LEOFF Plan 2 Retirement Board

September 25, 2019

PEBB Coverage/Catastrophic Retiree

INITIAL CONSIDERATION

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ISSUE STATEMENT

LEOFF Plan 2 catastrophic disability retirees and their survivors have different medical insurance access than survivors of members killed in the line of duty.

OVERVIEW

This report will provide information on what health insurance benefits and reimbursements are available to survivors of members who are killed in the line of duty and to members who are retired for catastrophic disability. This report will also provide the history of the health insurance premium reimbursement benefit.

BACKGROUND AND POLICY ISSUES

Survivor Premium Reimbursement

Legislation enacted in 2001[1] enabled surviving spouses of emergency service personnel killed in the line of duty on or after January 1, 1998, to purchase health care benefits from the Public Employees Benefit Board (PEBB). "Emergency service personnel" for this purpose included fire fighter and law enforcement members of the Law Enforcement Officers' and Fire Fighters' Retirement System and the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension System. Under the 2001 legislation, the cost of the insurance was paid by the surviving spouses and dependent children.

Under legislation enacted in 2006[2], the retirement allowance paid to survivors of all LEOFF 2 members killed in the course of employment includes reimbursement for the cost of participating in a PEBB health insurance plan. The survivors of members killed in the line of duty prior to January 1, 1998, as well as on or after January 1, 1998, are eligible to participate in the PEBB health insurance plans under the 2006 bill. This benefit (right to reimbursement for the health care insurance costs) is not considered a contractual right, and the Legislature reserved the right to amend or repeal the 2006 act for future reimbursements.

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[1] Engrossed Substitute House Bill 1371 (2001)
[2] Senate Bill 6723 (2006)

Catastrophic Disability Premium Reimbursement

LEOFF Plan 2 does not provide access to any health care insurance for any disability retirees. A disability retiree may have access to health care insurance through employer or employee associations or the open market. Catastrophic disability retirees/survivors do not have access to benefits through PEBB unless they were already receiving PEBB benefits through their employer. This means these members are receiving benefits through the federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) coverage (18 months only), through coverage offered to retirees through their employer, or individual coverage from the open market. Shopping for private coverage can be challenging and expensive. Tracking and paying a diverse and shifting field of individual providers creates administrative challenges for DRS. The cost for coverage can be much greater under private coverage, then under PEBB[3].

Since 2010, LEOFF Plan 2 has provided a reimbursement to the disability allowance of a LEOFF Plan 2 member that is totally disabled in the line of duty that includes reimbursement for any payments made for employer-provided medical insurance. This includes medical insurance offered under the federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and Medicare Parts A and B4. The reimbursement is capped at the former employer's current COBRA amount or other employer provided retiree medical insurance premium amount[5]. The actual amount reimbursed depends on the health insurance plan selected by the retiree or surviving spouse.

History of Catastrophic Health Insurance Premium Reimbursement

During the 2008 interim, the Board studied options for extending the health care premium assistance to catastrophic retirees and their survivors. At the Board's request, the Legislature introduced HB 1679 in 2009. The 2009 bill proposed including catastrophically disabled LEOFF Plan 2 members, their spouses and dependent children in the PEBB risk pool, with the individuals paying their own PEBB premium until Medicare eligible.

The Health Care Authority fiscal note estimated a total cost of $1.5 million the first biennium, ramping up to $4.7 million by the 2013-15 biennium. The fiscal note assumed, among other things, 14 new catastrophic retirees added on January 1 of each year. The 2009 version of HB 1679 failed.

In 2010, the Legislature substituted a new bill containing the provisions now found in law. SHB 1679:

- Did not expand PEBB participation
- Authorized the LEOFF trust fund to reimburse catastrophic retirees and their survivors for health insurance premiums up to authorized COBRA levels

[3] In 2019, retiree medical premiums for an individual and spouse in PEBB (Uniform Medical Classic) are $1,344. U
[4] Medicare Part A is hospital insurance (inpatient) and Medicare Part B is medical insurance (outpatient).
[5] RCW 41.26.470(10).

