



Washington State Home Care Workers

Retirement Benefit Alternatives

Deliverable #5

Recommended Approaches & Final Report

Prepared for

SEIU Healthcare 775 NW/LRO Committee

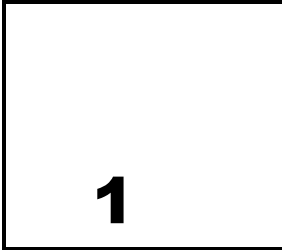
**TREINEN
ASSOCIATES**

April 24, 2008

Table of Contents

Executive Summary	4
Project Background and Methodology	4
Retirement Plan – Objectives and Plan Features	4
Current Data Availability	5
Plan Design	6
Summary and Conclusions	8
Project Background and Methodology	10
Introduction	10
Background.....	10
Methodology	11
Retirement Plan – Objectives and Plan Features	13
Background.....	13
Objectives and Guiding Principles	15
Defined Contribution and Defined Benefit Plans.....	17
Basic Features of DC and DB Plans	17
Current Data Availability	19
Individual Provider (IP) Data	19
Agency Provider (AP) Data	20
Plan Design	21
Summary of Principal Plan Provisions for Defined Benefit Plans.....	21
Summary of Principal Plan Provisions for Defined Contribution Plans	23
Ancillary Plan Design	25
Advantages and Disadvantages of Various Designs	29
Benefit Illustrations	31
Illustration #1	32
Illustration #2	32
Illustration #3	33
Illustration #4	33
Summary of Rejected Design Options.....	34
Plan Costs	35

Defined Contribution	35
Withdrawal Rate Sensitivity.....	40
Defined Benefit	40
Withdrawal Rate Sensitivity.....	42
Cost Development Assumptions	42
Summary and Conclusions	44
Considerations for Retirement Benefit Design	44
Simplicity.....	44
Administrative and Operations Issues	44
Defined Benefit Plan Issues	45
Defined Contribution Plan Issues	45
Appendices.....	47
Appendix A – Project Charter	48
Appendix B – Retirement Plan Education & Functional/Technical Requirements	51
Appendix C – Benefit Illustrations – 1,000 hours: Tier 1 Service–5 yrs/Tier 2–10 yrs	52



Executive Summary

Project Background and Methodology

In Washington state, in-home care services are provided to Medicaid eligible persons who are aging and people with developmental disabilities via a system in which the recipients are assessed by the Department of Social and Health Services to determine their in-home care needs. The recipients then may choose to receive care either from individual providers (IPs) or agency providers (APs). All IPs and most APs are represented by the Service Employees International Union Healthcare 775 NW (SEIU) for those terms and conditions of employment subject to collective bargaining. The current collective bargaining agreement between SEIU and the State of Washington (State) provides for the evaluation of options for establishing a retirement benefit for covered home care workers, as informed by a contracted expert(s). In January 2008, the Home Care Quality Authority (HCQA) engaged Treinen Associates, Inc. (Treinen) to assist SEIU and the State to review retirement benefit alternatives and provide a detailed analysis of the possible opportunities.

Treinen consulted with SEIU and the State to accomplish the contracted tasks that included a final report with a set of possible detailed approaches for a retirement benefit. The Home Care Workers Retirement Benefits Alternatives Committee (The Committee) was made up of SEIU, Office of Financial Management, Department of Social and Health Services and Home Care Quality Authority members. The Committee was charged with assisting to develop common objectives and options for modeling purposes and reviewing the options for a retirement benefit for Home Care (HC) Workers.

Retirement Plan – Objectives and Plan Features

In order to determine the foundation for the HC retirement plan design, the following background facts and assumptions were established by the Committee:

- The individual consumers (service recipients) of home care are the employers for retirement planning purposes;
- Assume that the plan will be subject to all Internal Revenue Code (IRC) 401(a) retirement plan rules applicable to a non-governmental plan sponsor; and
- The plan should be designed to be available to and cover both IPs and APs.

In addition, the Committee established the overarching objective that the HC retirement plan should support the broader goal of stabilizing the HC workforce. In addition the following objectives and guiding principles were considered, and terms determined, for modeling, analyzing options and decision-making:

- Plan eligibility conditions;
- Plan vesting conditions;
- Employee contributions;
- Financial objectives;
- Median market practices;
- The competitive markets;
- Targeted standard of living;
- Plan guiding philosophies;
- Plan design guidelines;
- Default provisions;
- Service distribution guides; and
- Plan administration considerations.

In preparation for analysis of the models and decision-making, the Committee also reviewed the advantages/disadvantages of qualified plans and their requirements. Emphasis was placed on defined contribution and defined benefit plans, as they have the greatest potential to meet the objectives of the Committee. However, an educational overview was provided for the following retirement plan types, including the employee and employer perspective of the basic plan features:

1. Defined contribution (DC);
2. Defined Benefits (DB);
3. Hybrid Plans;
 - a. Cash balance;
 - b. Pension equity;
4. Retirement Share Plan.

Current Data Availability

Key data fields will be required for the administration of a retirement benefit plan, however only the critical fields necessary for modeling, options analysis and decision-making were required and used in evaluating both the IP and AP retirement benefit alternatives.

Individual Provider (IP) Data

The retirement benefit data necessary to develop complete IP retirement profiles does not exist in one system or source location. Of note, gender and date of birth are not collected within the DSHS payment system and are only available from the health care eligibility files maintained by SEIU. The data obtained from both DSHS and SEIU health care eligibility files were combined in order to apply key fields to the overall population. Where data was unavailable for populations not enrolled in the health care benefits program, but eligible for the retirement benefits, profile assumptions for age and gender were created and applied to include this population in the overall analysis.

Agency Provider (AP) Data

There are multiple issues related to AP data that curtailed the ability to model a retirement benefit for this group. The critical data issues center on the multiple timeframes and format for data collection. Each AP employer maintains data files by payroll period which are variable across the employers. There is also no common Provider ID or master client index for data matching. The same APs also appear with multiple payroll entries as maintained by the agency employer system.

Additional analysis will be required to determine the necessary data to manage a HC retirement plan for both IPs and APs, the available data from both the State and SEIU and the current gaps in the necessary data.

Plan Design

Summary of Principal Plan Provisions

The principal provisions and basic plan designs for defined benefit and defined contribution options were summarized and discussed with the Committee. Each benefit plan type was discussed in two fundamental forms: “*a uniform cents/hour*” model – where the benefit/contribution is the same for every hour worked by the IP or AP, and the “*service-related*” model – where the benefit/contribution increases with the number of total hours worked.

Defined Benefit (DB) Retirement Plan

The DB retirement plan *uniform cents/per hour* model features benefits payable at normal retirement age which are the sum of the benefits earned for each hour of service for the entire period of service the employee is covered by the plan. The *service-related* model provides that employees who have completed at least 60 service months shall receive a higher normal retirement benefit of per hour worked as a home care worker covered by the plan for hours above defined service hour thresholds. In addition, consideration of the following features was also outlined for both DB models:

- Retirement Benefits
- Accrual of Benefits
- Compensation

- Retirement Age
- Form of Payment

Defined Contribution (DC) Retirement Plan

The plan provisions are different for defined contribution plans. Specifically, they are tied to the requirements to receive a contribution. A summary of both a *uniform cents/hour* model and a *service-related* contribution were summarized and discussed for defined contribution plans. In addition, the following features were also outlined for both DC models:

- Contributions
- Requirements for Employer Contributions
- Compensation
- Investment Return
- Pre-retirement Distributions
- Form of Payment

Ancillary Plan Design

In addition to the basic features of all qualified retirement plans, there are also essential supporting provisions that apply across all plan design options. These are termed as ancillary plan provisions and address various requirements, including administrative needs. The common options for their utilization are outlined and appear within this report.

Advantages and Disadvantages of Various Designs

The features of each plan design were evaluated against the objectives that were established by the Committee. Advantages and disadvantages of the various designs were analyzed and appear in this report. Please refer to page 30 for the complete evaluation.

Benefit Illustrations

As noted earlier, the Committee determined that the overall objective of the HC retirement plan should support the broader goal of stabilizing the workforce. Based on this key determination, the service hours required for participation in the benefit were selected accordingly. Many retirement benefit models were created during the retirement benefit modeling process and shared with the Committee, however only those that supported the broader goal of stabilizing the workforce are portrayed within this report. The illustrations contained in Chapter 6 demonstrate the benefits expected for a 2,000 service hours per year plan over a variety of service periods and termination ages. Illustrations for 1,000 service hours per year plan can be found in Appendix C to this report.

