

# **Examples of Disability Pension Cost-Saving Provisions**

## **Off-Set:**

An “off-set” reduces a retiree’s pension directly. For example, duty-related disability benefits in Colorado are reduced by the amount of Social Security disability benefits derived from employment as a member.

None of the public pension plans in Washington currently have an off-set provision. L&I awards in Washington are not reduced if the person is receiving a disability pension. The governmental pension off-set will apply to Social Security benefits if the disabled LEOFF member qualifies for SSI through non-LEOFF employment.

## **Income Test:**

An “income test” compares a person’s post-retirement income to their salary while they were a member and adjusts the retiree’s pension if their post-retirement income exceeds a certain threshold. For example, occupational disability benefits in Colorado are reduced by 25% of the retiree’s earned income which exceeds the salary paid to someone of the same rank. The definition of “income” typically includes salary and other forms of earned income but does not include monetary compensation for injuries.

An income test is different from an income threshold used to determine eligibility for a benefit. For example, a retiree in Colorado is considered totally disabled if they are not capable of any substantial employment and “substantial employment” is defined using an income threshold. None of the public pension plans in Washington have an income test. Post-retirement income is monitored by the Department of Retirement Systems as a means of identifying disability retirees who may have recovered in whole or in part from their disability.

## **Conversion to Service Retirement:**

A conversion to a service retirement means that the retiree’s disability pension stops when they reach normal retirement age and the retiree begins receiving a pension based on the service retirement provisions (years of service x final average salary x 2%). Typically, the person’s service and final average salary are adjusted to take into account the duration of the disability. The member’s service retirement would not qualify for favorable tax treatment.

Colorado does not have a conversion to normal retirement for either their permanent occupational disability benefits or their total disability benefits. Colorado has a separate temporary occupational disability benefit which converts to a service retirement. None of the public pension plans in Washington have a disability retirement conversion to normal retirement.



WASHINGTON STATE LEGISLATURE  
**Office of the State Actuary**

January 25, 2005

**TO:** Steve Nelsen, Executive Director  
LEOFF 2 Retirement Board

**FROM:** Marty McCaulay, Associate Actuary  
Office of the State Actuary

**CC:** Matt Smith, State Actuary  
Office of the State Actuary

**RE: LEOFF 2 BOARD DISABILITY PROPOSALS - SUMMARY**

1. Duty-related occupational disability not actuarially reduced. We used the Colorado Firefighters' disability rates, multiplied by 69.7%. We also reduced our retirement and termination rates appropriately to reflect these higher disability rates. The benefit improvement resulted in a total rate increase of 0.44%, split as follows:

**Increase in Contribution Rates: (Effective 09/01/2005)**

Employee	0.22%
Employer	0.13%
State	0.09%

2. Total duty-related disability with benefit = 70% FAS. We used 15.3% of the Colorado Firefighters' disability rates, again reducing our retirement and termination rates accordingly. The benefit improvement resulted in a total rate increase of 0.48%, split as follows:

**Increase in Contribution Rates: (Effective 09/01/2005)**

Employee	0.24%
Employer	0.14%
State	0.10%

3. Combination of the above: total disability annuitants receive 70% FAS. All other duty-related disabilities receive unreduced benefits. We assume that 85% of all disabilities are duty related. We further assume that of all duty-related disabilities, 18% are total and the remaining 82% are occupational. The benefit improvement resulted in a total rate increase of 0.86%, split as follows:

**Increase in Contribution Rates: (Effective 09/01/2005)**

Employee	0.43%
Employer	0.25%
State	0.18%

4. Same as combination in #3 above, but we use geometric interpolation to vary the duty disability percentage by age, beginning with 95% at age 20 through 70% at age 55. The benefit improvement resulted in a total rate increase of 0.80%, split as follows:

**Increase in Contribution Rates: (Effective 09/01/2005)**

Employee	0.40%
Employer	0.24%
State	0.16%

5. Same as combination in #4 above, except the total disability benefit is offset by any out-of-state pension the member may have earned. For this sensitivity testing, we assumed any member with an entry age over 45 had 10 years of out-of-state service and further assumed the out-of state benefit is similar to LEOFF 2, resulting in a 50% benefit rather than the 70% benefit. This assumption about the offset results in a 29% reduction for less than 2% of the members, so adding this offset was not significant enough to reduce the rates. The benefit improvement resulted in a total rate increase of 0.80%, split as follows:

**Increase in Contribution Rates: (Effective 09/01/2005)**

Employee	0.40%
Employer	0.24%
State	0.16%