The Office of the State Actuary's (OSA) fiscal note estimated a cost of about $1.8 million per biennium, increasing contribution rates by .26% total. However, when OSA presented supplemental rate increase options to the Board in June of 2010, it did not include a rate increase from SHB 1679.

Experience May Lower Cost of Board's Original PEBB Proposal

Writing a fiscal note requires predicting the future. Sometimes actual experience does not track those predictions. The estimates of future costs for including catastrophic retirees and their families in PEBB may have been overstated, due primarily to an overestimate of the number of catastrophic retirees.

Both the actuarial and health care authority fiscal notes assumed a higher rate of catastrophic retirements than current experience demonstrates. OSA completed two experience studies since that time showing a lower catastrophic retirement rate.[6]

OSA's analysis in the original SHB 1679 fiscal note found that cutting the estimated number of retirees in half reduces the estimated cost of the bill nearly by half. Given that analysis, the lower rate of actual catastrophic retirements indicates a significantly lower cost than estimated in the original fiscal notes. HCA has indicated to the LEOFF 2 Board staff that they would use OSA's assumptions on a new bill.

From 2003 through 2018, there have been a total of 63 (an average of 3.9) catastrophic disabilities approved a year.[7] However, the number of catastrophic disabilities may increase as the legislature has continued to add additional presumptive diseases to existing law, which makes it more likely members will qualify for duty and catastrophic disability benefits in the future. OSA is currently working on a new Demographic and Experience Study which will include a new catastrophic retirement rate assumption.

Catastrophic Retirement Rates: Original vs. Revised vs. Actual	
2009 HCA Assumed Rate	14/year
Current Experience Study Rate	4.5/year
2003 – 2018 Actual Experience	3.9/year

SUPPORTING INFORMATION

Appendix A: OSA Fiscal Note for SHB 1679

[6] The most recent OSA Demographic Experience Study is from 2007-2012.

[7] During that time period one catastrophic disability, which was approved on a temporary basis, was converted to a duty disability.

APPENDIX A

Multiple Agency Fiscal Note Summary

Bill Number: 1679 E HB	**Title:** Catastrophic disability med

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Washington State Health Care Authority	0	1,669,985	0	0	0	0
Total $	**0**	**1,669,985**	**0**	**0**	**0**	**0**
Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	2,300,000	2,300,000	.0	2,400,000	2,400,000	.0	2,400,000	2,400,000
Washington State Health Care Authority	.0	363,343	1,669,985	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	.0	0	0	.0	0	0
Total	**0.0**	**$2,663,343**	**$3,969,985**	**0.0**	**$2,400,000**	**$2,400,000**	**0.0**	**$2,400,000**	**$2,400,000**
Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Pending Distribution

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 24437

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 1679 E HB	Title: Catastrophic disability med	Agency: 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
Fund					
General Fund-State 001-1	1,000,000	1,300,000	2,300,000	2,400,000	2,400,000
Total $	1,000,000	1,300,000	2,300,000	2,400,000	2,400,000

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 03/10/2009
Agency Preparation:	Nelsen Dave	Phone: 360-786-6144	Date: 04/21/2009
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 04/21/2009
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 04/21/2009

Request # -2

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**4/21/09**	**EHB 1679**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2009 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse and may mislead others.

