

**\$150,000 Duty-Related
Death Benefit
Preliminary Report**

LEOFF Plan 2 Retirement Board

June 23, 2009



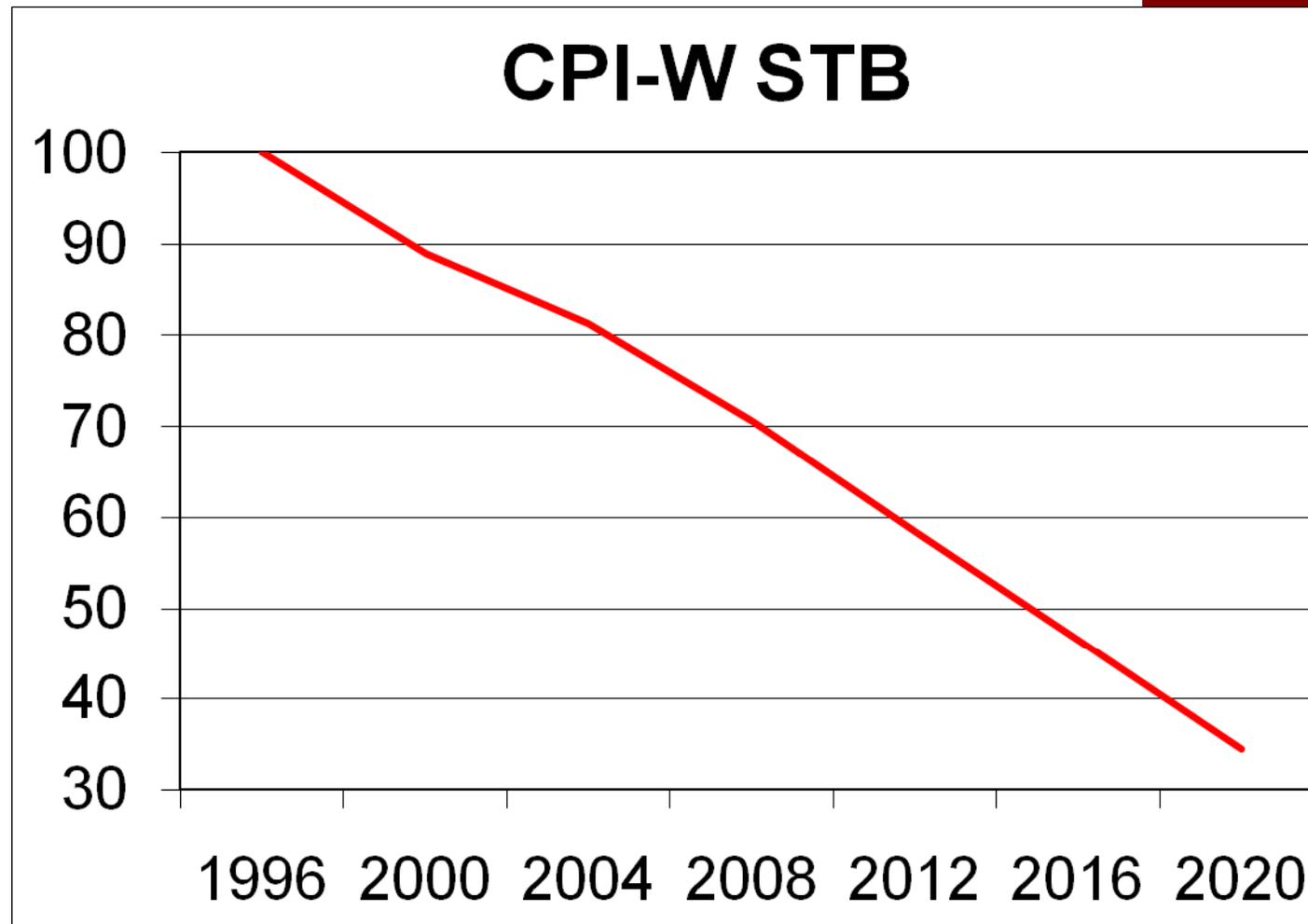
Key Issues

- Loss of Purchasing Power
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Loss of Purchasing Power

- Inflation Erodes Purchasing Power
 - Approximately 70% of 1996 purchasing power
 - Need about \$214,000 in today's dollars

Loss of Purchasing Power



Options

- Add Inflation Adjustment
- Increase Lump-Sum Amount
- Combination of Lump-Sum and Inflation Adjustment



\$150,000 Duty-Related Death Benefit

QUESTIONS?

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

\$150,000 Duty-Related Death Benefit Preliminary Report

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1. Issue

The \$150,000 lump-sum death benefit paid to survivors of public employees who die in the line of duty is not adjusted for inflation and has not been increased since it was established in 1996.

2. Staff

Greg Deam, Senior Research and Policy Manager
(360) 586-2325
greg.deam@leoff.wa.gov

3. Members Impacted

Any member who dies in the line of duty would be impacted. According to the Office of the State Actuary, as of June 30, 2007 there were 16,099 active LEOFF Plan 2 members.

4. Current Situation

If a member dies in the line of duty as a result of an injury or occupational illness sustained in the course of employment, a \$150,000 death benefit is paid to the designated beneficiary. The benefit amount is fixed at \$150,000 and has been the same since 1996.

5. Background Information

Background Information

During the 2006 Legislative Session, the Board sponsored legislation to amend the \$150,000 Death Benefit. The original bill included two amendments to existing statutes. The first added death due to an occupational illness, as a qualified reason to receive the \$150,000 lump-sum death benefit. The second amendment added an annual inflation adjustment to increase the \$150,000 amount over time.