Plan Costs

The cost analysis tables beginning on Page 40 depict plan costs for both DC and DB benefit plan models. Projected costs for non-service related contributions and service related contributions are illustrated, along with withdrawal rate sensitivity and the assumptions that were used to establish the cost model

Summary and Conclusions

Simplicity

We believe that it is essential that any plan design emphasize simplicity as an overriding objective. This conclusion reflects many issues such as:

- Challenges with data access, quality and consistency;
- The absence of an “employer” in the traditional sense that can act as a central point for plan operations and communication. The service recipients, who are the legal employers, are not equipped to perform this role; and
- The plan participants are expected to be relatively unsophisticated about retirement plan issues and will require more support than typical employee populations to understand and value the plan benefits.

As a result, we believe it is advisable to start with the simplest plan design and add additional features and enhancements in future years when plan operations and participants have developed some experience.

Administrative and Operations Issues

Implementing and operating a plan for Washington State Home Care Workers will be a substantial undertaking. Operating any retirement plan with this many participants is a material task but the infrastructure necessary to operate a retirement plan for this population does not currently exist. Among the major administrative obstacles are:

- Absence of reliable data;
- Operating a retirement plan requires systems that resemble payroll or human resource information systems and the current State system is not capable of supporting the requirements of a retirement plan;
- Absence of a consistent focal point for plan communication and monitoring;
- Challenges of ongoing administration requiring efficient methods for collecting high quality and consistent data, which do not currently exist; and
- The capacity to administer client participation hours funding, if included in the retirement plan.

Defined Benefit Plan Issues

We do not believe that a defined benefit plan could currently be successfully implemented. Key challenges of a defined benefit plan approach are:

- **Uncertain Costs.** Plan costs are uncertain due both to potential flaws in the initial plan cost modeling (see comments on limitations of plan cost modeling in Section 7);

- **More Complex Benefits.** The benefits are harder to understand by plan participants and thus are less likely to be highly valued by them;
- **Withdrawal Liability.** Multi-employer defined benefit plans have an issue called withdrawal liability. This liability is typically assessed to each employer once they no longer participate in the plan. Payment of this liability by each service recipient when they no longer require services is not feasible given the current Washington State Home Care Worker employer structure(s);
- **Prohibitive Administration Costs.** The administrative costs of a defined benefit plan are likely to be higher than for a defined contribution plan. PBGC premiums of \$8.50 per participant would cost over \$250,000 per year if there are 30,000 participants; and
- **More Complex Administration.** Issues relating to administration of breaks in service, re-employment, and suspension of benefits are administratively more complex in a defined benefit plan.

If this plan design is preferred more effort will be necessary to address the data and administrative issues detailed previously to support plan operation prior to initiating the benefit.

Defined Contribution Plan Issues

Although, we do not believe that it is currently possible to operate a defined contribution plan, it would require less effort to establish systems to support the operation of such a plan. Among the issues that make this type of plan more viable are:

- **Fewer Administrative Costs.** There are less costs associated with the administration of DC plans, a key difference is the absence of Pension Benefit Guaranty Corporation (PBGC) premiums.
- **Simpler Benefits.** DC plan design is less complex and easier for participants to understand and, therefore, value; and
- **Predictable Plan Costs.** DC Plan costs are more predictable and likely to be a more stable benefit design.

2

Project Background and Methodology

Introduction

The current collective bargaining agreement between SEIU Healthcare 775 NW (SEIU) and the State of Washington (State) allows for the evaluation of options for establishing a retirement benefit for covered home care workers.¹ Further, Article 23 directs the State and SEIU to hire a consultant to prepare non-binding recommendations for retirement plan designs.² The Home Care Quality Authority (HCQA) engaged Treinen Associates, Inc. (Treinen), via a competitive bidding process, to assist SEIU and the State to review retirement benefit alternatives and provide a detailed analysis of the possible opportunities.³

Background

Washington State provides in home personal care services to the aging and people with developmental disabilities via a system in which the recipients of care contract directly with individual providers (IPs) or agency providers (APs). A relative of a care recipient can also

¹ Article 23.1: The Union and the Employer agree that the Union Management Communications Committee shall explore possible options for establishing a sustainable retirement benefit for workers covered under this Agreement.

² Article 23.2: The Committee shall retain a consultant to prepare recommendations to be reported to the parties no later than January 31, 2008.² Recommendations to the Committee should include plan designs that minimize individual risk to employee contributions, maximize individual retirement income and maximize portability. Recommendations to the Committee shall not be binding on either party.

³ Both SEIU and the State determined that the retirement benefit alternative recommendations should include a detailed analysis of plan designs that are applicable to the worker population and, are sustainable using the currently available data and systems, not merely a recommended approach for a singular product.

serve as an individual provider to that recipient. SEIU is the exclusive representative of IPs and several AP groups, while an additional set of APs are represented by other collective bargaining units. However, under the parity of benefits requirement, both IPs and APs are entitled to similar employment benefits, including retirement.⁴

While HCQA is responsible for managing some aspects of the individual provider program, the state’s Office of Financial Management is ultimately responsible for the collective bargaining agreement for IP workers. In addition, the public programs under which IP’s are paid are operated by the Department of Social and Health Services (DSHS). IPs and APs currently receive health care benefits that are collectively bargained. Eligibility for these services is determined by a third party administrator and paid via a health care trust arrangement.

The consumer of home care services is the direct employer of the IP caregivers with the sole and exclusive right to hire, supervise and terminate the worker. However, the State, via the HCQA, is considered the employer of IPs solely for the purposes of collective bargaining with SEIU regarding terms and conditions of employment. Similarly, for the purposes of determining the options for a retirement benefit for covered home care workers, the consumer of home care services is considered to be the employer of IPs and the State remains responsible for collective bargaining for these services. There are currently about 23,500 IPs and 12,520 APs providing in home, personal care services in the State of Washington.⁵

Methodology

Treinen Associates, Inc. worked with SEIU and the State to accomplish the following tasks in a timeframe that culminated in a final report with a set of possible detailed approaches:

Deliverable #	Items	Date Completed
Deliverable #1	Final Project Schedule and Workplan (Appendix A – Project Charter)	January 31, 2008
Deliverable #2	Assessment of retirement benefit plans, including functional and/or technical requirements, suitable for IP workers.	March 6, 2008
Deliverable #3	Identification and assessment of alternatives for establishing a retirement benefit plan that include portability, benefit description, and contribution rate alternatives.	March 21, 2008

⁴ RCW 74.39.310(2).

⁵ Source: Aging and Disability Services Agency, Department of Social and Health Services, September 2007.

Deliverable #	Items	Date Completed
Deliverable #4	Recommend a detailed set of proposed solutions as the recommended approach.	April 2, 2008
Deliverable #5	Prepare final written report documenting the activities, findings and proposed detailed solutions.	April 16, 2008

Treinen assisted SEIU and the State to achieve the following outcomes:

1. Complete the above tasks and deliverables in accordance with the approved timeline for use in upcoming collective bargaining discussions;
2. Educate the SEIU and the State and assist them to assess the functional and/or technical requirements to provide a possible retirement benefit for individual providers of in-home services;
3. Identify and assess alternatives in plan and benefit design to include the elements of portability, benefit description and contribution rate alternatives in the context of individual providers of in-home services; and
4. Recommendation for an optimal detailed set of proposed solutions that includes dimensions of plan design, benefit design, portability, alternatives, and the ability to integrate with current worker payment systems.

The combined staff from SEIU and the State Labor Relations Committee (Committee) charged to review the options for a retirement benefit, was made up of the following members:

Home Care Workers Retirement Benefits Alternatives Committee	
1. Karen Durant	Office of Financial Management
2. Rick Hall	Director, Home Care Quality Authority
3. Seth Hemond	Service Employees International Union 775, Healthcare N.W.
4. Grace Kiboneka	Department of Social and Health Services, Home and Community Services
5. Diane Lutz	Office of Financial Management
6. Dan Murphy	Department of Social and Health Services, Home and Community Services
7. Tim Palmer	Service Employees International Union 775, Healthcare N.W.

The Committee met at SEIU headquarters at the below dates and times. Educational materials, as well as deliverables were reviewed at the meetings. In addition, a review of the requested data elements and missing fields were also included in Committee Meeting #3. Additional work was required to obtain, clean and combine representative AP data for benefit modeling. These results were also shared with the Committee at Committee Meeting #4 and were included in Deliverable #3. A shared project web site was established and documents were stored electronically and centrally for use by all Committee members.

3

Retirement Plan – Objectives and Plan Features

Background

In order to determine the foundation for the HC retirement plan design, the following background facts and assumptions were established by the Committee:

- The individual consumers (service recipients) of home care are the employers for retirement plan purposes;
- Assume that the plan will be subject to all IRC 401(a) retirement plan rules applicable to a non-governmental plan sponsor; and
- The plan should be designed to be available to and cover both IPs and APs.

