June 19, 2013

MEDICARE BRIEFING

EDUCATIONAL BRIEFING
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EXECUTIVE SUMMARY

Fire fighter Wynn Loiland suffered an injury while on duty in November 2011. His injuries were severe enough to qualify for a catastrophic disability benefit[1]. This should have qualified him for reimbursement of post-retirement health insurance premiums[2]. However, Mr. Loiland fell outside the scope of the reimbursement provisions because: (1) His COBRA benefit had expired; (2) his employer did not provide post-retirement medical coverage; and (3) he was not covered by Medicare.

This issue did not come up until after the Legislative session started, so the Board had no opportunity to review the issue during the 2012 interim. Board staff, having fully researched and reported on the underlying benefit, assisted DRS, OSA, and Legislative staff in costing SHB 1868. This primarily consisted of identifying how many persons were potentially outside the scope of the original legislation.

STRATEGIC LINKAGE

This issue supports the following Strategic Priority Goals:

- **Goal 1 - Enhance the benefits for the members**: Monitors benefits for workers injured in the line of duty. Assesses, evaluates, and modifies existing benefits.
- **Goal 3 - Maintain the financial integrity of the plan**: Provides information on the fiscal reality of the plan.
- **Goal 4 - Inform the stakeholders**: Provides stakeholder access to understandable fiscal and policy analysis.

BACKGROUND INFORMATION

In 2009 the Board studied providing post-retirement medical coverage for catastrophically disabled LEOFF 2 retirees. The Board proposed providing coverage, structuring the payment as a reimbursement for post retirement medical premiums through existing programs. This ensured coverage of health care premium costs while protecting the trust fund from paying for unlimited, and potentially extremely expensive, medical coverage.

The Board identified 3 main sources of post-retirement medical coverage for fire fighters and law enforcement officers:

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[1] RCW 41.26.470(9).
[2] RCW 41.26.470(10)

- **<u>Employer provided post-retirement medical insurance</u>**: Typically the employer does not provide direct payment, but the retiree remains in the active employee insurance pool, reducing the cost of medical insurance. According to the Board's most recent employer survey, 46.8% of employers provided this benefit in 2005.
- **<u>COBRA</u>**: Under the federal COBRA program employees can continue to self-pay for medical coverage through their former employers. Essentially all employees have this option, but the coverage is initially limited to 18 months, with an additional 11 months potentially available[3] to disabled persons. Mr. Loiland could not apply for 11 additional months of COBRA because, as a person who did not qualify for Medicare or SSI, he could not obtain a federal determination of disability.
- **<u>Medicare</u>**: Medicare provides medical coverage beginning at age 65. Persons who meet the SSI disability standard, which is the same standard contained in the LEOFF 2 catastrophic disability statute, are eligible for coverage at the time of the disability.
    - Prior to 1986, Employees without social security coverage[4] were also without Medicare coverage. Beginning in April of 1986 LEOFF 2 employers were required to enroll new employees in Medicare.
    - Employees who began employment prior to 1986 were provided an option to join Medicare in 2009. Uncovered law enforcement officers and fire fighters may obtain Medicare coverage through the "divided referendum" process. The employer agrees, usually through collective bargaining, to hold a divided. Individual uncovered employees then opt in or out of Medicare.

The Board introduced HB 1679 in the 2010 Legislative session to provide catastrophically disabled LEOFF 2 retirees with reimbursement for post-retirement medical premiums. The Board intended to provide that reimbursement for all catastrophically disabled retirees as long as the retiree was participating in one of the post-retirement medical coverage opportunities listed above. This requirement balanced the policy supporting providing the benefit with the need to control costs. The Legislature passed the Board's proposal effective June 1, 2010.

Mr. Loiland's case revealed a gap in coverage of the reimbursement benefit. Board staff worked with DRS, OSA, and Legislative staff to research the approximate number of uncovered members:

Coverage exceptions – Members with same employer since before 4/86	# of employees
No Employer Medicare prior to 4/86	599
Unsure if employer provided Medicare	420
Uncovered members who chose Medicare under divided referendum	(44)
Members with 40 quarters of SS employment elsewhere	?

