



June 24, 2015

## Increasing Retirement Age

### EDUCATIONAL BRIEFING

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### ISSUE STATEMENT

The normal retirement age (NRA) for LEOFF 2 members are each increased by two years for persons who first become members of the retirement plan on or after July 1, 2015.

### OVERVIEW

The NRA for a defined benefit retirement plan is generally the age at which a member can begin receiving an unreduced retirement allowance. For LEOFF 2 members, NRA is age 53. Most state retirement plans, including Washington's, permit members to retire early and receive a reduced retirement allowance.

The LEOFF 2 early retirement age is 50 for members with 20 or more years of service. Reductions are based on the difference between the member's age at retirement and age 53.

In 2012 the Society of Actuaries published the Mortality Improvement Scale BB Report, an updated table of annual mortality improvement rates. The new table documents increases in average life spans and includes projections for future additional increases. The updated table was used by the State Actuary in conducting the 2013 actuarial valuations for the state retirement plans.

### BACKGROUND & POLICY ISSUES

NRA for all Washington Plan 2's were set in 1977 and LEOFF 2 was set at age 58. Since then, that age was modified twice with two different pieces of legislation:

- ESHB 1294 passed in 1993 to lower the NRA from 58 to 55. The purpose of the bill was three fold:
  1. To provide full retirement benefits to law enforcement officers and fire fighters at an appropriate age, which recognizes the unique nature and physical demands of their work.
  2. To provide a reasonable value from the retirement system for members who leave before retirement.
  3. Increase flexibility for members to make transitions into other public or private sector employment.

- ESSB 6530 passed in 2000, which provided two additional benefits to LEOFF 2 members:
  1. NRA was reduced to age 53.
  2. Members who are at least 50 years old and with at least 20 years of service, may receive a benefit reduced by 3 percent for each year the member is less than NRA.

### **Mortality Improvement**

Since the original retirement ages were set in 1977, life expectancy has increased by over 5 years. The sponsor of a bill introduced in the 2015 session as SB 5982, believed that due to the increase in life expectancy, the retirement age of members should increase to reflect that extra cost. The concern was that the pension liability costs are outpacing the growth of other budgetary costs to the state.

### **Member Impacts**

The bill would not affect anyone hired before the effective date of the bill. If the retirement age is raised, with the goal of paying out benefits for a shorter period of time, the cost of the benefits comes down. Contribution rates would lower for all current Plan 2 members, therefore current members would receive a savings of sort. The savings of the bill is split 50/50 between the employee and the employer. This bill was not vetted by the Select Committee on Pension Policy (SCPP) before it was introduced in the Senate.

### **State Impacts**

The State Actuaries' Office (OSA) predicted an employer savings of \$3.0 billion over a 25 year period if the retirement ages of all plans was raised by 2 years. Changes to assumed retirement behavior also impact the results of this bill. If it's assumed there is no retirement behavior change, the total employer savings would be \$3.6 billion over the 25-year period instead of OSA's best estimate savings of \$3.0 billion. Conversely, if new members are expected to work longer than OSA's best estimate, the total employer savings would be \$2.5 billion over the 25-year period.



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# Issue

**The normal retirement age (NRA) for LEOFF 2 members are each increased by two years for persons who first become members of the retirement plan on or after July 1, 2015**

# Overview

- **The NRA for a defined benefit retirement plan is generally the age at which a member can begin receiving an unreduced retirement allowance**
- **NRA for LEOFF 2 members is age 53**

# Overview

- **NRA for all Washington's Plan 2's were set in 1977, and LEOFF 2 was set at age 58**
- **That age was modified twice with two different pieces of legislation**

# Legislative History

- **ESHB 1294 passed in 1993 to lower the NRA from 58 to 55. The purpose of the bill was three fold:**
  1. To provide full retirement benefits to law enforcement officers and fire fighters at an appropriate age, which recognizes the unique nature and physical demands of their work
  2. To provide a reasonable value from the retirement system for members who leave before retirement
  3. Increase flexibility for members to make transitions into other public or private sector employment

# Legislative History

- **ESSB 6530 passed in 2000, which provided two additional benefits to LEOFF 2 members:**
  1. NRA was reduced to age 53
  2. Members who are at least 50 years old and with at least 20 years of service, may receive a benefit reduced by 3 percent for each year the member is less than NRA



# Background

## **Mortality Improvement**

- The sponsor of SB 5982 believed that due to the increase in life expectancy, the retirement age of members should increase to reflect that extra cost
- Since the retirement ages were set in 1977, life expectancy has increased by over 5 years
- The concern was that the pension liability costs are outpacing the growth of other budgetary costs to the state

# Background

## Member Impacts

- Will decrease the expected cost of benefits for new members
- Members will retire later and receive fewer pension payments than under current law
  - This is where the largest portion of the savings comes from
- Savings are split 50/50 between employer and current members

# Background

## State Impacts

- OSA's best estimate shows a savings of \$3.0 billion over a 25-year period
- If it's assumed there is no retirement behavior change, the total employer savings would be \$3.6 billion over the 25-year period
- If new members are expected to work longer than OSA's best estimate, the total employer savings would be \$2.5 billion over the 25-year period

# Next Steps

- 1. Direct staff to continue to research and report on this issue**
- 2. Defer to another interim**
- 3. Dismiss the issue for now**

# Questions?

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