The pertinent retirement characteristics regarding IPs and APs were portrayed as follows:

IP Profile:

- Most are family members (65%);
- Not a career choice for the majority of providers;
- Wages are consistent with earnings in alternative employment (except for parent providers who may also have professional careers, set aside for care giving purposes);
- Subject to FICA taxation except for parent providers and children (ages 18-21) caring for parents; and
- Home care is becoming a step on a career ladder for employment in healthcare.

AP Profile:

- Predominantly non-family providers (80-90%);
- Most are in home care as a career;
- Service length is likely to be longer than that of IPs;
- Wages are consistent with that in alternative employment; and
- Subject to FICA taxation.

Baseline objectives, guidelines and goals are fundamental to development of a retirement benefits plan. The Committee agreed that the overall HC retirement plan objective should support the broader goal of stabilizing the home care workforce. The Committee came to agreement on a set of objectives for assessing the options for retirement alternatives, with the following noted caveats. The objectives:

- have the support of any member of the committee, not necessarily all members;
- do not represent a consensus or agreement relative to plan objectives among all parties; and
- are supported for the sole purpose of objective modeling for comparative results.

Objectives and Guiding Principles

The following set of objectives and guiding principles were established by the Committee to guide the modeling and options analysis process and decision-making:

Retirement Alternatives – Modeling and Options: Objectives and Guiding Principles	
<p>1. Establish plan eligibility conditions to:</p> <ul style="list-style-type: none"> a. Streamline administration; b. Maximize the opportunity for “meaningful” retirement benefits; and c. Apply “break in service” rules that are feasible to operate. 	<p>2. Include plan vesting conditions to:</p> <ul style="list-style-type: none"> a. Support a workforce stabilization objective; and b. Include a possible graded or “cliff” vesting.
<p>3. Employee Contributions:</p> <ul style="list-style-type: none"> a. Consider requiring employee contributions like PERS; b. Do not allow voluntary contributions at this time; and c. Design will not include employer matching contributions at this time. 	<p>4. Financial Objectives are:</p> <ul style="list-style-type: none"> a. Predictable and consistent costs; and b. Reasonable administrative costs (operational, recordkeeping, investment/portfolio management).
<p>5. The benefit levels are consistent with median market practices;</p>	<p>6. The competitive market is nursing home industry; and</p>
<p>7. Ideally, benefits should be sufficient to maintain the same standard of living in retirement as while working:</p> <ul style="list-style-type: none"> a. Target a retirement age of age 65; b. Target a length of service of 30 years; c. Employees will be assumed to play a limited role in achieving this standard through employee contributions; 	<p>8. Plan Guiding Philosophies (adopted to the extent affordable):</p> <ul style="list-style-type: none"> a. Provide guaranteed income for life; b. Provide protection against the effects of inflation; and c. Different benefits for different situations: <ul style="list-style-type: none"> i. Support workforce stabilization objective by potentially providing higher benefits to longer service workers;

Retirement Alternatives – Modeling and Options: Objectives and Guiding Principles

<p>d. Earn a pro rata benefit for shorter service.</p>	<p>ii. Benefits should not differ based on marital status; and iii. Benefits should not differ based on age. d. Portability i. Earn benefits evenly over the worker’s full career to ensure terminating employees earn a reasonable benefit for each year of service; ii. Benefits vest after a reasonable period of service; iii. Include the ability to roll over distribution upon termination from home care industry; and iv. The benefit will be maintained in the plan upon employment transfer within the home care industry.</p>
<p>9. Simplify the plan design to extent possible: a. Support employee understanding and perception of value; and b. Ease of administration.</p>	<p>10. Include the following default provisions to support the administrative process: a. Investment options; b. Form of payment; and c. Payment timing.</p>
<p>11. Limit the In-Service Distributions to: a. Maximize retirement benefit; b. Limited hardship withdrawals; and c. Do not permit plan loans.</p>	<p>12. Administrative Considerations to adopt: a. Install a joint committee to administer plan; b. May retain Third Party Administrator (TPA) to operate plan for committee; c. Consider using state investment pool options if investment direction is part of plan design; and d. Consider simplifying the break in service rules to support plan administration feasibility.</p>

Defined Contribution and Defined Benefit Plans

Committee Meeting #2 was devoted to Committee Member education and the review of the qualified plan advantages/disadvantages and their requirements. Emphasis was placed on defined contribution and defined benefit plans, as they have the greatest potential to meet the objectives of the Committee. However, an educational overview was provided for the following retirement plan types:

1. Defined contribution (DC);
2. Defined Benefits (DB);
3. Hybrid Plans;
 - a. Cash balance;
 - b. Pension equity;
4. Retirement Share Plan.

Please refer to Appendix B for additional educational materials regarding each plan type.

Basic Features of DC and DB Plans

Defined Contribution Plan

A defined contribution plan defines the contribution or deposit into the plan. Contribution is invested by the participant or employer and the benefit is payable in the account balance at termination of participation. There are no promises of a set monthly benefit at retirement. The amount of the benefit depends on the size of the contributions, timing of when contributions are made and investment return. Some examples of defined contribution plans include 401(k) plans, profit sharing plan and employee stock purchase plan.

DC Plan Basic Features - Employer Perspective

- Not responsible for investment risk/reward;
- Financially stable and predictable;
- Less costly to administer than other options;
- No risk of unfunded liabilities;
- Fiduciary responsibility for default elections; and
- Typically easier to administer.

DC Plan Basic Features - Employee Perspective

- Easiest plan for employees to understand -- appreciate and value benefits accurately;
- Difficult to predict payable value and plan for retirement;
- Benefits are fully portable;
- Take on investment risk/reward opportunity;
- Typically requires employee action to operate plan; and
- Employee assumes longevity risk.

Defined Benefit Plan

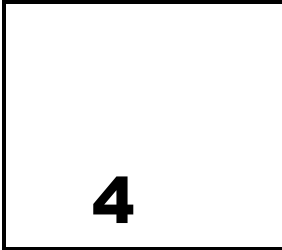
A defined benefit plan defines the benefit payable to the participant. Upon eligibility for payment, the benefit is paid as an annuity for the life of the participant, and spouse if married, unless both participant and spouse choose an optional benefit. The formula for calculating plan contributions may be based on compensation or be a fixed dollar benefit. However, the cost to provide the benefit is uncertain and requires an actuary to calculate and certify the required contributions. In addition, the plan must designate a normal retirement age.

DB Plan Basic Features - Employer Perspective

- Assumes the risk of poor investment return;
- Assumes the risk of past insufficient funding;
 - Due to actuarial loss, or
 - Deliberate under funding
- Continues to administer a benefit after employee terminates;
- Intermittent employment after retirement age can result in payments stopping and starting/complex calculations;
- Employer must pay Pension Benefit Guaranty Corporation (PBGC) premiums; and
- Administration is relatively complex and more expensive than other options.

DB Plan Basic Features - Employee Perspective

- Offers predictable and reliable income for lifetime, if an annuity payment is elected;
- Difficult to understand the value until the benefits start;
- Benefits are not portable (as annuities);
- Can roll over lump sum payments;
- Earn majority of benefit late in career for traditional DB designs; and
- Benefits are guaranteed by the Pension Benefit Guaranty Corporation (PBGC).



Current Data Availability

Individual Provider (IP) Data

The required data to model the potential options for HC retirement planning is available from both DSHS and the SEIU health care eligibility files as depicted in the following file layout for IPs. Currently the necessary data to develop complete employee profiles does not exist in one location or source system and the data files from both DSHS and SEIU were combined in order to apply key fields to the overall population. While Benefits Services, Inc (BSI), the third party vendor utilized to determine eligibility for the health plan enrollment, does not have data for IPs that were not enrolled in the health plan, employee profile assumptions for age and gender were applied to include this population in the overall analysis.

Data Request File Format and Layout (10/1/2006 – 9/30/2007)

Type	Element & Definition	BSI	DSHS
Eligible Employees	Employee First Name	√	√
	Employee Last Name	√	√
	Provider Type	√	√
	Employee Identifier <i>NOTE: This should be a single number and not contain duplicate employees with different numbers.</i>	√	√
	GENDER	√	
	DOB	√	
	Employee Employment	Date of Initial Paid Service Provision <i>NOTE: This is the first date services were provided and paid.</i>	
Service Month <i>NOTE: If payment for services were made in a calendar month it is determined to be equivalent to a service month.</i>		√	√
Most Recent Date of Hire <i>NOTE: Ideally this should be the most recent date that a Provider was authorized to provide service. However, dates that represent the actual date of hire would also be acceptable.</i>		√	√
Employee Payroll	Earnings (October 1, 2006 – September 30, 2007) <i>NOTE: Ideally this should be the actual total gross monthly payments made to the Provider. However, the DSHS-only portion in a monthly or annual amount would be acceptable.</i>		√
	Hours Worked (October 1, 2006 – September 30, 2007)	√	√

Agency Provider (AP) Data

The data files necessary for calculating AP models are significantly limited and quite variable. This is primarily due to the assorted types of information systems utilized by the multiple agency employers. Data files were received for use in modeling benefit options from the following agencies:

- AAA Residential
- Amicable
- Chesterfield
- KWA
- ResCare

Files were not received from Addus, CCS or Unique agency employers.

