



# Washington State's Hybrid Plan 3s

Kansas Public Employees Retirement Study Commission  
October 25, 2011

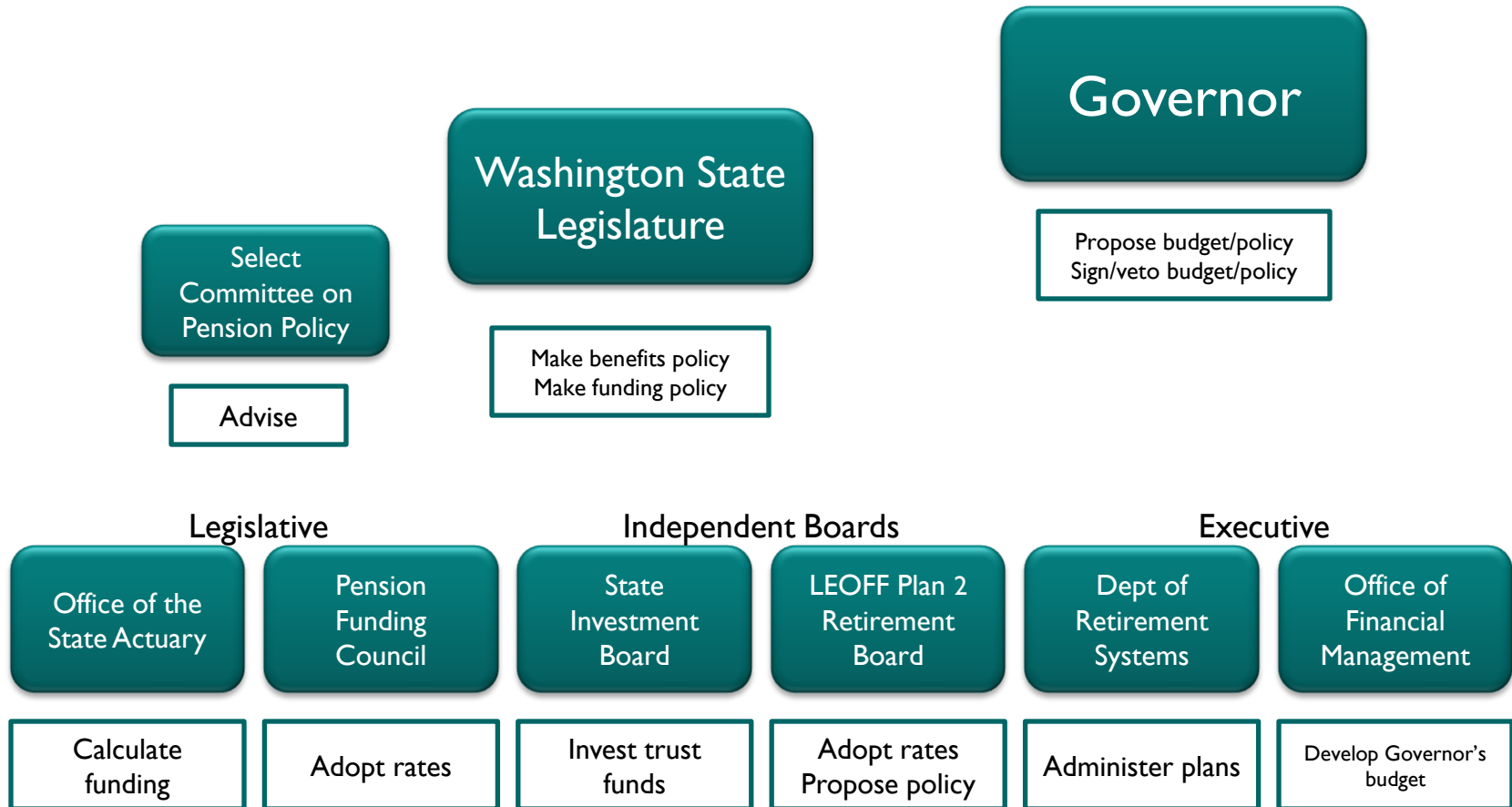
Marcie Frost, Deputy Director

Dave Nelsen, Legal/Legislative Services Manager

Mark Feldhausen, Budget and Benchmarking Director

Shawn Merchant, Assistant Director, Policy and Strategic Initiatives

# Governance Structure



Membership: all public employees except for higher education faculty and the cities of Seattle, Tacoma and Spokane.

