



Military Service Death Benefit Preliminary Report

LEOFF Plan 2 Retirement Board

April 30, 2008

Background Summary

- Survivors entitled to actuarially reduced benefit or accumulated contributions
- 2007 Legislative improvement to PERS 2
 - 200% of accumulated contributions
- 2008 legislation recommending policy expansion

2008 Legislation

- Military Service Death Benefit
 - Service in National Guard or Military Reserves
 - Die while serving honorably during period of war
 - Unreduced survivor annuity for eligible survivors
 - All systems and plans
- Passed House; Did not advance in Senate

Key Issues

- Should enhanced benefits be provided?
- What type of enhanced benefit would be adequate?

2007 Interim Action

- Endorse SCPP Proposal providing unreduced survivor annuity



Military Service Death Benefit

QUESTIONS?

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

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1. Issue

What State pension benefits are appropriate for members who are called to military service and killed during that service?

2. Staff

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3. Members Impacted

As of September 30, 2006 there were 15,718 active members. This issue impacts survivors of LEOFF Plan 2 members who are called to active military service and killed in the line of duty. The number of LEOFF Plan 2 members who have been called to active duty is currently unknown.

4. Current Situation

A LEOFF Plan 2 member that dies before retirement is entitled to a standard death benefit that ranges from a refund of contributions up to an actuarially reduced monthly benefit paid to a surviving spouse or minor child. The benefit received by the survivor is determined by the number of years the member has in the system at the time of death. If a member dies in the course of employment, a \$150,000 special death benefit may also be paid to the designated beneficiary.

The Select Committee on Pension Policy (SCPP) and LEOFF Plan 2 Retirement Board recommended joint legislation to the 2008 Legislature which would have provided an unreduced survivor annuity to qualifying survivors of members of all systems and plans who leave public employment due to service in the National Guard or Military Reserves and die while service honorable during a period of war. The legislation did not pass.

5. Background Information and Policy Issues

WA Pension Benefits Available to Survivors of Military Service Members

Military Service Death Benefit - PERS Plan 2

The 2007 Legislature expanded the death benefit options available to survivors of a PERS Plan 2 member who had 10 years of PERS service and who dies while serving in the uniformed services of the United States in Operation Iraqi Freedom, Operation Enduring Freedom or Persian Gulf. The legislation provided these survivors with an option to receive a refund of 200 percent of the member's accumulated contributions and interest instead of an actuarially reduced benefit.

Standard Death Benefit

Beneficiaries of a member who dies with less than 10 years of service credit and was not eligible to retire, receive a refund of all the member's accumulated contributions. If the member has no living beneficiary, the accumulated contributions are paid to the surviving spouse, or if none, to the legal representative of the estate.

If a member dies and has 10 or more years of service credit or was eligible to retire, the surviving spouse, or if none, the guardian of any minor children, may choose between the following two benefits:

1. A payment of 150 percent of the member's accumulated contributions, or
2. A monthly benefit calculated as if the member had elected a joint and 100% survivor option. If the death is a non-duty death and the member is younger than age 53 and does not qualify for early retirement, the benefit is actuarially reduced from age 53. If the member's death was duty related, there is no actuarial reduction.

Interruptive Military Service Credit Purchase

LEOFF Plan 2 members have the option to purchase up to five years of service credit for periods of military service which interrupt their LEOFF employment. The qualifications for the purchase of military service credit are governed by federal law, but may be expanded by state law. The key qualifications for LEOFF Plan 2 include:

- The member must return to LEOFF Plan 2 covered employment within ninety days of honorable discharge from the armed forces.
- The member must pay the member contributions that would have been paid had the member not entered military service. The employer must pay the related employer contributions.
- The required member contributions must be paid within five years of returning to employment.

House Bill 1325, passed by the 2005 Legislature, provides a service credit purchase option to Washington public employees (or their survivors), including law enforcement officers and

fire fighters, who are unable to return to public employment due to death or disability incurred during honorable active duty military service. A survivor of a member killed in service may purchase the member's interruptive military service credit, which would be used calculating any survivor benefits that are payable.

State Pension Policy¹

Previous policy discussions about military service by Washington State public employees have focused primarily on granting service credit (interruptive and prior) for periods of service a member spent in the military. There are several policies from these prior discussions supporting and opposing additional benefits for military service. Prevalent within these discussions have been creating or keeping parity or uniformity among the retirement systems or plans, responsibility of the federal government to provide benefits, and the cost of providing military service related benefits.

With respect to parity/uniformity, an opposing viewpoint for providing military service related benefits is that if benefits are provided to one or more select plans, it might create significant pressure from other systems to provide similar benefits. However, RCW 41.50.005(1) sets forth as retirement policy that the retirement systems of the state should provide similar benefits whenever possible. A military service death benefit is currently provided only to PERS Plan 2.