[3] Persons who receive a federal determination of disability can apply for 11 additional months of COBRA
[4] About 50% of law enforcement officers and 90% of fire fighters.

- Maximum number of potential individuals outside scope of original language: 975
- Projected annual rate of catastrophic disability: .0357%
- Estimated disabled members denied reimbursement provision annually: 0.35≈1 every 3 years

SHB 1868 closed the coverage gap and limited reimbursement to the COBRA premium amount. There is almost certainly a gap between that amount and the actual cost of individually procured medical insurance.

The actuary estimated the additional reimbursement cost created by SHB 1868 at $1.2 million over 25 years, which was not significant enough to effect contribution rates. Some unavoidable gaps in the data may have caused that cost to be overestimated:

- The fiscal note estimate does not account for employees with post-retirement medical through their employer. The Board's 2005 employer survey found 46.8% of employers provided that benefit, but the survey is 8 years old and was determined unreliable for fiscal note purposes.

- Persons in the previously uncovered group had to have been employed by the same LEOFF 2 employer since before April 1986. That means they would have at least 27 years of LEOFF 2 service credit and are at or close to retirement age. This cuts two ways:

    - On the one hand, projected rates of service retirement predict that most if not all these members will be retired within the next 10 years.
    - On the other hand, as noted in the actuary's fiscal note, older members have higher rates of disability.

  In the short term the higher rates of disability may drive a higher cost. In the longer term these members will be retired one way or the other in 10 years, so there would likely be no additional qualifying members after that time.

Potential direction:
This report was prepared as an informational briefing to provide background on an issue the Board did not have the opportunity to study during the last interim. Given that SHB 1868 has been signed by the Governor, no further action is required. The Board may want to consider updating the 2005 employer survey to provide more recent data for use in responding to future fiscal note requests.

SUPPORTING INFORMATION

Appendix A: SHB 1868 Session Law

Appendix B: SHB 1868 Fiscal Note

CERTIFICATION OF ENROLLMENT

SUBSTITUTE HOUSE BILL 1868

Chapter 287, Laws of 2013

63rd Legislature
2013 Regular Session

LAW ENFORCEMENT OFFICERS AND FIREFIGHTERS--HEALTH INSURANCE

EFFECTIVE DATE: 07/28/13

Passed by the House March 4, 2013
Yeas 98 Nays 0

FRANK CHOPP

Speaker of the House of Representatives

Passed by the Senate April 17, 2013
Yeas 45 Nays 0

BRAD OWEN

President of the Senate

Approved May 20, 2013, 2:17 p.m.

JAY INSLEE

Governor of the State of Washington

CERTIFICATE

I, Barbara Baker, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 1868** as passed by the House of Representatives and the Senate on the dates hereon set forth.

BARBARA BAKER

Chief Clerk

FILED

May 20, 2013

Secretary of State
State of Washington

Appendix A

SUBSTITUTE HOUSE BILL 1868

Passed Legislature - 2013 Regular Session

State of Washington 63rd Legislature 2013 Regular Session

By House Appropriations (originally sponsored by Representatives Freeman, Goodman, Van De Wege, Appleton, Morrell, Tarleton, Tharinger, Ryu, Maxwell, Bergquist, and Pollet)

READ FIRST TIME 02/22/13.

AN ACT Relating to providing access to health insurance for certain law enforcement officers' and firefighters' plan 2 members catastrophically disabled in the line of duty; amending RCW 41.26.470; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** This act may be known as the Wynn Loiland act.

Sec. 2. RCW 41.26.470 and 2010 c 259 s 2 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the director shall be eligible to receive an allowance under the provisions of RCW 41.26.410 through 41.26.550. Such member shall receive a monthly disability allowance computed as provided for in RCW 41.26.420 and shall have such allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age fifty-three, except under subsection (7) of this section.

