EARLY RETIREMENT AND THE NEW EMPLOYEE

Currently, Washington's pension plans are well funded, as the chart from the Pew Center on the next page indicates. However, the future presents funding challenges as investment losses from 2009 are recognized in the system valuations and as contributions are expected to rise.

Considering this future environment**,** there are actions that can mitigate the challenges. Providing full funding of the pension systems now and in the future, adjusting benefits for future employees and increasing the likelihood that investment returns match funding assumptions would each improve the future cost of public pensions.

While the budget fully funds the pension contributions required, this proposal addresses the other two actions by making the following changes.

First, it provides new members of PERS, TRS and SERS with an option to retire early after 30 years by accepting a reduction of 5 percent for each year of retirement before age 65.
New employees would not have access to the early retirement options passed in 2000 or 2007, but instead would have only the reduction described above. This provides significant savings to public employers and taxpayers over the next 25 years — approximately $1.3 billion. Under this proposal, the benefit of a future 30-year employee who retires at age 55 would be reduced by 50 percent, whereas under current law that same employee could retire with just a 20 percent reduction.

Second, it lowers the long-term assumed investment rate of return by one-tenth of 1 percent each biennium for the next three biennia for all systems except LEOFF Plan 2.
This would gradually lower the rate from the current 8 percent to 7.7 percent beginning July 1, 2017. It would also require the State Actuary to study the financial condition of the systems after these changes are made and present findings to the Pension Funding Council. This rate adjustment will provide greater certainty that funding assumptions will match actual investment returns.

Since 2007, policymakers in Washington have made significant progress bending the future cost curve of public pensions (see chart on next page). This proposal, combined with the earlier elimination of gain sharing and annual increases to Plan 1 retirees, will save public employers approximately $11 billion over the coming decades. It will also maintain Washington's status as a leader in pension sustainability while balancing the needs of the future workforce.

25-Year Savings

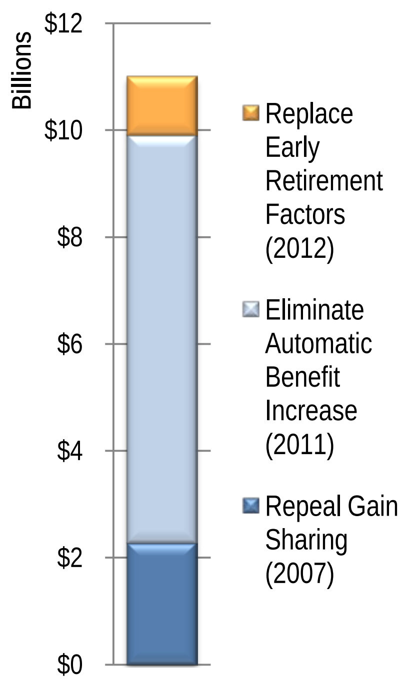
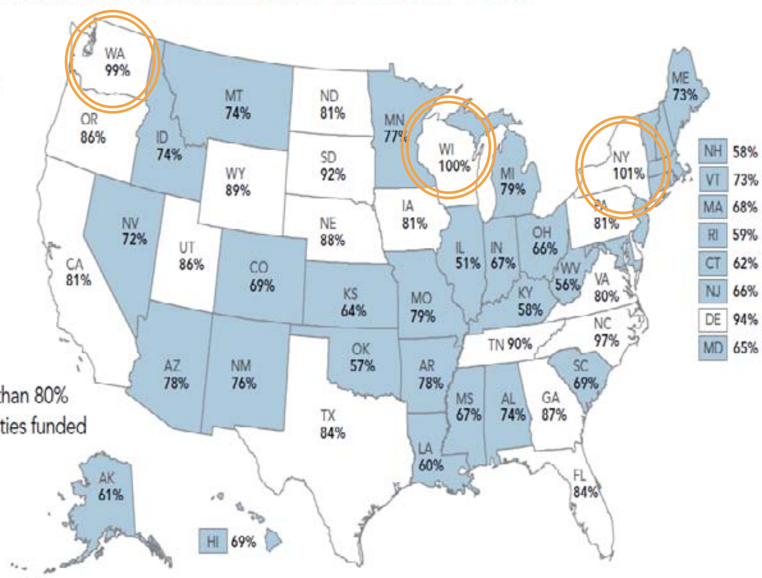


Exhibit 1

States' Public Sector Pensions 78% Funded in FY09

Thirty-one states were below the 80 percent funded threshold for a well-funded pension system.



States with less than 80% of pension liabilities funded