Providing benefits related to military service has also been previously viewed as a responsibility of the Federal Government and Federal funding, rather than a responsibility of the state. The survivors of military service personnel killed while serving may currently qualify for Federal benefits from the Department of Defense and Social Security. These benefits are discussed in the next section.

Cost has often been the primary roadblock to granting certain military service related benefits. However, this is largely because previous benefit improvements considered would have granted prior military service for periods prior to membership in a retirement system. Granting this type of service credit is among the most expensive type of service credit that can be provided, because not requiring payment of the full actuarial cost can result in additional liabilities to the plan. However, a military service death benefit may not have a significant cost as it would likely only apply to a relatively limited number of survivors.

Federal Benefits Available to Survivors of Military Service Members

Department of Defense (DoD) benefits for survivors of deceased members of the armed forces vary significantly in purpose and structure. Benefits such as the death gratuity provide immediate cash payments to assist these survivors in meeting their financial needs during the period immediately following a member's death. Similarly, the Servicemembers' Group Life Insurance (SGLI) provides the life insurance policy value in a lump sum payment following the service member's death. Other benefits such as the Veteran's Administration Dependency and Indemnity Compensation (DIC) and the Survivor Benefit Plan (SBP) are designed to provide long-term monthly income. Additional death benefits provided by the

DoD for survivors and dependents include housing assistance, health care, commissary and exchange benefits, educational assistance, and burial, funeral, and related benefits. Survivors may also receive death benefits from Social Security.

Benefits Available to Survivors of Military Service Members in Other States

Only one out of twelve comparison systems of statewide police and fire pension plans contained a specific provision covering the death of a member while on a military leave of absence.

The Colorado Fire and Police Pension Association (FPPA), which has a standalone death and disability plan, provides that a member on military leave continues to be covered by the Statewide Death and Disability Plan if the employer contributions continue to be paid by the employer. The continued coverage entitles the member's survivor to receive a benefit that is 40% of final salary (non-duty, vested death benefit). Without the continuation coverage, the survivor would only be entitled to a refund of accumulated contributions.

The other eleven states were situated similarly to the current Washington State benefits in that there is no specific coverage for a military service death. In general, survivors are entitled to either a refund of accumulated contributions or a reduced survivor annuity if the member had completed a required period of service, such as 10 years, which is the period used in Washington.

Key Issues

There are two key issues related to the military death benefit: (1) consideration by the pension plan for military service and (2) adequacy of benefits provided to survivors of members killed in military service.

Currently, LEOFF Plan 2 does not provide special consideration to members who are called to military service and killed during that service. The survivor of a member killed in military service is treated the same, and has benefits computed the same as the survivor of a member who left employment for other reasons. Thus, a primary policy question is whether survivor so members who die while service on military duty should receive addition pension benefits not available to survivors of members who left employment for other reasons.

If special consideration is provided to survivors of members killed while on military service, then what level of benefit should be provided? The current benefit only provides a refund of accumulated contributions. Should this rise to the level of a line of duty death providing full earned benefits or does it only merit an enhanced survivor benefit that is more adequate than a lump sum refund of contributions. Further, is a lump sum payment the form the benefit should take, as most of the Federal benefits are, or is an annuity a more adequate?

Select Committee on Pension Policy (SCPP)

The SCPP and LEOFF Plan 2 Retirement Board recommended joint legislation to the 2008 legislature which would have provided an unreduced survivor annuity to qualifying survivors of members of all systems and plans who leave public employment due to service in the National Guard or Military Reserves and die while service honorable during a period of war. The House version of the bill (HB 3007) passed the House unanimously, but did not advance beyond the Senate Rules Committee in the Senate. The Senate companion bill (SB 6646) had a public hearing in the Senate Ways and Means Committee but was not advanced any further.

The SCPP reviewed the 2008 Legislative session at their April 15, 2008 meeting. Bills such as the Military Death Benefit and Interruptive Military Service Credit bills may be reviewed again during the May SCPP meeting as potential legislation for 2009.

6. Policy Options

The LEOFF Plan 2 Retirement Board considered two policy options during the 2007 Interim which are outlined below. The Board elected to pursue Option 1 to endorse legislation from the SCPP which included LEOFF Plan 2.

Option 1: Endorse SCPP Legislation

Under this option the Board would pass a resolution stating its support for the proposed SCPP legislation. This proposal would provide an enhanced monthly benefit by eliminating the early retirement actuarial reduction to the survivor of a LEOFF Plan 2 member who had 10 or more years of service in LEOFF Plan 2 and who left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services.

Option 2: Consider Alternative Proposal Next Interim

Under this option the Board would consider an alternative proposal next interim.

