



September 21, 2016  
Final Month Payment

## INITIAL CONSIDERATION

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## ISSUE STATEMENT

When a retiree dies in the middle of the month, DRS must assess and collect a reimbursement from the member's estate for that portion of the month following the retiree's death.

## OVERVIEW

LEOFF Plan 2 provides a monthly pension payment for life. That pension ends when the retiree, or his or her survivor beneficiary, dies. When the retiree or beneficiary dies part-way through the month, the Department of Retirement Systems (DRS) must recoup the payment attributable through the remainder of the month.

Some heirs have complained that repayment of a portion of the final pension benefit places an undue burden on them. Identifying the amount, contacting the retiree's heirs, and collecting an overpayment also creates an administrative workload for DRS.

DRS asked the Governor's office to approve a request bill allowing retirees to keep their full last month's benefit. The State Actuary is working on a cost estimate for that bill. At the time of this report, it appears the Governor is not authorizing DRS to proceed with a request bill.

## BACKGROUND & POLICY ISSUES

Upon retirement, the member receives a benefit payable "throughout such member's life."<sup>1</sup> If the member selects a beneficiary, and the beneficiary survives the member, the benefit is paid "throughout the life" of the beneficiary.<sup>2</sup>

Retirement allowances accrue from the first day of the calendar month following the retiree's separation.<sup>3</sup> The retiree does not accrue a full month's retirement allowance until the last day of the month. As such, DRS pays retirement allowances in monthly installments at the end of the month.

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<sup>1</sup> RCW 41.26.460(1)(a)

<sup>2</sup> RCW 41.26.460(1)(b)

<sup>3</sup> RCW 41.26.490

When a retiree dies in the middle of the month he or she has accrued a benefit only through the day of death, i.e. less than the full month. Since retirement allowances are made in full monthly installments, the beneficiary receives a full month's retirement allowance. Consequently, an overpayment of the retiree's allowance occurs. Under current law, DRS has a fiduciary duty to identify and recoup that overpayment.

### **Example**

The average monthly benefit of LEOFF 2 member's retiring in 2014:	\$4200
<u>Accrual if retiree dies on the 10<sup>th</sup>:</u>	<u>\$1400</u>
Overpayment	\$2800

Some heirs feel recoupment of the overpayment places an undue burden on them. It also creates a labor intensive administrative impact on DRS.

DRS asked the Governor's office to approve a request bill allowing retirees to keep their full last month's benefit. The State Actuary is working on a cost estimate for that bill. At the time of this report, it appears the Governor is not authorizing DRS to proceed with a request bill.

### **NEXT STEPS**

1. Direct staff to provide a Comprehensive Report
2. Take no further action at this time



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# ISSUE

- ▶ When a retiree dies in the middle of the month, the Department of Retirement Systems (DRS) must assess and collect a reimbursement from the member's estate for that portion of the month following the retiree's death.
- ▶ Burden on retiree's heirs
- ▶ Administrative work for DRS
  - Calculating
  - Contacting
  - Collecting

# WHY IS THERE AN OVERPAYMENT?

- ▶ Retirement allowances accrue daily beginning on the first of the month



- ▶ Benefits paid at the end of the month after a full month's benefit has accrued



- ▶ In the month of death:
  - Benefit stops accruing on the day of death
  - Benefit paid for the whole month

# OVERPAYMENT EXAMPLE

- Full month's accrual: \$4,200
- Accrual if member dies on 10th: \$1400
- Overpayment \$2,800

# AMENDMENT PROPOSAL

- ▶ To allow payment of full final month's payment
- ▶ Cost to pay full final month's benefit:
  - Actuary calculating
  - (Small individual increase) X (all retirees) = ?
- ▶ DRS decision package to Governor – not approved

# NEXT STEPS?

- ▶ Direct staff to prepare a Comprehensive Report
- ▶ No further action at this time

# **CONTACT**



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