September 25, 2019

Month of Death Payment

COMPREHENSIVE REPORT

By Jacob White
Senior Research & Policy Manager
360-586-2327
jacob.white@leoff.wa.gov

ISSUE STATEMENT

In the month a retiree or survivor passes away, the last month benefit payment is prorated based on the number of days the person was alive in the month. Frequently this results in an overpayment and an invoice being sent to the family or estate to collect any amount that should have been prorated.

OVERVIEW

This report provides background information on the month of death payment, including the current policy, legislative history, policy considerations, costs to the plan and data regarding who is impacted by the policy.

BACKGROUND AND POLICY ISSUES

Current Practice

Retirement benefits are paid on a monthly basis, but beneficiaries (retirees and survivors) only receive benefits up to their date of death. If DRS is not notified of the death before the cut-off time for processing the payment, the estate will receive a payment for the full month. In these cases, DRS sends an invoice to the estate for repayment of any benefits paid beyond the date of death. This practice also applies to the month of death payment of purchase service credit and purchase of additional annuity.

For example, if a retiree or survivor dies on day 10 of a 30-day month, they receive prorated benefits for only 1/3 of the month. If they have already received a check for the full month, DRS will seek repayment of the remaining 2/3.

This is a longstanding administrative practice. While statute does not expressly state when benefits should cease after death, DRS has general authority (see RCW 41.50.130) to bill retirees and survivors for overpayments of benefits.

There are multiples ways in which DRS may be notified of a member death through. For residents of Washington State who die, DRS receives a monthly data report from the Department of Health. For retirees or survivor beneficiaries who are not residents of Washington State it can be more difficult to quickly receive notification of a death. The Social Security Administration (SSA) has a Death Master File which contains SSA records of deceased persons possessing social security numbers and whose deaths were reported to the SSA. DRS is currently working with SSA to be able to utilize the Death Master File to identify member deaths. DRS also receives notification of member deaths from banks when an automatic deposit is denied due to the account owner’s death.

Administrative Workload Data (all DRS administered plans)

Each month, on average, DRS retires 1,000 members and is notified of 500 retiree deaths. For 2018, there were 856 active invoices for month of death overpayments across, as of July 31. Approximately 90% of the overpayments DRS processes are connected to the month of death payment.

Social Security

Social Security benefits are not prorated for the month of death. Instead, a member does not receive a benefit if they die at any point during the month because the benefit accrues at the end of the month. Furthermore, Social Security payments are delayed one month, meaning that the payment a member receives in September is actually their August payment. This gives Social Security Administration (SSA) additional time to receive notice that a member is deceased and stop payment of the benefit. If a benefit is paid for the month of death, then SSA collects that payment from the estate.[1]

Policy Considerations

The proration process can cause burdens for grieving families and for estates. Survivors are often in the position of getting a collection notice during a time of grief. Furthermore, proration can sometimes interfere with the deduction of insurance premiums and payment of insurance claims made during the retiree's month of death.

There is an administrative cost for prorating a benefit, which includes the collection of overpayments. According to DRS, enacting this proposal would likely not result in a savings, but instead would result in a redeployment of staff resources that are currently dedicated to pursuing these repayments.

2019 Legislative Session

During the 2019 legislative session the LEOFF 2 Board and Select Committee on Pension Policy (SCPP) endorsed HB 1414/SB 5335 – Month of Death Payment. This bill provided a retiree's beneficiary or estate a full month's benefit for the month a retiree or survivor passes away. Both bills did not make it out of the house of origin.

What is the cost of this proposal?

This proposal results in a cost to the LEOFF 2 Plan because members, or their survivors, will retain the full month's pension payment in the month of death, rather than having that month's benefit prorated. The Office of the State Actuary (OSA) has completed a Fiscal Note for HB 1414/SB 5355. The costs from this bill will be divided according to the standard funding method for LEOFF 2: 50 percent member, 30 percent employer, and 20 percent state.

The OSA fiscal note identified the contribution rate impact of this benefit improvement for LEOFF 2 is:

Contribution Rate Impact	
Employee	0.03%
Employer	0.02%
State	0.01%

[1] https://www.ssa.gov/pubs/EN-05-10077.pdf

OSA also identified that the budget impact is:

Budget Impact	
2019-2021	**Dollars in Millions**
State - General Fund	$0.4
Local Government	$0.8
2021-2023	**Dollars in Millions**
State - General Fund	$0.5
Local Government	$0.7
2019-2044	**Dollars in Millions**
State - General Fund	$5.4
Local Government	$8.4

To arrive at this cost, OSA assumed the distribution of deaths would be uniform throughout any given month. As a result, this proposal will provide on average an additional half-month pension payment to all annuitants.

