



# Survivor Reduction Factors Preliminary Follow-up Report

LEOFF Plan 2 Retirement Board

July 22, 2009



# Key Issues

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- Survivor retirements use the same 100% joint and survivor reduction factors as a service or disability retirement



# Other Policy Issues

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- Consistency with other plans
- Recalculation of benefit



# Options

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- Create a new table of actuarial factors for survivor retirements
- Eliminate survivor reduction factor prospectively
- Eliminate survivor reduction factor retroactively



# Create New Table for Survivor Retirements

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- Create a new actuarial reduction factor table for survivor retirements
- Costs to be provided by the Office of State Actuary



# Eliminate Survivor Reduction Factor Prospectively

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- Eliminate the joint and 100% survivor reduction factor for new survivor retirement
- Costs to be provided by the Office of State Actuary



# Eliminate Survivor Reduction Factor Retroactively

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- Eliminate the joint and 100% survivor reduction factor for new survivor retirements
- Recalculate existing survivor benefits without reduction factor (*first increased payment to be paid from effective date of legislation forward only*)
- Costs to be provided by the Office of State Actuary

# Survivor Reduction Factors

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Questions?



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

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### 1. Issue

The current practice of using joint and survivor factors to calculate a survivor retirement results in a greater reduction for the surviving spouse, than may be necessary.

### 2. Staff

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### 3. Members Impacted

Based on the actuarial data as of June 30, 2007, there were 16,099 active LEOFF Plan 2 members. Changes to the survivor benefit calculation could impact all active members if it causes an increase in the contribution rate.

### 4. Current Situation

If a member dies prior to retirement and they have ten or more years of service credit or are eligible to retire and their eligible spouse or registered domestic partner chooses a monthly benefit, the benefit is actuarially reduced using the same joint and 100 percent reduction factors, as those used for a service or disability retirement.

## **5. Background Information**

Under the current statutes, if a member dies and has ten or more years of service credit, or is eligible to retire, their surviving spouse is eligible for a survivor benefit. The benefit calculation differs if the death was line of duty versus non-duty. In either case, the benefit is actuarially reduced as if the member had chosen a joint and 100 percent survivor option. If the death was non-duty, and the member was not otherwise eligible to retire, there is an additional actuarial reduction for early retirement (reduced from age 53).

The purpose of a survivor option is to ensure a member's spouse will have a continuing benefit after they die. The value of the benefit the member has earned is based on years of service, final average salary and the number of payments expected to be paid over a lifetime, including cost of living increases. When a survivor option is added to the benefit, experience shows that the number of payments paid out over two lifetimes, is greater than that paid over a single life-time.

In order to ensure that an equivalent benefit is paid if a joint survivor option is chosen, the benefit is reduced. The amount of the reduction is based on the interrelationship of many different factors, including experience studies, projections of life expectancies, and several economic and demographic assumptions. The calculations to create reduction factors for survivor options, as well as early retirements, are performed by the Office of the State Actuary (OSA).

### **Comparable Plans**

In reviewing other peer retirement plans, survivor benefits fall into two main categories: a specified payment amount or the earned benefit (see Appendix A). The majority of peer retirement plans use a specified payment amount. Those that use the earned benefit tend to also apply a joint survivor reduction factor.

### **Policy Issues**

Currently, the application of early retirement factors (retirements prior to the member attaining age 50) are treated differently for duty and non-duty deaths for survivor benefits. If the death is duty related, the actuarial reductions are not applied. If the death is non-duty related, the actuarial reductions are applied. However, the joint and survivor factors are applied equally to both duty and non-duty deaths.

The first issue raised is if the application of the current joint and survivor factors under a survivor retirement are appropriate, since the benefit payments are not made over two lifetimes but only over the survivor's life? Second, if a separate survivor factor table were to be created, should those factors be applied equally to duty and non-duty deaths?

## **6. Policy Options**

### **Policy Option 1: Create New Actuarial Reduction Factor Table**

Under this option a new and separate table would be created for surviving spouses in lieu of the current joint and 100% survivor tables. Spouses who choose the ongoing monthly benefit would have this new table used.

### **Policy Option 2: Eliminate the Reduction Factor - Prospectively**

Under this option no survivor reduction factor would be used for either duty or non-duty survivor retirements from the effective day of the legislation forward. Any survivor retirements prior to the effective day of the legislation would not be recalculated.

### **Policy Option 3: Eliminate the Reduction Factor – Retroactively**

Under this option no survivor reduction factor would be used for either duty or non-duty survivor retirements from the effective day of the legislation forward. In addition, any existing survivor retirements would have the benefit recalculated without the survivor reduction factor. This would only be applied to benefit payments due on or after the effective date of the legislation.