SUMMARY OF RESULTS

This bill will provide access to insurance products offered by the Public Employees' Benefits Board (PEBB) to members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 who qualify for a total line-of-duty disability benefit. The cost of the insurance is paid by the member and the LEOFF Plan 2 retirement fund.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$10,507	$63.3	$10,570
Earned Pensions Not Covered by Today's Assets	N/A	N/A	N/A

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	**LEOFF**
Employee (Plan 2)	0.21%
Employer:	
Current Annual Cost	0.13%
Plan 1 Past Cost	0.00%
Total	0.13%
State	0.08%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$2.3	$2.4	$26.1
Total Employer	$6.0	$6.0	$65.5

See the Actuarial Results section of this fiscal note for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

A member of LEOFF Plan 2 who qualifies for a total line-of-duty disability benefit under RCW 41.26.470 (8) would be eligible to participate in health insurance products offered by PEBB. This eligibility is granted regardless of whether the member was covered by PEBB benefits as an active employee. The spouse and dependents of the member would also qualify for coverage.

The engrossed house bill differs from the original bill in that it requires the LEOFF Plan 2 retirement fund to pay the difference between the premium charged to the recipient and the increased cost to the corresponding risk pool created by adding the disabled members and/or dependents. Additionally, the engrossed bill ends the benefit provisions on July 1, 2011. After this date, new members of LEOFF Plan 2 would not be eligible for the PEBB coverage provided by this bill. Existing eligible retirees and members actively employed prior to July 1, 2011, would retain their eligibility for this benefit coverage after July 1, 2011.

Effective Date: Immediately upon signing.

What Is The Current Situation?

LEOFF Plan 2 members who have coverage under PEBB as active employees are able to purchase PEBB benefits offered to retirees when they choose to retire, whether retiring for service or disability. While all local government employers are eligible to offer PEBB benefits to their employees, not all employers do so.

Who Is Impacted And How?

We estimate this bill could affect all 16,099 active members of LEOFF Plan 2 through improved benefits. Of the 924 retirees and members with disabilities, there are currently four members with total disabilities incurred in the line of duty that would be affected. Furthermore, we expect approximately 16 additional members per year will actually receive improved benefits.

We estimate this bill will increase the benefits for a typical member by providing access to PEBB insurance products, along with the associated healthcare subsidies provided through PEBB.

This bill impacts all 16,099 active Plan 2 members through increased contribution rates.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

PEBB provides subsidized healthcare insurance for certain members of the state's retirement systems. This subsidy generally increases with age. Allowing more retirees to join PEBB increases the number of members receiving the subsidy and increases the associated costs. In addition, the population added under this bill is expected to be less healthy (and more costly) than the average member currently covered under PEBB.

Who Will Pay For These Costs?

The pension system will pay for the subsidies arising from the affected members entering PEBB. The pension system will pre-fund the costs consistent with the approach for retirement benefits. Contribution rates will increase in advance, the money will be invested, and HCA will collect the money when it is due. The contributions will be funded 50 percent by the employees, 30 percent by the employers, and 20 percent by the state.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed all members would join the Uniform Medical Plan (UMP). We based this assumption on the fact that the majority of members in PEBB select UMP.

Members who are affected by this bill meet the standard of disability used by the Social Security Administration, which allows access to Medicare Part A after 29 months. We assumed all of the members would enroll in Medicare Part B, which would allow access to PEBB's Medicare risk pool. Therefore, we assumed all members would transfer to the Medicare risk pool after two years, whereas their spouses would transfer to the Medicare risk pool at age 65.

We assumed HCA could charge the pension system for only six of the twenty expected members in the first year. We assumed HCA could charge the pension system for all expected members in years two and beyond.

We assumed all current members are eligible for this benefit regardless of the date of disablement. We believe it is uncertain whether this benefit would be considered contractual, so we have assumed it will continue past the sunset date of July 1, 2011. However, we do assume that the sunset will mean the benefits are not contractual for future entrants to the system.

Otherwise, we developed these costs using the same assumptions as disclosed in both the June 30, 2007, Actuarial Valuation Report (AVR) and the January 1, 2008, Other Post-Employment Benefits Actuarial Valuation Report (OPEB AVR).