If this proposal is enacted OSA also recommended administrative factors be recalculated. Administrative factors are used to determine optional payment forms, such as survivor benefit options, purchase service credit, and purchase of additional annuity. OSA calculates factors that are actuarially equivalent, and the current factors will need to be adjusted to reflect the additional benefit provided by this proposal.

Data from DRS

In 2018, 37 LEOFF 2 Members died. Of those 37 members, nine members had overpayments caused by DRS not receiving notification of death after the cut-off date for issuing a pension payment to the member. These nine overpayments were for an average of $4,583. Of those nine members, only one member received an overpayment that would have been completely eliminated by this proposed change. This overpayment was for $1,966.

Other Options

OSA presented an alternative option to the Select Committee on Pension Policy. This option shifts the cost from the pension system to the individual members wanting this benefit improvement by allowing members the option at retirement to either have their benefits prorated in the month of death (i.e. current law), or take a reduced monthly benefit to offset the expected cost of a full month of death benefit. OSA did not fully research this option, instead they offered it to the SCPP as something that could be further analyzed and developed if the SCPP was interested.

POLICY OPTIONS

Option 1: Pay full month of death payment
This option provides a retiree's beneficiary or estate a full month's benefit for the month a retiree or survivor passes away.

Option 2: Members purchase full month of death payment
This option shifts the cost from the pension system to the individual members wanting this benefit improvement by allowing members the option at retirement to either have their benefits prorated in the month of death, or take a reduced monthly benefit to offset the expected cost of a full month of death benefit.

Option 3: Continue current practice
Continue the current practice of prorating the final month benefit based on the number of days the retiree or survivor is alive in the month they die, and collect an overpayment for any benefits paid beyond the date of death.

SUPPORTING INFORMATION

Appendix A: HB 1414/SB 5355 Fiscal Note

Appendix B: HCA Letter to SCPP 2018

APPENDIX A

Multiple Agency Fiscal Note Summary

Bill Number: 1414 HB	**Title:** Retirement benefits/death

Estimated Cash Receipts

NONE

Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Retirement Systems	.1	0	75,223	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	9,200,000	12,300,000	.0	10,000,000	13,300,000	.0	10,500,000	13,900,000
Total $	**0.1**	**9,200,000**	**12,375,223**	**0.0**	**10,000,000**	**13,300,000**	**0.0**	**10,500,000**	**13,900,000**

Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

NONE

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/25/2019

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

** See local government fiscal note

FNPID: 53558

Individual State Agency Fiscal Note

Bill Number: 1414 HB	Title: Retirement benefits/death	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.3	0.0	0.1	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	75,223	0	75,223	0	0
Total $	75,223	0	75,223	0	0

Estimated Capital Budget Impact:

NONE

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:	Phone:	Date: 01/22/2019
Agency Preparation: Mike Ricchio	Phone: 360-664-7227	Date: 01/23/2019
Agency Approval: Tracy Guerin	Phone: 360-664-7312	Date: 01/23/2019
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/23/2019

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 amends RCW 41.50 to require the Department of Retirement Systems (DRS) to continue paying benefits until the end of the month in which a retiree or beneficiary dies, instead of paying a pro-rated monthly amount as it does today. The change takes effect January 1, 2020.

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.

Administrative Assumptions

- This bill is prospective and will only apply to payments made on or after the effective date.

The assumption above was used in developing the following workload impacts and cost estimates.

Benefits/Customer Service

Retirement Specialists (RSs) will support the modifications to DRS' automated systems by participating in business requirement development and user acceptance testing activities. RSs will participate on the project team to implement these changes, and will assist in review of member communications and will make necessary updates to internal reference manuals, training materials, and member education.

Retirement Specialist 3 – 112 hours (salaries/benefits) = $4,453

Automated Systems

The agency's Benefit System will be modified to apply changes for paying benefits. Screen text changes will be made to web applications, and text changes will be made to mainframe and web-generated correspondence. Business requirements will be developed and user acceptance testing will be conducted.

Contracted Programmer time of 360 hours @ 105 per hour = $37,800
Information Technology Specialist 4 – 220 hours (salaries/benefits) = $11,617
WaTech* cost of $500 per week for 15 weeks = $7,500

Total Estimated Automated Systems Costs = $56,917

*cost for mainframe computer processing time and resources at WaTech

Project Management

The agency's Project Management Office (PMO) will lead the team that implements this change. PMO will assign a dedicated project manager to provide project oversight and leadership throughout the initiation, planning, execution, implementation, closeout, and measure-value phases of the project.