(2) Any member who receives an allowance under the provisions of this section shall be subject to such comprehensive medical examinations as required by the department. If such medical examinations reveal that such a member has recovered from the incapacitating disability and the member is no longer entitled to benefits under Title 51 RCW, the retirement allowance shall be canceled and the member shall be restored to duty in the same civil service rank, if any, held by the member at the time of retirement or, if unable to perform the duties of the rank, then, at the member's request, in such other like or lesser rank as may be or become open and available, the duties of which the member is then able to perform. In no event shall a member previously drawing a disability allowance be returned or be restored to duty at a salary or rate of pay less than the current salary attached to the rank or position held by the member at the date of the retirement for disability. If the department determines that the member is able to return to service, the member is entitled to notice and a hearing. Both the notice and the hearing shall comply with the requirements of chapter 34.05 RCW, the administrative procedure act.

(3) Those members subject to this chapter who became disabled in the line of duty on or after July 23, 1989, and who receive benefits under RCW 41.04.500 through 41.04.530 or similar benefits under RCW 41.04.535 shall receive or continue to receive service credit subject to the following:

(a) No member may receive more than one month's service credit in a calendar month.

(b) No service credit under this section may be allowed after a member separates or is separated without leave of absence.

(c) Employer contributions shall be paid by the employer at the rate in effect for the period of the service credited.

(d) Employee contributions shall be collected by the employer and paid to the department at the rate in effect for the period of service credited.

(e) State contributions shall be as provided in RCW 41.45.060 and 41.45.067.

(f) Contributions shall be based on the regular compensation which the member would have received had the disability not occurred.

(g) The service and compensation credit under this section shall be granted for a period not to exceed six consecutive months.

(h) Should the legislature revoke the service credit authorized under this section or repeal this section, no affected employee is entitled to receive the credit as a matter of contractual right.

(4)(a) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or such person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no such designated person or persons still living at the time of the recipient's death, then to the surviving spouse or domestic partner, or, if there is neither such designated person or persons still living at the time of his or her death nor a surviving spouse or domestic partner, then to his or her legal representative.

(b) If a recipient of a monthly retirement allowance under this section died before April 27, 1989, and before the total of the retirement allowance paid to the recipient equaled the amount of his or her accumulated contributions at the date of retirement, then the department shall pay the balance of the accumulated contributions to the member's surviving spouse or, if there is no surviving spouse, then in equal shares to the member's children. If there is no surviving spouse or children, the department shall retain the contributions.

(5) Should the disability retirement allowance of any disability beneficiary be canceled for any cause other than reentrance into service or retirement for service, he or she shall be paid the excess, if any, of the accumulated contributions at the time of retirement over all payments made on his or her behalf under this chapter.

(6) A member who becomes disabled in the line of duty, and who ceases to be an employee of an employer except by service or disability retirement, may request a refund of one hundred fifty percent of the member's accumulated contributions. Any accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent. A person in receipt of this benefit is a retiree.

(7) A member who becomes disabled in the line of duty shall be entitled to receive a minimum retirement allowance equal to ten percent of such member's final average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five.

(8) A member who became disabled in the line of duty before January 1, 2001, and is receiving an allowance under RCW 41.26.430 or subsection (1) of this section shall be entitled to receive a minimum retirement allowance equal to ten percent of such member's final average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five, and shall have the allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age fifty-three. An additional benefit shall not result in a total monthly benefit greater than that provided in subsection (1) of this section.

(9) A member who is totally disabled in the line of duty is entitled to receive a retirement allowance equal to seventy percent of the member's final average salary. The allowance provided under this subsection shall be offset by:

(a) Temporary disability wage-replacement benefits or permanent total disability benefits provided to the member under Title 51 RCW; and

(b) Federal social security disability benefits, if any;

so that such an allowance does not result in the member receiving combined benefits that exceed one hundred percent of the member's final average salary. However, the offsets shall not in any case reduce the allowance provided under this subsection below the member's accrued retirement allowance.