# Changes in the 1970's

In the mid-1970's, concerns developed over the consistency and sustainability of the public pension systems.

- **1976** - The Department of Retirement Systems (DRS) was created to administer state retirement systems, and the Office of the State Actuary (OSA) was created to provide pension cost estimates.

In addition to the governance changes, the legislature also changed the benefits to save the state more than \$900M in the first 20 years.

- **1977** – Plan 2 was created in PERS, TRS and LEOFF.

# Changes in the 1990's

Hybrid (DB/DC) plans were added to provide members with access to market returns on their contributions, while employer contributions funded a smaller defined benefit.

- **1995** – Plan 3 of the Teachers' Retirement System (TRS) was created effective 7/1/96
- **1998** – Plans 2/3 of the School Employees' Retirement System (SERS) were created effective 9/1/00
- **1999** – PERS Plan 3 was created effective 3/1/02, for state and higher education employees, and effective 9/1/02, for local government employees



# Legislative Intent (for TRS 3)

**Intent -- Purpose -- 1995 c 239:** "The legislature recognizes that teachers, principals, and district administrators need the ability to make transitions to other public or private sector careers, and that the retirement system should not be a barrier to exercise of employee choice. The legislature also recognizes that teachers, principals, and district administrators need a secure and viable retirement benefit, not only for their own financial protection, but also that public funds are spent prudently for their intended purpose.

It is the legislative intent to create a new public retirement system that balances flexibility with stability, provides both increased employee control of investments and responsible protection of the public's investment in employee benefits, and encourages the pursuit of public sector careers without preventing employees from transitioning into other public or private sector employment.

Therefore, the purpose of chapter 239, Laws of 1995 is to continue to provide teachers, principals, and district administrators with a guaranteed pension at retirement age based on years of public service with an element of inflation protection. It is further the purpose of chapter 239, Laws of 1995 to create a parallel retirement plan where employees have options regarding the investment of their retirement contributions and have the opportunity, along with the accompanying risk, to receive a full rate of return on their investments and where employees who leave public employment prior to retirement receive a fair and reasonable value from the retirement system." [1995 c 239 § 1.]

# Comparison of Benefits

| Component                             | Plan 1  | Plan 2      | Plan 3 (hybrid) |
|---------------------------------------|---|-------------|-----------------|
| <b>Plans Created</b>                  | 1938-1947                                     | 1977        | 1996-2002       |
| <b>Plans Closed</b>                   | 1977  | N/A (open)  | N/A (open)      |
| <b>2011 Actives/Annuitants (000s)</b> | 11/90   | 149/31      | 111/7           |
| <b>Normal Retirement Age/Svc</b>      | 60/5, Any/30, 55/25                           | 65/5        | 65/10, 65/"5"   |
| <b>DB Benefit Multiplier</b>          | 2%  | 2%          | 1%*             |
| <b>Maximum DB Benefit</b>             | 60%   | N/A         | N/A             |
| <b>AFC Period (years)</b>             | 2HC   | 5HC         | 5HC             |
| <b>Vesting Period (years)</b>         | 5   | 5           | 10/"5"          |
| <b>Early Retirement (Age/Years)</b>   | Any/5   | 55/20       | 55/10           |
| <b>COLA</b>                           | Min Benefit Levels,<br>Legislative Discretion | CPI, 3% cap | CPI, 3% cap     |

\*Employer contributions fund DB, employee contributions (of 5%-15%) fund DC

# Member Choice (Plan 2 or 3)

- Members who were in Plan 2 before the creation of their system's Plan 3:
  - Could transfer to Plan 3 at inception or
  - Can transfer in subsequent Januarys
- TRS 3 and SERS 3 were initially mandatory
  - Plan 2/3 choice for new hires in TRS and SERS was provided effective 7/1/07
- PERS 3 has always had Plan 2/3 choice