The specific issues related to the AP data center on the multiple timeframes and format for data collection. Each employer maintains data files by payroll period which are variable across the employers. There is also no common Provider ID or master client index for which data matching could be performed. This severely limits the capability to combine data for the same provider across time periods.

The same APs also appear with multiple payroll entries as maintained by the agency employer system. This manifests as:

- Multiple formatting issues – file field spacing differences, name use, etc., and
- Multiple payroll rows – grouping required, various periods of time, conversion to accurate annual amounts, etc.
- Bad or erroneous data – negative payroll/hours or significantly high (improbable) payroll/hours reported

Additional analysis will be required to determine the necessary data to manage a HC retirement plan, the available data from both the State and SEIU and the current gaps in the necessary data.

5

Plan Design

Following are the basic plan designs discussed with the Committee, as separated into defined benefit options and defined contribution options. Following the basic design outline is a discussion of ancillary plan design features that apply to each of the basic plan designs discussed below.

Summary of Principal Plan Provisions for Defined Benefit Plans

Plan Provision	Defined Benefit	
	Uniform Cents/Hour	Service-Related
Retirement Benefits	<ul style="list-style-type: none"> Each employee shall receive a normal retirement benefit of 10 cents/hour worked as a home care worker covered by the plan. The benefit payable at normal retirement age shall be the sum of the benefits earned for each hour of service for the entire period of service covered by the plan. The benefit amount per hour may be changed through the collective bargaining process. 	<ul style="list-style-type: none"> Each employee shall receive a normal retirement benefit of 10 cents/hour worked as a home care worker covered by the plan. Employees who have completed at least 60 service months shall receive a normal retirement benefit of 12 cents/hour worked as a home care worker covered by the plan. Employees who have completed at least 120 service months shall receive a normal retirement benefit of 14 cents/hour worked as a home care worker covered by

Plan Provision	Defined Benefit	
	Uniform Cents/Hour	Service-Related
		<p>the plan.</p> <ul style="list-style-type: none"> The benefit payable at normal retirement age shall be the sum of the benefits earned for each hour of service for the entire period of service covered by the plan. The benefit amounts per hour for each service tier may be changed through the collective bargaining process.
Accrual of Benefits	<ul style="list-style-type: none"> No minimum hours of service are required to earn a benefit after becoming eligible for the plan. 	
Compensation	<ul style="list-style-type: none"> The benefit is not based directly on compensation. 	
Retirement Age	<ul style="list-style-type: none"> Normal Retirement Age is addressed in the ancillary benefits summary and it likely to be age 65 along with a minimum participation/service requirement. Early retirement allowed as early as age 55 and completion of the number of service months required for the greater of (i) full vesting and achieving normal retirement age. Benefit is actuarially reduced for payment before Normal Retirement Age. 	
Form of Payment	<ul style="list-style-type: none"> Benefits shall be paid as a lifetime annuity. Unmarried participants will receive a benefit payment payable for their lifetime. Married participants will receive a benefit payable for their lifetime with 75% of the benefit continuing to the participant's spouse if they survive the participant. Participants may elect to waive their normal form of payment and elect a different form of annuity payment. Lump sum payments will not be made available. Although permitted by law, small benefits (those with a value below \$5,000 in total) shall not be cashed out. Consider establishing a smaller limit (\$1,000-2,000) where it is not economical to send out monthly checks. 	

The plan provisions are different for defined contribution plans. Specifically, they are tied to the requirements of contribution. The following is a summary of these types of plan provision considerations for defined contribution plans.

Summary of Principal Plan Provisions for Defined Contribution Plans

Plan Provision	Defined Contribution	
	Uniform Cents/Hour	Service-Related
Contributions	<ul style="list-style-type: none"> • Salary Deferral Contributions: Employees are not permitted to contribute to the plan. • Employer Matching Contribution: Not applicable. • Employer Contribution: The employer will contribute 10 cents/hour worked as a home care worker covered by the plan. • The contribution amount per hour may be changed through the collective bargaining process. 	<ul style="list-style-type: none"> • Salary Deferral Contributions: Employees are not permitted to contribute to the plan. • Employer Matching Contribution: Not applicable. • Employer Contribution: The employer will contribute 10 cents/hour worked as a home care worker covered by the plan. • Employees who have completed at least 60 service months shall receive a 12 cents/hour contribution for every hour worked as a home care worker covered by the plan. • Employees who have completed at least 120 service months shall receive a 14 cents/hour contribution for every hour worked as a home care worker covered by the plan. • The contribution amounts per hour for each service tier may be changed through the collective bargaining process.
Requirements for Employer Contributions	<ul style="list-style-type: none"> • Participants shall receive the employer contribution for every hour of service worked in covered employment under the plan. 	
Compensation	<ul style="list-style-type: none"> • The contribution is not based directly on compensation. 	

Plan Provision	Defined Contribution	
	Uniform Cents/Hour	Service-Related
Investment Return	<ul style="list-style-type: none"> • Plan contributions shall be invested as elected by the participants in investment options selected by the plan committee. • Plan investments may be changed any day that the NYSE is open for business through telephone or internet access. • A default election shall apply for any participant who does not actively select an investment option as detailed in the ancillary benefit summary. 	
Pre-retirement Distributions	<ul style="list-style-type: none"> • Hardship distributions and plan loans are not available to participants. 	
Form of Payment	<ul style="list-style-type: none"> • Benefits shall be paid in a single sum only. Participants may elect to roll over the lump sum payment to an IRA or another retirement plan to avoid current taxation. • Benefit payments that do not exceed \$5,000 shall be paid upon termination of employment. • Termination followed by immediate re-employment with another employer who participates in the plan shall not be considered termination of employment. 	

Ancillary Plan Design

In addition to the basic features of all qualified retirement plans, there are also essential supporting provisions that apply across all plan design options. These are termed as ancillary plan provisions and are discussed below. The common options for their utilization are also outlined.

1. PLAN YEAR

The plan year begins January 1 and ends December 31.

2. PLAN ELIGIBILITY AND ENTRY DATES

Option 1: All IPs and APs are eligible for participation beginning with their first service month.

Option 2: All IPs and APs are eligible for participation after completion of 6 service months. Participation begins with payment for the 7th service month. This 6 service month requirement would only be applied prospectively to new providers after the plan effective date. All existing providers as of the plan effective date would be immediately eligible. No benefits or contributions would be credited for service hours before becoming eligible for the plan.

3. ELIGIBLE HOURS OF SERVICE

Option 1: Benefits or contributions shall be made only for hours of service funded by the State. Client participation hours will not be considered under the retirement plan.

Option 2: The State will fund benefits or contributions for all hours of service including client participation hours.

Note: No service months shall be counted prior to the plan effective date. The data does not exist for development of reliable historical service months.

4. RETIREMENT

Option 1: Normal Retirement Age is Age 65 and 60 service months of participation in the plan.

Option 2: Normal Retirement Age is Age 65 and 36 service months of participation in the plan.

Participants shall become 100% vested in their benefits upon attainment of the Normal Retirement Age.

5. DEATH/DISABILITY

Participants shall become 100% vested in their accrued benefit, if they should die while still providing IP or AP services. This provision should also apply if the IP/AP becomes ill or injured while providing services and later dies as a result of that illness or injury.

Option 1: Beneficiary receives 100% of participant’s accrued benefit.

Option 2: Beneficiary receives 50% of participant’s accrued benefit.

6. BREAKS IN SERVICE

Option 1: All Breaks in Service will be ignored. Service months will be counted for plan purposes regardless of how long the period of time since a participant has had a service month.

Option 2: If a participant who is not vested (assumes adoption of Vesting Option Two below) does not have a service month for 5 complete plan years (beginning with the Plan Year beginning after the last service month), then all prior service months are forfeited and the IP/AP will be treated as a new IP/AP for all plan purposes.

7. VESTING

Benefits under the plan shall vest in accordance with the following schedule:

Option 1: 100% immediate and full vesting

Option 2: Requires 36 service months.

Option 3: Requires 60 service months.

Option 4: 20% vesting after 24 service months, increasing 20% for every 12 service months to 100% after 72 service months.

Option 5: 20% vesting after 36 service months, increasing 20% for every 12 service months to 100% after 84 service months.

Note: Need to be able to distinguish service months individually if provider invoice submission and reimbursement is allowed for multiple months.