A member is considered totally disabled if he or she is unable to perform any substantial gainful activity due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months. Substantial gainful activity is defined as average earnings in excess of eight hundred sixty dollars a month in 2006 adjusted annually as determined by the director based on federal social security disability standards. The department may require a person in receipt of an allowance under this subsection to provide any financial records that are necessary to determine continued eligibility for such an allowance. A person in receipt of an allowance under this subsection whose earnings exceed the threshold for substantial gainful activity shall have their benefit converted to a line-of-duty disability retirement allowance as provided in subsection (7) of this section.

Any person in receipt of an allowance under the provisions of this section is subject to comprehensive medical examinations as may be required by the department under subsection (2) of this section in order to determine continued eligibility for such an allowance.

(10)(a) In addition to the retirement allowance provided in subsection (9) of this section, the retirement allowance of a member who is totally disabled in the line of duty shall include reimbursement for any payments made by the member after June 10, 2010, for premiums on employer-provided medical insurance, insurance authorized by the consolidated omnibus budget reconciliation act of 1985 (COBRA), medicare part A (hospital insurance), and medicare part B (medical insurance). A member who is entitled to medicare must enroll and maintain enrollment in both medicare part A and medicare part B in order to remain eligible for the reimbursement provided in this subsection. The legislature reserves the right to amend or repeal the benefits provided in this subsection in the future and no member or beneficiary has a contractual right to receive any distribution not granted prior to that time.

(b) The retirement allowance of a member who is not eligible for reimbursement provided in (a) of this subsection shall include reimbursement for any payments made after June 30, 2013, for premiums on other medical insurance. However, in no instance shall the reimbursement exceed the amount reimbursed for premiums authorized by the consolidated omnibus budget reconciliation act of 1985 (COBRA).

Passed by the House March 4, 2013.
Passed by the Senate April 17, 2013.
Approved by the Governor May 20, 2013.
Filed in Office of Secretary of State May 20, 2013.

Individual State Agency Fiscal Note

Bill Number: 1868 S HB	Title: Disabled LEOFF plan2 members	Agency: AFN-Actuarial Fiscal Note - State A

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 03/22/2013
Agency Preparation:	Devon Nichols	Phone: 3607866145	Date: 03/25/2013
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 03/25/2013
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 03/25/2013

Request # -1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

NONE

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Actuary's Fiscal Note For SHB 1868

SUMMARY OF RESULTS

This bill requires the retirement allowance of certain members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2, who are not eligible for employer-provided medical insurance, insurance provided through the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), or Medicare, to include reimbursement for health insurance premium payments made after June 30, 2013.

Impact on Contribution Rates *(Effective 09/01/2013)*	
2013-2015 State Budget	**LEOFF 2**
Employee	**0.00%**
Total Employer	**0.00%**
Total State	**0.00%**

Budget Impacts			
(Dollars in Millions)	**2013-2015**	**2015-2017**	**25-Year**
General Fund-State	$0.0	$0.0	$0.3
Local Government	$0.0	$0.0	$0.4
Total Employer	$0.0	$0.1	$0.6

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

This bill increases the liabilities for LEOFF Plan 2 by providing more medical premium reimbursements than are provided under current law. The liabilities are expected to increase as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$77,147	$0.8	$77,148
Earned Pensions Not Covered by Today's Assets	$3,797	$0.0	$3,797

This bill does not result in supplemental contribution rates in the current biennium as shown above.

We found that the costs presented in this fiscal note are most sensitive to the assumption of the number of members who become totally disabled in the line of duty. If the actual number of members impacted were to double, the cost would also be expected to double. Conversely, if fewer members than expected were to be impacted by this bill, the cost would be reduced accordingly.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts the following systems:

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2.

This bill allows members of LEOFF Plan 2 who have suffered total duty-related disability and who are not eligible for employer-provided medical coverage, COBRA, or Medicare to receive reimbursement for premium payments made for private medical insurance after June 30, 2013. The total amount reimbursed for medical premiums cannot exceed the amount authorized by COBRA.

Effective Date: 90 days after session.