How We Applied These Assumptions

We relied on HCA's fiscal note to estimate the cost for full family coverage when both member and spouse are in the non-Medicare risk pool. We assumed the total cost per month was $3,248 and the total premium paid by the family was $1,158. We used the 2008 explicit subsidy amount of $164 per month to value both the member and spouse while they were in the Medicare risk pool. We used implicit subsidy costs consistent with the OPEB AVR to value the cost of the spouse in the non-Medicare risk pool after the first two years.

We placed the members into the UMP. Consistent with the AVR, we used the expected rate of total disablement to determine how many active members would be expected to enroll in PEBB each year (approximately 18 percent of all duty-related disabilities). We flagged the four currently eligible members in the data as they are expected to join PEBB immediately if this bill passes.

Otherwise, we developed these costs using the same methods as disclosed in the AVR.

Special Data Needed

We relied on data provided by DRS to identify the four members that are currently eligible for this bill. We did not audit this data.

Otherwise, we developed these costs using the same assets and data as disclosed in both the AVR and the OPEB AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding by increasing the present value of future benefits payable as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
LEOFF 1	$4,358	$0.0	$4,358
LEOFF 2	6,149	63.3	6,212
LEOFF Total	**$10,507**	**$63.3**	**$10,570**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
LEOFF 1	($975)	$0.0	($975)
LEOFF 2	(974)	28.0	(946)
LEOFF Total	**($1,949)**	**$28.0**	**($1,921)**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown below that applies in the current biennium. However, we will use the un-rounded rate increase to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)	
System/Plan	**LEOFF**
Current Members	
Employee (Plan 2)	0.205%
Employer:	
Normal Cost	0.123%
Plan 1 UAAL	0.000%
Total	0.123%
State	0.082%
New Entrants*	
Employee (Plan 2)	0.000%
Employer:	
Normal Cost	0.000%
Plan 1 UAAL	0.000%
Total	0.000%
State	0.000%

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

Budget Impacts	
(Dollars in Millions)	**LEOFF**
2009-2011	
General Fund	$2.3
Non-General Fund	0.0
Total State	**$2.3**
Local Government	3.7
Total Employer	**$6.0**
Total Employee	**$6.0**
2011-2013	
General Fund	$2.4
Non-General Fund	0.0
Total State	**$2.4**
Local Government	3.6
Total Employer	**$6.0**
Total Employee	**$6.0**
2009-2034	
General Fund	$26.1
Non-General Fund	0.0
Total State	**$26.1**
Local Government	39.4
Total Employer	**$65.5**
Total Employee	**$65.5**

Note: Totals may not agree due to rounding.

The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions or methods selected for this pricing we varied the following assumptions and methods:

- The sunset provision does not remove eligible members from PEBB at July 1, 2011.
- The sunset provision does not stop current members who disable after July 1, 2011, from enrolling in PEBB.

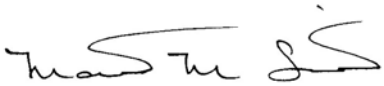
We determined the total liability if members were not allowed PEBB coverage after July 1, 2011, consistent with what we believe to be the bill's intent. The liability increase would be $0.9 million instead of the expected $63.3 million. The corresponding rate increase would be 0.003 percent for the member, 0.002 percent for the employer, and 0.001 percent for the state.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2009 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this fiscal note.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA
State Actuary

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Individual State Agency Fiscal Note

Bill Number: 1679 E HB	Title: Catastrophic disability med	Agency: 107-Wash State Health Care Authority

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND	FY 2010	FY 2011	2009-11	2011-13	2013-15
Public Employees' and Retirees InsuranceAccount-Non-Appropriated 721-6	806,756	863,229	1,669,985		
Total $	806,756	863,229	1,669,985		

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
Fund					
General Fund-State 001-1	363,343	0	363,343	0	0
Public Employees' and Retirees InsuranceAccount-Non-Appropriated 721-6	443,413	863,229	1,306,642	0	0
Total $	806,756	863,229	1,669,985	0	0