Years of Service	Immediate	3 Year Cliff	5 Year Cliff	6 Year Graded	7 Year Graded
0	100%	0%	0%	0%	0%
1	100%	0%	0%	0%	0%
2	100%	0%	0%	20%	0%
3	100%	100%	0%	40%	20%
4	100%	100%	0%	60%	40%
5	100%	100%	100%	80%	60%

Years of Service	Immediate	3 Year Cliff	5 Year Cliff	6 Year Graded	7 Year Graded
6	100%	100%	100%	100%	80%
7	100%	100%	100%	100%	100%

8. FORFEITURES

Option 1: Forfeitures are used to reduce employer contributions and cost.

Option 2: Forfeitures are allocated to remaining participants (**defined contribution plans only**).

9. DEFAULT INVESTMENT ELECTIONS

Any participant in a **defined contribution plan** who does not make a timely and valid investment election shall have their contributions invested in the default investment option selected by the plan committee. The likely default investment option shall be a target date retirement fund that is selected based on the participant's age. **Note that this approach will require collection and maintenance of the date of birth for all providers.**

10. DISTRIBUTION POLICY

The employer will distribute a participant's vested accrued benefit as soon as administratively practicable following the end of the plan year in which the participant separated from service. Consider employing a faster payment option if the participant has attained retirement age upon termination.

A participant who changes employers to another employer who participates in this plan will not be considered to have separated from service and will not be eligible for payment under the plan.

A participant who has started to receive benefit payments from the plan (assuming payment as an annuity) shall continue to receive payments while re-employed in plan covered service. At their subsequent employment, they will receive an increased benefit reflecting their additional benefit accruals earned after re-employment.

Advantages and Disadvantages of Various Designs

After objectives for the HC Workers Retirement Benefits were established, the following features of each plan design were evaluated against each objective for applicability. The following table depicts the analysis.

Plan Feature/Objective	Uniform Defined Benefit Plan	Service Related Defined Benefit Plan	Uniform Defined Contribution Plan	Service Related Defined Contribution Plan
Workforce Stabilization Goal	Greatest value earned late in career	Greatest value earned late in career; service related accruals	Receive same contribution regardless of age or service	Increasing contributions with increased service
Administrative Simplicity/Low Costs	Defined benefit plans require actuarial valuations; difficult to understand benefits	Defined benefit plans require actuarial valuations; difficult to understand benefits	Plan contributions easy to understand and value; actuarial valuations not required	Plan contributions easy to understand and value; actuarial valuations not required
Meaningful Retirement Benefits	Depends on benefit level	Depends on benefit level	Depends on contribution level	Depends on contribution level
Feasible Break in Service Rules	Defined benefits plans base benefits on service	Defined benefits plans base benefits on service	Possible	Possible
Require Employee Contributions	Can require contributions	Can require contributions	Can require contributions	Can require contributions
Predictable and Consistent Costs	Plan costs will vary based on plan experience and interest rates	Plan costs will vary based on plan experience and interest rates	Plan contributions should be stable absent large changes in the participant population	Plan contributions should be stable absent large changes in the participant population
Competitive Benefits (Nursing Home Industry)	Depends on benefit level	Depends on benefit level	Depends on contribution level	Depends on contribution level
Maintain Standard of Living (Age 65/30 YOS)	Depends on benefit level	Depends on benefit level	Depends on contribution level	Depends on contribution level
Guaranteed Income for Life	Assumes lump sums not offered	Assumes lump sums not offered	Better if purchase annuities with lump sum	Better if purchase annuities with lump sum

NOTE:

Green: Plan design fits well with HC Workers Retirement Benefit objective;
Yellow: Plan design fits with HC Workers Retirement Benefit objective but has some negative issues; and
Red: Plan design does not meet HC Workers Retirement Benefit objective.

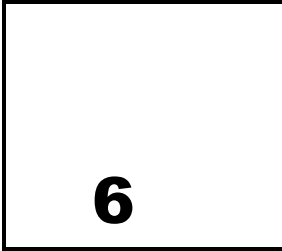
Plan Feature/Objective	Uniform Defined Benefit Plan	Service Related Defined Benefit Plan	Uniform Defined Contribution Plan	Service Related Defined Contribution Plan
Inflation Protection	Unless include a COLA feature	Unless include a COLA feature	Partial protection through investment return that is correlated partially to inflation	Partial protection through investment return that is correlated partially to inflation
Service Related Benefits	Not part of plan design	Explicit part of plan design	Not part of plan design	Explicit part of plan design
Portability -benefit amount -vesting -roll over benefits	-Not unless allow lump sums -Greatest benefit value accrues nearest retirement age	-Not unless allow lump sums -Greatest benefit value accrues nearest retirement age	-Benefits can be easily rolled over -Benefit value earned evenly over work career	Benefits can be easily rolled over -Benefit value earned evenly over work career other than service related increases
Easy to Understand	Defined benefit plans are typically not well understood by participants	Defined benefit plans are typically not well understood by participants	Account balance plans are most easily understood by participants; however conversion to annual retirement income is difficult	Account balance plans are most easily understood by participants; however conversion to annual retirement income is difficult
Default Provisions	All retirement plans can support default provisions where participants fails to make election	All retirement plans can support default provisions where participants fails to make election	All retirement plans can support default provisions where participants fails to make election	All retirement plans can support default provisions where participants fails to make election
Limit In-Service Distributions	Defined benefit plans do not allow in-service distributions	Defined benefit plans do not allow in-service distributions	Defined contribution plans can limit in-service distributions	Defined contribution plans can limit in-service distributions

NOTE:

Green: Plan design fits well with HC Workers Retirement Benefit objective;

Yellow: Plan design fits with HC Workers Retirement Benefit objective but has some negative issues; and

Red: Plan design does not meet HC Workers Retirement Benefit objective.



Benefit Illustrations

As noted earlier, the Committee determined that the overall objective of the HC retirement plan should support the broader goal of stabilizing the workforce. Based on this key determination, the service hours required for participation in the benefit were selected accordingly. The following retirement benefit models demonstrate the benefits expected for 2,000 service hours per year over a variety of service periods and termination ages. Illustrations for 1,000 service hours can be found in Appendix C.

Retirement Benefit Alternative Illustrations			
Wage Increases:	4.00%	Base Pension Contribution/Accrual Rate:	\$ 0.10
Investment Return:	7.50%	Tier 1 Pension Contribution/Accrual Rate:	\$0.12
Inflation:	3.00%	Tier 2 Pension Contribution/Accrual Rate:	\$ 0.14
			<u>Years</u>
Hours of Service	2,000	Tier 1 Service:	5
Hourly Rate:	\$10.00	Tier 2 Service:	10

Illustration #1

Current Pay: \$ 20,000				Current Age 25	
Projected Age 65 Pay: \$ 92,327				Termination Ages	
FEATURES		<u>30</u>	<u>35</u>	<u>50</u>	<u>65</u>
Uniform Cents/Hr	Pension Annuity	1,083	2,401	8,329	19,005
DB Plan	Replacement %	1.2%	2.6%	9.0%	20.6%
Service Related	Pension Annuity	1,083	2,665	10,964	25,910
DB Plan	Replacement %	1.2%	2.9%	11.9%	28.1%
Uniform Cents/Hr	DC Annuity	1,659	3,065	6,123	7,984
DC Plan	Replacement %	1.8%	3.3%	6.6%	8.6%
Service Related	DC Annuity	1,659	3,347	7,627	10,232
DC Plan	Replacement %	1.8%	3.6%	8.3%	11.1%

Illustration #2

Current Pay: \$ 20,000				Current Age 35	
Projected Age 65 Pay: \$ 62,373				Termination Ages	
FEATURES		<u>40</u>	<u>45</u>	<u>55</u>	<u>65</u>
Uniform Cents/Hr	Pension Annuity	1,083	2,401	5,956	11,217
DB Plan	Replacement %	1.7%	3.8%	9.5%	18.0%
Service Related	Pension Annuity	1,083	2,665	7,641	15,007
DB Plan	Replacement %	1.7%	4.3%	12.3%	24.1%
Uniform Cents/Hr	DC Annuity	805	1,487	2,555	3,323
DC Plan	Replacement %	1.3%	2.4%	4.1%	5.3%
Service Related	DC Annuity	805	1,624	3,119	4,193
DC Plan	Replacement %	1.3%	2.6%	5.0%	6.7%

Illustration #3

Current Pay:		\$ 20,000	Current Age 45		
Projected Age 65 Pay:		\$ 42,137	Termination Ages		
FEATURES			<u>50</u>	<u>55</u>	<u>65</u>
Uniform Cents/Hr	Pension Annuity		1,083	2,401	5,956
DB Plan	Replacement %		2.6%	5.7%	14.1%
Service Related	Pension Annuity		1,083	2,665	7,641
DB Plan	Replacement %		2.6%	6.3%	18.1%
Uniform Cents/Hr	DC Annuity		391	722	1,240
DC Plan	Replacement %		0.9%	1.7%	2.9%
Service Related	DC Annuity		391	788	1,513
DC Plan	Replacement %		0.9%	1.9%	3.6%

