



EDUCATIONAL BRIEFING

By Steve Nelsen

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OVERVIEW

LEOFF Plan 2 historically had two sources of revenue to fund plan benefits; contributions and investment earnings. Any benefit improvement must be paid for by an increase in contributions by plan members, employers, and the State.

During a three year period¹, the Board researched other public safety retirement plans around the country that had developed alternate revenue sources as a means of funding improved plan benefits without raising contribution rates.

The 2008 Legislature passed a bill providing additional revenue to LEOFF Plan 2 for benefit improvements and to local government for defined public safety purposes.

BACKGROUND

Alternate Revenue Legislation

The 2008 Legislature passed Engrossed Substitute Senate Bill 6573 providing local government public safety employers and the law enforcement officers' and firefighters' plan 2 pension plan with additional shared revenues.

Alternate Revenue Trigger and Payment Schedule

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer is required to transfer, subject to appropriation, prescribed funds to the Local Public Safety Enhancement Account (LPSEA). The amounts that would be transferred to the LPSEA if the Alternate Revenue trigger is met are shown in the following schedule:

- \$5 million for 2011
- \$10 million for 2013
- \$20 million in 2015
- Lesser of one-third of the general revenue increase amount or \$50 million in 2017 and beyond

¹ 2006, 2007, 2008

Benefits Improvement Account

After a transfer to the LPSEA, one-half of the funds transferred into the LPSEA would then be transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF Plan 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes.

Money transferred to the Benefits Improvement Account can only be used to fund benefits adopted by the Legislature. Benefits may be funded from the Benefits Improvement Account if the State Actuary determines that the actuarial present value of the proposed and existing benefit obligations is met or exceeded by the actuarial present value of the projected revenues to the account. The Washington State Investment Board (WSIB) is authorized to adopt investment policies and invest the money in the Benefits Improvement Account.

The Board has the sole authority to authorize disbursements from the Benefits Improvement Account, and to establish all other policies relating to the Benefits Improvement Account, which must be administered in an actuarially sound manner. Funds in the Benefits Improvement Account 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.

Local Public Safety Enhancement Account (LPSEA)

The State Treasurer is responsible for the distribution of the funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF Plan 2 membership that it employs, as determined by the Department of Retirement Systems. In the event that two jurisdictions have a contract for the provision of law enforcement or fire protection services, the two parties must agree on a revenue sharing arrangement before funds will be distributed. The LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at risk or runaway youth, or other public safety purposes, and may not replace existing expenditures by local jurisdictions for those purposes.

Disbursement History

The 5% revenue growth trigger was not met in 2011. The trigger was met for 2013, however, the Legislature declined to pay it, instead striking the \$10 million payment from the statute.

The statutory trigger was met again for 2015. Rather than pay the \$20 million into the LPSEA, the legislature decided to make a \$15,776,000 payment into the Benefit Improvement Account, from the LEOFF Plan 2 Trust. The 2015 budget, as passed by the legislature, contained language about the intent of the Alternate Revenue legislation regarding funding of the 2017 payment which read:

"It is the intent of the legislature to fund the portion of the distribution in 2017 dedicated to the local law enforcement officers' and firefighters' retirement system benefits"

improvement account through alternate means, which may include transfers from the law enforcement officers and firefighters’ plan 2 retirement fund.”

Governor Jay Inslee vetoed this language with the following message:

“I support funding for the Local Law Enforcement Officers’ and Firefighters’ Retirement System Benefits Improvement Account, and included funding for this account in my budget proposal. Rather than provide a General State-Fund appropriation to this account, the Legislature transferred money from the LEOFF retirement system pension fund to the benefits improvement account. While I am approving this one-time transfer, I am concerned that repeated transfers would undermine the stability of the pension fund and increase the cost of existing pension benefits for plan members, local governments, and the state of Washington. Because I believe that future funding for the benefits improvement account should be made through General Fund appropriations, as envisioned by the legislation that created that account, I am vetoing language that indicates legislative intent for future transfers from the pension fund.”

Fiscal Year	Biennial General State Revenues	Difference from Previous Biennium	% Change from previous biennium	Statutory Transfer Date	Transfer Amount
2011	24,623,203,901	(110,068,281)	(0.45%)	9/30/2011	none
2013	26,738,496,726	2,115,292,825	8.59%	9/30/2013	\$10 million ²
2015	29,000,000,000	2,261,503,274	8.45%	9/30/2015	\$15,776,000 ³

² The 2011 scheduled payment was not appropriated in the Legislature’s budget and not transferred to the BIA.

³ Statute required a \$20 million payment into the LPSEA, with \$10 million into the BIA. The \$15,776,000 went strictly into the BIA.



Alternate Revenue

**Educational Briefing
September 23, 2015**

Presentation Overview

- Background
- Alternate Revenue Legislation
 - Intent
- Components
 - Trigger and Payment Schedule
 - Local Public Safety Enhancement Account
 - Benefit Improvement Account
- Disbursement History

Background

- Two sources to fund benefits
- Board studied for 3 years (2006-2008)
- Legislation Proposed in 2008

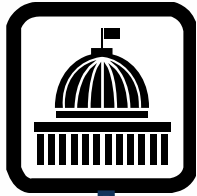
Legislation

- Intent
 - Provide revenue for public safety and protection
 - Recognize risk and physical/challenging demands
 - Negative impacts on career and accrual on adequate pension benefits
- Purpose
 - Provide local government public safety employers and the LEOFF Plan 2 with additional shared revenues when general state revenues exceed by more than five percent the previous fiscal biennium's revenue.

Components

- **Trigger**
 - 5% Biennial growth in general state revenue
- **Payment Schedule**
 - 2011 - \$5 Million
 - 2013 - \$10 Million
 - 2015 - \$20 Million
 - 2017 and beyond - lesser of 1/3 of biennial revenue increase or \$50 Million

How it works



1. Revenue growth trigger met
2. Payment appropriated by Legislature

\$10 million transferred to LPSEA

Local Public Safety
Enhancement Account
(LPSEA)

\$5 million distributed to
local government

\$5 Million (50%) transferred from LPSEA to BIA

Benefit
Improvement
Account

Disbursement History

- 2011 – Trigger not met
- 2013 – Trigger met, funds not appropriated
- 2015 – Trigger met, funds appropriated to BIA from LEOFF 2 Trust

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Questions?

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