Project Manager – 220 hours (salaries/benefits) = $13,853

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL: $75,223

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
600-1	Department of Retirement Systems Expense Account	State	75,223	0	75,223	0	0
		Total $	75,223	0	75,223	0	0

III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.3		0.1		
A-Salaries and Wages	22,301		22,301		
B-Employee Benefits	7,622		7,622		
C-Professional Service Contracts	37,800		37,800		
E-Goods and Other Services	7,500		7,500		
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 $	75,223	0	75,223	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2020	FY 2021	2019-21	2021-23	2023-25
Information Technology Specialist 4	81,934	0.1		0.1		
Project Manager	99,461	0.1		0.1		
Retirement Specialist 3	59,439	0.1		0.0		
Total FTEs		0.3		0.2		0.0

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: 1414 HB	Title: Retirement benefits/death	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

		FY 2020	FY 2021	2019-21	2021-23	2023-25
Account						
All Other Funds-State	000-1	1,400,000	1,700,000	3,100,000	3,300,000	3,400,000
General Fund-State	001-1	4,400,000	4,800,000	9,200,000	10,000,000	10,500,000
	Total $	5,800,000	6,500,000	12,300,000	13,300,000	13,900,000

Estimated Capital Budget Impact:

NONE

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:		Phone:	Date: 01/22/2019
Agency Preparation:	Aaron Gutierrez	Phone: 360-786-6152	Date: 01/24/2019
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 01/24/2019
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/25/2019

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 - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
000-1	All Other Funds	State	1,400,000	1,700,000	3,100,000	3,300,000	3,400,000
001-1	General Fund	State	4,400,000	4,800,000	9,200,000	10,000,000	10,500,000
		Total $	5,800,000	6,500,000	12,300,000	13,300,000	13,900,000

III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits	5,800,000	6,500,000	12,300,000	13,300,000	13,900,000
C-Professional Service Contracts					
E-Goods and Other 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 $	5,800,000	6,500,000	12,300,000	13,300,000	13,900,000

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.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: Requires DRS to pay a full month of benefits for the month in which an annuitant dies.

COST SUMMARY

During FY 2020, the supplemental rates displayed below would be collected for the cost of the benefit improvement under this bill. This benefit improvement would also result in an increase to the TRS Plan 2 and WSPRS member maximum contribution rates.

Impact on Contribution Rates (Effective 09/01/2019)						
FY 2019-2021 State Budget	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Employee (Plan 2)	0.03%	0.02%	0.03%	0.01%	0.03%	0.07%
Employer						
Current Annual Cost	0.03%	0.02%	0.03%	0.01%	0.02%	0.07%
Plan 1 Past Cost	0.02%	0.03%	0.02%	0.02%	0.00%	0.00%
Total Employer	0.05%	0.05%	0.05%	0.03%	0.02%	0.07%
Total State					0.01%	

Budget Impacts			
(Dollars in Millions)	2019-2021	2021-2023	25-Year
General Fund-State	$9.2	$10.0	$82.5
Local Government	$8.4	$9.0	$74.4
Total Employer	$20.7	$22.4	$183.7

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ This bill results in a cost to the retirement systems because members and their survivors will retain the full month's pension payment in the month of death, rather than having that month's benefit prorated.
- ❖ We assumed the distribution of deaths would be uniform throughout any given month. As a result, this bill will provide on average an additional half-month pension payment to all current and future annuitants.
- ❖ We valued the cost of an additional half-month annuity benefit paid at the death of the member only. We examined the impacts of J&S options and found they did not affect the supplemental rates outlined above.
- ❖ This fiscal note excludes the impacts of this bill on Plan 3 TAP annuities, the Judicial Retirement System (99 retirees and beneficiaries), and the Judges' Retirement Fund (11 retirees and beneficiaries).
- ❖ We assume DRS and the LEOFF 2 Board will adopt new administrative factors that include the provisions of this bill for future retirees who purchase optional annuities.
- ❖ The best estimate results can vary under a different set of assumptions. If we assumed all members died on the last day of the month, this bill would have no cost. In contrast, if we assumed all members died on the first day of the month, the cost of this bill would double.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts the following systems:

- Public Employees' Retirement System (PERS).
- Teachers' Retirement System (TRS).
- School Employees' Retirement System (SERS).
- Public Safety Employees' Retirement System (PSERS).
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).
- Washington State Patrol Retirement System (WSPRS).

This bill requires the Department of Retirement Systems (DRS) to pay a full month of benefits for the month in which an annuitant dies.

Effective Date: January 1, 2020.