How This Bill Differs From the Prior Version

The substitute bill limits member eligibility. Members are only eligible for health insurance premium reimbursement if they do not qualify for employer-provided medical insurance, COBRA, or Medicare.

What Is The Current Situation?

LEOFF Plan 2 reimburses members who have suffered total disability in the line of duty for the cost of premium payments for employer-provided medical insurance, COBRA, and Medicare Parts A (hospital insurance) and B (medical insurance). If a member is entitled to Medicare they must enroll and maintain enrollment to remain eligible for reimbursement.

A member is considered totally disabled if he or she is unable to maintain substantial gainful employment in any capacity in the future. Substantial gainful employment is defined as average earnings of not more than $1,010 a month as of March 2012. This definition is adjusted annually as determined by the Department of Retirement Systems and is based on federal Social Security disability standards.

LEOFF Plan 2 members that have been totally disabled in the line of duty may be eligible to participate in employer-provided retiree medical insurance if offered by their employer. According to the LEOFF Plan 2 Retirement Board (LEOFF 2 Board), in 2010 less than half of LEOFF Plan 2 members had access to employer-provided retiree medical insurance.

Members who separate from employment due to total disability in the line of duty may continue to participate in their employer-provided medical insurance under federal law regardless of whether or not their employer provides retiree coverage. Under COBRA, members who separate from employment due to a duty-related total disability may continue to participate in their employer-provided medical insurance plans for up to 29 months. Members participating in

COBRA may be charged higher premiums than active members. Once a member reaches the COBRA coverage limit of 29 months they can elect to purchase private medical insurance coverage but are not reimbursed for the premium payments.

Members meeting the definition of disability under Social Security standards may also be eligible to participate in Medicare prior to age 65 – regardless of whether or not their employer participates in Social Security.

Employer participation in Social Security and Medicare was not available until 1951 (Social Security through a Section 218 Agreement) and 1966 (Medicare). Public employer participation in Medicare did not become mandatory for new hires until April 1, 1986 or July 2, 1991 for Social Security coverage. Employees who were hired prior to April 1, 1986 and have been continuously employed by the same employer since that date may be excluded from both Social Security and Medicare coverage.

Who Is Impacted And How?

We estimate this bill could affect any of the 16,805 current active members in LEOFF Plan 2, who cannot qualify for COBRA, employer-provided insurance, or Medicare coverage, and who might become totally disabled in the line of duty in the future. Future LEOFF Plan 2 members will not be impacted by this bill because all LEOFF employers have participated in Medicare since 1986.

Based on current assumptions, we expect approximately six new members each year to receive total disability benefits. Of those six members, we assume three will have employer-provided retiree medical insurance and three will be covered under COBRA. Some of the members who are covered under COBRA will not qualify for Medicare. Those members can be reimbursed for insurance premiums for a longer period under this bill.

We received information from the Department of Retirement Systems (DRS) that there are 1,019 members who may not qualify for Medicare as of the date of this fiscal note. According to DRS, there are 599 current actives who qualify for the provisions in this bill. There are also 420 members who might qualify for the provisions in this bill, but there is some uncertainty surrounding the qualifications of the latter group. We did not receive information identifying *who* these members are, just *how many* there are.

We estimate this bill will increase the benefits for members not qualifying for employer-provided insurance, COBRA, or Medicare, by extending the length of time their medical premiums may be reimbursed.

This bill impacts all 16,805 LEOFF Plan 2 members through increased contribution rates.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill has a cost to LEOFF Plan 2 because it extends the length of time some members may be reimbursed for medical premiums paid. Additional premiums reimbursed from the retirement fund means additional costs to the plan.

Who Will Pay For These Costs?

The additional costs will be funded in the standard way:

- LEOFF Plan 2 – 50 percent by the employees, 30 percent by the employers, and 20 percent by the state.

