LEOFF Plan 2 Retirement Board

June 26, 2019

Benefit Improvement Account

EDUCATIONAL BRIEFING

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ISSUE STATEMENT

The legislature transferred $300 million from LEOFF 2 to the LEOFF 2 Benefit Improvement Account. The LEOFF 2 Board must determine what benefit improvement to fund out of the account.

OVERVIEW

This report will provide background on the history and purpose of the LEOFF 2 Benefit Improvement Account (BIA). It will also identify questions arising from the State's recent transfer of $300 million from the LEOFF 2 Trust Fund into the BIA, and the closure of the local public safety enhancement account.

BACKGROUND AND POLICY ISSUES

Background

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.

In 2008, ESSB 6573 was enacted directing that beginning in 2011, funds would be transferred from the State General Fund to the newly created Local Public Safety Enhancement Account (LPSEA). For the transfer to be required, the general state revenue collections for the previous biennium must increase by more than 5 percent from the prior fiscal biennium. The amounts of the transfers to the LPSEA were:

- $5 million for 2011;
- $10 million in 2013;
- $20 million in 2015;
- $50 million in 2017;
- and in subsequent fiscal biennia, the lesser of one-third of the general revenue increase amount or $50 million.

Half of the funds transferred to the LPSEA were to be transferred to a new LEOFF Benefit Improvement Account (BIA) in the LEOFF 2 Retirement Fund. The purpose of the BIA is to provide an additional means of funding benefit improvements in LEOFF Plan 2. The BIA is a subaccount of the LEOFF Plan 2 Retirement Fund. The assets in the BIA 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).

The remaining funds in the LPSEA were to be distributed to local governments for public safety purposes. Money in the BIA is not included in the calculation of contribution rates and may only be used to fund LEOFF 2 benefit improvements adopted by the Legislature.

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 $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.

Current Amount Due

The Legislature has amended the LPSEA statute three times since its inception in 2008. In the 2013 session, they removed the required September 2013 payment. In the 2015 session, they removed the required September 2015 payment. In the 2017 session, they removed the required September 2017 payment.

The 2013 and 2015 payments were made whole by the transfer of the funds out of the LEOFF 2 trust, but the 2017 payment of $25 million is still on the books. In addition, the 2019 trigger was met, which would have required a $25 million payment by September 2019, if not for the passage of HB 2144. This put the amount owed by the state to the BIA at $50 million.

Impact of HB 2144

HB 2144 transferred $300 million from the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Fund to the BIA. It also eliminated biennial transfers from the State General Fund to the LPSEA. This eliminated the $50 million the legislature owed to the BIA.

The legislature stated the purpose of HB 2144 was:

> to hasten the affordability of law enforcement officers' and firefighters' plan 2 benefit improvements, consistent with the intent associated with the creation of the benefits improvement fund, and designate reserves of the law enforcement officers' and firefighters' plan 2 for the sole purpose of benefit improvements.

The $300 million transfer will occur on July 1, 2019. HB 2144 stated that:

> On July 1, 2019 the state treasurer shall transfer the sum of three hundred million dollars from the law enforcement officers' and firefighters' plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

HB 2144 also included an emergency clause making the bill effective immediately.

Current Balance of the BIA

As of June 2019, only the one transfer of $15,776,000 in 2015 had been made into the BIA. With investment earnings the balance of the BIA as of May 31, 2019 was $21,184,332 (see appendix A).

Limitations on Spending Funds from BIA

Money transferred to the BIA can only be used to fund benefits adopted by the Legislature. Prior to any transfer of funds from the BIA to the LEOFF 2 trust fund, OSA must determine that the transfer from the BIA is sufficient to offset the full expected cost of the applicable benefit improvement.

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.

SUPPORTING INFORMATION

Appendix A: Department of Retirement Systems Rolling Balance by Account

APPENDIX A

WaTech
Washington Technology Solutions
Enterprise Reporting Services

Department Retirement Systems Rolling Reserve Balance by Account

Date Run: Jun 3, 2019 11:55AM

Report Number: DRS002

Biennium: 2019 **Fiscal Month:** May FY2 **Through:** May FY2 **Transactions Through:** May 31, 2019 8:00PM

	At DRS (124)	At WSIB (126)	L2 Board(341)	Reserve Totals
	Benefit Reserve	Benefit Reserve	Benefit Reserve	Combined Benefit Reserve
Account 838-LEOFF Retirement System Benefits Improv				
Beginning Balance		**20,859,919.62**		**20,859,919.62**
Revenue		325,412.47		325,412.47
Expenditures				
Transfers				
Total Activity		**325,412.47**		**325,412.47**
FM99/FM25 Adjustments				
Other DRS Entries				
OFM Entries*				
Ending Balance		**21,185,332.09**		**21,185,332.09**

*This amount must be added to the beginning of the biennium balance to arrive at the adjusted beginning biennium balance.

Department Retirement Systems Rolling Reserve Balance by Account

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At DRS (124)	At WSIB (126)	L2 Board(341)	Reserve Totals
Benefit Reserve	Benefit Reserve	Benefit Reserve	Combined Benefit Reserve

Input Parameters:	**Entered As**
Biennium:	2019
Begin Fiscal Month:	23 -May FY2
End Fiscal Month:	- Same As Beginning
Retirement Account:	838

*This amount must be added to the beginning of the biennium balance to arrive at the adjusted beginning biennium balance.

LEOFF
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Benefit Improvement Account

Educational Briefing

Issue

- The legislature transferred $300 million from LEOFF 2 to the LEOFF 2 Benefit Improvement Account
- The LEOFF 2 Board must determine what benefit improvement to fund out of the account

Background

- What is the LEOFF Plan 2 Benefit Improvement Account?
  - The Benefit Improvement Account is a sub-account 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
- Alternate Revenue Legislation
  - Legislative Intent

Background

- Alternate Revenue Trigger and Payment Schedule
  - General state revenue collections increase by more than 5 percent from the prior fiscal biennium
  - $5 million for 2011
  - $10 million in 2013
  - $20 million in 2015
  - $50 million in 2017
  - Lesser of one-third of the general revenue increase amount, or $50 million

Contribution History

- 2011 - 5% required revenue growth was not met
- 2013 - 5% revenue growth trigger was met for $10 million transfer
  - No funds were appropriated by the legislature
- 2015 - 5% revenue growth trigger was met for $20 million transfer
  - Legislature transferred $15,776,000 into the BIA from the LEOFF 2 Trust
- 2017 - 5% revenue growth trigger was met for $50 million transfer
  - No funds were appropriated by the legislature
- 2019 - 5% revenue growth trigger was met for $50 million transfer
  - HB 2144 transferred $300 million into the BIA from the LEOFF 2 Trust

Impact of HB 2144

- Transferred $300 million from the LEOFF 2 Fund to the BIA
- Eliminated biennial transfers from the State General Fund to the LPSEA
- Eliminated the $50 million the legislature owed to the BIA for 2019

Current Balance of the BIA

- As of May 31, 2019 BIA balance was $21,184,332

Limitations on Spending Funds from BIA

- Money transferred to the BIA can only be used to fund benefits adopted by the Legislature
- State Actuary must determine that the transfer from the BIA is sufficient to offset the full expected cost of the benefit improvement

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Thank You