What Is The Current Situation?

Retirement benefits are paid on a monthly basis at the end of the month, but annuitants (retirees and survivors) only receive benefits up to their date of death. If DRS is not notified of the death before the cut-off time for processing the payment, the estate will receive a payment for the full month. In these cases, DRS sends an invoice to the estate for repayment of any benefits paid beyond the date of death.

For example, if an annuitant dies on day 25 of a 30-day month, they receive pro-rated benefits for only those 25 days. If they have already received a check for the full month, DRS will seek repayment of the remaining five days.

This is a longstanding administrative practice. While statute does not expressly state when benefits should cease after death, DRS has general authority (see e.g., RCW 41.50.130) to bill retirees and survivors for overpayments of benefits.

At retirement, members of the Plans 3 can purchase an annuity from the Total Allocation Portfolio (TAP). The same proration of benefits in the month of death applies to members who purchase a TAP annuity.

Who Is Impacted And How?

This bill will improve benefits for all members and survivors who receive an annuity, with the exception of those who die on the last day of the month. Because of this, we estimate this bill could affect 556,881 members of the impacted systems. These members include active, retired, disabled, and vested terminated members, as well as all joint-life survivors.

This bill will increase the benefits for a typical member by providing the annuitant with a full month’s annuity benefit in the month of death. Continuing with the prior example, assume that a given retiree receives a monthly pension benefit of $1,500 and dies on the 25th day of June. Under current law, DRS would prorate this member’s benefit in the month of June. If DRS had already processed the payment, the member’s estate would need to reimburse DRS for the five days of June that the member was not alive. Therefore, this member’s benefit in the month of death would be:

$$(25 / 30) * \$1,500 = \$1,250$$

and DRS would request reimbursement of $250. Under this bill, DRS would not prorate the member’s benefit in the month of death and the full $1,500 benefit would be paid for the month of June.

This bill impacts all active members of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS through increased contribution rates. With the exception of WSPRS members, this bill will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

This bill impacts all employers of members in these systems through increased normal cost contribution rates. Additionally, the Unfunded Actuarial Accrued Liability (UAAL) contribution rates for PERS, TRS, SERS, and PSERS employers will increase.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill has a cost because any member or survivor who receives an annuity would be able to retain their full benefit amount in the month of death, rather than only a prorated portion.

Who Will Pay For These Costs?

For PERS, TRS, SERS, and PSERS, the costs that result from this bill will be divided between members and employers according to standard funding methods that vary by plan:

- Plan 1: 100 percent employer.
- Plan 2: 50 percent member and 50 percent employer.
- Plan 3: 100 percent employer.

PERS, SERS, and PSERS employers will realize the impacts from the PERS 1 UAAL payments, whereas TRS employers will realize the impacts from the TRS 1 UAAL payments. Since this bill constitutes a benefit improvement, the TRS 2 statutory maximum member contribution rate will increase.

For LEOFF 2, the costs that arise from this bill will be divided according to the standard funding method for LEOFF 2: 50 percent member, 30 percent employer, and 20 percent state.

For WSPRS, this bill constitutes a benefit improvement. As a result, any costs that arise from this bill will be divided according to the standard funding method of 50 percent member and 50 percent employer. The WSPRS statutory maximum member contribution rate will correspondingly increase as well.

HOW WE VALUED THESE COSTS

Assumptions We Made

Under this bill, we assumed that members who receive an annuity would be provided with an additional half-month annuity payment upon death. While some members will die earlier in the month and other members will die later in the month, we assumed the distribution of deaths would be uniform throughout a month and will average out to an additional half-month pension payment.

Otherwise, we developed these costs using the same assumptions as disclosed in the *June 30, 2017, Actuarial Valuation Report* (AVR), Projections Disclosures, and *Risk Assessment* analysis available on our website.

How We Applied These Assumptions

In our valuation software, we modeled an additional half-month annuity payment by providing members, upon death, with a one-time benefit payment in the amount of $1/24^{th}$ of the member's annual pension payment (or projected annual benefit for current active members), grown with appropriate cost-of-living adjustments.

Our pricing approach provides an additional half-month pension payment upon the death of the member only. We analyzed the impact of a member electing a Joint-and-Survivor (J&S) option but found that this option did not affect the supplemental rates outlined on page 1 of this fiscal note.

The fiscal impact of this bill represents the change in projected contributions. To estimate the fiscal impact of this bill, we compared projected pension contributions under current law to the projected contributions we expect under this bill. To determine the projected contributions under current law, or the "base", we relied on the AVR. The base projected pension contributions reflect contributions from the covered group as well as future new entrants. For the covered group, or "current active members", contribution rates from the AVR are multiplied by future payroll. For the future new entrants, contribution rates under the Entry Age Normal Cost method are multiplied by future new entrant payroll.

