicated for increasing rate.

Supplementation

Estimates for all four state colleges were provided by the firm of Milliman and Robertson, Inc. consulting actuaries for the first, second, and fifth year shown in the fiscal note. The third and fourth year figures are estimates based on the progression indicated by the figures provided by Milliman and Robertson.

APPENDIX E

AN ACT Relating to retirement plans, including old age annuities, for faculty members and other employees of institutions of higher education, public and private, and to the taxation of certain benefits accruing therefrom; amending section 28B.10.400, chapter 223, Laws of 1969 ex. sess. as amended by section 1, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.400; amending section 28B.10.405, chapter 223, Laws of 1969 ex. sess. as amended by section 2, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.405; amending section 28B.10.410, chapter 223, Laws of 1969 ex. sess. as amended by section 3, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.410; amending section 28B.10.415, chapter 223, Laws of 1969 ex. sess. as amended by section 4, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.415; amending section 5, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.417; amending section 28B.10.420, chapter 223, Laws of 1969 ex. sess. and RCW 28B.10.420; amending section 1, chapter 8, Laws of 1965 ex. sess. and RCW 83.20.030; repealing section 28B.50.570, chapter 223, Laws of 1969 ex. sess. and RCW 28B.50.570; repealing section 46, chapter 283, Laws of 1969 ex. sess. and RCW 28B.50.571; repealing section 47, chapter 283, Laws of 1969 ex. sess. and RCW 28B.50.572; repealing section 48, chapter 283, Laws of 1969 ex. sess. and RCW 28B.50.573; repealing section 49, chapter 283, Laws of 1969 ex. sess. and RCW 28B.50.574; repealing section 50, chapter 283, Laws of 1969 ex. sess., section 2, chapter 79, Laws of 1970 ex. sess. and RCW 28B.50.575; declaring an emergency; and making an effective date.

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

Section 1. Section 28B.10.400, chapter 223, Laws of 1969 ex. sess. as amended by section 1, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.400 are each amended to read as follows:

The boards of regents of the state universities ((~~and~~)), the boards of trustees of the state colleges, and the state board for community college education are authorized and empowered:

(1) To assist the faculties and such other employees as ((~~the boards of regents of the state universities or the boards of trustees of the state colleges~~)) any such board may designate in the purchase of old age annuities or retirement income plans under such rules and regulations as ((~~the boards of regents or the boards of trustees of said institutions~~)) any such board may prescribe. County agricultural agents, home demonstration agents, 4-H club agents, and assistant county agricultural agents paid jointly by the Washington State University and the several counties shall be deemed to be full time employees of the Washington State University for the purposes hereof;

(2) To provide, under such rules and regulations as any such board may prescribe for the ((~~institution~~)) faculty members or other employees under its supervision, for the retirement of any such faculty member or other employee on account of age or condition of health, retirement on account of age to be not earlier than the sixty-fifth birthday: PROVIDED, That such faculty member or such other employee may elect to retire at the earliest age specified for retirement by federal social security law: PROVIDED FURTHER, That any supplemental payment authorized by subsection (3) of this section and paid as a result of retirement earlier than age sixty-five shall be at an actuarially reduced rate;

(3) To pay to any such retired person or his surviving spouse, each year after his retirement, an amount which, when added to the amount of such annuity or retirement income plan received by him or

his surviving spouse in such year, will not exceed fifty percent of the average annual salary paid to such retired person for his ((last ten)) highest two years of full time service at ((such)) an institution of higher education: PROVIDED, HOWEVER, That if such retired person prior to his retirement elected a supplemental payment survivors option, any such supplemental payments to such retired person or his surviving spouse shall be at actuarially reduced rates.

Sec. 2. Section 28B.10.405, chapter 223, Laws of 1969 ex. sess. as amended by section 2, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.405 are each amended to read as follows:

Members of the faculties and such other employees as are designated by the boards of regents of the state universities, ((or)) the boards of trustees of the state colleges, or the state board for community college education shall be required to contribute not less than five percent of their salaries during each year of full time service after the first two years of such service toward the purchase of such annuity or retirement income plan; such contributions may be in addition to federal social security tax contributions, if any.