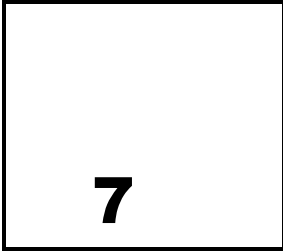
Illustration #4

Current Pay:		\$ 20,000	Current Age 55		
Projected Age 65 Pay:		\$ 28,466	Termination Ages		
FEATURES			<u>60</u>	<u>65</u>	
Uniform Cents/Hr	Pension Annuity		1,083	2,401	
DB Plan	Replacement %		3.8%	8.4%	
Service Related	Pension Annuity		1,083	2,665	
DB Plan	Replacement %		3.8%	9.4%	
Uniform Cents/Hr	DC Annuity		190	350	
DC Plan	Replacement %		0.7%	1.2%	
Service Related	DC Annuity		190	382	
DC Plan	Replacement %		0.7%	1.3%	

Summary of Rejected Design Options

The primary design option rejected by the Committee was a cash balance plan. The Committee concluded that this plan design was less attractive than a pure defined benefit plan design and a pure defined contribution plan design.

Earlier in the retirement plan education process pension equity plan designs and the retirement share design were also rejected. The rationale for eliminating the pension equity design is complexity and lack of employee appeal. The rationale for eliminating the retirement share design is the limited number of actual plans in practice utilizing this approach.



Plan Costs

Defined Contribution

The following cost analysis tables depict plan costs for immediate participation and a six month participation requirement for a variety of vesting options. Projected costs for non-service related contributions and service related contributions are also illustrated.

All cost estimates shown as cents/service hour contributions as follows:

Contribution Rate		Not Service Related	Service Related
Base Contribution	Less than 5 Years of Service	.10	.10
Tier One	Between 5 and 10 Years of Service	.10	.12
Tier Two	10 or more Years of Service	.10	.14

Plan Costs – Defined Contribution

Not Service Related									
Immediate participation and vesting									
		Yr1	Ultimate						
Contributions Allocated to Employees		\$ 3,126,012	3,126,012						
Forfeitures		-	-						
Employer Contributions		3,126,012	3,126,012						
Employer Contributions (cents/hour)		0.100	0.100						
Immediate participation and 3 year cliff vesting									
		Yr1	Yr2	Yr3	Ultimate				
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,126,012				
Forfeitures		-	501,501	725,201	403,057				
Employer Contributions		3,126,012	2,624,511	2,400,811	2,722,955				
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.087				
Immediate participation and 5 year cliff vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Ultimate		
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,126,012		
Forfeitures		-	501,501	725,201	886,912	1,035,205	687,062		
Employer Contributions		3,126,012	2,624,511	2,400,811	2,239,100	2,090,808	2,438,950		
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.067	0.062	0.078		
Immediate participation requirement and 6 year graded vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Ultimate	
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,126,012	
Forfeitures		-	501,501	725,201	737,129	686,537	583,758	547,114	
Employer Contributions		3,126,012	2,624,511	2,400,811	2,388,883	2,439,475	2,542,254	2,578,898	
Employer Contributions (cents/hour)		0.084	0.077	0.076	0.078	0.081	0.086	0.082	
Immediate participation requirement and 7 year graded vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Ultimate
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,126,012
Forfeitures		-	501,501	725,201	886,912	865,979	792,397	661,682	716,511
Employer Contributions		3,126,012	2,624,511	2,400,811	2,239,100	2,260,033	2,333,615	2,464,330	2,409,501
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.072	0.075	0.079	0.084	0.077

Service Related									
Immediate participation and vesting									
		Yr1	Ultimate						
Contributions Allocated to Employees		\$ 3,126,012	3,541,804						
Forfeitures		-	-						
Employer Contributions		3,126,012	3,541,804						
Employer Contributions (cents/hour)		0.100	0.113						
Immediate participation and 3 year cliff vesting									
		Yr1	Yr2	Yr3	Ultimate				
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,541,804				
Forfeitures		-	501,501	725,201	412,623				
Employer Contributions		3,126,012	2,624,511	2,400,811	3,129,180				
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.100				
Immediate participation and 5 year cliff vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Ultimate		
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,541,804		
Forfeitures		-	501,501	725,201	886,912	1,035,205	738,401		
Employer Contributions		3,126,012	2,624,511	2,400,811	2,239,100	2,090,808	2,803,403		
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.067	0.062	0.090		
Immediate participation requirement and 6 year graded vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Ultimate	
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,751,215	3,541,804	
Forfeitures		-	501,501	725,201	737,129	686,537	583,758	584,713	
Employer Contributions		3,126,012	2,624,511	2,400,811	2,388,883	2,439,475	3,167,456	2,957,091	
Employer Contributions (cents/hour)		0.084	0.077	0.076	0.078	0.081	0.106	0.095	
Immediate participation requirement and 7 year graded vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Ultimate
Contributions Allocated to Employees		\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,751,215	\$ 3,751,215	3,541,804
Forfeitures		-	501,501	725,201	886,912	865,979	792,397	673,084	786,750
Employer Contributions		3,126,012	2,624,511	2,400,811	2,239,100	2,260,033	2,958,817	3,078,130	2,755,054
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.072	0.075	0.098	0.104	0.088

Not Service Related										
6 month participation requirement and immediate vesting										
			Yr1	Ultimate						
Contributions Allocated to Employees			\$ 3,108,603	3,108,603						
Forfeitures			-	-						
Employer Contributions			3,108,603	3,108,603						
Employer Contributions (cents/hour)			0.099	0.099						
6 month participation requirement and 3 year cliff vesting										
			Yr1	Yr2	Yr3	Ultimate				
Contributions Allocated to Employees			\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	3,108,603				
Forfeitures			-	478,334	706,098	391,961				
Employer Contributions			3,108,603	2,647,678	2,419,915	2,716,642				
Employer Contributions (cents/hour)			0.084	0.077	0.072	0.087				
6 month participation requirement and 5 year cliff vesting										
			Yr1	Yr2	Yr3	Yr4	Yr5	Ultimate		
Contributions Allocated to Employees			\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,108,603		
Forfeitures			-	478,334	706,098	867,796	1,016,244	674,672		
Employer Contributions			3,108,603	2,647,678	2,419,915	2,258,216	2,109,768	2,433,931		
Employer Contributions (cents/hour)			0.084	0.077	0.072	0.067	0.063	0.078		
6 month participation requirement and 6 year graded vesting										
			Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Ultimate	
Contributions Allocated to Employees			\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,108,603	
Forfeitures			-	478,334	706,098	719,563	670,254	568,185	535,453	
Employer Contributions			3,108,603	2,647,678	2,419,915	2,406,449	2,455,758	2,557,827	2,573,150	
Employer Contributions (cents/hour)			0.084	0.077	0.077	0.079	0.082	0.087	0.082	
6 month participation requirement and 7 year graded vesting										
			Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Ultimate
Contributions Allocated to Employees			\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,108,603
Forfeitures			-	478,334	706,098	867,796	848,177	775,180	645,117	704,108
Employer Contributions			3,108,603	2,647,678	2,419,915	2,258,216	2,277,835	2,350,832	2,480,895	2,404,495
Employer Contributions (cents/hour)			0.084	0.077	0.072	0.073	0.075	0.079	0.085	0.077

Service Related									
6 month participation requirement and immediate vesting									
		Yr1	Ultimate						
Contributions Allocated to Employees		\$ 3,108,603	3,524,395						
Forfeitures		-	-						
Employer Contributions		3,108,603	3,524,395						
Employer Contributions (cents/hour)		0.099	0.113						
6 month participation requirement and 3 year cliff vesting									
		Yr1	Yr2	Yr3	Ultimate				
Contributions Allocated to Employees		\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	3,524,395				
Forfeitures		-	478,334	706,098	401,527				
Employer Contributions		3,108,603	2,647,678	2,419,915	3,122,868				
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.100				
6 month participation requirement and 5 year cliff vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Ultimate		
Contributions Allocated to Employees		\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	3,524,395		
Forfeitures		-	478,334	706,098	867,796	1,016,244	726,011		
Employer Contributions		3,108,603	2,647,678	2,419,915	2,258,216	2,109,768	2,798,384		
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.067	0.063	0.090		
6 month participation requirement and 6 year graded vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Ultimate	
Contributions Allocated to Employees		\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,751,215	3,524,395	
Forfeitures		-	478,334	706,098	719,563	670,254	568,185	573,025	
Employer Contributions		3,108,603	2,647,678	2,419,915	2,406,449	2,455,758	3,183,029	2,951,370	
Employer Contributions (cents/hour)		0.084	0.077	0.077	0.079	0.082	0.107	0.094	
6 month participation requirement and 7 year graded vesting									
		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Ultimate
Contributions Allocated to Employees		\$ 3,108,603	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,126,012	\$ 3,751,215	\$ 3,751,215	3,524,395
Forfeitures		-	478,334	706,098	867,796	848,177	775,180	656,519	774,267
Employer Contributions		3,108,603	2,647,678	2,419,915	2,258,216	2,277,835	2,976,034	3,094,695	2,750,128
Employer Contributions (cents/hour)		0.084	0.077	0.072	0.073	0.075	0.099	0.105	0.088

Withdrawal Rate Sensitivity

The plan contributions described above would decrease by approximately 2.5% if actual rates of turnover are 10% higher than assumed. Likewise, the plan contributions can be expected to increase by approximately 2.5% if actual rates of turnover are 10% lower than assumed.