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

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☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 03/10/2009
Agency Preparation:	Kim Grindrod	Phone: 360 252-3377	Date: 03/12/2009
Agency Approval:	Dennis Martin	Phone: (360) 923-2831	Date: 03/12/2009
OFM Review:	Nick Lutes	Phone: 360-902-0570	Date: 03/18/2009

Request # 09-72-01-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

See attached narrative

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

see attached narrative

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached narrative

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services	806,756	863,229	1,669,985		
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$806,756	$863,229	$1,669,985	$0	$0

Part IV: Capital Budget Impact

See attached narrative

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

See attached narrative

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

The engrossed version of this bill directs the PEBB to charge the Law Enforcement Officers and Firefighters (LEOFF) pension plan the value of the implicit subsidy instead of the General Fund-State.

However, in the engrossed version of this bill, Section 1(4) limits the amount of the subsidy that can be charged to the LEOFF pension plan to the number of totally disabled members indentified in the actuarial valuation (RCW 41.26.480 (8) in the period immediately prior to the affected plan year.

In Section 5 of the engrossed version of this bill directs the act to expire July 1, 2011.

This bill amends RCW 41.05.080 and 41.05.195 by expanding the Pubic Employees Benefits Board's (PEBB) eligibility to include:

1. Surviving spouses and dependent children of law enforcement officers and firefighters [LEOFF] who are totally disabled in the line of duty and receiving a retirement allowance as provided under RCW 41.26.470(8).

2. Law enforcement officers and firefighters [LEOFF] who are totally disabled in the line of duty and receiving a retirement allowance as provided under RCW 41.26.470 (8) and their dependents.

The bill provides the same eligibility and premium payment requirements as currently in place for the surviving spouses and dependent children of emergency service personnel killed in the line of duty.

Discussion:

For the period of July 1, 2009 through June 30, 2011, this bill would allow totally disabled (in the line of duty) law enforcement officers and firefighters and their families the option of moving out of their current insurance plans and into the PEBB insurance plans. **We believe the sunset clause in Section 5 of the bill would require the catastrophically disabled LEOFF members to leave the PEBB program on June 30, 2011.** At that time, due to the expected health status of this group, we believe the only likely option for health insurance coverage would be from the Washington State Health Insurance Pool, a high risk insurance pool.

The retirees discussed in this bill are totally disabled, and, therefore we assume the cost of healthcare for these members will significantly exceed the rates charged. The difference between the rate charged and the cost to provide the health care is known as an implicit subsidy. The "true cost" of this population is based on assumptions around greatly increased utilization. In lieu of more specific information regarding the types of disabilities and claims costs affecting these employees, we will use the PEBB Uniform Medical Plan (UMP) rate for a full family to estimate the premium that will be paid monthly by the disabled retiree and we will

use the PEBB conversion plan full family rate[1] as a proxy for the increased costs. The difference between the two rates is the value of the subsidy.

The phrases "surviving spouse" and "child/children" are defined in RCW 41.26.030 (6) and (7) regarding the law enforcement officers' and firefighters' retirement system. However, the bill amends PEBB eligibility provisions. PEBB benefits provided in RCW 41.05.080 are subject to the terms, definitions and conditions set by the PEB Board. Therefore, under the bill, PEBB would cover any *PEBB-eligible* spouse or child dependent of a totally disabled officer or fire fighter.

The distinction between the 41.26.030 (6)/(7) definitions and PEBB's 41.05.080 definitions of spouse and dependent children is subtle, but there is a difference. There would most likely be no difference in the definition of spouse (PEBB rules do not allow for ex-spouses, but we have historically allowed LEOFF 2 surviving ex-spouses if they qualified under 41.26.162), but PEBB's definition of dependent children is a little more broad than the definition in 41.26.030. Specifically, 41.26.030 (7)(b) defines a student as a child up until they turn 21, while PEBB defines a student dependent as eligible up until they turn 24.