## **7. Supporting Information**

**Appendix A: Survivor Benefits Peer Comparison Table**

**Appendix B: RCW 41.26.510 – Death Benefits**

# Appendix A

## Survivor Benefits Comparison

Plan	Less than minimum number of years	Minimum or more years of service	
		Duty	Non-Duty
<b>Washington State Law Enforcement Officers' &amp; Fire Fighters' Plan 2</b>	1) Refund of accumulated contributions (less than ten years of service)	1) Refund of 150% of accumulated contributions <b>or</b> 2) Earned benefit reduced by joint 100% survivor option (ten or more years of service required)	1) Refund of 150% of accumulated contributions <b>or</b> 2) Earned benefit reduced by joint and 100% survivor option factor and an early retirement factor (if not eligible for normal or early retirement) (ten or more years of service required)
<b>Arizona Public Safety Personnel Retirement System</b>	NA	1) Earned benefit is 100% of deceased member's average monthly benefit compensation, less any amount payable for an eligible child.	1) 80% of either 50% of average monthly compensation or 80% of normal pension amount, whichever is greater.
<b>Arkansas Local Police &amp; Fire Retirement System</b>	1) Refund of accumulated contributions (less than five years)	1) 50% of a benefit calculated as if the member had accrued 25 years of service, reduced by survivor option factor. (five or more years required)	1) 50% of earned benefit, reduced survivor option factor. (five or more years required)
<b>Colorado Fire and Police Pension Association</b>	NA	1) 70% of annual salary.	1) 40% of annual salary.
<b>Delaware County &amp; Municipal Police/Fire Pension</b>	1) Refund of accumulated contribution (less than one year non-duty death).	1) 50% of final average compensation.	1) 50% of final average compensation.
<b>Kansas Police and Firemen's Retirement Systems</b>	NA	1) 50 % of final average salary. For each eligible child also receive an annual benefit of ten percent of final average salary. The maximum total benefit is 75 percent of your final average salary.	1) Lump-sum payment of ten0% of final average salary, plus an annual benefit of final average salary x 2.5% x years of service. The maximum annual benefit is 50% of final average salary
<b>Maryland Pension System for Local Fire Fighters and Police Officers</b>	1) Refund of accumulated contributions (less than one year of service non-duty)	1) Lump-sum equal to ten0% of annual salary at time of death plus accumulated contributions (begins day one of service) <b>or</b> 2) If retirement eligible, earned benefit reduced by the joint ten0% survivor option factor (begins day one of service).	1) Lump-sum equal to ten0% of annual salary at time of death plus accumulated contributions (begins after one year of service) <b>or</b> 2) If retirement eligible, earned benefit reduced by the joint ten0% survivor option factor (begins after one year of service).
<b>New Hampshire Retirement System (Group II – Police &amp; Fire)</b>	1) Lump-sum payment equal to member's annual earnable compensation plus accumulated contributions (less than ten years of service)	1) Lump-sum payment of the member's accumulated contributions plus 50% of the member's annual rate of earnable compensation at the date of the member's death. (ten or more years of service)	1) Lump-sum payment equal to member's annual earnable compensation plus accumulated contributions <b>or</b> 2) 50% of the member's earned pension (ten or more years of service)
<b>Ohio Police and Fire Pension Fund</b>	NA	1) 100% of base pay, provided member is not eligible for an age and service retirement (no service credit requirement). 2) 50% of base pay at the time the member would have been eligible for an age and service retirement, <b>plus</b> \$410 per month plus, COLAs.	1) \$661 per month plus COLAs

## Appendix B: RCW 41.26.510 - Death benefits.

\*\*\* CHANGE IN 2009 \*\*\* (SEE [1551.SL](#)) \*\*\*

\*\*\* CHANGE IN 2009 \*\*\* (SEE [1616.SL](#)) \*\*\*

(1) Except as provided in RCW [11.07.010](#), if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW [41.50.670](#), shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW [41.50.670](#), shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW [41.26.430](#), actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW [41.50.670](#) and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW [41.26.460](#) and if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW [41.26.430](#); if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated as herein provided making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b)(i) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW [41.50.670](#); or

(ii) If the member dies on or after July 25, 1993, one hundred fifty percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW [41.50.670](#). Any accumulated contributions attributable to restorations made under RCW [41.50.165](#)(2) shall be refunded at one hundred percent.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies after October 1, 1977, and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW [41.50.670](#), shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW [41.26.420](#).

(5) The retirement allowance paid to the spouse and dependent children of a member who is killed in the course of employment, as set forth in RCW [41.05.011](#)(14), shall include reimbursement for any payments of premium rates to the Washington state health care authority pursuant to RCW [41.05.080](#).

[2006 c 345 § 1; 2004 c 5 § 1; 2000 c 247 § 1001. Prior: 1995 c 245 § 1; 1995 c 144 § 19; 1993 c 236 § 3; 1991 c 365 § 31; 1990 c 249 § 14; 1977 ex.s. c 294 § 12.]

## Notes:

**Contractual right not granted -- 2006 c 345:** "The legislature reserves the right to amend or repeal this act in the future and no member or beneficiary has a contractual right to receive any distribution not granted prior to that time." [2006 c 345 § 3.]

**Effective dates -- Subchapter headings not law -- 2000 c 247:** See RCW [41.40.931](#) and [41.40.932](#).

**Effective date -- 1995 c 245:** "This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and shall take effect immediately [May 5, 1995]." [1995 c 245 § 3.]

**Severability -- 1991 c 365:** See note following RCW [41.50.500](#).

**Findings -- 1990 c 249:** See note following RCW [2.10.146](#).

**Legislative direction and placement -- Section headings -- 1977 ex.s. c 294:** See notes following RCW [41.26.410](#).