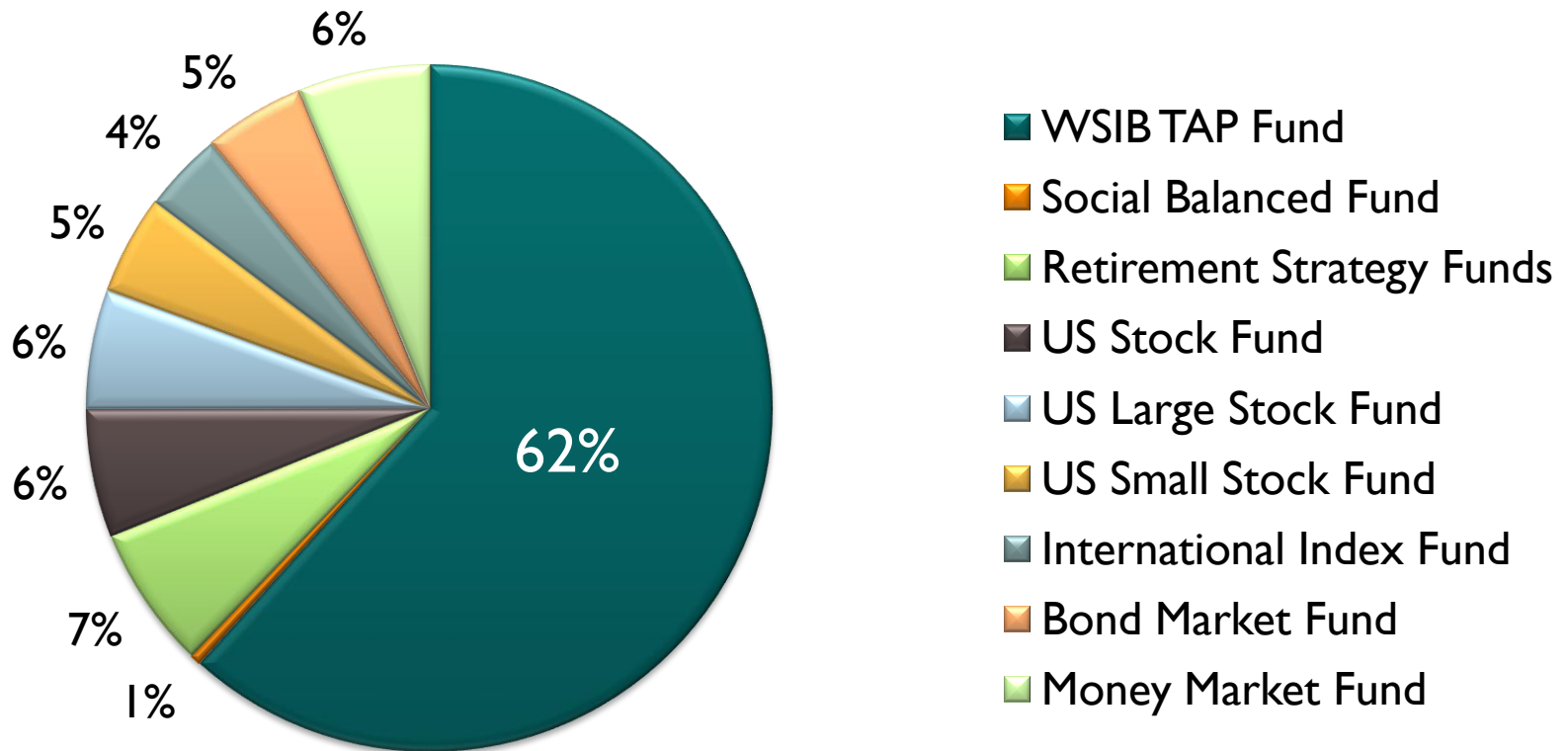
# Member Risk Mitigation Features

- Total Allocation Portfolio (TAP)
  - Low fees, professionally managed
- Other Investment Options
  - Fund line-up chosen/managed by WSIB
  - Default to an appropriate option
- TAP Annuity
  - Low cost, high value product (e.g., COLA, 8% return)
- Hybrid Design
  - Still have a DB



# Member Investments in Plan 3

Percent of June 30, 2011 Market Value (\$7.92B)



# Lessons Learned

- Administrative practices change significantly
  - Daily environment for systems, processes and staff
  - Implementation costs can be significant
  - Educate employers on the changes too
- Communication needs/expectations increase
  - For members and employers
- Recordkeeping DC accounts is critical
  - Develop the systems in-house or contract for it
  - Business partners will likely be on the East Coast

# Future Activity

- Other proposals have surfaced:
  - Make Plan 3 mandatory for all new hires
  - Create a DC only (“Plan 4”) for all new hires
  - Make Plan 2 the default choice for all new hires
- Continuing to address the unfunded liability in TRS I and PERS I
  - Could prompt changes to Plans 2 and 3