To determine the projected costs under this bill, we modified the base described above to reflect the provisions of the bill and the assumptions noted above.

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

For more detail, please see the **Appendix**.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding of the PERS, TRS, SERS, PSERS, LEOFF, and WSPRS systems by increasing the present value of future benefits payable to the members. The impact of the increasing present value of future benefits payable for current members is 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)			
PERS 1	$12,412	$23.2	$12,435
PERS 2/3	45,048	53.2	45,101
PERS Total	$57,459	$76.4	$57,536
TRS 1	$8,938	$15.5	$8,954
TRS 2/3	17,514	17.2	17,531
TRS Total	$26,452	$32.7	$26,485
SERS 2/3	$6,486	$7.8	$6,494
PSERS 2	$1,213	$0.8	$1,214
LEOFF 1	$4,124	$8.6	$4,132
LEOFF 2	13,689	11.7	13,701
LEOFF Total	$17,813	$20.3	$17,833
WSPRS 1/2	$1,448	$1.5	$1,450
Unfunded Actuarial Accrued Liability			
*(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
PERS 1	$5,099	$23.0	$5,122
TRS 1	$3,407	$15.4	$3,423
LEOFF 1	($1,280)	$8.6	($1,271)
Unfunded Entry Age Accrued Liability			
(The Value of the Total Commitment to All Current Members Attributable to Past Service that is Not Covered by Current Assets)			
PERS 1	$5,299	$23.1	$5,322
PERS 2/3	$3,975	46.6	4,021
PERS Total	$9,273	$69.7	$9,343
TRS 1	$3,547	$15.5	$3,563
TRS 2/3	1,210	13.8	1,224
TRS Total	$4,757	$29.3	$4,786
SERS 2/3	$629	$6.7	$635
PSERS 2	$25	$0.4	$26
LEOFF 1	($1,282)	$8.6	($1,274)
LEOFF 2	(878)	9.3	(869)
LEOFF Total	($2,160)	$17.9	($2,142)
WSPRS 1/2	$90	$1.3	$91

Note: Totals may not agree due to rounding.
**PERS 1 and TRS 1 are amortized over a ten-year period. LEOFF 1 must be amortized by June 30, 2024.*

How The Assets Changed

This bill does not change asset values, so there is no impact on the actuarial funding of the affected plans due to asset changes.

How The Present Value Of Future Salaries (PVFS) Changed

This bill does not change the PVFS, so there is no impact on the actuarial funding of the affected plans due to PVFS changes.

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown on page one that applies in the 2019-21 Biennium. However, we will use the un-rounded rate increases shown below to measure the budget changes in future biennia. LEOFF Plan 1 is currently in a surplus funded position and no contributions are required either under current law or under this bill.

Impact on Contribution Rates (Effective 09/01/2019)						
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Current Members						
Employee (Plan 2)	0.035%	0.024%	0.034%	0.011%	0.028%	0.072%
Employer						
Normal Cost	0.035%	0.024%	0.034%	0.011%	0.017%	0.072%
Plan 1 UAAL	0.020%	0.031%	0.020%	0.020%	0.000%	0.000%
Total	0.055%	0.055%	0.055%	0.031%	0.017%	0.072%
State						
Current Annual Cost					0.011%	
Plan 1 Past Cost					0.000%	
Total					0.011%	
New Entrants*						
Employee (Plan 2)	0.005%	0.005%	0.005%	0.005%	0.006%	0.005%
Employer						
Normal Cost	0.005%	0.005%	0.005%	0.005%	0.004%	0.005%
Plan 1 UAAL	0.020%	0.031%	0.020%	0.020%	0.000%	0.000%
Total	0.025%	0.036%	0.025%	0.026%	0.004%	0.005%
State						
Current Annual Cost					0.002%	
Plan 1 Past Cost					0.000%	
Total					0.002%	