The Board looked at three different inflation options:

1. **Fully indexed to the Consumer Price Index for urban wage earners and clerical workers for the Seattle/Tacoma/Bremerton (CPI-W STB).** Under this option, the value of the benefit would be preserved. However, in times of high inflation funding can become an issue.
2. **Index to changes in the CPI-W STB with a 3 percent per year maximum** (similar to the COLA on pensions). Under this option, the value of the benefit is preserved as long as the long-term rate of inflation is at 3 percent or less. Having a ceiling on the index helps to control costs and promote stable funding.
3. **Increase the benefit by 3 percent per year.** This option is the most simple to administer and in years where inflation is less than 3 percent, would actually increase the value of the benefit.

The proposed inflation adjustment chosen was the same method as the cost of living adjustments (COLA) members receive on their pensions (Option 2). During the original cost analysis done by the Office of the State Actuary (OSA), the addition of the inflation adjustment did not create an increase in contribution rates for LEOFF Plan 2. The Legislature passed the bill but removed the annual inflation adjustment portion of the bill.

The reason given for the removal of the inflation adjustment clause was that all of the other plans also have the same \$150,000 lump-sum death benefit and the Legislature wanted to understand how the other plans might be affected by an annual inflation adjustment before setting a precedent by adopting one for LEOFF Plan 2. The Select Committee on Pension Policy (SCPP) agreed to study this matter during the 2006 Interim and work cooperatively with the LEOFF 2 Board on joint legislation. This time, the OSA reported the addition of the inflation adjustment would not create an increase in contribution rates for any of the systems or plans, except the Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2. The increase in LEOFF Plan 2 contribution rates for the inflation adjustment for member and employer would be one basis point each, zero increase to the state.

A bill developed jointly with the SCPP and introduced in the 2007 Legislative Session expanded the eligibility for the \$150,000 death benefit to include death from duty-related illness in all plans where it is not already provided, and added an annual inflation adjustment

for all plans. The legislature passed the bill, but again amended out the annual inflation adjustment.

The SCPP introduced a bill in both the House and Senate for the 2008 Legislative Session that added an annual inflation adjustment for the \$150,000 death benefit for all plans. The Board formally endorsed the legislation. Neither bill was passed. The bill did not receive a hearing in the House, but did in the Senate Ways and Means; however, was not passed out of committee.

The proposed inflation adjustment in all three previous proposals was the same adjustment the Board approved for the 2006 initial legislation, similar to the cost of living adjustment (COLA) on the LEOFF Plan 2 benefit.

Lastly, during the 2009 legislative session, the Board jointly with the Select Committee on Pension Policy (SCPP) introduced a bill that would change the lump-sum amount to \$175,000. This amount was chosen because there would be no increase in any system's contribution rates as a result of the increase in the lump-sum death benefit amount.

Comparison to Other Lump-Sum Death Benefits

Of the eight states that provide a lump-sum death benefit of \$100,000 or more, three have an inflation adjustment. In addition to state provided lump-sum death benefits, there is a federal death benefit, the Public Safety Officers' Benefits (PSOB) Act. This legislation was enacted in 1976 to assist in the recruitment and retention of law enforcement officers and fire fighters by providing a lump-sum death benefit. Beginning October 15, 1988, an annual inflation adjustment was added and the benefit has been adjusted each year on October 1 to reflect the percentage of change in the Consumer Price Index. As of October 1, 2008, the amount is \$315,746.

Policy Issues:

There has been a loss of purchasing power in the duty-related death benefit since its establishment in 1996. Based on the consumer price index for urban wage earners and clerical workers for Seattle/Tacoma/Bremerton (CPI-W STB) the duty-related death benefit would have to be approximately \$214,000 today to have the same purchasing power as \$150,000 did in 1996. Put another way, \$150,000 today would be worth about \$110,000 in 1996 dollars.

6. Options

Option 1: Add an annual inflation adjustment

Under this option the Board would add an annual inflation adjustment to the \$150,000 Death Benefit similar to the cost of living adjustment (COLA) paid on retirement benefits. The Office of the State Actuary would need to provide updated costs to the Board.

This option addresses the loss of purchasing power from the date of passage forward, but does not address the loss of purchasing power from 1996 to today.

Option 2: Increase the lump-sum amount to an equivalent amount

Under this option the Board would introduce a bill that would change the lump-sum amount to \$214,000. This would be the equivalent value today of the \$150,000. The Office of the State Actuary would need to provide updated costs to the Board.

This option addresses the loss of purchasing power from 1996 to today, but does not address the loss of purchasing power from the date of passage forward.

Option 3: Increase the lump-sum amount to an amount with no impact to contribution rates

Under this option the Board would introduce a bill that would change the lump-sum amount to the maximum amount that would not incur any increase in the contribution rates. The Office of the State Actuary will be providing this amount to the Board.

This option partially addresses the loss of purchasing power from 1996 to today, but does not address the loss of purchasing power from the date of passage forward. This option does not impact contribution rates.

Option 4: Use a combination of an increase in the lump-sum amount and an inflation adjustment

Under this option the Board would introduce a bill that would change the lump-sum amount to \$214,000 that would also contain an annual COLA similar to the COLA paid on retirement benefits. The Office of the State Actuary will be providing costs to the Board.

This option would address both the loss of purchasing power from 1996 to today and the loss of purchasing power from the date of passage forward. However, it would have the highest cost of all of the options.