Defined Benefit

The following cost analysis tables depict plan costs for immediate participation and a six month participation requirement for a variety of vesting options. Projected costs for non-service related contributions and service-related benefits are also illustrated

Plan Costs – Defined Benefits

All cost estimates shown as cents/service hour contributions to the fund the benefit accrual rates as follows:

Benefits Accrual Rate		Not Service Related	Service Related
Base Accrual	Less than 5 Years of Service	.10	.10
Tier One	Between 5 and 10 Years of Service	.10	.12
Tier Two	10 or more Years of Service	.10	.14

Immediate Participation Scenarios

Fresh Start Cost Projections	Vesting Schedule				
	Immediate	3 Year Cliff	5 Year Cliff	6 Year Graded	7 Year Graded
Not Service Related	.30	.20	.18	.19	.18
Service Related	.34	.23	.20	.22	.21

Ultimate Cost Projections	Vesting Schedule				
	Immediate	3 Year Cliff	5 Year Cliff	6 Year Graded	7 Year Graded
Not Service Related	.30	.27	.25	.26	.25
Service Related	.34	.31	.29	.30	.29

6 Month Participation Requirement Scenarios

Fresh Start Cost Projections	Vesting Schedule				
	Immediate	3 Year Cliff	5 Year Cliff	6 Year Graded	7 Year Graded
Not Service Related	.30	.20	.18	.19	.18
Service Related	.34	.23	.20	.22	.21

Ultimate Cost Projections	Vesting Schedule				
	Immediate	3 Year Cliff	5 Year Cliff	6 Year Graded	7 Year Graded
Not Service Related	.30	.27	.25	.26	.25
Service Related	.34	.31	.29	.30	.29

Note: Cost savings from deferring participation results from decrease in eligible service hours rather than reduction in cost per service hour.

Withdrawal Rate Sensitivity

Plan costs described above would decrease by approximately 1.5% if actual rates of turnover are 10% higher than assumed. Likewise, plan contributions can be expected to increase by approximately 1.5% if actual rates of turnover are 10% lower than assumed.

The preceding cost estimates are based on the following actuarial methods and assumptions.

- Actuarial Methods and Assumptions
 - Unit Credit actuarial cost method for defined benefit pricings
 - 7.5% investment return
 - 2008 IRS funding combined annuitant and non-annuitant mortality table
 - Withdrawal rates per the following table:

Years of Service	Age	Withdrawal Rate
0-1	N/A	40%
1-2	N/A	25%
2-3	N/A	15%
3+	Less than 40	15%
	40-49	10%
	50-59	8%
	60-64	5%
	65+	0%

- No disability assumed
- Retire at later of age 65 or five years of participation
- IPs already age 65 or older assumed to retire in 5 years
- 80% of IPs are married to someone exactly the same age
- Defined benefit plan provides 50% death benefit
- Defined contribution forfeitures are received in year following year of termination.

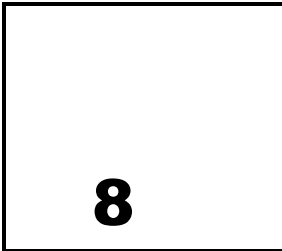
Cost Development Assumptions

All plan costs were developed taking into account the following data received, data editing as described and limitations of the data. As a result, all cost estimates rely on the overall accuracy and credibility of the data provided.

- Data received for IPs for 12 month period from October 1, 2006 to September 30, 2007 is assumed to be representative of IP population for every 12 month period in the future.
- Assumed gender mix of IPs without gender provided to be same as IPs for which gender was provided

- Assumed age of IPs for which a valid date of birth was not provided to be same age as those for which a valid date of birth was provided
 - Average age was determined separately for male IPs and female IPs
- Plan costs assume service hours collected for 12-month period ended 9/30/07 are representative of annual hours in future years
- First service date used to estimate past service for purposes of identifying expected costs once the plan has been in operation for a number of years.
- AP data received was not of sufficient quality and scope to use in estimating costs. APs are assumed to be demographically similar to IPs and have similar plan costs per service hour.
- No meaningful data was available on IP/AP turnover history beyond the first year of service and that data was not consistent and complete. Withdrawal rates as described above were estimated based on committee input and discussion and their accuracy cannot be independently verified. Differences in the actual withdrawal rates from those assumed above are likely to result in material differences in cost estimates.

Plan administrative and implementation costs are not included in the cost estimates above. These costs along with an analysis of alternative administrative approaches are outside the scope of the initial study and will require separate analysis.



Summary and Conclusions

Although we have not been asked to prepare a single recommendation for the committee, we have several observations that we believe are important to consider for future benefit design development. These observations are summarized below.

Considerations for Retirement Benefit Design

Simplicity

We believe that it is essential that any plan design emphasize simplicity as an overriding objective. This conclusion reflects many issues such as:

- Challenges with data access, quality and consistency;
- The absence of an “employer” in the traditional sense that can act as a central point for plan operations and communication. The service recipients, who are the legal employers, are not equipped to perform this role; and
- The plan participants are expected to be relatively unsophisticated about retirement plan issues and will require more support than typical employee populations to understand and value the plan benefits.

As a result, we believe it is advisable to start with the simplest plan design and add additional features and enhancements in future years when plan operations and participants have developed some experience.

Administrative and Operations Issues

Implementing and operating a plan for Washington State Home Care Workers will be a substantial undertaking. Operating any retirement plan with this many participants is a material task but the infrastructure necessary to operate a retirement plan for this population does not currently exist. Among the major administrative obstacles are:

- Absence of reliable data;
- Operating a retirement plan requires systems that resemble payroll or human resource information systems and the current State system is not capable of supporting the requirements of a retirement plan;
- Absence of a consistent focal point for plan communication and monitoring;
- Challenges of ongoing administration requiring efficient methods for collecting high quality and consistent data, which do not currently exist; and
- The capacity to administer client participation hours funding, if included in the retirement plan.

Defined Benefit Plan Issues

We do not believe that a defined benefit plan could currently be successfully implemented. Key challenges of a defined benefit plan approach are:

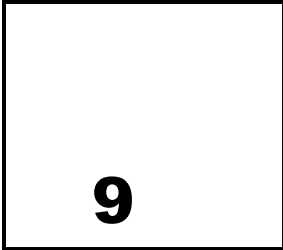
- **Uncertain Costs.** Plan costs are uncertain due both to potential flaws in the initial plan cost modeling (see comments on limitations of plan cost modeling in Section 7);
- **More Complex Benefits.** The benefits are harder to understand by plan participants and thus are less likely to be highly valued by them;
- **Withdrawal Liability.** Multi-employer defined benefit plans have an issue called withdrawal liability. This liability is typically assessed to each employer once they no longer participate in the plan. Payment of this liability by each service recipient when they no longer require services is not feasible given the current Washington State Home Care Worker employer structure(s);
- **Prohibitive Administration Costs.** The administrative costs of a defined benefit plan are likely to be higher than for a defined contribution plan. For example, PBGC premiums of \$8.50 per participant would cost over \$250,000 per year if there are 30,000 participants; and
- **More Complex Administration.** Issues relating to administration of breaks in service, re-employment, and suspension of benefits are administratively more complex in a defined benefit plan.

If this plan design is preferred more effort will be necessary to address the data and administrative issues detailed previously to support plan operation prior to initiating the benefit.

Defined Contribution Plan Issues

Although, we do not believe that it is currently possible to operate a defined contribution plan, it would require less effort to establish systems to support the operation of such a plan. Among the issues that make this type of plan more viable are:

- **Fewer Administrative Costs.** There are less costs associated with the administration of DC plans, a key difference is the absence of PBGC premiums.
- **Simpler Benefits.** DC plan design is less complex and easier for participants to understand and, therefore, value; and
- **Predictable Plan Costs.** DC Plan costs are more predictable and likely to be a more stable benefit design.