**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)	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**	**Total**
2019-2021							
General Fund	$1.9	$5.4	$1.3	$0.1	$0.4	$0.0	$9.2
Non-General Fund	2.9	0.0	0.0	0.0	0.0	0.1	3.1
Total State	$4.9	$5.4	$1.3	$0.1	$0.4	$0.1	$12.2
Local Government	5.5	1.1	0.9	0.2	0.8	0.0	8.4
Total Employer	$10.4	$6.4	$2.2	$0.3	$1.2	$0.1	$20.7
Total Employee	$4.8	$0.7	$0.6	$0.1	$1.2	$0.1	$7.5
2021-2023							
General Fund	$2.1	$5.9	$1.4	$0.1	$0.5	$0.0	$10.0
Non-General Fund	3.2	0.0	0.0	0.0	0.0	0.1	3.3
Total State	$5.3	$5.9	$1.4	$0.2	$0.5	$0.2	$13.4
Local Government	6.0	1.2	0.9	0.2	0.7	0.0	9.0
Total Employer	$11.3	$7.2	$2.2	$0.3	$1.2	$0.2	$22.4
Total Employee	$5.0	$0.7	$0.5	$0.1	$1.2	$0.2	$7.7
2019-2044							
General Fund	$16.8	$48.4	$10.3	$1.4	$5.4	$0.1	$82.5
Non-General Fund	25.3	0.0	0.0	0.2	0.0	1.3	26.8
Total State	$42.1	$48.4	$10.3	$1.5	$5.4	$1.4	$109.3
Local Government	47.8	9.9	6.6	1.7	8.4	0.0	74.4
Total Employer	$89.9	$58.4	$17.0	$3.2	$13.8	$1.4	$183.7
Total Employee	$47.5	$11.8	$5.4	$1.8	$13.8	$1.4	$81.8

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

If this bill passes, we would recommend new Administrative Factors be used for optional payment forms in order to maintain actuarial equivalent purchases for current active members. The above impacts assume that DRS and the LEOFF 2 Board would adopt such factors. If they do not adopt new factors, we expect the costs for this bill to be higher than shown in this fiscal note.

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

Comments On Risk

Our office performs annual risk assessments to help us demonstrate and assess the effect of unexpected experience on pension plans. The risk assessment allows us to measure how affordability and funded status can change if investment experience, expected state revenue growth, and inflation do not match our long-term assumptions. Our annual risk assessment also considers past practices, for funding and benefit enhancements, and their impact on pension plan risk if those practices continue.

The table below displays our latest risk measurements as of June 30, 2017. For more information, please see our Risk Assessment webpage and the **Glossary**.

Select Measures of Pension Risk as of June 30, 2017[1]		
	FY 2018-37	FY 2038-67
Affordability Measures		
Chance of Pensions Double their Current Share of GF-S[2]	1%	3%
Chance of Pensions Half their Current Share of GF-S[2]	47%	46%
Solvency Measures		
Chance of PERS 1 or TRS 1 in Pay-Go[3]	15%	18%
Chance of Any Open Plan in Pay-Go[3]	1%	8%
Chance of PERS 1, TRS 1 Total Funded Status Below 60%	29%	27%
Chance of Open Plans Total Funded Status Below 60%	24%	36%

[1]FY 2018 returns used for purposes of this analysis are 10.04%. Due to a restatement in October 2018, this differs from the 10.20% reported by the Washington State Investment Board. We expect this difference to have limited impacts to the risk measures.

[2]Pensions approximately 5.5% of current General Fund-State (GF-S) budget; does not include higher education.

[3]When today's value of annual pay-go cost exceeds $50 million.

In terms of risk, we expect a bill that provides benefit improvements will worsen the above affordability and solvency risk measures because benefit improvements will: (1) increase contribution rates, which requires additional contributions; (2) temporarily increase unfunded liabilities, which increases the chance of pay-go in the short term; and (3) increase future benefits paid from the plan, which increases the amount of pay-go if it occurs in the future. For this bill, we expect any changes to the risk metrics will be small.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results can vary under a different set of assumptions. To determine the sensitivity of the actuarial results to the best estimate assumptions selected for this pricing we varied the following assumptions:

- ❖ We considered the impact of varying our assumption of a uniform distribution of deaths throughout a month.
  - ◊ If deaths occur later in each month on average, then the cost of this bill will be less than our best estimate. For instance, if we assume that all deaths occur on the last day of the month, then this bill will have no cost because there would be no prorating reduction under current law.
  - ◊ On the other hand, if deaths occur earlier in the month on average, then the costs will be greater. For example, if we assume that all deaths occur on the first day of the month, then the cost of this bill will double because the member would retain a full month's benefit rather than our assumption of a half month's benefit.

- We also considered the impact of varying our mortality assumptions.
  - ◊ If members live longer than expected, the cost of this bill will be less than our best estimate. This is because the additional half-month benefit would be paid later than assumed, and the present value of this benefit amount would be more heavily discounted by interest.
  - ◊ On the other hand, if members do not live as long as expected, the cost of this bill will be greater since the additional half-month benefit would be paid earlier than assumed.