Sec. 3. Section 28B.10.410, chapter 223, Laws of 1969 ex. sess. as amended by section 3, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.410 are each amended to read as follows:

The boards of regents of the state universities, ((or)) the boards of trustees of the state colleges, or the state board for community college education shall pay not more than one-half of the annual premium of any annuity or retirement income plan established under the provisions of RCW 28B.10.400 as amended in section 1 of this 1973 amendatory act. Such contribution shall not exceed ten percent of the salary of the faculty member or other employee on whose behalf the contribution is made. This contribution may be in addition to federal social security tax contributions made by the boards, if any.

Sec. 4. Section 28B.10.415, chapter 223, Laws of 1969 ex. sess. as amended by section 4, chapter 261, Laws of 1971 ex. sess.

and RCW 28B.10.415 are each amended to read as follows:

The boards of regents of the state universities, ((~~or~~)) the boards of trustees of state colleges, or the state board for community college education shall not pay any amount to be added to the annuity or retirement income plan of any retired person who has served for less than ten years in one or more of the state ((~~universities or state colleges~~)) institutions of higher education. In the case of persons who have served more than ten years but less than twenty-five years no amount shall be paid in excess of four percent of the amount authorized in subdivision (3) of RCW 28B.10.400 as amended in section 1 of this 1973 amendatory act, multiplied by the number of years of full time service rendered by such person.

Sec. 5. Section 5, chapter 261, Laws of 1971 ex. sess. and RCW 28B.10.417 are each amended to read as follows:

(1) A faculty member or other employee designated by the board of trustees of his respective state college as being subject to an annuity or retirement income plan and who, at the time of such designation, is a member of the Washington state teachers' retirement system, shall retain credit for such service in the Washington state teachers' retirement system and except as provided in subsection (2) of this section, shall leave his accumulated contributions in the teachers' retirement fund. Upon his attaining eligibility for retirement under the Washington state teachers' retirement system, such faculty member or other employee shall receive from the Washington state teachers' retirement system a retirement allowance consisting of an annuity which shall be the actuarial equivalent of his accumulated contributions at his age when becoming eligible for such retirement and a pension for each year of creditable service established and retained at the time of said designation as provided in RCW 41.32.497 as now or hereafter amended. Anyone who on July 1, 1967, was receiving pension payments from the teachers' retirement system based on thirty-five years of creditable service shall thereafter receive a pension based on the toal years of creditable

service established with the retirement system: PROVIDED, HOWEVER, That any such faculty member or other employee who, upon attainment of eligibility for retirement under the Washington state teachers' retirement system, is still engaged in public educational employment, shall not be eligible to receive benefits under the Washington state teachers' retirement system until he ceases such public educational employment. Any retired faculty member or other employee who enters service in any public educational institution shall cease to receive pension payments while engaged in such service: PROVIDED FURTHER, That such service may be rendered up to seventy-five days in a school year without reduction of pension.

(2) A faculty member or other employee designated by the board of trustees of his respective state college as being subject to the annuity and retirement income plan and who, at the time of such designation, is a member of the Washington state teachers' retirement system may, at his election and at any time, on and after midnight June 10, 1959, terminate his membership in the Washington state teachers' retirement system and withdraw his accumulated contributions and interest in the teachers' retirement fund upon written application to the board of trustees of the Washington state teachers' retirement system. Faculty members or other employees who withdraw their accumulated contributions, on and after the date of withdrawal of contributions, shall no longer be members of the Washington state teachers' retirement system and shall forfeit all rights of membership, including pension benefits, theretofore acquired under the Washington state teachers' retirement system.