Appendices

Appendix A – Project Charter

**Appendix B – Retirement Plan Education &
Functional/Technical Requirements**

Appendix C – Benefit Illustrations – 1,000 hours

Appendix A – Project Charter

Project:	Home Care (HC) Workers Retirement Benefit Alternatives
Process Title:	Home Care (HC) Workers Retirement Benefit Alternatives – CBA Article 23 (Effective Date July 1, 2007 – June 30, 2009)
Short Title:	HC Retirement Benefit Alternatives

Charge Statement

**ARTICLE 23
RETIREMENT BENEFIT CONSULTANT**

23.1 The Union and the Employer agree that the Union Management Communications Committee shall explore possible options for establishing a sustainable retirement benefit for workers covered under this Agreement.

23.2 The Committee shall retain a consultant to prepare recommendations to be reported to the parties no later than January 31, 2008.⁶ Recommendations to the Committee should include plan designs that minimize individual risk to employee contributions, maximize individual retirement income and maximize portability. Recommendations to the Committee shall not be binding on either party.

Committee Members

1. Karen Durant	Office of Financial Management
2. Rick Hall	Director, Home Care Quality Authority
3. Seth Hemond	Service Employees International Union 775, N.W.
4. Grace Kiboneka	Department of Social and Health Services, Home and Community Services
5. Diane Lutz	Office of Financial Management
6. Dan Murphy	Department of Social and Health Services, Home and Community Services
7. Tim Palmer	Service Employees International Union 775, N.W.

⁶ Please note that the parties have mutually agreed to extend the timeframes until April 16, 2008.

Planned Completion Dates

Deliverable #	Items	Dates
Deliverable #1	Final Project Schedule and Work plan	January 31, 2008
Deliverable #2	Assessment of retirement benefit plans, including functional and/or technical requirements, suitable for IP workers.	March 6, 2008
Deliverable #3	Identification and assessment of alternatives for establishing a retirement benefit plan that include portability, benefit description, and contribution rate alternatives.	March 21, 2008
Deliverable #4	Recommend a detailed set of proposed solutions as the recommended approach.	April 2, 2008
Deliverable #5	Prepare final written report documenting the activities, findings and proposed detailed solutions.	April 16, 2008

Outcomes

Treinen Associates, Inc. will work with the SEIU 775/LRO Committee to achieve the following outcomes:

1. Complete the below tasks and deliverables in accordance with the approved timeline for use in upcoming collective bargaining discussions;
2. Educate the SEIU 775/LRO Committee members and assist them to assess the functional and/or technical requirements to provide a possible retirement benefit for individual providers of in-home services;
3. Identify and assess alternatives in plan and benefit design to include the elements of portability, benefit description and contribution rate alternatives in the context of individual providers of in-home services; and
4. Recommendation for an optimal detailed set of proposed solutions that includes dimensions of plan design, benefit design, portability, alternatives, and the ability to integrate with current worker payment systems.

Tasks Timeline and Milestones

Tasks & Milestones	Timeline
<ul style="list-style-type: none"> • Committee Meeting #1 (Deliverable #1) <ul style="list-style-type: none"> - Committee Kick-off, Background and Objectives - Finalize Schedule and Work plan 	January 31, 2008
<ul style="list-style-type: none"> • Committee Meeting #2 <ul style="list-style-type: none"> - Retirements Benefits Education - Begin discussion of functional and/or technical requirements of retirement benefit plans, and - Data collection - update 	February 15, 2008
<ul style="list-style-type: none"> • Committee Meeting #3 (Deliverable #2) 	March 6, 2008

Tasks & Milestones	Timeline
<ul style="list-style-type: none"> - Discuss identified functional and/or technical requirements of retirement benefit plans suitable for IP workers. - Discuss first set of design proposals (with or without costs) – dependent upon data availability. 	
<ul style="list-style-type: none"> • Committee Meeting #4 (Deliverable #3) <ul style="list-style-type: none"> - Conclude design proposal review, as refined with final data. - Identify and assess alternatives for establishing a retirement benefit plan that include portability, benefit description, and contribution rate alternatives. 	March 21, 2008
<ul style="list-style-type: none"> • Committee Meeting #5 (Deliverable #4) <ul style="list-style-type: none"> - Review the detailed set of proposed solutions as the recommended approach. 	April 2, 2008
<ul style="list-style-type: none"> • Committee Meeting #6 (Deliverable #5) <ul style="list-style-type: none"> - Submit Final Report 	April 16, 2008

Appendix B – Retirement Plan Education & Functional/Technical Requirements

(Double click on image below to open the file.)



**Washington State
Home Care Workers**

Retirement Benefit Alternatives

SEIU Healthcare 775NW/LRO Workgroup

Retirement Plan Education & Functional/Technical
Requirements

February 15, 2008

**TREINEN
ASSOCIATES**

Appendix C – Benefit Illustrations – 1,000 hours: Tier 1 Service – 5 yrs/Tier 2 – 10 yrs

SEIU Healthcare 775NW/LRO Workgroup						
Retirement Benefit Alternatives Illustrations						
Wage Increases:	4.00%		Base Pension Contribution/Accrual Rate:		\$	0.10
Investment Return:	7.50%		Tier 1 Pension Contribution/Accrual Rate:		\$	0.12
Inflation:	3.00%		Tier 2 Pension Contribution/Accrual Rate:		\$	0.14
					Years	
Hours of Service	1,000		Tier 1 Service:		5	
Hourly Rate:	\$ 10.00		Tier 2 Service:		10	
Current Pay:		\$ 10,000		Current Age 25		
Projected Age 65 Pay:		\$ 46,164		Termination Ages		
		<u>30</u>	<u>35</u>	<u>50</u>	<u>65</u>	
Uniform Cents/Hr	Pension Annuity	542	1,201	4,165	9,503	
DB Plan	Replacement %	1.2%	2.6%	9.0%	20.6%	
Service Related	Pension Annuity	542	1,332	5,482	12,955	
DB Plan	Replacement %	1.2%	2.9%	11.9%	28.1%	

SEIU Healthcare 775NW/LRO Workgroup					
Retirement Benefit Alternatives Illustrations					
Uniform Cents/Hr	DC Annuity	830	1,533	3,061	3,992
DC Plan	Replacement %	1.8%	3.3%	6.6%	8.6%
Service Related	DC Annuity	830	1,673	3,813	5,116
DC Plan	Replacement %	1.8%	3.6%	8.3%	11.1%
Current Pay: \$ 10,000 Current Age 35					
Projected Age 65 Pay: \$ 31,187 Termination Ages					
		<u>40</u>	<u>45</u>	<u>55</u>	<u>65</u>
Uniform Cents/Hr	Pension Annuity	542	1,201	2,978	5,608
DB Plan	Replacement %	1.7%	3.8%	9.5%	18.0%
Service Related	Pension Annuity	542	1,332	3,820	7,503
DB Plan	Replacement %	1.7%	4.3%	12.3%	24.1%
Uniform Cents/Hr	DC Annuity	403	744	1,278	1,661
DC Plan	Replacement %	1.3%	2.4%	4.1%	5.3%
Service Related	DC Annuity	403	812	1,560	2,097
DC Plan	Replacement %	1.3%	2.6%	5.0%	6.7%

SEIU Healthcare 775NW/LRO Workgroup					
Retirement Benefit Alternatives Illustrations					
Current Pay:		\$ 10,000	Current Age 45		
Projected Age 65 Pay:		\$ 21,068	Termination Ages		
		<u>50</u>	<u>55</u>	<u>65</u>	
Uniform Cents/Hr	Pension Annuity	542	1,201	2,978	
DB Plan	Replacement %	2.6%	5.7%	14.1%	
Service Related	Pension Annuity	542	1,332	3,820	
DB Plan	Replacement %	2.6%	6.3%	18.1%	
Uniform Cents/Hr	DC Annuity	195	361	620	
DC Plan	Replacement %	0.9%	1.7%	2.9%	
Service Related	DC Annuity	195	394	757	
DC Plan	Replacement %	0.9%	1.9%	3.6%	
Current Pay:					
Current Pay:		\$ 10,000	Current Age 55		
Projected Age 65 Pay:		\$ 14,233	Termination Ages		
		<u>60</u>	<u>65</u>		
Uniform Cents/Hr	Pension Annuity	542	1,201		
DB Plan	Replacement %	3.8%	8.4%		
Service Related	Pension Annuity		1,332		

SEIU Healthcare 775NW/LRO Workgroup			
Retirement Benefit Alternatives Illustrations			
		542	
DB Plan	Replacement %	3.8%	9.4%
Uniform Cents/Hr	DC Annuity	95	175
DC Plan	Replacement %	0.7%	1.2%
Service Related	DC Annuity	95	191
DC Plan	Replacement %	0.7%	1.3%