



Reduction Factors Preliminary Report

LEOFF Plan 2 Retirement Board

November 28, 2007

Key Issues

- Survivor Retirements Use Same Reduction Factors as a Service or Disability Retirement
 - Actuarial reduction for payment over two lives

Option 1

- Create a New Table of Actuarial Factors for Survivor Retirements
 - Payment over a single life
 - Smaller factor equals larger benefit

Option 2

- Eliminate Joint 100% Survivor Reduction Factor Completely
 - Line of duty deaths only
 - Continue to use Joint 100% survivor factors for non-duty deaths

Reduction Factors

Questions?

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

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1. Issue

Should the actuarial reduction for joint and 100% survivor option used for disability and service retirements be applied to survivor retirements?

2. Staff

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3. Members Impacted

Based on the actuarial data as of September 30, 2005, there were 15,168 active LEOFF Plan 2 members. Changes to the survivor benefit calculation could impact all of the active members if it causes an increase in the contribution rate.

4. Current Situation

If a member dies prior to retirement and they have ten or more years of service credit or are eligible to retire and their eligible spouse chooses a monthly benefit, the benefit is actuarially reduced using the same joint and 100 percent reduction factors as those used for a service or disability retirement.

5. Background Information

Under the current statutes, if a member dies and has ten or more years of service credit or is eligible to retire, their surviving spouse is eligible for a survivor benefit. The benefit calculation differs if the death was line of duty versus non-duty. In either case, the benefit is actuarially reduced as if the member had chosen a joint and 100 percent survivor option. If the death was non-duty, and the member was not otherwise eligible to retire, there is an additional actuarial reduction for early retirement (reduced from age 53).

The purpose of a survivor option is to ensure a member's spouse will have a continuing benefit. The value of the benefit the member has earned is based on years of service, final average salary and the number of payments expected to be paid over a lifetime, including cost of living increases. When a survivor option is added to the benefit experience shows that the number of payments paid out over two lifetimes is greater than that paid over a single life time.

In order to ensure that an equivalent benefit is paid if a joint survivor option is chosen, the benefit is reduced. The amount of the reduction is based on the interrelationship of many different factors including experience studies, projections on life expectancies, and several economic and demographic assumptions. The calculations to create reduction factors for survivor options as well as early retirements are performed by the Office of the State Actuary (OSA).

However, in the case of a survivor retirement the payments are not made over two lifetimes, they are made only over the survivor's life. This raises the question of whether or not the current survivor factors are the most appropriate.

Comparable Plans

In reviewing other peer retirement plans, their survivor benefits fall mainly into two categories, a specified payment amount or the earned benefit (see Appendix A). The majority use a specified payment amount. Those that use the earned benefit tend to also apply a joint survivor reduction factor.

6. Policy Options

Policy Option 1: Create New Actuarial Reduction Factors

Under this option a new and separate table would be created for surviving spouses in lieu of the current joint and 100% survivor tables. Spouses who choose the ongoing monthly benefit would have this new table used.

Policy Option 2: Eliminate the Reduction Factor

Under this option no survivor reduction factor would be used for duty-related deaths. For non-duty deaths the existing joint and 100% survivor factors would still be used.

7. Supporting Information

Appendix A: Survivor Benefits Peer Comparison Table

Appendix A

Survivor Benefits Comparison

Plan	Less than minimum number of years	Minimum or more years of service	
		Duty	Non-Duty
Washington State Law Enforcement Officers' & Fire Fighters' Plan 2	1) Refund of accumulated contributions (less than ten years of service)	1) Refund of 150% of accumulated contributions or 2) Earned benefit reduced by joint 100% survivor option (ten or more years of service required)	1) Refund of 150% of accumulated contributions or 2) Earned benefit reduced by joint and 100% survivor option factor and an early retirement factor (if not eligible for normal or early retirement) (ten or more years of service required)
Arizona Public Safety Personnel Retirement System	NA	1) Earned benefit is 100% of deceased member's average monthly benefit compensation, less any amount payable for an eligible child.	1) 80% of either 50% of average monthly compensation or 80% of normal pension amount, whichever is greater.
Arkansas Local Police & Fire Retirement System	1) Refund of accumulated contributions (less than five years)	1) 50% of a benefit calculated as if the member had accrued 25 years of service, reduced by survivor option factor. (five or more years required)	1) 50% of earned benefit, reduced survivor option factor. (five or more years required)
Colorado Fire and Police Pension Association	NA	1) 70% of annual salary.	1) 40% of annual salary.
Delaware County & Municipal Police/Fire Pension	1) Refund of accumulated contribution (less than one year non-duty death).	1) 50% of final average compensation.	1) 50% of final average compensation.
Kansas Police and Firemen's Retirement Systems	NA	1) 50 % of final average salary. For each eligible child also receive an annual benefit of ten percent of final average salary. The maximum total benefit is 75 percent of your final average salary.	1) Lump-sum payment of ten0% of final average salary, plus an annual benefit of final average salary x 2.5% x years of service. The maximum annual benefit is 50% of final average salary
Maryland Pension System for Local Fire Fighters and Police Officers	1) Refund of accumulated contributions (less than one year of service non-duty)	1) Lump-sum equal to ten0% of annual salary at time of death plus accumulated contributions (begins day one of service) or 2) If retirement eligible, earned benefit reduced by the joint ten0% survivor option factor (begins day one of service).	1) Lump-sum equal to ten0% of annual salary at time of death plus accumulated contributions (begins after one year of service) or 2) If retirement eligible, earned benefit reduced by the joint ten0% survivor option factor (begins after one year of service).
New Hampshire Retirement System (Group II – Police & Fire)	1) Lump-sum payment equal to member's annual earnable compensation plus accumulated contributions (less than ten years of service)	1) Lump-sum payment of the member's accumulated contributions plus 50% of the member's annual rate of earnable compensation at the date of the member's death. (ten or more years of service)	1) Lump-sum payment equal to member's annual earnable compensation plus accumulated contributions or 2) 50% of the member's earned pension (ten or more years of service)
Ohio Police and Fire Pension Fund	NA	1) 100% of base pay, provided member is not eligible for an age and service retirement (no service credit requirement). 2) 50% of base pay at the time the member would have been eligible for an age and service retirement, plus \$410 per month plus, COLAs.	1) \$661 per month plus COLAs