Assumptions

The HCA has made several assumptions about this bill. Changes in the assumptions will have impacts on the expenditure estimates. HCA has made assumptions as to how the proposed legislation would be implemented as written. This fiscal analysis was made based upon those assumptions and the costs associated with any different interpretation of the bill are not estimated within this analysis.

- Enrollment: Updated enrollment assumptions have been provided by the Office of the State Actuary and we estimate 20 new "totally disabled" retirees would join PEBB effective July 1, 2009[2] and an additional 16 "totally disabled retirees would join PEBB effective January 1, 2011 for a total of 36. We assume the new subscriber would request full family coverage. The Office of the State Actuary provided the following enrollment assumptions:

Fiscal Year Ending	# of Expected Total Disabilities	# of Total Disabilities HCA can Charge Pension System
2008	2	N/A
2009	4	N/A
2010	20	6
2011	36	36
Beyond	52+	N/A

[1] PEBB conversion plan rates reflect a population no longer employed for the state and who have exhausted their COBRA benefits which includes right to remain in the community rated risk pool. The rates reflect an increased cost for high utilization of health care.

[2] Please note: In the earlier version of this fiscal note, we assumed the newly eligible enrollment would begin in January 2010. In this version, we assume the newly eligible enrollment will begin in July 2009.

We assume there will be no disabled LEOFF member enrollment effective July 1, 2011 due to the expiration clause in Section 5

- Risk Pool: We assume the disabled retiree will be in the non-Medicare community rated risk pool. Many LEOFF members are exempt from contributing to the federal Social Security and Medicare programs. Due to this exemption, we assume the members are not eligible to join Medicare Parts A and B, and, therefore may not be moved to the PEBB Medicare community rated risk pool. A different set of assumptions and subsidies apply to the Medicare risk pool but are not considered in this analysis.

- Plan Selection and Rate: We assume the disabled retiree will select the Uniform Medical Plan. This is currently the lowest cost PEBB offering. In Calendar Year (CY) 2009 the Uniform Medical Plan Full Family paid to plan rate is $1,158 per month. The PEBB Conversion Plan 1 full family rate is $3,248 per month. Based on the current trend provided by our actuaries, we assume the rates will increase 7% per year.

- We assume it is not the intent of this legislation to pass the cost of the subsidies for this group on to the current PEBB employers and employees. Therefore, based on direction provided in the bill, we assume the implicit subsidy for six members will be charged to the LEOFF pension plan in FY 2010, and the implicit subsidy for the remaining members will be paid through a direct transfer from the General Fund-State into the PEBB fund in FY 2010. In FY 2011, we assume the entire implicit subsidy will be charged to the LEOFF pension plan.

- The proposed method of collecting funding for the subsidy will require tracking and reporting but can be accomplished within available resources.

- The bill broadens eligibility to include a small number of people and will require revisions to communications materials and amending WAC 182-12-250. This can be accomplished within existing resources.

II. B – Cash Receipts Impact

The following chart shows the expected increased revenue receipts from Fiscal Year (FY) 2010 through FY 2015, in the Public Employees' and Retirees' Insurance Account (Fund 721).

Cash Receipts	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
721 Benefits	$ 806,756	$ 863,229	$ -	$ -	$ -	$ -
Total	$ 806,756	$ 863,229	$ -	$ -	$ -	$ -

II. C - Expenditures

The following table shows the expected expenditures from FY 2010 through FY 2015. The amount shown in the State Share: General Fund - State row reflects the cost of the implicit subsidy for 6 subscribers in FY 2010. The amount shown in the LEOFF 2 Pension Plan row reflects the amount of the implicit subsidy for 14 subscribers in FY 2010 and 36 subscribers in

FY 2011. The amount shown in the LEOFF Disabled Retirees row reflects the premiums to be paid by subscriber.