(3) A faculty member or employee designated by the state board for community college education as being eligible to participate in an annuity or retirement income plan and who, at the time of such designation, is a member of the Washington state teachers' retirement system or the Washington public employees' retirement system may choose to either: (a) Continue as an active, contributing member in either the Washington state teachers' retirement system or the

Washington public employees' retirement system, or (b) at his election made either (i) within one year of the date he first becomes eligible for membership in any retirement plan adopted by the state board for community college education or (ii) at such later time when he shall have first established sufficient retirement credit in the Washington state teachers' retirement system or the Washington public employees' retirement system to qualify for deferred retirement allowances, choose to: (A) continue as an inactive, noncontributing member in either the Washington state teachers' retirement system or the Washington public employees' retirement system and participate in the retirement or annuity plan adopted pursuant to RCW 28B.10.400 through 28B.10.420 as now or hereafter amended, or (B) terminate his membership in the Washington state teachers' retirement system or the Washington public employees' retirement system and participate in the retirement or annuity plan adopted pursuant to RCW 28B.10.400 through 28B.10.420 as now or hereafter amended. A faculty member or employee who chooses to terminate membership in the Washington state teachers' retirement system or the Washington public employees' retirement system may withdraw his accumulated contributions and interest in the teachers' retirement fund or the public employees' retirement fund upon written application to the board of trustees of the appropriate retirement system. Faculty members or employees who withdraw their accumulated contributions on and after the date of withdrawal of contributions, shall no longer be members of the Washington state teachers' retirement system or the Washington public employees' retirement system and shall forfeit all rights of membership, including pension benefits, theretofore acquired under the Washington state teachers' retirement system or the Washington public employees' retirement system: PROVIDED, That such faculty member or employee who, upon attainment of eligibility for retirement under the Washington state teachers' retirement system or the Washington public employees' retirement system is still engaged in public educational employment, shall not be eligible to receive benefits under such retirement system until he ceases such public educational employment. Any retired faculty member or employee who enters service in any public educational institution shall cease to receive pension payments while engaged in such service: PROVIDED, That service may be rendered up to seventy-five days in a school year without reduction of pension.

Sec. 6. Section 28B.10.420, chapter 223, Laws of 1969 ex. sess. and RCW 28B.10.420 are each amended to read as follows:

((~~University teaching~~)) Faculty members or other employees designated by the boards of regents of the state universities, the boards of trustees of the state colleges, or the state board for community college education pursuant to sections 1 through 5 of this 1973 amendatory act shall be retired from ((~~teaching~~)) their employment with their institutions of higher education not later than the end of the academic year next following their seventieth birthday.

Sec. 7. Section 1, chapter 8, Laws of 1965 ex. sess. and RCW 83.20.030 are each amended to read as follows:

The right of a person to a pension, annuity or retirement allowance, any optional benefit, any other right accrued or accruing to any person under ((~~RCW~~)) Title 41 RCW or under any retirement or pension system established or in effect for faculty or employees at institutions of higher education, including private institutions of higher education, shall be exempt from inheritance tax.

NEW SECTION. Sec. 8. The following acts or parts of acts are each repealed:

(1) Section 28B.50.570, chapter 223, Laws of 1969 ex. sess. and RCW 28B.50.570;

(2) Section 46, chapter 283, Laws of 1969 ex. sess. and RCW 28B.50.571;

(3) Section 47, chapter 283, Laws of 1969 ex. sess. and RCW 28B.50.572;

(4) Section 48, chapter 283, Laws of 1969 ex. sess. and RCW

28B.50.573;

(5) Section 49, chapter 283, Laws of 1969 ex. sess. and RCW 28B.50.574; and

(6) Section 50, chapter 283, Laws of 1969 ex. sess., section 2, chapter 79, Laws of 1970 ex. sess. and RCW 28B.50.575.

Such repeals shall not be construed as affecting any existing right acquired under the provisions of the statutes repealed; nor any rule, regulation, or order adopted pursuant thereto, nor as affecting any proceeding instituted thereunder.

<u>NEW SECTION.</u> Sec. 9. If any provision of this 1973 amendatory act, or its application to any person or circumstance is held invalid, the remainder of the act, or the application of the provision to other persons or circumstances is not affected.

<u>NEW SECTION.</u> Sec. 10. This 1973 amendatory act is necessary for the immediate preservation of the public peace, health and safety, the support of the state government and its existing public institutions, and shall take effect on July 1, 1973.