The costs for medical premium reimbursement benefits are included in our pension model and the contribution rates necessary to pre-fund the benefits are calculated in the same way as those calculated for all other pension benefits. However, the benefits are funded through irrevocable trust funds, known as 401(h) accounts, from contribution rates adopted by the LEOFF 2 Board. These contribution rates are "carved out" of the total adopted contribution rate. The LEOFF 2 Board will periodically review the funding requirements for these benefits and adjust the 401(h) contribution rates as necessary.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed the type and timing of reimbursement for all benefits where members are not covered under employer-provided insurance, and who do not qualify for Medicare after COBRA coverage ends, would change as follows.

- **Member**: We added supplemental Medicare insurance premiums following the initial 29-month COBRA period under this bill.
- **Spouse**: From 29 months from the date of disability under current law to the life of the member under this bill. We assume private insurance coverage after the initial 29-month COBRA period until Medicare age, followed by supplemental Medicare premiums thereafter.
- **Children**: From 2.5 years from the date of disability under current law to ten years from the date of disability under this bill. The ten-year assumption matches what we use for children covered by employer-provided insurance.

We assumed COBRA-level premiums, which increase with medical inflation trends as described in the *June 30, 2011, Actuarial Valuation Report* (AVR), would continue throughout the extended coverage period for children. We also assumed COBRA-level premiums would continue for spouses until they reach the Medicare-eligible age of 65. We assumed that once Medicare coverage begins, their premiums would decrease as follows.

- **Members**: Supplemental premiums would decrease to the level of employer-provided Medicare premiums.
- **Spouses of members with disabilities**: Premiums would decrease to employer-provided spousal Medicare premiums.

How We Applied These Assumptions

Using the assumptions above, we valued the additional costs to the plan for the extended premium reimbursement periods.

To estimate the costs under the substitute version of this bill, we multiplied the costs estimated in the original version of the bill by about 12 percent as follows.

1,019 qualified, divided by (16,805 actives x 50% COBRA-Eligible) = 12.1%

We used this method to estimate the costs because we do not know for certain how many members or the demographics of the members that could be impacted under this version of the bill. The count of *potentially* impacted members used in this pricing may be higher than the *actual* number impacted. This could mean that our cost estimate is too high. We also know that members impacted should have been continuously active since April 1, 1986, which means the impacted members are probably older than the average active LEOFF Plan 2 member. On average, older members are likely to suffer a total disability sooner than younger members. This could mean that our cost estimate is too low. We believe these two facts partially offset each other, and our cost estimate is reasonable for purposes of this fiscal note.

Otherwise, we developed these costs using the same methods as disclosed in the AVR.

Special Data Needed

The Department of Retirement Systems (DRS) provided us with the potential number of members who are not eligible for employer-provided medical insurance, insurance provided through COBRA, or Medicare. We used this data to develop our assumption that approximately 12 percent of the costs calculated in the original bill will be attributed to this substitute bill. An audit of this data was not performed. We relied on the data provided by DRS as sufficient for the purposes of this pricing exercise.

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding of LEOFF Plan 2 by increasing the present value of future benefits payable under the plan as shown below.

Impact on Pension Liability			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
LEOFF 2	$8,719.6	0.8	$8,720.4
Unfunded Projected Unit Credit Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)			
LEOFF 2	($1,044.5)	$0.8	($1,043.7)

Note: Totals may not agree due to rounding.

How The Present Value of Future Salaries (PVFS) Changed

This bill does not change the PVFS of the members as shown below so there is no impact on the actuarial funding of LEOFF Plan 2 due to PVFS changes.

Present Value of Future Salaries			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Future Salaries			
(The Value of the Future Salaries Expected to be Paid to Current Members)			
LEOFF 2	**$16,910**	**$0.0**	**$16,910**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The increase in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01 percent, therefore the bill will not affect contribution rates in the current biennium. However, we will use the un-rounded rate increase shown below to measure the budget changes in future biennia. We assumed no contribution rate impacts to future members (New Entrants), who would not benefit from the provisions in this bill.