Expenditures	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
State Share: General Fund State	$ 363,343	$ -	$ -	$ -	$ -	$ -
LEOFF 2 Pension Plan	$ 155,718	$ 555,396	$ -	$ -	$ -	$ -
LEOFF Disabled Retirees	$ 287,694	$ 307,833	$ -	$ -	$ -	$ -
Total	$ 806,756	$ 863,229	$ -	$ -	$ -	$ -

Part IV: Capital Budget Impact

None

Part V: New Rule Making Required

WAC 182-12-250 will need to be amended

Individual State Agency Fiscal Note

Bill Number: 1679 E HB	Title: Catastrophic disability med	Agency: 124-Department of Retirement Systems

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 03/10/2009
Agency Preparation:	Michelle Hardesty	Phone: 360-664-7193	Date: 03/10/2009
Agency Approval:	Cathy Cale	Phone: 360-664-7305	Date: 03/10/2009
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 03/10/2009

Request # 09-057-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill expands access to health care benefits, available through the Health Care Authority, to Plan 2 members of the Law Enforcement Officers' and Fire Fighters' Retirement System who are totally incapacitated in the line of duty and receiving a retirement benefit as provided in RCW 41.26.470(8). The benefits are also expanded to their surviving spouses and eligible children.

The engrossed version of the bill changes how the additional cost of the health care benefit would be funded, and it adds an emergency clause and an expiration date (of July 1, 2011).

The bill does not have a fiscal impact on the Department of Retirement Systems.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

No impact.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No impact.

Individual State Agency Fiscal Note

Bill Number: 1679 E HB	Title: Catastrophic disability med	Agency: 341-LEOFF 2 Retirement Board

Part I: Estimates

[X] **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 03/10/2009
Agency Preparation:	Dianna Wilks	Phone: (360) 664-7666	Date: 03/10/2009
Agency Approval:	Steve Nelsen	Phone: 360-586-2323	Date: 03/10/2009
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 03/10/2009

Request # -1

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part IV: Capital Budget Impact

PEBB Coverage for Catastrophic Retirees

Initial Consideration
September 25, 2019

Issue

- LEOFF Plan 2 catastrophic disability retirees and their survivors have different medical insurance access than survivors of members killed in the line of duty

Survivor PEBB Reimbursement

- Line-of-duty death benefit:
  - Survivors of LEOFF 2 members killed in the line of duty allowed to participate in PEBB (2001)
  - PEBB Premiums reimbursed by LEOFF (2006)
- Participation in the PEBB benefit system advantages include:
  - Pay same rate as entire PEBB pool
  - PEBB pays Medicare part B premiums for Medicare covered retirees

Catastrophic Disability Premium Reimbursement

- Coverage through COBRA, employer provided, or open market/exchange
- Premiums reimbursed by LEOFF 2 (2006)
  - Before Medicare eligibility:
    - Reimbursement of health insurance premiums
    - Up to former employer's COBRA limit
  - At 65, Reimbursement of Medicare Premiums:
    - Part A (if any)
    - Part B
    - Not eligible for reimbursement of part C and D premiums

Cost Considerations

- Previous cost estimates (2009 Legislation)
  - $1.5 million cost 2011-13 biennium
  - $4.7 million 2013-15 biennium
- Mortality and experience impact cost

Catastrophic Retirement Rates: Original vs. Revised vs. Actual	
2009 HCA Assumed Rate	14/year
Current Experience Study Rate	4.5/year
2003 – 2018 Actual Experience	3.9/year

Policy Considerations

- Pros
  - PEBB provides less expensive health care coverage than typically available through private health care market
  - All catastrophic retirees have the same health care coverage
  - Simplifies the process of finding and being reimbursed for health care coverage
- Cons
  - Some catastrophic retirees have health care coverage they would prefer to keep over PEBB
  - Additional cost to the system

LEOFF Plan 2 Retirement Board

Thank You

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