MILLIMAN & ROBERTSON, INC.
CONSULTING ACTUARIES
914 SECOND AVENUE SEATTLE, WASHINGTON 98104
206/624-7940



November 13, 1972

Mr. J. Arnold Bricker
Joint Committee on Higher Education
Room 218
House Office Building
Olympia, Washington 98504

Dear Mr. Bricker:

We have completed a study to determine the costs of a revised retirement system for the State colleges and community colleges in the State of Washington. The revised retirement system studied was identical with the University of Washington and Washington State University Retirement Systems as modified by the Board of Regents of each institution in September, 1972. These revised systems provide for supplementation of retirement benefits payable from TIAA and CREF to bring such benefits up to a minimum level established by a formula in the retirement systems. The cost of such supplementation for each of the State colleges and the entire community college system for various years of operation under the revised system are summarized below:

| | State Colleges | | | | Community |
|---|---|---|---|---|---|
| | Central | Western | Eastern | Evergreen | Colleges |
| 1st Year | $ 2,000 | $ 26,000 | $ 5,000 | $ - | $ 6,000 |
| 2nd Year | 5,000 | 30,000 | 9,000 | - | 7,000 |
| 5th Year | 32,000 | 52,000 | 33,000 | - | 12,000 |
| 10th Year | 72,000 | 100,000 | 71,000 | - | 38,000 |
| 15th Year | 90,000 | 123,000 | 82,000 | 1,000 | 116,000 |
| 20th Year | 90,000 | 124,000 | 76,000 | 3,000 | 201,000 |
| 25th Year | 67,000 | 95,000 | 56,000 | 4,000 | 185,000 |

If the revised retirement system as adopted by the two universities were adopted, it would, in addition to providing for supplementation and certain other changes, require that the matching contribution rates by the employee and institution to be transmitted to TIAA-CREF be increased over these matching contribution rates currently in force in these retirement systems. The costs above do not include the increased cost as a result of increasing the matching contributions, but only illustrate the cost of the supplemental benefit required to bring the TIAA-CREF benefit up to the minimum level specified in the revised system.

In projecting such costs we have utilized the same actuarial assumptions as we used for the actuarial study of the University of Washington and Washington State University Retirement Systems in a report dated June 14, 1972 except that all projections assume that the investment return on both the TIAA-CREF investment funds would be 7-1/2% per annum compounded annually. The above costs of supplementation do not anticipate any adjustment in the level of benefits being made to current retirees.

In completing these projections we took into account the current TIAA-CREF balances of each employee and his years of service with each institution and further assumed that each employee would retire at the age of 65.

The amount of supplementation required for the existing employees is dependent, among other things, on the prior levels of matching contribution rates to the existing systems and the period of time that such employees had participated in the systems. We made projections for hypothetical new employees and came to the conclusion that if the actuarial assumptions utilized in these calculations were realized, anyone who entered the system under the age of 51 would require no supplementation. Anyone who entered the system after the age of 51 would require some supplementation.

We made a similar study for the current employees using Eastern Washington State College as a sample. We found that there were very few employees under the age of 45 who would receive supplementation, that about 50% of those from age 45 to 50 would receive supplementation and that virtually everyone older would receive it.

Eastern Washington State College had 175 employees included in the study of whom 85 would receive supplementation. On the average, supplementation will amount to 14% of the total benefit payable to a current employee who will receive supplementation and this percentage could reasonably be expected to hold for the other colleges as well. If the assumptions utilized in this study are realized, this percentage will be less for new employees hired after the systems are revised.

Our study of the existing employees over the age of 40 led to a conclusion that approximately 50% of this group would be entitled to some supplementation in their benefits. It should be readily understood that the amount of supplementation is dependent upon the realization of the actuarial assumptions utilized and further dependent upon the size of the employee group. That is, even if the actuarial assumptions are utilized but the staff at an institution should increase, the amount of supplementation will increase accordingly.

Sincerely,

Richard A. Winkenwerder, F.S.A.
Consulting Actuary

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