Impact on Contribution Rates (Effective 09/01/2013)	
System/Plan	**LEOFF 2**
Current Members	
Employee	0.002%
Employer	
Normal Cost	0.001%
Plan 1 UAAL	0.000%
Total	**0.001%**
State	
Current Annual Cost	0.001%
Plan 1 Past Cost	0.000%
Total	**0.001%**
New Entrants*	
Employee	0.000%
Employer	
Normal Cost	0.000%
Plan 1 UAAL	0.000%
Total	**0.000%**
State	
Current Annual Cost	0.000%
Plan 1 Past Cost	0.000%
Total	**0.000%**

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

Budget Impacts	
(Dollars in Millions)	**LEOFF 2**
2013-2015	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	0.0
Total Employer	**$0.0**
Total Employee	**$0.0**
2015-2017	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	0.0
Total Employer	**$0.1**
Total Employee	**$0.1**
2013-2038	
General Fund	$0.3
Non-General Fund	0.0
Total State	**$0.3**
Local Government	0.4
Total Employer	**$0.6**
Total Employee	**$0.6**

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

How The Risk Measures Changed

We have not analyzed this bill using the risk assessment model. We chose not to use the risk assessment model because we believe the impact would be minor.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions selected for this pricing we varied the assumed number of total disabilities. We still have limited experience data on rates of total disablement in this plan. We revised our LEOFF Plan 2 disability assumptions in 2009 and plan to study them again as part of our demographic experience study in 2014.

We expect less than one member per year could go out on duty-related total disability and not have access to employer-provided retiree insurance or Medicare. This assumption results in an estimated Present Value of Future Benefits (PVFB) increase of $0.8 million. If the number of people who actually qualify for the benefits under this bill differs from our assumption, the actual cost of this bill would change.

For example, if we found that twice as many people per year actually qualified, we would expect the PVFB to increase by $1.6 million. In fact, the number of potentially qualified members would need to more than double in order to produce a supplemental rate impact for this bill. However, if only half as many people per year qualified under this bill, we would expect a PVFB increase of $0.4 million.

We also considered how the results would change if actual medical inflation trends were different than we assumed. We performed this sensitivity analysis when we produced the fiscal note for SHB 1679 in the 2010 Legislative Session. That analysis showed that the results would change under different medical inflation assumptions; however, the results are not as sensitive to this type of change as they are to how many people actually benefit from the provisions of this bill. As such, we focused our analysis in this section on the assumption that produced the most sensitive results.

We further considered whether recent changes under the Affordable Care Act (ACA) could impact the medical premium reimbursement provisions discussed in this fiscal note. One area we considered was whether the ACA affected COBRA regulations, which would directly impact our analysis in this fiscal note. However, we determined that the ACA would not affect how we analyze COBRA premium reimbursements in LEOFF Plan 2. There may be other provisions within the ACA that could potentially have impacts on our analysis, but we have not identified any at this point.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2013 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2013 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Lisa A. Won, ASA, FCA, MAAA
Actuary

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GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded actuarial accrued liability. The normal cost is determined for the actuarial accrued group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded actuarial accrued liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Medicare Briefing

Educational Briefing
June 19, 2013

Premium Reimbursement SHB 1679 (2010)

Providing Health Care Insurance for Catastrophically Disabled

Controlling Cost

Balancing Policy and Cost

LEOFF Plan 2 Retirement Board

Post-Retirement Medical Sources

- 2010 Law Provided Reimbursement of Medical Premiums paid under:
  - COBRA
  - Employer Provided Post-retirement Medical
  - Medicare
- Discovered members who had none of these

Medicare Coverage

Coverage exceptions – Members with same employer since before 4/86	Number of employees
No Employer Medicare prior to 4/86	599
Unsure if employer provided Medicare pre-86	420
Uncovered Members who chose Medicare under divided referendum	(44)
Members with 40 quarters of SS employment elsewhere	?

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Plan 2 Retirement Board

Possible Issues with Data

- Unable to reliably identify employees with employer provided Post-Retirement Medical.
- Employees in group have at least 27 years service credit.
  - Retired within 10 years
  - No additional beneficiaries of SHB 1868 after that

Any Questions?

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