The actual cost of this bill may vary from our best estimate and may fall outside the range of cost identified in this section.

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 in the footer. We intend this fiscal note to be used by the Legislature during the 2019 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.

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 and assumptions may also be reasonable and might produce different results.
5. The risk analysis summarized in this fiscal note involves the interpretation of many factors and the application of professional judgment. We believe that the data, assumptions, and methods used in our risk assessment model are reasonable and appropriate for the purposes of this pricing exercise. The use of another set of data, assumptions, and methods, however, could also be reasonable and could produce different results.
6. We prepared this fiscal note for the Legislature during the 2019 Legislative Session.
7. 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 in the footer of this fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

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

Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

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APPENDIX

This bill provides a non-standard payment form, which our valuation software is unable to model. That is, our software does not have the capability to model an end-of-month annuity where a payment is also made in the month of death. We therefore estimated the cost of this bill through the use of a life insurance payment with a lump-sum payout equal to a half-month of the annuity amount the member was receiving upon death.

This insurance payment would apply to several types of benefits a member could receive in each system. However, since retirement benefits account for over 90 percent of the total active and total inactive liabilities across all systems, we modeled these insurance payments for retirement-based annuity benefits only.

The life insurance payments that we modeled can only be applied to a single life, or rather the primary member. In other words, we could not model a payment to the last survivor, i.e., the person who does not die first, for any J&S annuities. As a result, we priced an additional half-month pension payment upon the death of the member only.

However, we did analyze the impact of a member electing a J&S option.

1. If a member chooses a J&S option and pre-deceases his or her beneficiary, the additional half-month benefit (on average) would be paid at the time of the beneficiary's death and may be a smaller amount if the option selected is less than a J&S 100 percent.
2. Likewise, if a member chooses a J&S option and the member's beneficiary pre-deceases him or her, the additional half-month benefit would be paid at the time of the member's death and may be larger since DRS unwinds the optional reduction factor (the pension amount pops up to the original life only amount).

Neither of these components had a material impact on contribution rates in any system.

Many of the plans also have a provision whereby if a retired member dies before the total pension payments received exceeds the value of the accumulated contributions, then the difference is paid to the member's beneficiary or estate. Our pricing approach continues to provide an additional half-month annuity benefit if the member dies inside this timeframe. We analyzed the impact of accounting for this and found the resulting reduction in cost to be immaterial.

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. Under this method, all plan costs (for past and future service credit) are included under the normal cost. Therefore, the method does not produce an unfunded actuarial accrued liability outside the normal cost. It's most common for the normal cost to be determined for the entire group rather than on an individual basis for this method.

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 actuarial accrued liability.

The normal cost is most commonly 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 Benefits: Pension benefit amounts that 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 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.

Unfunded EAN Liability: The excess, if any, of the present value of benefits calculated under the EAN cost method over the valuation assets. This is the portion of all benefits earned to date that are not covered by plan assets.

GLOSSARY OF RISK TERMS

Affordability Risk: Measures the affordability of the pension systems. Affordability risk measures the chance that pension contributions will cross certain thresholds with regards to the General Fund and contribution rates.

"Current Law": Scenarios in which assumptions about legislative behavior are excluded. These scenarios show projections regarding the current state of Washington statutes.

Funded Status: The ratio of a plan's current assets to the present value of earned pensions. There are several acceptable methods of measuring a plan's assets and liabilities. In financial reporting of public pension plans, funded status is reported using consistent measures by all governmental entities. According to the Government Accounting Standards Board (GASB), the funded ratio equals the actuarial value of assets divided by the actuarial accrued liability calculated under the allowable actuarial methods.

Optimistic: A measurement of the pension system under favorable conditions (above expected investment returns, for example). Optimistic refers to the 75th percentile, where there is a 25 percent chance of the measurement being better and 75 percent chance of the measurement being worse. Very optimistic refers to the 95th percentile.

"Past Practices": Scenarios in which assumptions regarding legislative behavior are introduced. These assumptions include actual contributions below what are actuarially required and improving benefits over time. These scenarios are meant to project past behavior into the future.

Pay-Go: The trust fund runs out of assets, and payments from the General Fund must be made to meet contractual obligations.

Pessimistic: A measurement of the pension system under unfavorable conditions (below expected investment returns, for example). Pessimistic refers to the 25th percentile, where there is a 75 percent chance of the measurement being better and 25 percent chance of the measurement being worse. Very pessimistic refers to the 5th percentile.

Premature Pay-Go: Pay-go payments, measured in today's value, which might be considered "significant" in terms of the potential impact on the General Fund.