7. Supporting Information

- **Appendix A - Federal Benefits Available to Survivors of Military Service Members**
- **Endnotes**

Appendix A - Federal Benefits Available to Survivors of Military Service Members

Death Gratuity²

The death gratuity is a one-time non-taxable payment to help surviving family members deal with the financial hardships that accompany the loss of a service member.

A payment of \$100,000 for survivors of those whose deaths under the following conditions:

- A member of an armed force under his jurisdiction who dies while on active duty or while performing authorized travel to or from active duty;
- A Reserve of an armed force who dies while on inactive duty training (with exceptions);
- Any Reserve of an armed force who assumed an obligation to perform active duty for training, or inactive duty training (with exceptions) and who dies while traveling directly to or from that active duty for training or inactive duty training;
- Any member of a reserve officers' training corps who dies while performing annual training duty under orders for a period of more than 13 days, or while performing authorized travel to or from that annual training duty; or any applicant for membership in a reserve officers' training corps who dies while attending field training or a practice cruise or while performing authorized travel to or from the place where the training or cruise is conducted; or
- A person who dies while traveling to or from or while at a place for final acceptance, or for entry upon active duty (other than for training), in an armed force, who has been ordered or directed to go to that place, and who
- Has been provisionally accepted for that duty; or
- Has been selected for service in that armed force.

Service Member Group Life Insurance³

Service members are automatically insured for \$250,000 through the SGLI program, but may reduce or decline coverage as desired. Although participating members must pay premiums, SGLI is a government-sponsored insurance program that enables U. S. Service members to increase substantially the amount available to their beneficiaries in the event of their death.

SGLI is a VA program that provides low cost group life insurance to members of the Uniformed Services. Members are automatically insured under Service members' Group Life Insurance (SGLI) for the maximum amount of \$400,000 unless an election is filed reducing the insurance by \$50,000 increments or canceling it entirely.

In addition the SGLI coverage includes Traumatic Injury Protection, effective December 1, 2005. This coverage provides service members protection against loss due to traumatic injuries and is designed to provide financial assistance to members so their loved ones can be with them during their recovery from their injuries. The coverage ranges from \$25,000 to \$100,000 depending on the nature of the injury.

The cost for SGLI coverage alone is 70 cents per \$10,000 or \$29 per month for the maximum of \$400,000, this includes a mandatory \$1 charge for TSGLI. Coverage, regardless of duty status, is 24 hours per day, 365 days per year under SGLI.

The premium for part-time coverage is \$29 per year for \$400,000 of coverage. Members of the Individual Ready Reserve (IRR) will be charged \$1.00 for \$400,000 of coverage for 1-day call-ups.

Survivor Benefit Plan⁴

The primary survivor benefit applicable to survivors of retirees (and, in some situations, active duty members) is the Uniformed Services Survivor Benefit Plan (SBP). The Reserves have a related plan called the Reserve Component Survivor Benefit Plan (RC-SBP). The purpose of the Survivor Benefit Plan (SBP) is to insure that the surviving dependents of military personnel who die in retirement or after becoming eligible for retirement will continue to have a reasonable level of income. These are voluntary programs to ensure survivors continue to receive income throughout their lifetimes. A service member pays a monthly premium to be covered under SBP. SBP Premiums and benefits depend on the "base amount" that the person elects as the basis of coverage. The base amount can be the full monthly retired pay or just a portion, down to as little as \$300. The SBP is an insurance plan to protect survivors against the risks of early death, a survivor outliving benefits; and inflation through cost of living adjustments.

A spouse under the age of 62 or dependent child receives 55% of the retired pay the service member would have been entitled to on the day he or she died, based on 100% total disability. If the spouse is the designated beneficiary, the annuity is reduced by the amount of the Dependency and Indemnity Compensation payment (DIC) that they may receive. If a child is the designated beneficiary, the monthly survivor Benefit Plan payment is not reduced by the Dependency and Indemnity Compensation Payment.

Dependency and Indemnity Compensation⁵

The Department of Veterans Affairs (VA) pays a benefit called Dependency and Indemnity Compensation (DIC) to a surviving spouse and dependent children if a service member dies of service-connected causes. This includes deaths after retirement if the cause of death is due to an injury or disease contracted while the member was on active duty.

DIC may also be paid if a person had a 100 percent VA disability rating for ten continuous years, or if less than ten years, then at least five continuous years from the date of release from active duty. The VA determines who may receive DIC.⁶

DIC payments to all surviving spouses are at the monthly rate of \$1067, adjusted annually for cost of living. Whenever there is no surviving spouse of a deceased veteran entitled to DIC, it shall be paid in equal shares to the children of the deceased veteran. The basic DIC basic rate may be increase under certain circumstances.

Burial Expenses⁷

The Government will reimburse certain expenses for the member's burial, depending on the type of arrangements and will provide travel for next-of-kin under invitational travel orders.

Government Housing or Allowances and Relocation Assistance⁸

Survivors are provided rent-free Government housing for 180 days or the tax-free Basic Allowance for Housing (BAH) appropriate to the member's grade for any portion of the 180 day period while not in quarters. Survivors are also entitled to transportation, per diem, and shipment of household goods and baggage.

Education Benefits⁹

When an active-duty service member dies, VA's Survivors' and Dependents' Educational Assistance Program generally provides up to 45 months of education benefits to the un-remarried surviving spouse for 10 years, or for children aged 18 to 26. Currently the rate is \$788 a month for full-time attendance, with lesser amounts for part-time education. This benefit may be used to pursue secondary school programs; associate, bachelor or graduate degrees; technical or vocational training; apprenticeships; and other types of training, including work-study programs

Health Care¹⁰

An un-remarried surviving spouse and minor dependents of the member are eligible for space-available medical care at military medical facilities or are covered by TRICARE/CHAMPUS (MEDICARE after age 65). Dental insurance coverage and full TRICARE/CHAMPUS are extended for three years after the member's death.

Unused Leave¹¹

Payment is made to a survivor for all of the service member's unused accrued leave.

Tax Benefits¹²

The next-of-kin of a Service member whose death occurs overseas in a terrorist or military action is exempt from paying the decedent's income tax for at least the year in which the death occurred. Payments made by the VA are tax-exempt.

Commissary and Exchange Privileges¹³

The unmarried surviving spouse and qualified unmarried dependents are eligible to shop at military commissaries and exchanges, normally providing a savings over similar goods sold in private commercial establishments. Families of retired members retain their privileges so long as a spouse is not remarried.

Refund of Service Member's Unused GI Bill Contribution¹⁴

If the deceased service member had contributed to the Montgomery GI Bill education program, the designated life insurance beneficiary or surviving spouse is entitled to a refund of the money that was collected through payroll deduction but was not awarded in education benefits during the service member's lifetime. Most active-duty military members participate in this educational benefit program, which deducts \$1,200 from their pay at \$100 monthly during their first year of service.

Home Loans¹⁵

Surviving spouses of military members may be eligible for a VA-guaranteed home loan from a private lender. The loan may be used to purchase, construct or improve a home, to refinance an existing mortgage or for certain other purposes. As with the program for veterans, VA guarantees part of the total loan, permitting the purchaser to obtain a mortgage with a competitive interest rate. Except for manufactured homes and other select cases, the surviving spouse may obtain a no-down payment loan if the lender agrees.

Social Security Benefits¹⁶

If a service member had enough credits, a special one-time payment of \$255 will be paid after the servicemember's death. This benefit is paid only to the widow or minor children. Certain family members of the deceased service member may be eligible for benefits on the service member's Social Security record if they earned enough credits while they were working. Family members who can collect benefits include:

- A widow or widower who is 60 or older
- A widow or widower who is 50 or older and disabled
- A widow or widower at any age if she or he is caring for a child under age 16 or a disabled child who is receiving Social Security benefits;
- Children if:
 - They are unmarried and under age 18;
 - Under age 19 but in an elementary or secondary school as a full-time student; or
 - Age 18 or older and severely disabled (the disability must have started before age 22)
- The service member's parents, if they were dependent on him for at least half of their support

Endnotes

- 1 Steve Nelsen, "Military Service Credit", Joint Committee on Pension Policy, September 23, 1997.
- 2 <http://www.military.com/Resources/ResourcesContent/0,13964,30873--1,00.html> (August 31, 2004)
- 3 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)
- 4 <http://www.military.com/Resources/ResourcesContent/0,13964,31293--0,00.html> (August 31, 2004)
- 5 <http://www.military.com/Resources/ResourcesContent/0,13964,30974--0,00.html> (August 31, 2004)
- 6 http://www.dod.mil/militarypay/survivor/sbp/11_va_benefits.html (August 31, 2004)
- 7 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)
- 8 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)
- 9 http://www1.va.gov/OPA/fact/docs/survivor_benefits.doc (September 1, 2004)
- 10 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)
- 11 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)
- 12 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)
- 13 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)
- 14 http://www1.va.gov/OPA/fact/docs/survivor_benefits.doc (August 31, 2004)
- 15 http://www1.va.gov/OPA/fact/docs/survivor_benefits.doc (August 31, 2004)
- 16 <http://www.military.com/Resources/ResourcesContent/0,13964,31073,00.html> (August 31, 2004)
- 16 <http://www.dod.mil/militarypay/benefits/deathben.pdf> (August 31, 2004)