LEOFF
Plan 2 Retirement Board

May 23, 2018

Benefit Improvement Account

EDUCATIONAL BRIEFING

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ISSUE STATEMENT

The payment to the LEOFF Plan 2 Benefit Improvement Account (BIA) originally scheduled for September 2016 has not been made. The payment originally scheduled for September 2018 was not included in the State Operating Budget.

OVERVIEW

This report will provide background on the history and purpose of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Benefit Improvement Account. It will also identify questions arising from the State's decision not to make scheduled payments to the BIA.

BACKGROUND AND POLICY ISSUES

What is the LEOFF Plan 2 Benefit Improvement Account?

LEOFF Plan 2 historically had two sources of revenue to fund plan benefits; contributions and investment earnings. Any increase in costs to the plan, including benefit improvements, would be paid for by an increase in contributions from plan members, employers, and the State.

The Benefit Improvement Account is a subaccount of the LEOFF Plan 2 Retirement Fund that was created by legislation in 2008. Its purpose is to provide an additional means of funding benefit improvements in LEOFF Plan 2. The assets in this account are invested in the same way as other LEOFF 2 fund assets as part of the Comingled Trust Fund managed by the Washington State Investment Board (WSIB).

Alternate Revenue Legislation

The 2008 Legislature passed Engrossed Substitute Senate Bill 6573 providing local government public safety employers and the LEOFF Plan 2 pension system with additional revenues.

Legislative Intent

The intent of the legislation recognized the need for additional revenue to provide for public safety and protection. The legislature also recognized the physical and challenging demands of fire fighters and law enforcement officers, effect on the length of working careers, and impact on earning adequate pension benefits. Section 1 of the legislation reads, in part:

> *"The legislature finds that local governments need additional revenues to provide public safety resources in order to protect the citizens of Washington from fire and crime. The legislature finds that the current benefit formula and contributions for the law enforcement officers' and firefighters' plan 2 are inadequate to modify that formula in recognition of the shorter working careers for firefighters and police officers. The legislature recognizes that although some officers and firefighters are able to work comfortably beyond twenty-five years, the combat nature of fire suppression and law enforcement generally require earlier retirement ages. In recognition of the physical demands of the professions and the inherent risks faced by law enforcement officers and firefighters, eligibility for retirement in the law enforcement officers' and firefighters' plan 2 system has been set at age fifty-three. However, the benefit formula is designed for careers of thirty-five to forty years, making retirement at age fifty-three an unrealistic option for many."*

Alternate Revenue Trigger and Payment Schedule

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer is required to transfer, subject to appropriation, prescribed funds to the Local Public Safety Enhancement Account (LPSEA). The amounts that would be transferred to the LPSEA if the Alternate Revenue trigger is met are shown in the following schedule:

- $5 million for 2011
- $10 million in 2013
- $20 million in 2015
- $50 million in 2017

In subsequent fiscal biennia's after 2017, the amount eligible for transfer is the lesser of one-third of the general revenue increase amount or $50 million. General state revenues mean total revenues to the General Fund-state less state revenues from property taxes.

Distribution of Funds

After a transfer to the LPSEA, one-half of the funds transferred into the LPSEA would then be transferred to the LEOFF 2 BIA. The remaining funds in the LPSEA are distributed to local governments for public safety purposes. Therefore, contributions to the BIA would be made according to the following schedule:

- $2.5 million for 2011
- $5 million in 2013
- $10 million in 2015
- $25 million in 2017

Money transferred to the BIA can only be used to fund benefits adopted by the Legislature. Benefits may be funded from the BIA if the State Actuary determines that the actuarial present value of the proposed and existing benefit obligations is met or exceeded by the actuarial present value of the projected revenues to the account. WSIB is authorized to adopt investment policies and invest the money in the BIA.

The Board has the sole authority to authorize disbursements from the BIA, and to establish all other related policies, which must be administered in an actuarially sound manner. Funds in the BIA may not be considered assets of the plan and are not included in contribution rate calculations by the State Actuary until directed by the Board for purposes of financing benefits adopted by the Board. The LEOFF Plan 2 Board is required to include sufficient funds from the account in the LEOFF Plan 2 Fund to meet benefit obligations within 90 days of the fund's transfer into the account.

Contribution History

The 5% required revenue growth necessary to trigger the 2011 LPSEA contribution of $5 million was not met.

The 5% revenue growth trigger was met for the 2013 LPSEA contribution. However, the $10 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the BIA.

The 5% revenue growth trigger was met for the 2015 LPSEA contribution. However, the $20 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the BIA. Instead, the legislature directed a $15,776,000 transfer into the BIA from the LEOFF Plan 2 Trust. The amount was calculated to include the $2.5 million scheduled for 2013 plus the $10 million scheduled for 2015 plus lost earnings at the actuarially assumed rate.

The 5% revenue growth trigger was met for the 2017 LPSEA contribution. However, the $50 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the BIA.

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Issue

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Background and Policy Issues

- What is the LEOFF Plan 2 Benefit Improvement Account?
- Alternate Revenue Legislation
  - Legislative Intent
- Alternate Revenue Trigger and Payment Schedule
- Distribution of Funds
- Contribution History

Thank You

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