Risk Tolerance: The amount of risk an individual or group is willing to accept with regards to the likelihood and severity of unfavorable outcomes.

Solvency Risk: Measures the risk metrics of the pension systems, including the chance that the pension systems will prematurely run out of assets, the amount of potential pay-go contributions, and the chance that the funded status will cross a certain threshold.

Washington State Health Care Authority

Month of Death Pension Deduction for PEBB Program Benefits

Employees and Retirees Benefits Division

Background

The Employees and Retirees Benefits Division within the Health Care Authority (HCA) is responsible for administration of the Public Employees Benefits Board (PEBB) Program which provides insurance benefits to state employees and both state and school retirees. There are almost 72,500 retirees enrolled in PEBB Program retiree insurance coverage and approximately 67 percent of those (~49,000 accounts) retirees have their insurance premium deducted from their pension benefit each month. Retirees like the method and it works well except during the month of death. On average 146 retirees who use this payment method die each month.

Observations during the Month of Death

The current practice of prorating the pension payment for the month of death is challenging in the following ways:

- The HCA must seek to collect the PEBB Program insurance premium for the month of death. The invoices sent to collect the premium are often ignored by the deceased member's family because they believe the insurance premium was already paid with money from pension.
- The PEBB Program insurance coverage for a surviving spouse who is enrolled is affected when the insurance premium payment is taken back in order to prorate the month of death pension payment.

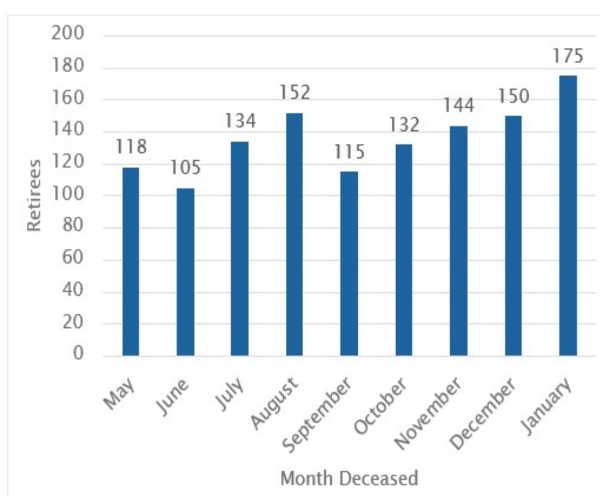
The proposed policy change (to pay a full month benefit for the month in which the member dies) would be beneficial to the HCA and PEBB Program members in the following ways:

- The surviving spouse's PEBB Program insurance coverage would not be affected for the month of death.
- Confusion for family members would be reduced because the insurance premium for the month of death would not have to be recovered by DRS.
- HCA would not have to attempt to collect from the member's estate.

Retirees Enrolled in PEBB Program Insurance Coverage

	May 2018 Enrollment	Percentage
Premiums paid through Pension Deduction	48,820	67.40%
Premiums paid direct to HCA	23,624	34.60%
Total	72,444	100%

2017 PEBB Program Retirees Deceased by Month



Month of Death Payment

Initial Consideration
September 25, 2019

Issue

- In the month a retiree or survivor passes away, the last month benefit payment is prorated based on the number of days the person was alive in the month. Frequently this results in an overpayment and an invoice being sent to the family or estate to collect any amount that should have been prorated.

DRS Proposal

- In 2018 the Department of Retirement Systems requested the LEOFF 2 Board and Select Committee on Pension Policy endorse legislative action to pay the full month of death payment

2019 Legislation

- HB 1414/SB 5335 – Month of Death Payment
- LEOFF 2 Board and Select Committee on Pension Policy endorsed
- Both bills did not make it out of the house of origin

Policy Considerations

- Burden for grieving families
- Administrative costs
- Causes issues with insurance premiums

LEOFF 2 Budget Impact

Budget Impact	
2019-2021	**Dollars in Millions**
State - General Fund	$0.4
Local Government	$0.8
2021-2023	**Dollars in Millions**
State - General Fund	$0.5
Local Government	$0.7
2019-2044	**Dollars in Millions**
State - General Fund	$5.4
Local Government	$8.4

LEOFF Rate Impact

Contribution Rate Impact	
Employee	0.03%
Employer	0.02%
State	0.01%

DRS Data - 2018

- 37 LEOFF 2 Members died
- 9 members had overpayments caused by month of death
  - Average $4,583
- 1 member had an overpayment that would have been eliminated by this proposal
  - $1,966

Policy Options

- Option 1: Pay full month of death payment
- Option 2: Members purchase full month of death payment
- Option 3: Continue current practice

Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov