BOARD MEETING AGENDA

SEPTEMBER 25, 2019 • 9:30AM

LEOFF Plan 2 Retirement Board

LOCATION

STATE INVESTMENT BOARD
Large Conference Room, STE 100
2100 Evergreen Park Drive S.W.
Olympia, WA 98502

TRUSTEES

DENNIS LAWSON, CHAIR
Central Pierce Fire and Rescue

JASON GRANNEMAN, VICE CHAIR
Clark County Sheriff's Office

ADE' ARIWOOLA
City of Federal Way

MARK JOHNSTON
Vancouver Fire Department

AJ JOHNSON
Snohomish County Fire

SENATOR JEFF HOLY
Spokane Police Department (Ret)

TARINA ROSE-WATSON
Spokane Int'l Airport Police Dept

PAT MCELLIGOTT
Pierce County Fire and Rescue

SENATOR JUDY WARNICK
WA State Senator

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

STAFF

Steve Nelsen, Executive Director
Tim Valencia, Deputy Director
Jessie Jackson, Executive Assistant
Jessica Burkhart, Administrative Services Manager
Jacob White, Senior Research and Policy Manager
Karen Durant, Senior Research and Policy Manager
Tammy Harman, Benefits Ombudsman
Tor Jernudd, Assistant Attorney General

THEY KEEP US SAFE,
WE KEEP THEM SECURE.

1.	**Approval of Minutes** July 24, 2019	**9:30 AM**
2.	**Long-Term Economic Assumptions** Matt Smith EA, FCA, MAAA State Actuary and Mitch DeCamp, Actuarial Analyst	**9:35 AM**
3.	**Preview of Demographic Experience Study Results** Michael Harbour, ASA, MAAA Actuary	**10:15 AM**
4.	**Pension Funding Part 1 – Follow-up** Mitch DeCamp, Actuarial Analyst and Lisa Won, ASA, FCA, MAAA Deputy State Actuary	**11:00 AM**
5.	**Public Pension Administration Benchmarking** Mark Feldhausen, DRS	**11:45 AM**
6.	**Administrative Update** • Budget Update • Outreach Activities	**12:30 PM**
7.	**Board Officer Elections**	**1:00 PM**
8.	**Month of Death** – *Comprehensive* Jacob White, Senior Research and Policy Manager	**1:30 PM**
9.	**Survivor Option Election** – *Comprehensive* Jacob White, Senior Research and Policy Manager	**2:00 PM**
10.	**Interruptive Military Service Credit** – *Comprehensive* Jacob White, Senior Research and Policy Manager	**2:30 PM**
11.	**PEBB Coverage for Catastrophic Retirees** Jacob White, Senior Research and Policy Manager	**3:00 PM**
12.	**Benefit Improvement Account Potential Goals & Policies** Steve Nelsen, Executive Director	**3:30 PM**
13.	**Agenda Items for Future Meetings** Steve Nelsen, Executive Director	**4:00 PM**

**Lunch is served as an integral part of the meeting.*

In accordance with RCW 42.30.110, the Board may call an Executive Session for the purpose of deliberating such matters as provided by law. Final actions contemplated by the Board in Executive Session will be taken in open session. The Board may elect to take action on any item appearing on this agenda.

State Actuary's Recommendation On Long-Term Economic Assumptions

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

Mitch DeCamp
Actuarial Analyst

Presentation to: LEOFF 2 Retirement Board

Office of the State Actuary
"Supporting financial security for generations."

September 25, 2019

Today's Presentation

- Highlights of Economic Experience Study
- Link to the full report included in meeting materials

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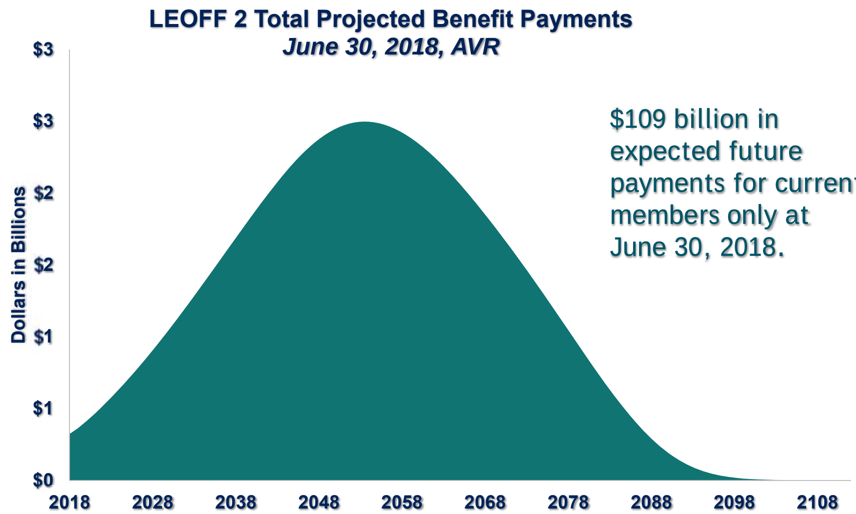
Economic Assumptions: Purpose And Measurement Period

- Before we dive in, let's first clarify two things
- Purpose of the assumptions
  - Assumptions are set consistent with the purpose of the measurement
  - Used to determine the on-going funding requirements of the plans consistent with the state's funding policy in Chapter 41.45 RCW
- Measurement (or forecasting) period
  - Varies by assumption, but most are long-term assumptions
- Have a different measurement or period in mind? Use different assumptions!

We're Setting Economic Assumptions To Fund This...



$109 billion in expected future payments for current members only at June 30, 2018.

What Are The Assumptions In This Study?

Assumption	Use of Assumption
Inflation	Model post-retirement COLAs based on changes in Consumer Price Index (CPI) for Seattle, Tacoma, Bellevue Building block for other assumptions
General Salary Growth	Project salaries to determine future retirement benefits and contribution rates as a percentage of payroll
Investment Return	Determine today's value of future benefit payments and salaries

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Wait, One More Thing!

- We developed these assumptions as a consistent set of economic assumptions and recommend reviewing them as a set of assumptions
- No cherry picking please!

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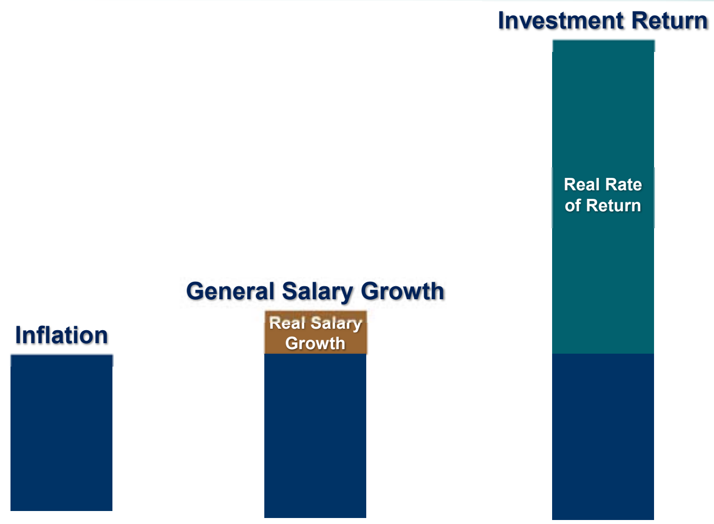
It All Starts With Inflation



Inflation (1 Of 3)

Historical Data

Inflation has remained low for the past few decades.

Inflation in Seattle-Tacoma-Bellevue (STB) has consistently outpaced national inflation.

Forecasts

Short-term national inflation forecasts remain low.

Long-term forecasts typically higher due to uncertainty over longer forecasting period.

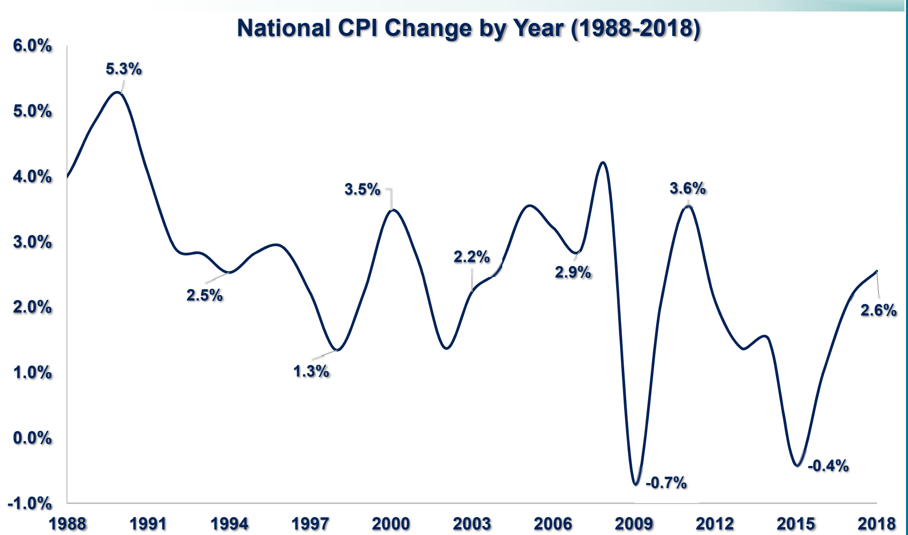
Recommendation

No change to total inflation assumption of 2.75%.

2.75% = 2.35% (national) + 0.40% (regional adjustment).

Decrease to national component; increase to regional adjustment since last study.

Low National Inflation Persists



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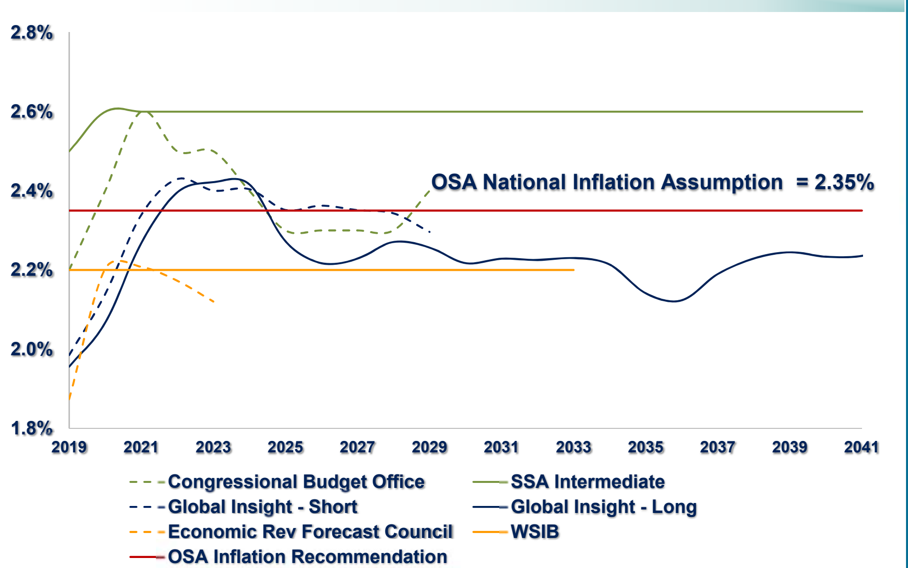
Recommendation For National CPI Consistent With Forecasts



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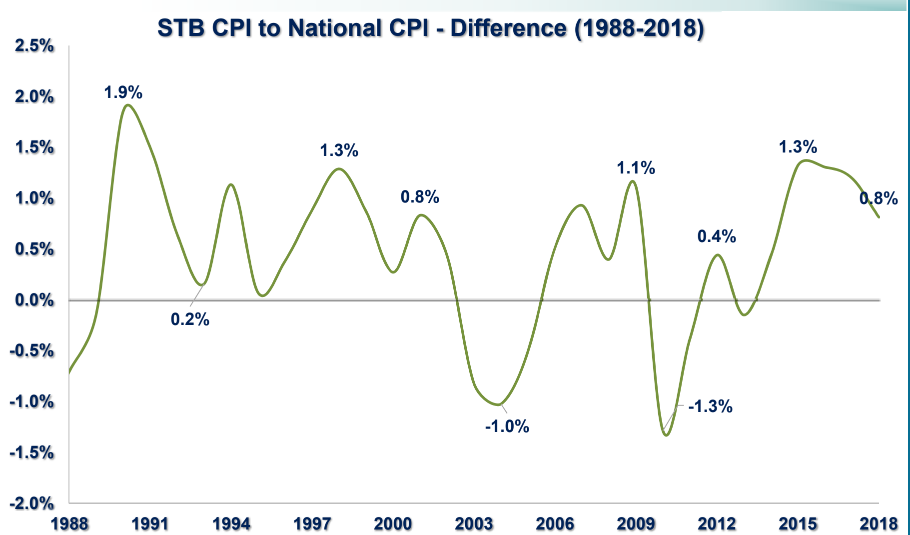
STB Has Outpaced National Inflation



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Real Salary Growth – Salary Growth Above Inflation (2 Of 3)

Historical Data

Consistent with current assumption after considering impact of outliers.

We isolated economic growth factors in Plan 2/3 data.

Forecasts

National forecasts include both economic and demographic growth factors; virtually unchanged from 2 years ago.

Short-term: CBO projects 1.1% for next 10 years.

Long-term: SSA projects 1.2% for next 75 years.

Recommendation

No change to real salary growth assumption.

No change to general salary growth assumption.

3.50% = 2.75% (inflation) + 0.75% (real wage growth).

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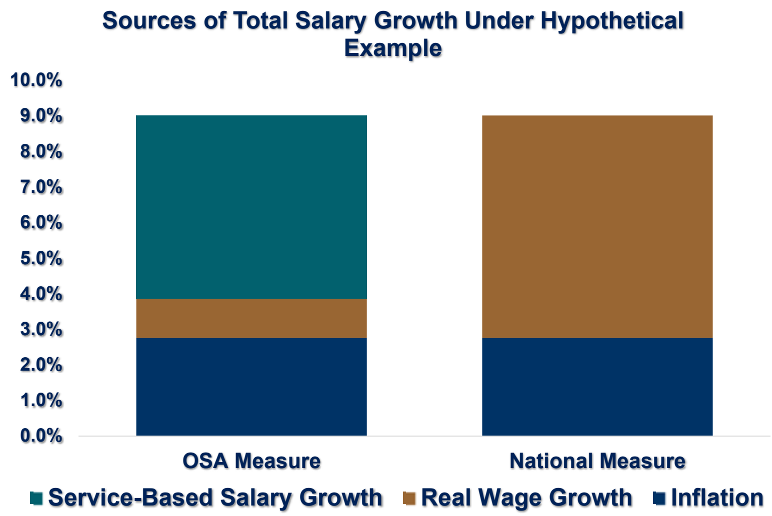
OSA Measure Vs. National Measure



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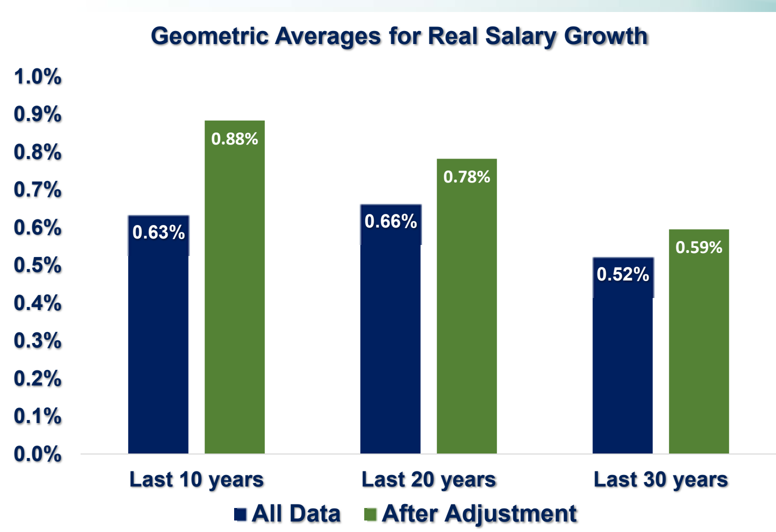
Plan 2/3 Real Salary Growth Consistent With Current Assumption After Adjusting For Outliers



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Investment Return (3 Of 3)

Historical Data

Average returns generally at or above assumed depending on the period selected.

Forecasts

Based on new Capital Market Assumptions and asset allocation, WSIB expects the same median 15-year return as 2 years ago.

We applied our professional judgment to extend WSIB's return expectations beyond 15 years. We also made adjustments to ensure consistency within our set of assumptions.

Recommendation

No change to current assumption of 7.40%.

7.40% = 2.35% (national inflation) + 5.05% (real ROR).

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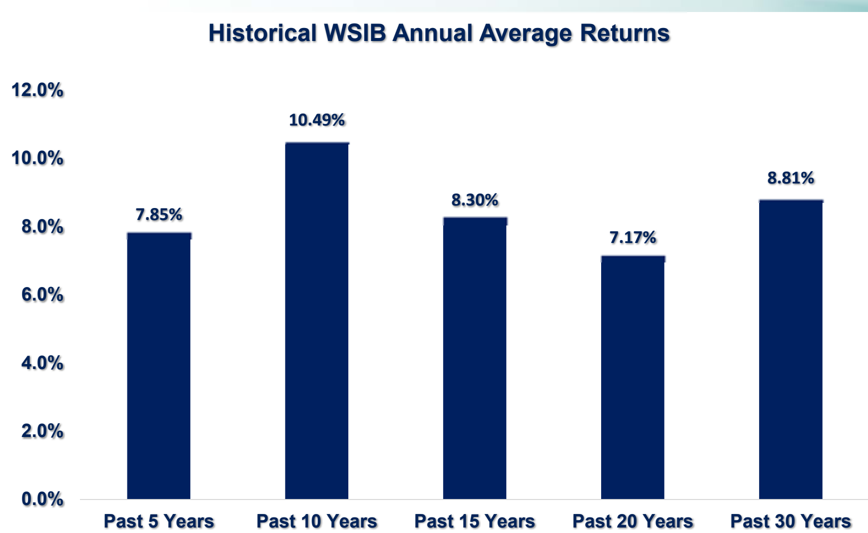
Historical Data - Average Annual Returns Generally At Or Above Assumed Depending On The Period



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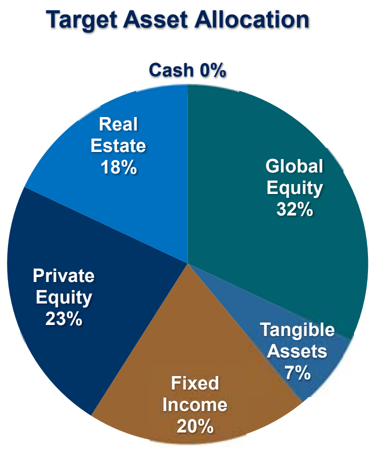
Asset Allocation Matters



- Public pension plans don't all invest the same way and most invest in private market investments
- WSIB invests a higher allocation to private market investments than peers
- This higher allocation typically leads to higher returns and higher standard deviation of returns

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Simulated Future Returns - No Change In WSIB's Median Return From Two Years Ago

2017 and 2019 Simulated Future Investment Returns*			
	2019	2017	Difference
Median Return	7.36%	7.36%	0.00%

Simulated returns over 25 and 30-year periods for 2019 and 2017, respectively.

- No change to the median return
- Half the simulated returns fall below (or above) "Median Return"
- We focus on the median when setting this assumption

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Simulated Returns Change With Different Assumptions

25-Year Estimated Median Return					
		Private Equity Expected Return		Global Equity Expected Return	
WSIB Simulated Return		-1%	+1%	-1%	1%
Median Return	7.36%	7.1%	7.6%	7.0%	7.7%

- Private and global equity represent the two largest asset classes
  - 23% private equity and 32% global equity target allocations
- Private equity investments include securities that are not listed on a public exchange and are not easily accessible to most individuals
  - These investments range from initial capital in start-up enterprises to leveraged buyouts of mature corporations
- Global equity investments represent shares of U.S. and non-U.S. corporations that trade on public exchanges or "over-the-counter"

Landing On The Return Recommendation

1. Review Historical Data
- Review CTF performance
- Consider historical conditions and whether those conditions exist now or will in the future

2. Review Simulations
- Provided by WSIB based on 15-year CMAs
- Assumed PE returns 300 basis points above global equity

3. Review Simulations With Different Assumptions
- Simulated CTF returns most sensitive to lower/higher global and private equity (PE) returns

4. Make Adjustments
- Increase returns to account for higher OSA inflation assumption
- Decrease returns for lower expected long-term PE returns

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Wait… Tell Me More About Those Adjustments

Inflation Adjustment

WSIB assumes lower national inflation for a shorter, 15-year time horizon.

OSA assumes higher national inflation for longer horizon.

Adjustment of 0.15 percentage points ensures our assumption set remains consistent.

Private Equity (PE) Adjustment

WSIB assumes PE returns will exceed global equity returns by 300 percentage points over the next 15 years.

Reasonable assumption for the next 15 years.

We expect lower PE returns beyond the next 15 years due to increased efficiency and competition, and the general continued evolution of the PE market.

Pulling It All Together

7.36% Median 25-Year Return

+ 0.15% for ↑ Inflation

− 0.10% for ↓ PE Returns

= 7.41%

- Inflation adjustment increases simulated 25-year median return from 7.36% to 7.51%
- Private equity adjustment lowers inflation-adjusted median return from 7.51% to 7.41%
- Recommend long-term rate of return assumption of 7.40%

Summary Of Report On Long-Term Economic Assumptions

Assumption	Current	Recommended
Inflation	2.75%	2.75%
General Salary Growth	3.50%	3.50%
Annual Investment Return	7.40%	7.40%

- We developed these assumptions as a consistent set of economic assumptions and recommend reviewing them as a set of assumptions
- All current assumptions match recommendations developed in this study

Other States' Economic Assumptions

- Analysis included in the **Appendix** of this presentation
- Systems continue to lower return assumptions
- According to NASRAs latest *Public Fund Survey*, the median return assumption was 7.25%

Questions?

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Appendix

- Estimated 2021-23 contribution rate impacts
- Other states' economic assumptions

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Other States' Economic Assumptions

Economic Assumptions for Selected Plans Outside Washington[1]				
Plan Name[2]	Investment Return	General Salary Growth	Real Salary Growth	Inflation
WA 2019 Economic Experience Study Recommendation	**7.40**	**3.50**	**0.75**	**2.75**
Alaska PERS	8.00	3.62	0.50	3.12
Alaska Teachers	8.00	3.62	0.50	3.12
California PERS	7.00	2.75	0.25	2.50
California Teachers	7.00	3.50	0.75	2.75
Colorado PERA	7.25	3.50	1.10	2.40
Florida Retirement System	7.40	3.25	0.65	2.60
Idaho PERS	7.00	3.75	0.75	3.00
Iowa PERS	7.00	3.25	0.65	2.60
Missouri State Employees	7.10	2.75	0.25	2.50
Ohio PERS	7.20	3.25	0.75	2.50
Oregon PERS	7.20	3.50	1.00	2.50
Wisconsin Retirement System	7.00	3.20	0.50	2.70
Selected Public Plans Outside WA - Average	**7.26**	**3.33**	**0.64**	**2.69**
Selected Public Plans Outside WA - Minimum	**7.00**	**2.75**	**0.25**	**2.40**
Selected Public Plans Outside WA - Maximum	**8.00**	**3.75**	**1.10**	**3.12**

[1] Data gathered from NASRA, the Public Plans Database maintained by the Center for Retirement Research, and individual system Comprehensive Annual Financial Reports or Actuarial Valuations. Where more recent updates was available (e.g., via press release issued after the last report), that information was used. For systems having multiple benefit tiers with different assumptions, the largest was used.

[2] For comparison to our economic assumptions, we assumed Real Salary Growth was the difference between General Salary Growth and Inflation.

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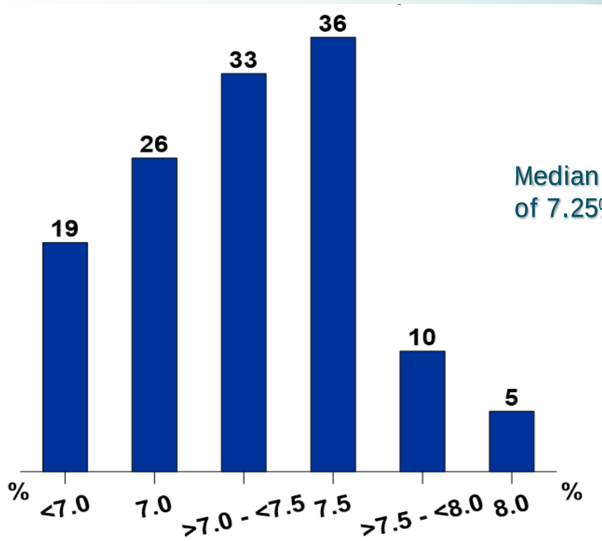
Distribution Of Return Assumptions



Median return of 7.25%.

Source: NASRA 2019 Public Fund Survey.

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Preview of Demographic Experience Study Results

Michael Harbour, ASA, MAAA
Actuary

Presentation to: LEOFF 2 Retirement Board

Office of the State Actuary
"Supporting financial security for generations."

September 25, 2019

Today's Presentation

- Brief Overview of the Process
  - Background/Status
- Historic Illustration
  - Link to Demographic Assumptions
- How will Contribution Rates be Impacted?
- Next Steps
  - No action required by Board

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Brief Overview Of The Process

1. Review of historical plan experience
   - Mostly focused on behavior or choices members make
   - Typically analyze data from 6+ years
     - Usually tells the what, but rarely the why
2. Evaluate how current assumptions compare to actual experience
3. Consider a variety of factors, including
   - e.g., Impact of Great Recession, changes to plan design
   - Apply professional judgment and expectations for the future
4. Actuaries select a set of demographic assumptions
   - Goal is to ensure assumptions remain a reasonable estimate of future plan experience (for purposes of adequate pre-funding)

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Background/Status

- OSA started work about 2 years ago
  - To date, project has taken over 3,000 staff hours
  - Perform this analysis approximately every 6 years
- Assumptions we selected are preliminary
  - Subject to change via external actuarial audit
- Major assumptions we'll focus on today

1. Termination	4. Mortality
2. Retirement	5. Salary
3. Disability	6. Miscellaneous

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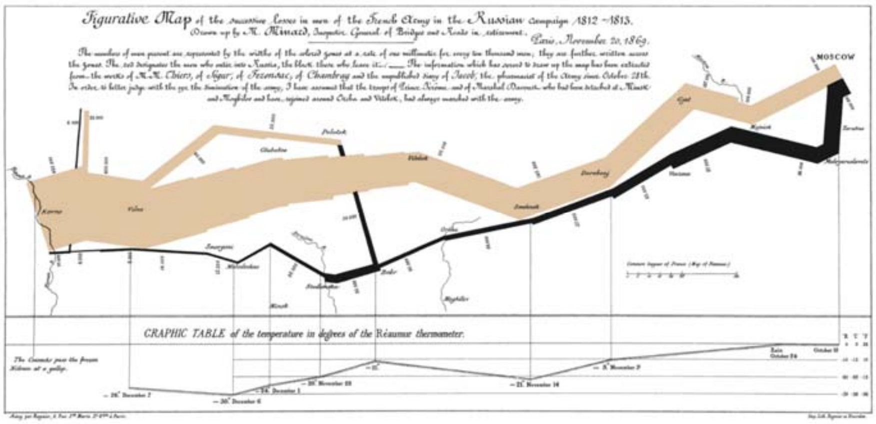
Historic Illustration



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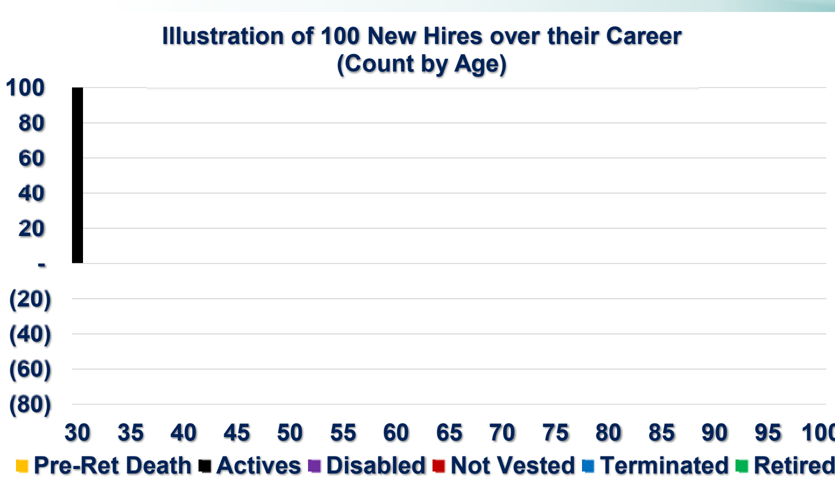
Link To Demographic Assumptions



- LEOFF 2 example

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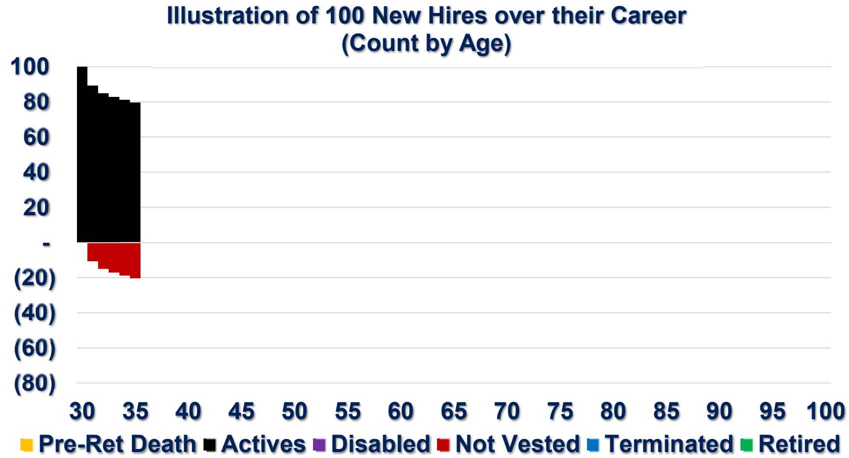
Link To Demographic Assumptions



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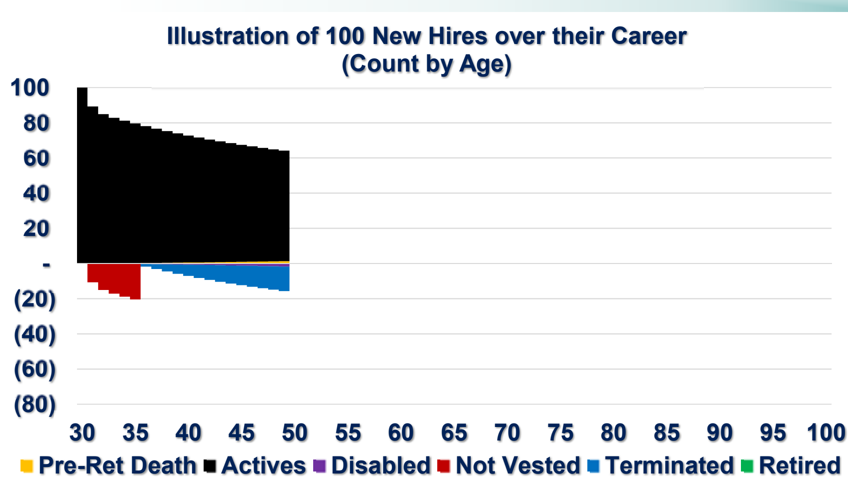
Link To Demographic Assumptions



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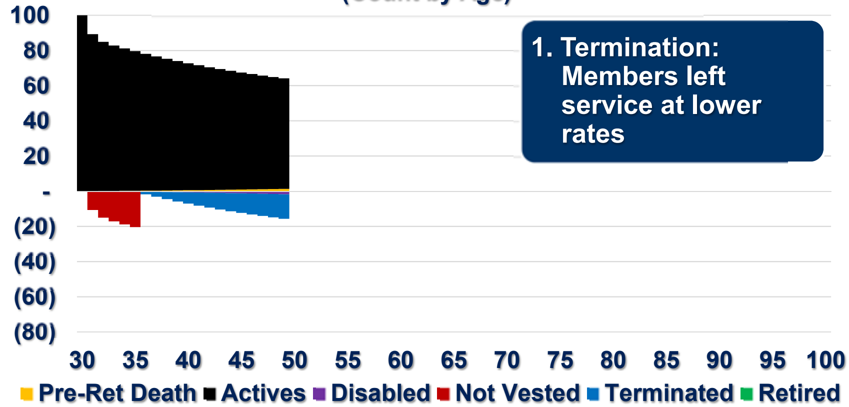
Link To Demographic Assumptions

Illustration of 100 New Hires over their Career
(Count by Age)



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Link To Demographic Assumptions

Illustration of 100 New Hires over their Career
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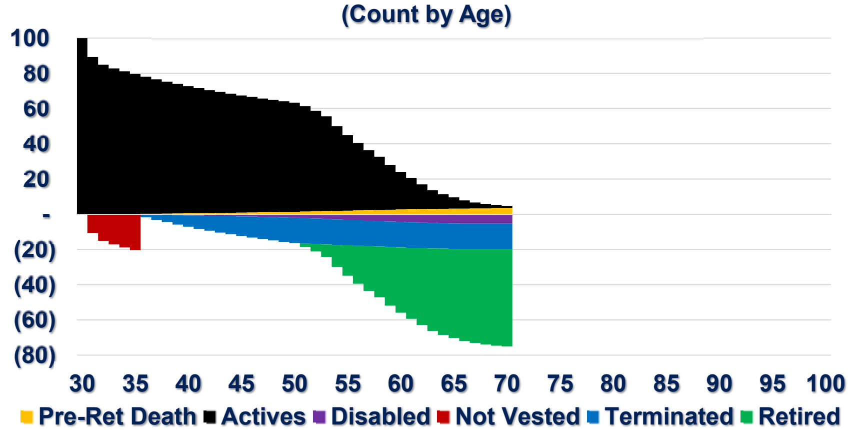

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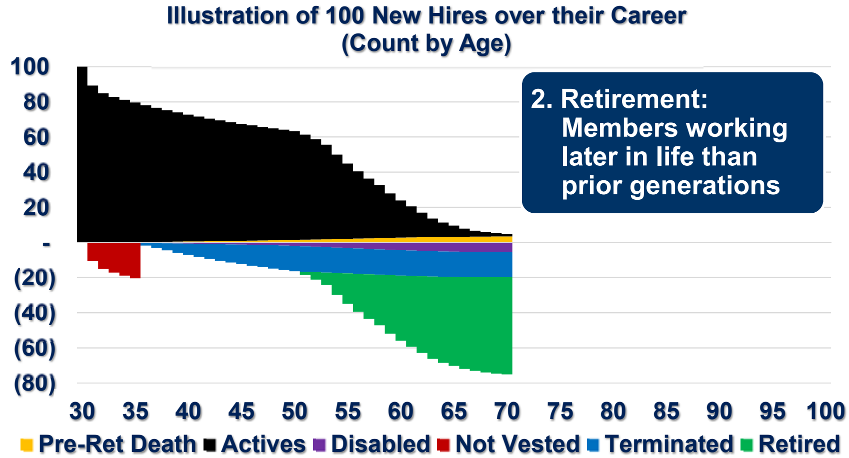
Link To Demographic Assumptions



2. Retirement:
Members working later in life than prior generations

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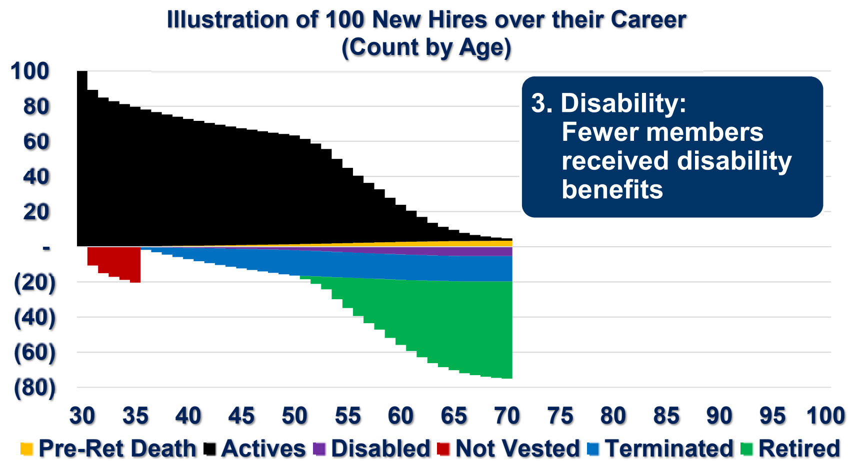
Link To Demographic Assumptions



3. Disability:
Fewer members received disability benefits

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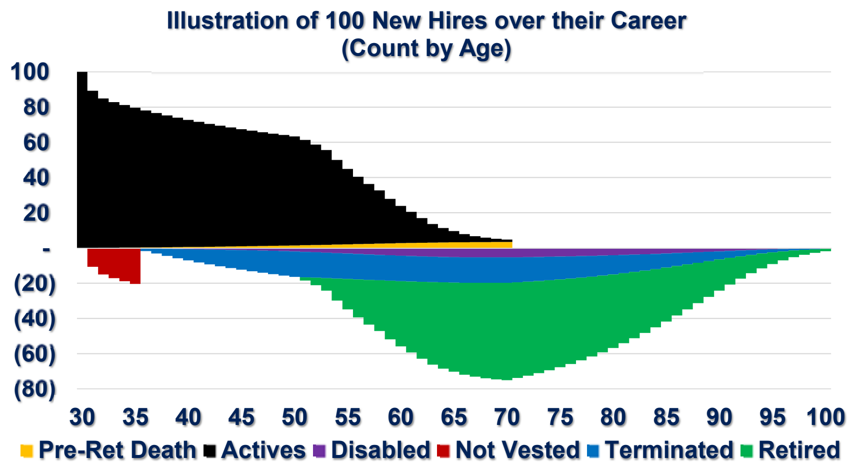
Link To Demographic Assumptions



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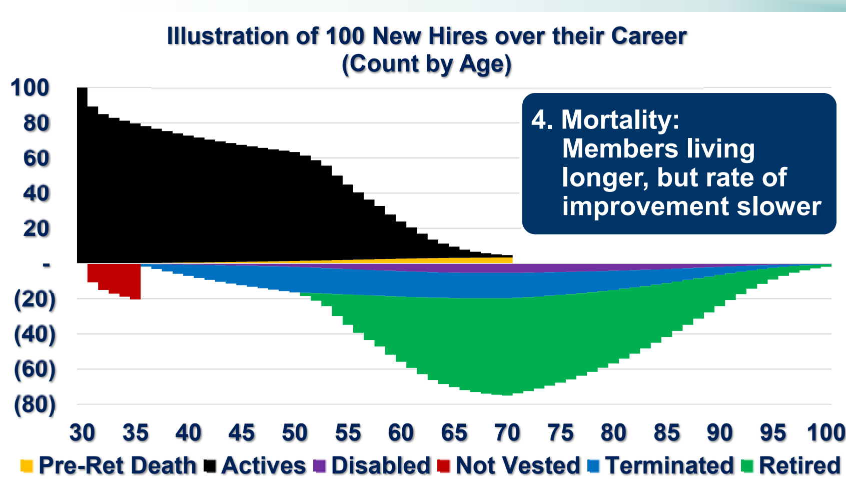

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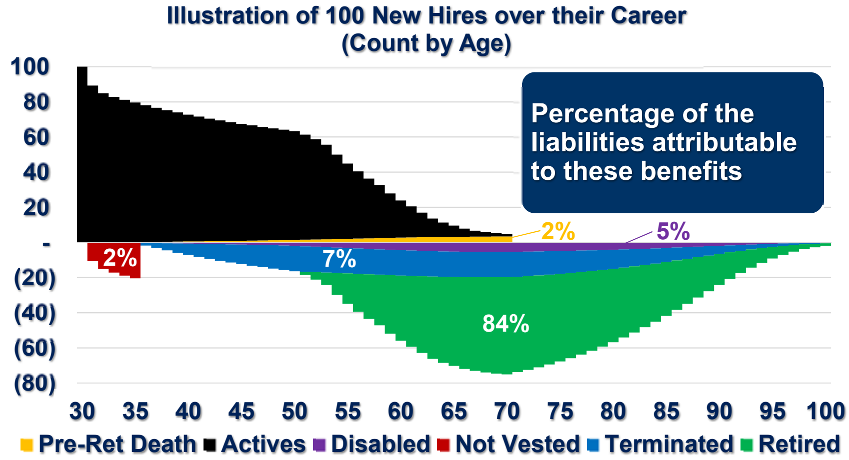
Link To Demographic Assumptions



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Other Details

5. Service-Based Salary Growth
   - Salary increases generally similar to our prior expectations
6. Miscellaneous Assumptions
   - Made general updates, focusing on simplicity

- Interesting Information
  - LEO and FF exhibited slightly different behavior in some cases

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How Will Contribution Rates Be Impacted?

Assumption	LEOFF 2
Termination Rates	0.02%
Disability Rates	(0.01%)
Retirement Rates	(0.06%)
Mortality Rates	0.00%
Salary Merit	(0.03%)
Miscellaneous	N/A
Total Rate Impact	**(0.08%)**

Note: Displayed as Total Employer impacts (entry age funding method).

- Impacts vary by assumption
  - Suggests historical experience was generally similar to expectations
- See **Appendix** for details by System and Assumption

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Next Steps

For OSA

- Finalize our preliminary report
- Collaborate with actuarial auditor next spring
- Incorporate assumption changes into 6/30/2019 actuarial valuation
  - Impacts contribution rates in 2021-23 Biennium

For the LEOFF 2 Board

- No action required
- Will receive update next interim

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Appendix

- Historic Illustration And Link To Demographic Assumptions
- Which Assumptions Were Studied And Highlights From Our Analysis
- Link To Demographic Assumptions
- How Will Contribution Rates Be Impacted?

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Historic Illustration And Link To Demographic Assumptions

Slide on the War of 1812

- Illustrates Napoleon's March to Moscow
  - Thickness of beige line represents number of soldiers in the army
  - Shows location of troops, as well as attrition over time
  - Includes return trip home (in black) and associated winter temperatures
- May be one of the best statistical graphs ever drawn

Pension Example on Following Slides

- Starts with 100 hypothetical new hires, age 30
  - Thickness of line shows how/when active group declines over time
- Illustrates 20% quit before vesting; 10% die or disable pre-retirement; 15% terminate w/ vested pension and 55% retire after full career, along with how long they live
- A vast majority of the liability is due to the retirement group

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Which Assumptions Were Studied And Highlights From Our Analysis

1. Termination Rates
   - General Definition
     - Estimates how long people work
   - High-Level Observation
     - Generally members left service at lower rate than previously expected
   - Interesting Takeaway
     - LEO/FFs have slightly different experience; maintained blended rates

2. Retirement Rates
   - General Definition
     - Identifies when pension benefits begin
   - High-Level Observation
     - Members continue to defer collecting pension benefits
   - Interesting Takeaway
     - Maintained gender-neutral and LEO/FF blended rates

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Which Assumptions Were Studied And Highlights From Our Analysis

3. Disability Rates
   - General Definition
     - Approximates occurrence of disability benefits paid
   - High-Level Observation
     - Generally members disable at lower rate than previously expected
   - Interesting Takeaway
     - Noted FFs have higher actual rates of disability than LEOs

4. Mortality Rates
   - General Definition
     - Primarily projects duration of annuity payments
   - High-Level Observation
     - Members continue to live longer, but rate of improvement slower
   - Interesting Takeaway
     - New public plans tables for General Employees, Teachers, and Public Safety

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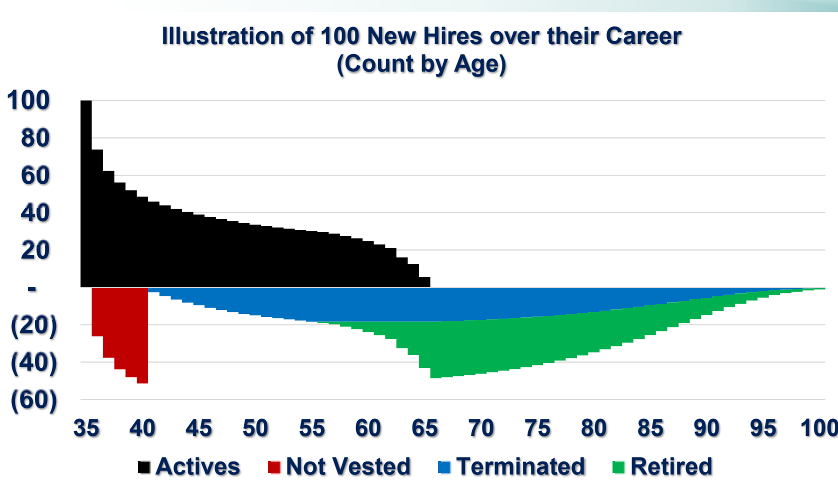
Which Assumptions Were Studied And Highlights From Our Analysis

5. Service-Based Salary Growth
   - General Definition
     - Independent of inflation-based or general salary growth
   - High-Level Observation
     - Salary increases generally similar to our prior expectations
   - Interesting Takeaway
     - Maintained gender-neutral and LEO/FF blended rates

6. Miscellaneous Assumptions
   - Examples
     - Military service credit, duty-related death and disability benefits
   - High-Level Observation
     - Made general updates, focusing on simplicity
   - Interesting Takeaway
     - Changes generally have limited impacts to estimated plan costs

Link To Demographic Assumptions



- Graphical comparison of PERS 2

How Will Contribution Rates Be Impacted?

Assumption	PERS 2/3	TRS 2/3	SERS 2/3	PSERS 2	LEOFF 2	WSPRS 1/2*
Termination Rates	(0.18%)	0.05%	(0.02%)	(0.06%)	0.03%	(0.12%)
Disability Rates	0.02%	(0.01%)	0.01%	(0.01%)	0.00%	0.07%
Retirement Rates	0.05%	(0.32%)	0.11%	(0.10%)	(0.12%)	0.78%
Mortality Rates	(0.30%)	0.30%	(0.01%)	(0.27%)	(0.04%)	(0.91%)
Salary Merit	0.06%	0.15%	0.09%	0.09%	(0.03%)	(0.05%)
Miscellaneous	N/A	N/A	N/A	N/A	N/A	N/A
Total Rate Impact	**(0.40%)**	**0.17%**	**0.18%**	**(0.35%)**	**(0.16%)**	**(0.23%)**

**All cost/savings allocated to Employer (above Employee maximum contribution rate).*

Note: Displayed as Total Employer changes (aggregate funding method)

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How Will Contribution Rates Be Impacted?

- PERS 2/3, PSERS 2, and WSPRS 1/2
  - Decrease in employer rates by about 0.20% to 0.40%
  - Reduction primarily attributable to new mortality tables
- TRS 2/3 and SERS 2/3
  - Increase in employer rates by just under 0.20%
  - Higher required rates due to a combination of assumption changes
- Limited impact to PERS 1 and TRS 1
  - Expected to be at contribution rate floors when effective in 2021-23
  - Projected payoff dates slightly earlier than previously anticipated

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Pension Funding Part I – Follow-up

Mitch DeCamp
Actuarial Analyst

Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

Presentation to: LEOFF 2 Retirement Board

Office of the State Actuary
"Supporting financial security for generations."

September 25, 2019

Today's Presentation

- Background on pension funding
- Review of actuarial cost methods
- Benefits of each cost method
- How cost methods compare under the *2017 Actuarial Valuation Report*
- Possible Board action today

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Background On Pension Funding

- Defines how to accumulate assets to pay for the plan benefits
- Two key components
  - Actuarial cost method (Part I)
    - Allocates pension costs to different time periods
    - Different cost methods vary in how quickly they fund the plan
    - Produce rates that fully fund the plan
  - Board funding policy (Part II)
    - Helps Board achieve specific funding goals

Every Cost Method Includes Past And Future Costs

- Past costs
  - The cost of any past experience that is different than expected
    - Actuarial gains and losses
  - Changes to plan provisions or assumptions
- Future costs
  - The cost of next year's benefits all active members are expected to earn

Common Cost Methods Used In Public Pensions

- Entry Age Normal (EAN) Cost Method
  - Calculates two separate contribution rates
    - Past costs = UAAL
      - Requires an amortization policy
    - Future costs = Entry Age Normal Cost
- Aggregate Cost Method
  - Rolls both the past and future costs into one contribution rate = Aggregate Normal Cost

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Why Might The Board Choose The Aggregate Or Entry Age Normal Cost Method?

- Aggregate Cost Method
  - Used for all other Washington State retirement plans (RCW 41.45.060)
  - One contribution rate that rolls all plan costs together
  - No UAAL (or surplus) amount separately identified and requiring an amortization policy
  - Has provided a solid foundation for LEOFF 2 historical funding
- Entry Age Normal Cost Method
  - Potential for increased consistency with policies and other pension plans
    - One component of cost method is used in the Board's minimum rate funding policy
    - Used by majority of public pension plans nationally
  - Results under this method used in financial reporting, as required by GASB

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How Do These Two Cost Methods Compare?

- Using results from the *2017 Actuarial Valuation Report*

Member Contribution Rate			
Aggregate		Entry Age Normal	
		(A) Normal Cost	8.59%
		(B) UAAL*	(2.57%)
Aggregate Rate	6.44%	EAN Rate (A+B)	6.02%

UAAL amortized over a 15-year period.

- LEOFF 2 has assets in excess of accrued (earned) benefits
  - Past experience has been better than expected = actuarial gains
  - Results in negative UAAL rate
  - The UAAL rate is amortizing past costs/(savings) over 15-year period

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EAN Cost Method – UAAL Amortization Period

EAN Cost Method - Member Contribution Rate			
	UAAL Amortization Period		
	10-Year	15-Year	20-Year
Normal Cost	8.59%	8.59%	8.59%
UAAL	(3.21%)	(2.57%)	(2.31%)
Total EAN Rate	5.38%	6.02%	6.28%

- Selecting amortization period is important component of EAN cost method
  - Determines how quickly or slowly the UAAL is recognized
- Longer amortization period reduces UAAL rate
  - Longer time period to draw down past costs

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How Could A Minimum Rate Policy Impact Results?

Member Contribution Rate			
Aggregate		**Entry Age Normal**	
		(A) Normal Cost	8.59%
		(B) UAAL	(2.57%)
Aggregate Rate	**6.44%**	**EAN Rate (A+B)**	**6.02%**
Minimum Rate	**8.59%**	**Minimum Rate**	**8.59%**

- Minimum rate is equal to Normal Cost (future costs) of Entry Age Normal cost method
  - Based on the 2017 valuation, Minimum rate is greater than rate under Aggregate or Entry Age Normal cost methods
  - The Board adopted the minimum rate for the 2019-21 and 2021-23 Biennia

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How Do Rates Compare If Funded Status Falls Below 100%?

Member Contribution Rate With Lower Assets			
Aggregate		**Entry Age Normal**	
		(A) Normal Cost	8.59%
		(B) UAAL*	1.09%
Aggregate Rate	**9.42%**	**EAN Rate (A+B)**	**9.68%**

**UAAL amortized over a 15-year period.*

- In this example we reduced the asset value by $1.25 billion
  - This reduces funded status to about 96%
- If funded status falls below 100%, Aggregate and Entry Age Normal Cost methods produce rates above minimum rates
  - Both cost methods will automatically adjust to rates required to get the plan back on track for full funding

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Summary And Next Steps

- Each cost method, along with appropriate funding policies, provides a reasonable approach to plan funding
- Either cost method, along with funding policies, can achieve the Board's goals
- Board has opportunity to affirm the current cost method or adopt new actuarial cost method
  - Today or at a future Board meeting
- Funding policy discussion at the October Board meeting
- OSA available to answer questions or provide additional analysis

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Questions?

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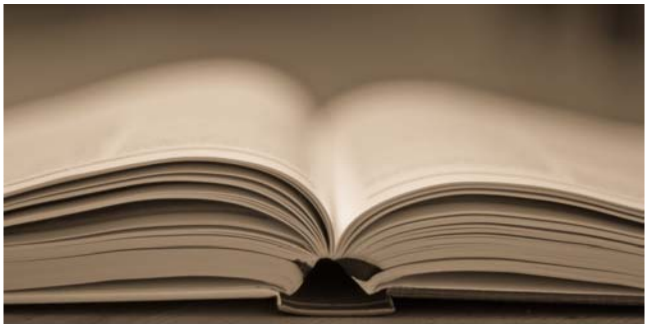
Appendix

- Aggregate Cost Method
- Entry Age Normal Cost Method



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Aggregate Cost Method

Member Rate =	
Present Value of Future Benefit – Assets / Present Value of Salaries	= 6.39% + 0.05%* = 6.44%

Laws of 2017 Supplemental Rate.

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Entry Age Normal Cost Method

Member Normal Cost Rate =

$$\frac{\text{Present Value of Benefits at Entry Age}}{\text{Present Value of Salary at Entry Age}} = 8.54\% + 0.05\%^{*} = 8.59\%$$

**Laws of 2017 Supplemental Rate.*

Member UAAL Rate =

$$\frac{\text{Earned Benefits – Assets}}{\text{Present Value of 15 Years of Salary}} = (2.57\%)$$

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LEOFF Plan 2 Retirement Board

2020 Supplemental Budget Update

September 25, 2019

2020 Supplemental Budget

- The LEOFF 2 Board submitted three supplemental budget decision packages
  - Expenditure authority consistent with the Board adopted budget
  - Agency Relocation Options Effective April 1, 2021

Board Adopted Budget Package

- The agency maintenance level decision package seeks expenditure authority approval from the Office of Financial Management to align with the budget adopted by the Board at the July 24, 2019 meeting
  - Professional Development – Trustees and Staff
  - Salary and Benefits
  - Contracts

Agency Relocation – Option 1

- Increased Operational Office Space with Off-site Rented Board Meeting Space
  - One-time costs of $190,000 in fiscal year 2021 related to physical relocation of assets, estimated tenant and infrastructure improvements
  - On-going annual cost increase of $168,000
    - Increased agency square footage and utilities
    - Rental of Boardroom space
    - Information technology support provided by WaTech

Agency Relocation – Option 2

- Increased Operational Office Space with on Premises Boardroom
  - One-time costs of $327,000 in fiscal year 2021
    - physical relocation of assets
    - tenant improvements
    - furniture and infrastructure improvements
  - On-going annual cost increase of $181,000
    - Increased agency square footage and utilities
    - Information technology support provided by WaTech

Agency Relocation Update

- Continue work with OFM Facilities Oversight
  - Unknown timeframe on approval of submitted pre-design
- Work with Department of Enterprise Services to identify appropriate facilities
- Continued updates to the Board as details and timing are finalized
  - Potential 2021 Supplemental Budget based on actual facilities costs

Thank You

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Senior Research and Policy Manager

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Board of Trustees - Operating Policies

RULE 1. **MEETINGS**. The LEOFF Plan 2 Retirement Board will typically meet once each month during the year. Additional meetings may be scheduled by the Board or called by the Chair or Administrative Committee as deemed necessary.

RULE 2. **RULES OF ORDER.** All meetings of the Board, or any subcommittee created by the Board, shall be governed by Robert's Parliamentary Rules, except as specified by applicable law or Board operating policies.

RULE 3. **QUORUM.** A majority of the 11 Board members shall constitute a quorum of the Board (6 members). A majority of the members appointed to a subcommittee shall constitute a quorum of the subcommittee.

a. The Chairman may convene or adjourn a meeting of the Board without a quorum being present.

b. The Board may hear reports or other information, hold debate and take public testimony on matters before the Board without a quorum being present but may not vote on any measure or issue until a quorum is present.

Section 3.01 **TELECONFERENCE ATTENDANCE**.
Teleconferencing to the LEOFF Plan 2 Retirement Board, Administrative Committee or other committee meetings is permitted upon advance notification of the Chair and administrative staff to the board. In the absence of the Chair, the Vice Chair may grant approval and in the absence of the Vice Chair the remaining Administrative Committee member may grant approval. Criteria to be used by the Chair to determine if teleconferencing is appropriate are:

a. If there is hazardous weather

b. When an agenda item cannot be postponed to a later meeting date and a member's attendance is needed for quorum purposes.

c. If in the Chair's opinion it is clearly to the LEOFF 2 Board's or Administrative Committee's advantage to arrange a teleconference.

d. As an alternative to board member travel as recommended by Chapter 7, 2010 Laws 1st Special Session.

e. If teleconferencing is approved, a speaker phone audible to all attendees shall be arranged at the location of the public meeting.

A member appearing via telephone shall identify themselves at the beginning of the meeting. Periodically the Chair should verify whether the member is still participating by telephone at the meeting. Members appearing by telephone shall use a land line if at all possible instead of a mobile telephone to ensure clarity and consistent connection.

RULE 4. **VOTING.** A majority of the 11 Board members (6 members) must vote in the affirmative for an official action of the Board to be valid. A majority of those Board members present must vote in the affirmative on procedural matters (at least 4 members), unless provided otherwise in statute or Board operating policies. A majority of the members appointed to a subcommittee must vote in the affirmative for an official action of a subcommittee to be valid; a majority of those subcommittee members present must vote in the affirmative on procedural matters, unless provided otherwise in statute or Board operating policies.

RULE 5. **MINUTES.** Minutes summarizing the proceedings of each Board meeting and subcommittee meetings shall be kept. These minutes will include member attendance, official actions taken at each meeting, and persons testifying.

RULE 6. **ELECTION AND DUTIES OF OFFICERS.**

a. The Board shall elect a Chairman and Vice-Chairman from its membership. Nominations for Chairman and Vice-Chairman shall be open during the regularly scheduled board meeting held in August. Any member may verbally nominate another member or themselves when the presiding officer declares the nominating period open. Elections for Chairman and Vice-Chairman shall be held during the regularly scheduled September board meeting. Terms for Chairman and Vice-Chairman shall be for a period of two years commencing immediately following the officers' election.

b. Both Chairman and Vice-Chairman shall be members of the Administrative Committee. One additional member shall be chosen by board members representing employer groups. Administrative Committee members shall serve two year terms that begin and end with the Chairman and Vice-Chairman's terms.

c. The Chair shall preside at all meetings of the Board and Administrative Committee, except that the Vice Chair shall preside when the Chair is not present. In their absence, an Administrative Committee member may preside.

d. Board staff shall prepare and maintain a record of the proceedings of all meetings of the Board and subcommittees of the Board.

e. The Administrative Committee shall perform all duties delegated by the Board. The Administrative Committee shall coordinate the annual evaluation of the Executive Director of the agency. (Policy 1 – Executive Director Performance Evaluation)

f. Board members shall consult with the Executive Director before referring issues to the Assistant Attorney General so that any budget constraints may be taken into consideration. Advice from the Attorney General's Office to the Board may be subject to the attorney client privilege. When subject to the privilege, Board members are advised to maintain the advice as confidential. The privilege may be waived only by vote of the Board.

g. The Executive Director may refer requests for information or services by Board members that are directly related to current Board projects or proposals and/or require a significant use of staff resources to either the Chair or the Administrative Committee.

h. Such requests will be approved by either the Chair or by a majority vote of the Administrative Committee prior to action by staff. The Chair or Administrative Committee will consider priorities of all current projects and budget constraints in making this decision.

i. Any Board member may attend Administrative Committee meetings at any time, though participation may be restricted for time or procedural purposes.

RULE 7. **EXPENSES.** Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other Board members' travel expenses shall be reimbursed by the Board in accordance with RCW 43.03.050 and 43.03.060.

RULE 8. **AGENDA ITEMS.** Any Board member may request that the Board place an item on the agenda for a future meeting. The Chair or the Administrative Committee may also place an item on the agenda for a future meeting, or make other agenda changes, as deemed necessary. Items will not be placed on the agenda without the approval of the Board, the Chair, or the Administrative Committee.

RULE 9. **PROCESS FOR CONSIDERING NEW BENEFIT PROPOSALS.** The Board will maintain a register of all proposals for benefit changes, sorting them into the following categories:

a. Proposals by Board members; or

b. Proposals by plan members, employers and the public; or

c. Technical corrections identified by staff, the Department of Retirement Systems or other agencies/organizations.

Proposals will remain on the register for two years unless withdrawn by the sponsor or acted on by the Board.

In order to provide stakeholders and the public with ample opportunity to comment on proposals and to understand the potential impacts on plan members, beneficiaries and/or contribution rates, the Board will consider proposed benefit changes from the register in the following stages:

Initial Consideration - Staff will prepare background information regarding the topic. A majority of Board members must agree to request that staff prepare a Preliminary Report.

Preliminary Report – Staff will develop key issues and policy alternatives for Board consideration. The Board may invite public and stakeholder comment. A majority of Board members must agree to request that staff prepare a Final Proposal.

Final Proposal – Staff will develop statutory or regulatory language describing the benefit and seek legal review by counsel, an analysis by the State Actuary on the impact of the change, an independent review of fiscal notes by an outside actuarial firm, if available, and supporting analysis and descriptive information.

The Board will review the Final Proposal in a public meeting and hear public testimony before voting to move the proposal forward to the Legislature. A majority of Board members must agree to move the proposal forward to the Legislature.

NOTE: **Rules adopted November 19, 2003**
Rule 9 revised August 25, 2004
Rule 6 revised September 28, 2005
Rule 3 revised April 30, 2008
Rule 3 revised June 16, 2010
Rule 6 revised December 12, 2012
Rule 2 revised May 28, 2014
Rule 3e revised December 20, 2017

September 25, 2019

Month of Death Payment

COMPREHENSIVE REPORT

By Jacob White
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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.

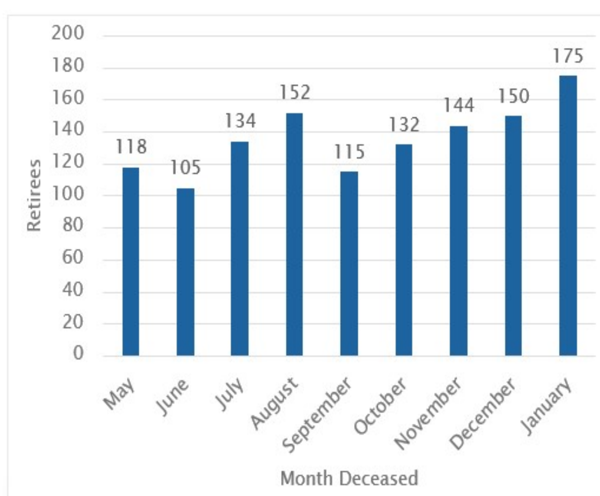
The proposed policy change (to pay a full month benefit for the month in which the member dies) would be beneficial to the HCA and PEBB Program members in the following ways:

- 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

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LEOFF Plan 2 Retirement Board

September 25, 2019

Survivor Option Reelection

COMPREHENSIVE REPORT

By Jacob White
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ISSUE

Should members have an opportunity in certain situations to change their survivor option after retirement?

OVERVIEW

This report will provide information on the irrevocable election of a member's survivor option. It will also explain how a member receives an estimate of their benefit prior to retirement, the accuracy of those estimates, policy reasons for why the decision to leave a survivor benefit is irrevocable, and information on how other state retirement plans treat survivor options.

BACKGROUND AND POLICY ISSUES

What is a survivor option?

LEOFF 2 members may elect to take a reduction in their monthly benefit in order to leave an ongoing benefit to a survivor. The survivor will receive the ongoing benefit for their lifetime. This feature of LEOFF 2 is referred to as a survivor benefit option. The member must make this election when they apply for retirement. There are four options for a survivor benefit:

1. **Single Life** - This option pays the highest monthly amount of the four choices, but it only lasts for the member's lifetime. No one will receive an ongoing benefit after the retiree dies. If the retiree dies before the benefit they have received equals their contributions plus interest (as of the date of their retirement), the difference will be paid in a lump sum to the retiree's designated beneficiary.
2. **Joint and 100% Survivor** – The retiree's monthly benefit under this option is less than the Single Life Option. But after the retiree's death, the retiree's survivor will receive the same benefit the retiree was receiving during his or her lifetime.
3. **Joint and 50% Survivor** – This option applies a smaller reduction to the retiree's monthly benefit than option 2. After the retiree's death, the retiree's survivor will receive half the benefit the retiree was receiving during his or her lifetime.

4. **<u>Joint and 66.67% Survivor</u>** – This option applies a smaller reduction to the retiree's benefit than option 2 and a larger reduction than option 3. After the retiree's death, the retiree's survivor will receive 66.67% of the benefit the retiree was receiving during his or her lifetime.

The survivor is typically a spouse, but can be someone else. If a member is married they are required to get spousal consent to choose an option other than option 3.

What are the survivor options for other retirement plans?
Plans 1, 2, and 3 in PERS, SERS, and TRS all have the same survivor benefit options as LEOFF 2. LEOFF 1 has an automatic joint and 100% survivor benefit. In LEOFF 1 the member does not take a reduction in their benefit to leave this survivor benefit.

How much of a reduction in benefit will a member take to leave a survivor benefit?
The amount of the reduction in benefit a member takes when selecting a survivor option benefit is based on administrative factors. These factors are recommended by the Office of the State Actuary and adopted by the LEOFF 2 Board. The factors are based on various actuarial assumptions and assembled into a table categorized by the difference in age between the retiree and their survivor. If the survivor is younger than the retiree the reduction in benefit will be greater. If the survivor is older than the retiree there is still a reduction in benefit; however, the reduction will be less. The intent of these factors is to make the amount of pension funds paid over a single life (survivor option 1) equal to the amount of pension funds paid over two lives (survivor option 2, 3, or 4).

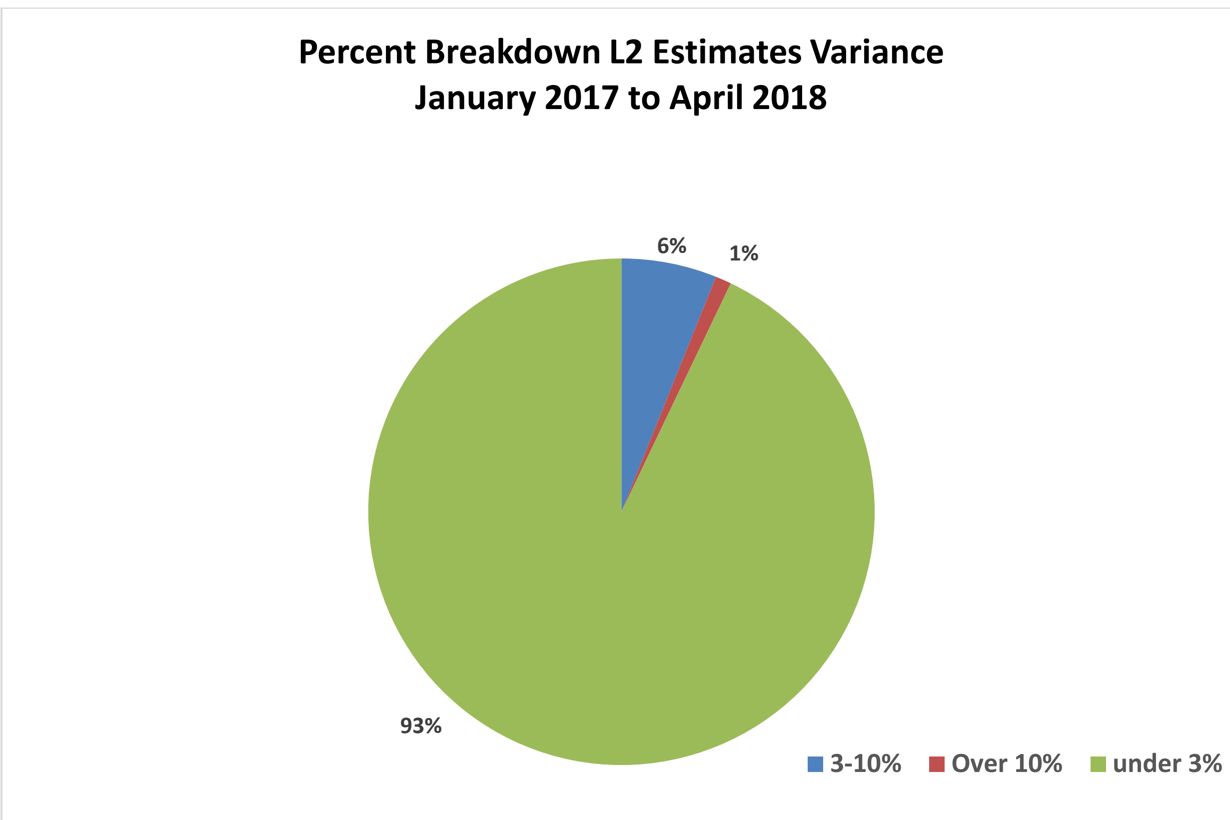
Can a member change their decision to leave, or not leave, a survivor benefit?
A retiree's survivor option choice is irrevocable unless the following occur:

1. They designated someone other than their spouse to receive their survivor benefit. The non-spouse survivor can be removed (option 1) only.
2. They marry or remarry after retirement. To qualify, they must request the change between their first and second years of marriage.
3. They chose a survivor option, and their survivor dies before they do. Their benefit is adjusted to option 1.
4. They return to membership. If they go back to work for any period of time as a contributing retirement plan member, they can retire again and select a new benefit option and/or survivor.
    a. PERS members must return to work for two years before they are able to re-retire and change their survivor option.

How does a member know what their benefit will be prior to retiring?
Members are encouraged by the Department of Retirement Systems (DRS) to request an estimate of their retirement benefit, within a year of when they plan to retire. If a member does not request an estimate, DRS still ensures they receive an estimate of their benefit before retiring. When members make their request, they may select multiple estimates based on different survivor options. In addition to what survivor option the member selects, the estimate is calculated based on multiple assumptions, including how long the member will continue to work and what their Final Average Salary will be.

How accurate are benefit estimates?
DRS tracks the accuracy of estimates as part of their ongoing performance metrics. From January 2017 to April 2018 there were 591 LEOFF 2 retirements. Of those retirements:

- 549 (93%) estimates were within 3% of the member's actual benefit;
- 36 (6%) estimates were between 3% and 10% of the member's actual benefit; and
- 6 (1%) were more than 10% different than the member's actual benefit.



There are many reasons an estimate could be different than what a member's actual benefit is. However, according to DRS, the most common reasons for an estimate to be more than 10%

different than the actual benefit are when the member chooses a different retirement date or chooses a different survivor option than they requested for the estimate.

Can a member's benefit change after retirement?

When DRS receives additional information about an employee's Final Average Salary or Service Credit they are required under RCW 41.50.130 to recalculate the retiree's retirement benefit. This is referred to as a "recalc". Current law does not allow a member to change their survivor option after a recalc. A recalc may result in either an increase or a decrease to a member's benefit. The recalc is both retrospective and prospective. Therefore, in addition to the change in retirement benefit moving forward, DRS must pay the retiree an additional payment or collect from the retiree the difference in the pension payments they have received and the recalculated benefit amount they should have received.

Last fiscal year DRS recalculated 256 LEOFF 2 retirees' pension payments. 46 (18%) of those recalcs resulted in a decrease to a member's benefit. Below is a table of the percentage of change to these retirees' retirement benefit resulting from the recalc:

% Change in Benefit	# of Recalcs
.001 - .99%	158
1 – 4.99%	60
5%-9.99%	20
10% or more	18

The majority of recalcs occur shortly after a member retires; however, in some instances may occur years after retirement. Below is the average turnaround time for LEOFF 2 recalcs from 1/2017 to 7/2018:

# of days after Retirement	% of Total Recalcs
Within 90 days	67%
90-180 days	13%
Over 180 days	20%

DRS prioritizes recalcs that are a result of an audit finding, as those are most likely to have the largest impacts on members.

Why is the decision to leave a survivor benefit irrevocable?

The decision to leave a survivor benefit is irrevocable because it helps mitigate the risk of anti-selection. Anti-selection is the tendency of a person to recognize his or her health status in selecting the option under a retirement system which is most favorable to him or herself. If anti-selection risks are not effectively mitigated, it can increase the costs of the retirement system.

Since the survivor option administrative factors are based on average life expectancies, rather than individual life expectancies, the potential impact of anti-selection on LEOFF 2 would be members could "game the system" to their advantage and the detriment of LEOFF 2. For example, if a member is aware they have a terminal disease, they could choose to leave a larger survivor benefit than they would have selected if not for their knowledge of their terminal disease.

Anti-selection may impact members through either increased contribution rates and/or less favorable administrative factors for survivor options. Since contributions into LEOFF 2 are paid by both employers and members, the impact of anti-selection risks are paid for by both. If a change in policy increased anti-selection risks to the point of impacting contribution rates, this would likely result in intergenerational inequity because the benefit being utilized by recent retirees would be funded by active members.

How does LEOFF 2 mitigate the anti-selection risks of survivor benefits?

Currently, the impact of anti-selection on LEOFF 2 is minimized by requiring members to make an irrevocable survivor option election at the time of retirement. The more opportunity a member has to make or change that election, the more likely anti-selection risks to LEOFF 2 will increase.

The risk of anti-selection is minimized in the post-retirement marriage survivor option provision by requiring the member to make the election after they have been married for a year, but prior to the second year of marriage. This helps mitigate the risk that a retiree finds out they have a terminal disease and decides to marry for the purpose of leaving a survivor benefit.

The requirement that the retiree make this decision prior to the second year of marriage further mitigates anti-selection risk by ensuring they do not prolong the decision until they become aware of additional information, such as a terminal disease.

Do other state or federal pension systems allow retirees to change their survivor election?

A review of other public retirement plans showed that the vast majority of plans have irrevocable survivor elections that must be made at the time of retirement, with limited opportunities (typically tied to divorce or remarriage) to change that election. However, there are some plans which include a limited window for retirees to change their survivor option election.

The Oregon Public Employee Retirement System allows a retiree to change their survivor option selection within 60 days after the date of receiving their first benefit payment.[1] The change is retroactive to their effective retirement date, and overpaid benefits must be repaid to PERS. Oregon Public Employee Retirement System has approximately 50 to 60 retirees (approximately 0.7% of new retirees) per year change their survivor option selection.

The Federal Employee Retirement System has a window to change survivor election within 30 days of a member receiving their first regular annuity payment.[2] After the 30 day period has passed, but less than 18 months from the beginning date of a member's annuity, a member can change their election only to choose a survivor annuity or to increase a reduced survivor annuity amount.

The Minnesota Public Employees Retirement Association Police and Fire Plan allows a survivor option selection to be rescinded if both the member and designated survivor mutually agree to allow the benefit to be recomputed as a single-life pension.[3]

The United States Uniformed Services Retirement System allows retirees to terminate their survivor benefit in a one year window between the second and third anniversary following the first receipt of retired pay.[4] None of the premiums the member paid for the survivor benefit are refunded and no annuity will be payable to a survivor upon the member's death. The covered spouse, or former spouse, must consent to the withdrawal. Termination is permanent and participation may not be resumed under any circumstance.

POLICY OPTIONS

Option 1 – Window for all L2 Members: All LEOFF 2 retirees have a window after the receipt of their first retirement payment to change their survivor election. If a member changes their survivor election they must pay or be refunded the difference in their pension payments that

[1] https://www.oregon.gov/PERS/MEM/Tier-One-Tier-Two/Documents/TierOne-TierTwo-Preretirement-Guide.pdf
[2] https://www.opm.gov/faq/retire/Can-I-change-my-survivor-benefit-election-after-retirement.ashx
[3] https://www.mnpera.org/wp-content/uploads/2018/06/PF-Updated-1.pdf
[4] https://militarypay.defense.gov/Benefits/Survivor-Benefit-Program/Stopping-SBP/

they have already received. The member must provide DRS with written spousal consent to change their survivor option, if the survivor option provides the spouse with a decreased survivor benefit.

a) 60 day window
b) 90 day window
c) 120 day window

Option 2 – Qualifying Event Window: LEOFF 2 retirees may change their survivor election if a DRS recalculation of their benefit results in a change to the benefit amount of more than:

a) Any change in benefit amount
b) 5%
c) 10%

The retiree has 90 days from receipt of the first recalculated pension payment to elect a new survivor benefit. The member will need to request a new estimate from DRS of their recalculated benefit with survivor options. If a member changes their survivor election they must pay or be refunded the difference in their pension payments that they have already received. The member must provide DRS with written spousal consent to change their survivor option, if the survivor option provides the spouse with a decreased survivor benefit.

Option 3 – Qualifying Event Window with Further Anti-selection Risks Mitigation: The same as Option 2 except to further mitigate anti-selection risks a retiree's ability to change their survivor option election is limited based on the impact of the recalculation.

- If a retiree's benefit increases due to a recalculation they may only select a larger survivor option.
- If a retiree's benefit decreases due to a recalculation they may only select a smaller survivor option.

This option helps further limit retirees using the qualifying event window as an opportunity to change their survivor option election not because of the change in their benefit amount due to the recalculation but instead because of additional information about their life expectancy or their survivor's life expectancy.

Option 4 – Option 1 (a), (b), or (c) and 2 (a), (b), or (c)

Option 5 – Option 1 (a), (b), or (c) and 3 (a), (b), or (c)

LEOFF
Plan 2 Retirement Board

Survivor Option Reelection

Comprehensive Report
September 25, 2019

Issue

- Should members have an opportunity in certain situations to change their survivor option after retirement?

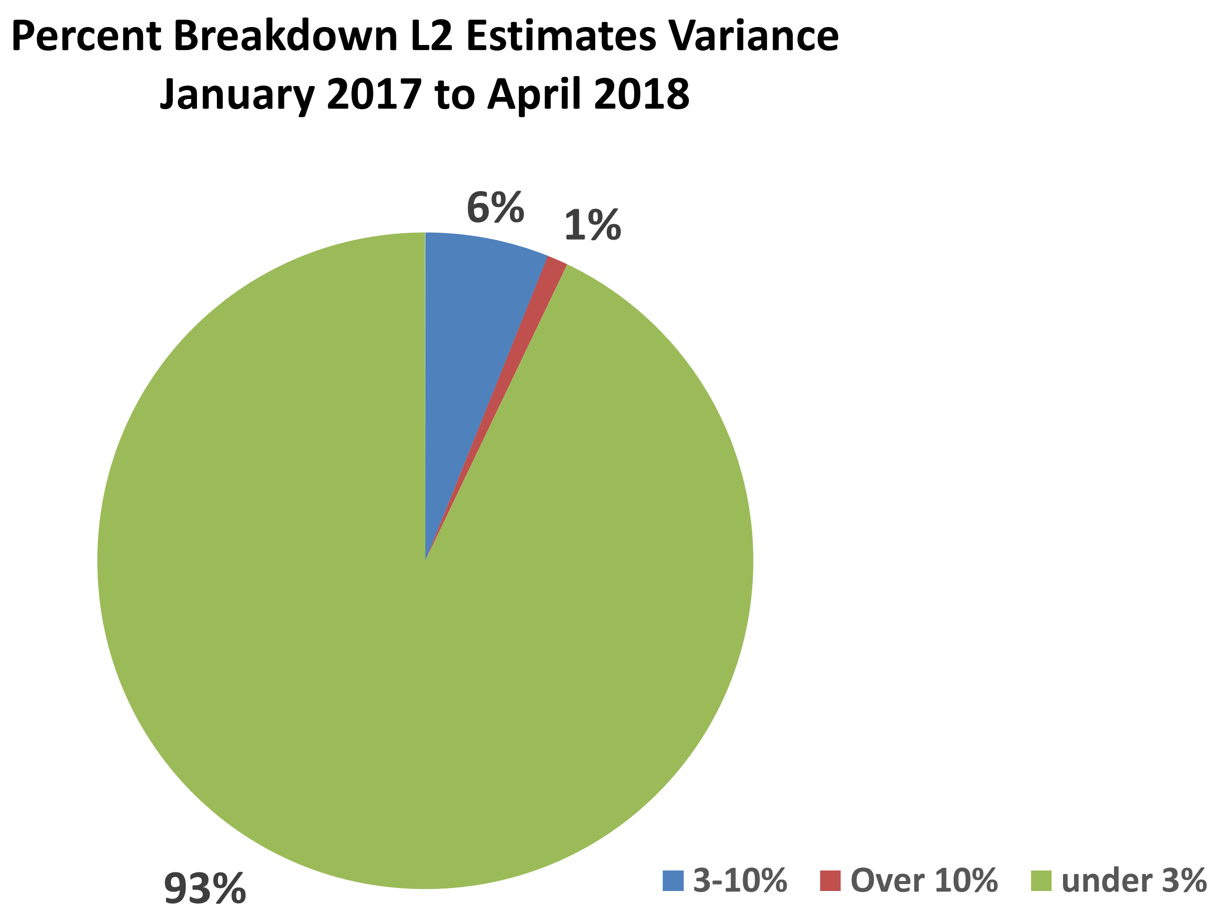
What is a survivor option?

- LEOFF 2 members may elect to take a reduction in their monthly benefit in order to leave an ongoing benefit to a survivor
- There are 4 survivor options:
  1. Single Life
  2. Joint and 100% Survivor
  3. Joint and 50% Survivor
  4. Joint and 66.67% Survivor

How does a member know what their benefit will be?

- DRS encourages members to request a benefit estimate within a year of retirement
  - Online estimates
  - Official estimates

How accurate are benefit estimates?



Can a member's benefit change after retirement?

- When DRS receives additional information about an employee's Final Average Salary or Service Credit they recalculate (aka recalc) the retiree's retirement benefit
- Current law does not allow a member to change their survivor option after a recalc

Recalc Data

- Last fiscal year DRS recalculated 256 LEOFF 2 retirees' pension payments

% Change in Benefit	# of Recalcs
.001 - .99%	158
1 – 4.99%	60
5%-9.99%	20
10% or more	18

- 46 (18%) resulted in a decrease to a member's benefit

Timeliness of DRS Recalcs

- The average turnaround time for LEOFF 2 recalcs from 1/2017 to 7/2018:

# of days after Retirement	% of Total Recalcs
Within 90 days	67%
90-180 days	13%
Over 180 days	20%

Why can’t a member change their survivor option?

- Increased risk of anti-selection
- Risks of anti-selection are currently mitigated through:
  - Survivor option election at the time of retirement
  - A window for post-retirement marriage survivor option election

How could anti-selection impact LEOFF 2?

- Increased anti-selection risks may impact LEOFF 2 through:
  - Increased contribution rates
  - Less favorable administrative factors for survivor options
  - Intergenerational inequity

Other Pensions Systems

- Oregon Public Employee Retirement System
  - 60 day window
  - 50 to 60 retirees (0.7% of new retirees) per year change their survivor option selection

Policy Option 1 – Window for all L2 Members

- All LEOFF 2 retirees have a window after the receipt of their first retirement payment to change their survivor election. If a member changes their survivor election they must pay or be refunded the difference in their pension payments that they have already received. The member must provide DRS with written spousal consent to change their survivor option, if the survivor option provides the spouse with a decreased survivor benefit.

   a) 60 day window

   b) 90 day window

   c) 120 day window

Policy Option 2 – Qualifying Event Window

- **LEOFF 2 retirees may change their survivor election if a DRS recalc results in a change to the benefit amount of more than:**
  a) Any change in benefit amount
  b) 5%
  c) 10%

Policy Option 3 – Qualifying Event Window with Further Anti-selection Risks Mitigation

- The same as Option 2 except to further mitigate anti-selection risks a retiree's ability to change their survivor option election is limited based on the impact of the recalculation
  - If a retiree's benefit increases due to a recalculation they may only select a larger survivor option
  - If a retiree's benefit decreases due to a recalculation they may only select a smaller survivor option

Combination Policy Options

- Option 4 – Option 1 (a), (b), or (c) and 2 (a), (b), or (c)
- Option 5 – Option 1 (a), (b), or (c) and 3 (a), (b), or (c)

Thank You

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LEOFF Plan 2 Retirement Board

September 25, 2019

Interruptive Military Service Credit

COMPREHENSIVE REPORT
By Jacob White
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ISSUE STATEMENT

For purposes of receiving no-cost interruptive military service credit, the legislature has attempted to distinguish between service in combat zones and other types of service, however, the state law has continually resulted in inequities as not all service in combat zones qualifies for no-cost interruptive military service credit.

OVERVIEW

LEOFF Plan 2 members may establish service credit for military service interrupting their LEOFF service. Member contributions are waived for LEOFF 2 members whose interruptive military service was: 1) during a period of war; or 2) during a specified conflict for which they earned a campaign badge or medal.

This report will provide information on interruptive military service credit; Department of Defense (DoD) regulations for awarding military service medals; and, policy considerations for making changes to the current law.

BACKGROUND AND POLICY ISSUES

General Background

Interruptive military service credit applies to all Washington state retirement systems, including LEOFF 2. A member qualifies for this benefit when a leave of absence is taken from a DRS covered position to serve in the United States military and the member returns to employment with their employer within 90 days of being honorably discharged. When this occurs, membership in the retirement system is considered to be interrupted.

There are two types of pension benefits for interruptive military service: fully subsidized ("no-cost interruptive military service credit") and partially subsidized.

No-cost interruptive military service credit is awarded if the service took place during a period of war, or certain armed conflicts in which an approved campaign medal or badge was obtained. A member can qualify for up to five years of no-cost interruptive military service credit. The employer and state pay their contributions plus interest and the system subsidizes the member contributions and interest.

Partially subsidized interruptive military service credit is awarded if the service did not take place during a period of war, or an armed conflict in which an approved campaign medal was obtained[1]. A member can qualify for up to five years of partially subsidized military service credit. The member must pay the member contribution cost; however, the interest on the member contributions is subsidized by the plan. The member has five years from when they return to work to pay their contributions or they must pay those contributions prior to retirement, whichever occurs first. After the member has paid their contributions, the employer and state are billed the employer contributions plus interest.

A member may receive a total of 10 years of interruptive military service credit (up to 5 years no-cost interruptive military service credit and up to 5 years of partially subsidized). The member must fully pay the required contributions within 5 years of reemployment.

Qualifying for No Cost Interruptive Military Service Credit

To qualify for no-cost interruptive military service credit the member must meet the definition of "veteran" under RCW 41.04.005. The statute limits veterans to persons serving during a "period of war" defined as:

- World War I, World War II, the Korean conflict, the Vietnam era, the Persian Gulf War, and any future period of war declared by Congress.
- Specified military operations where the member earned a campaign badge or medal. The DoD awards a campaign badge or medal to service members who:
  - Served during a specified conflict[2]; and
  - Were stationed in a designated war zone.

Campaign medals, as defined by the DoD manual 1348.33 Volume 2, are medals which "recognize Service members who are deployed to the geographic area where the combat is actually occurring. Members awarded campaign medals have the highest degree of personal risk and hardship as they are conducting the combat operations and are deployed to the area where the combat is actually occurring."

---

[1] Responsibility for payment varies by the dates of service. If the military service was completed: Between October 1, 1977, and March 31, 1992, the member pays both the employer and member contributions plus interest; After March 31, 1992, and before October 6, 1994, the member pays the member contributions plus interest and the employer and state pay their contributions plus interest; After October 6, 1994, a member pays the member contributions (no interest) and the employer and state pays their contribution plus interest.

2 Defined conflicts include: the crisis in Lebanon, the invasion of Grenada, Operation Just Cause in Panama, Operation Restore Hope in Somalia, Operation Uphold Democracy in Haiti, Operation Joint Endeavor in Bosnia, Operation Noble Eagle, Operation Enduring Freedom in Southern or Central Asia, Operation Iraqi Freedom; Iraq and Syria, Operation Inherent Resolve; and Afghanistan, Operation Freedom's Sentinel.

Members who served during a specified operation but were not stationed in a war zone did not earn a campaign badge or medal. Because they do not meet the definition of "veteran", those members are not eligible for no cost interruptive military service credit; however, they are eligible for partially subsidized interruptive military service credit.

Legislative History

No-cost interruptive military service credit was created in 2009, with the passage of HB 1548. The legislative history of HB 1548 does not explicitly state the policy goals of the legislature in creating a no-cost interruptive military service credit benefit or the reasons for placing the lines of demarcation between partially subsidized and no-cost at receiving a campaign badge. However, HB 1548 was endorsed by the Select Committee on Pension Policy and the LEOFF 2 Board.

In 2009, the LEOFF 2 Board report[3] on this proposed benefit stated:

> Arguments for eliminating the cost to the member include encouraging military service, supporting the ability to recruit military personnel into state/local government service, benefits (direct and indirect) to the State from military service rendered by public employees, recognition and support for plan members serving the public at large in a high risk situation, and supplementing federal benefits which may be viewed as inadequate.

Some of the policy pros and cons of providing special or increased benefits to members based on military service, identified in presentations to the LEOFF 2 Board and the SCPP in 2008 and 2009, included:

No Additional Benefits	Additional Benefits
Members serve voluntarily; no draft requires them to leave employment	Encourage military service; help avoid need for a draft
Members already receive adequate federal compensation and benefits for military service	Support ability to recruit more military personnel into state service and more state personnel into military service
Other members and employers would not have to absorb extra costs for these members	Support view that all WA citizens benefit, directly or indirectly, from military service rendered by public employees

[3] http://leoff.wa.gov/wp-content/uploads/2015/06/121708.6_Interruptive-Military-Service-Credit.pdf

More favorable service credit treatment is already given to these members (partially subsidized service credit)	Recognize that members who serve in conflicts are at higher risk for injury or death; pension plans typically offer extra support for high risk occupations that serve the public at large
Military service is unrelated to the service rewarded by state pension plans	Supplement federal benefits, which may not be viewed as adequate

During the 2017 legislative session SB 5661 was signed into law requiring the LEOFF 2 Board to study interruptive military service credit where the member was not awarded a campaign badge or medal. The LEOFF 2 Board completed that study during the 2017 interim and submitted the report to the legislature on January 1, 2018.

As a result of that study the LEOFF 2 Board endorsed legislation (HB 2701) in 2018. This legislation added a provision that ensured members are eligible for free interruptive military service credit for multiple deployments to the same conflict; added an end date in statute for the end of the Gulf War; and made two additional combat operations (Inherent Resolve, Iraq and Syria; and Freedom's Sentinel, Afghanistan) eligible for no-cost interruptive military service credit. This legislation passed the legislature and became effective June 7, 2018.

The statute which defines veteran, for purposes of not only receiving interruptive military service credit but also other non-pension benefits, has been amended eleven times since its creation in 1969. The majority of these amendments have been to update the list of periods of war and armed conflicts.

Department of Defense

Campaign, Expeditionary, and Service (CE&S) medals recognize service members for participation in military campaigns, expeditions, or other significant military operations, and for otherwise meritorious military service. Eligibility criteria for CE&S medals are based on a service member's:

- Degree of personal risk (e.g., proximity to the enemy, service in a combat zone, imminent threat of hostilities);
- Degree of personal hardship;
- Participation in designated military operations; and,
- Extent of military service during specified time periods, duration, or types of duty.[4]

[4] DOD MANUAL 1348.33, VOLUME 2, https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodm/1348.33_Vol2.pdf?ver=2018-03-29-102726-900

There are four categories of CE&S medals[5]:

- **Campaign Medals** - Campaign medals recognize deployed participation in large-scale or long-duration combat operations. Campaign medals are associated with the highest level of personal risk and hardship. They are awarded to Service members who are deployed to the geographic areas where the combat is actually occurring. Service members deployed to areas where combat is occurring as a result of prolonged or large-scale military combat operations should be recognized with a separate and distinct campaign medal.
- **Expeditionary Medals** - Expeditionary medals recognize deployed participation in small scale and/or short-duration combat operations or military operations where there is an imminent threat of hostilities. Expeditionary medals are also awarded to members deployed in support of combat operations, but who are not in the geographic area where the actual combat is occurring. Expeditionary medals are associated with high levels of personal risk and hardship.
- **Deployed Service Medals -** Deployed service medals recognize deployment or assignment to a designated Area of Eligibility (AOE) to participate in, or directly support, a designated military operation where there is no foreign armed opposition or imminent threat of hostile action.
- **Individual Service Medals -** Individual service medals recognize individual merit, direct participation in a DoD approved military activity, undertaking, event or operation, or service during a specified period. Some individual service medals, such as the Prisoner of War (POW) medal, may recognize service involving significant personal risk and hardship, while others only recognize being in active military service during a particular period of time.

Below is a table from the DoD Manual 1348.33, Volume 2, of current and recent CE&S medals:

[5] DOD MANUAL 1348.33, VOLUME 2, https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodm/1348.33_Vol2.pdf?ver=2018-03-29-102726-900

Table 1: Categories of CE&S Medals

Title of Decoration[1]	Sub-category of CE&S Medals
Southwest Asia Service Medal[2]	Campaign Medal
Kosovo Campaign Medal	Campaign Medal
Afghanistan Campaign Medal	Campaign Medal
Iraq Campaign Medal	Campaign Medal
Inherent Resolve Campaign Medal	Campaign Medal
Armed Forces Expeditionary Medal	Expeditionary Medal
Global War on Terrorism Expeditionary Medal	Expeditionary Medal
Antarctic Service Medal	Deployed Service Medal
Armed Forces Service Medal	Deployed Service Medal
Korea Defense Service Medal	Deployed Service Medal
National Defense Service Medal	Individual Service Medal
Armed Forces Reserve Medal	Individual Service Medal
Humanitarian Service Medal	Individual Service Medal
Prisoner of War Medal	Individual Service Medal
Military Outstanding Volunteer Service Medal	Individual Service Medal
Global War on Terrorism Service Medal	Individual Service Medal
Note 1: This list is not all-inclusive. Military Departments also have CE&S medals (e.g., Navy Expeditionary Medal; Air Force Good Conduct Medal; Army Good Conduct Medal). Refer to each Military Department's specific award guidance for additional information. Note 2: Before DoD established comprehensive CE&S medal policy, the naming conventions for DoD CE&S medals were inconsistent. This resulted in several medals with names that do not match the CE&S medal category to which they are assigned.	

Since the LEOFF 2 Board endorsed legislation passed in 2018, additional military campaigns, and underlying operations in support of those campaigns, have been identified as qualifying for a campaign medal. For example, the Kosovo Campaign Medal identified in the table above is not currently identified in the state statute as qualifying for no-cost interruptive military service credit.

Additionally, the DoD has recognized that service in an operation could qualify for either a campaign medal or some other medal depending on the degree of personal risk involved in the service. For example, Service in Operation New Dawn can qualify for either an Expeditionary Medal or an Iraq Campaign Medal.[6],[7]

Furthermore, in some instances the DoD has encouraged veterans of past campaigns to apply for an upgrade to campaign medal if they believe that their personal service had the highest

[6] https://prhome.defense.gov/Portals/52/Documents/RFM/MPP/OEPM/Docs/ICM%20-%20Approved%20Campaign%20Phases%20-%20Apr%202012.pdf
[7] https://fas.org/sgp/crs/natsec/RS21405.pdf

degree of personal risk and hardship as they were conducting combat operations and were deployed in the area where the combat was actually occurring.[8]

LEOFF 2 Data

Since 2009, 534 LEOFF 2 members have received no-cost interruptive military service credit. Those members have received an average of 9.75 months of service credit.

During that same time period, 24 LEOFF 2 members have purchased partially subsidized interruptive military service credit. Those members purchased an average of 8.85 months of service credit. 40 LEOFF 2 members requested a bill from DRS to purchase partially subsidized interruptive military service credit, but elected not to purchase the service credit. Those members would have received an average of 11.68 months of service credit.

POLICY OPTIONS

Option 1 – Move definition of "veteran" to pension statutes and rewrite to include all past and future armed conflicts where Campaign Badges are awarded.

Option 2 – Expand no-cost interruptive military service to include Expeditionary Medals, move definition of "veteran" to pension statutes and rewrite to include all past and future armed conflicts where Campaign Badges and Expeditionary Medals are awarded.

Option 3 – Update existing list of armed conflicts to include any additional campaign medals not currently included in law.

Option 4 – No changes to existing law.

[8] https://dod.defense.gov/News/Article/Article/708382/carter-announces-operation-inherent-resolve-campaign-medal/

LEOFF
Plan 2 Retirement Board

Interruptive Military Service Credit

Comprehensive Report
September 25, 2019

Issue

- For purposes of receiving no-cost interruptive military service credit, the legislature has attempted to distinguish between service in combat zones and other types of service, however, the state law has continually resulted in inequities as not all service in combat zones qualifies for no-cost interruptive military service credit

Interruptive Military Service

- A member qualifies for this benefit when a leave of absence is taken from a DRS covered position to serve in the United States military
- Two types:
  - Fully subsidized (“no-cost interruptive military service credit”)
  - Partially subsidized

No-cost Interruptive Military Service Credit

- LEOFF 2 Board/SCCP endorsed 2009 legislation creating benefit
- Must meet the definition of "veteran" under RCW 41.04.005
  - World War I, World War II, the Korean conflict, the Vietnam era, the Persian Gulf War, and any future period of war declared by Congress, or
  - Specified military operations where the member earned a campaign badge or medal

Policy Considerations in 2009

No Additional Benefits	Additional Benefits
Members serve voluntarily; no draft requires them to leave employment	Encourage military service; help avoid need for a draft
Members already receive adequate federal compensation and benefits for military service	Support ability to recruit more military personnel into state service and more state personnel into military service
Other members and employers would not have to absorb extra costs for these members	Support view that all WA citizens benefit, directly or indirectly, from military service rendered by public employees
More favorable service credit treatment is already given to these members (partially subsidized service credit)	Recognize that members who serve in conflicts are at higher risk for injury or death; pension plans typically offer extra support for high risk occupations that serve the public at large
Military service is unrelated to the service rewarded by state pension plans	Supplement federal benefits, which may not be viewed as adequate

Department of Defense Categories of Medals

- Campaign Medal
  - Recognize deployed participation in large-scale or long-duration combat operations
- Expeditionary Medal
  - Recognize deployed participation in small scale and/or short-duration combat operations or military operations where there is an imminent threat of hostilities

Department of Defense Categories of Medals

- Deployed Service Medal
  - Recognize deployment or assignment to a designated Area of Eligibility to participate in, or directly support, a designated military operation where there is no foreign armed opposition or imminent threat of hostile action
- Individual Service Medals
  - Individual Service medals recognize individual merit, direct participation in a DoD approved military activity, undertaking, event or operation, or service during a specified period

Recent Examples

Table 1: Categories of CE&S Medals

Title of Decoration[1]	Sub-category of CE&S Medals
Southwest Asia Service Medal[2]	Campaign Medal
Kosovo Campaign Medal	Campaign Medal
Afghanistan Campaign Medal	Campaign Medal
Iraq Campaign Medal	Campaign Medal
Inherent Resolve Campaign Medal	Campaign Medal
Armed Forces Expeditionary Medal	Expeditionary Medal
Global War on Terrorism Expeditionary Medal	Expeditionary Medal
Antarctic Service Medal	Deployed Service Medal
Armed Forces Service Medal	Deployed Service Medal
Korea Defense Service Medal	Deployed Service Medal
National Defense Service Medal	Individual Service Medal
Armed Forces Reserve Medal	Individual Service Medal
Humanitarian Service Medal	Individual Service Medal
Prisoner of War Medal	Individual Service Medal
Military Outstanding Volunteer Service Medal	Individual Service Medal
Global War on Terrorism Service Medal	Individual Service Medal

Note 1: This list is not all-inclusive. Military Departments also have CE&S medals (e.g., Navy Expeditionary Medal; Air Force Good Conduct Medal; Army Good Conduct Medal). Refer to each Military Department's specific award guidance for additional information.

Note 2: Before DoD established comprehensive CE&S medal policy, the naming conventions for DoD CE&S medals were inconsistent. This resulted in several medals with names that do not match the CE&S medal category to which they are assigned.

LEOFF 2 Board 2018 Legislation

- HB 2071 (2018) added:
  - A provision that ensured members are eligible for free interruptive military service credit for multiple deployments to the same conflict
  - An end date in statute for the end of the Gulf War
  - Made two additional combat operations eligible for no-cost interruptive military service credit
    - Inherent Resolve, Iraq and Syria
    - Freedom’s Sentinel, Afghanistan

Issues

- State “veteran” definition specifies individual military conflicts and designated war zones, meaning that the definition must continually be updated in order to keep policy consistent
- The definition is located in a general personnel statute, not pension statutes, meaning that updating statute impacts more than just state pension plans

Issues

- There are military campaigns which qualify for campaign medals that are not identified in state law
  - Kosovo Campaign Medal
    - 11 underlying campaigns
- DoD periodically "upscales" medals for campaigns
- DoD recognized that service in an operation could qualify for either a campaign medal or some other medal depending on the degree of personal risk involved in the service
  - Operation New Dawn
    - Eligible for Iraq Campaign Medal

Policy Options

- Option 1 – Move definition of “veteran” to pension statutes and rewrite to include all past and future armed conflicts where Campaign Badges are awarded
- Option 2 – Same as Option 1, plus expand no-cost interruptive military service to include Expeditionary Medals
- Option 3 – Update existing list of armed conflicts to include any additional campaign medals not currently included in law
- Option 4 – No changes to existing law

Thank You

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LEOFF Plan 2 Retirement Board

September 25, 2019

PEBB Coverage/Catastrophic Retiree

INITIAL CONSIDERATION

By Jacob White

Senior Research & Policy Manager

360-586-2327

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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

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[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:

☒ 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:	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

☒ **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

LEOFF
Plan 2 Retirement Board

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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STATE OF WASHINGTON

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

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329

Benefit Improvement Account Distribution Policy Considerations

1. What is the purpose of the LEOFF Plan 2 pension plan?

Employers typically offer pension plans to recruit and retain qualified employees.

So, one possible goal for the Benefit Improvement Account expenditure is to "Adopt a benefit that will improve the ability of LEOFF Plan 2 to recruit and retain qualified employees." An example of this type of benefit would be prospectively increasing the multiplier from 2%/year of service to 2.5%/year of service for years 15 to 25.

PROS: This type of benefit can help employers with recruiting challenges.

CONS: This type of benefit would not include retirees since recruitment and retention do not apply.

Members who are nearing the end of their career may benefit very little or not at all from a prospective change to the benefit calculation formula.

2. What is the purpose of the Benefit Improvement Account?

The Benefit Improvement Account legislation included a finding that the current benefit formula for LEOFF Plan 2 fails to recognize the shorter working careers for law enforcement officers and firefighters. The formula is designed for careers of 30-35 years making retirement at age 53 unrealistic.

So, a possible goal for the Benefit Improvement Account expenditure might be, "Increase the benefit formula to make retirement at age 53 more realistic." An example of this type of benefit improvement might be prospectively increasing the multiplier from 2%/year of service to 2.1%/year of service.

PROS: An increase in the multiplier is probably the type of change to LEOFF 2 that affects members most equally.

CONS: This type of benefit improvement is the most expensive so only a modest improvement would be possible with the current funds in the Benefit Improvement Account. The cost is significantly higher if past service for current members and/or retirees are included.

3. The source of funding for the Benefit Improvement Account is contributions made to the fund (member, employer, State) and earnings on those contributions.

So, a possible goal for the Benefit improvement Account distribution might be, "Distribute the assets in the Benefit Improvement Account in a way that fairly recognizes the contributions of all members." An example of this type of benefit might be $15,000 distribution into a 457 account for all active members and retirees.

PROS: This type of benefit would include retirees.

CONS: This type of benefit would probably not be an improvement to the LEOFF 2 benefit formula because the cost of a retroactive benefit formula increase is heavily weighted toward retired members and members close to retirement.

LEOFF

Plan 2 Retirement Board

Benefit Improvement Account

Educational Briefing – September 25, 2019

Issue

- The legislature transferred $300 million from LEOFF 2 to the LEOFF 2 Benefit Improvement Account
- As of May 31, 2019 BIA balance was $21,184,332
- The LEOFF 2 Board must determine what benefit improvement to fund out of the account

Background

- What is the LEOFF Plan 2 Benefit Improvement Account?
  - The Benefit Improvement Account is a sub-account of the LEOFF Plan 2 Retirement Fund that was created by legislation in 2008
  - Its purpose is to provide an additional means of funding benefit improvements in LEOFF Plan 2
  - Neither the legislation creating the Benefit Improvement Account nor the legislation transferring funds to the Benefit Improvement Account specified a benefit to be funded

Limitations on Spending Funds from BIA

- Money transferred to the BIA can only be used to fund benefits adopted by the Legislature
- State Actuary must determine that the transfer from the BIA is sufficient to offset the full expected cost of the benefit improvement

Possible benefit improvements

- The Board has been working with OSA to get current pricing for many frequently requested benefit improvements
  1. Increasing the 2% multiplier
  2. Reducing or eliminating the survivor benefit reduction
  3. Decreasing the Final Average Salary period
  4. Early Retirement
- The Board is working with the Health Care Authority to get a current estimated cost for providing LEOFF 2 retirees with access to PEBB

Benefit Improvement Policy

It might be helpful to consider the policy goal to be achieved by a benefit improvement in order to focus research on those benefit improvements which would further the desired policy goal

Possible policy goals include:

1. Recruit or retain desired employees
2. Recognition of the generally shorter working careers for members
3. Fairness – retroactivity

Next steps

- Possible discussion of policy goals at October meeting
- Completion of health care access pricing
- Possible presentations on specific options at November and December meetings

Thank You

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2019 AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
Jan 23	Legislative & Administrative Updates
Feb 27	Legislative & Administrative Updates
March 27	Legislative & Administrative Updates
April 24	Legislative & Administrative Updates
May 15	Approval of Minutes 2019 Legislative Session Recap 2019 Interim Planning
June 26	Approval of Minutes Supplemental Rate Preview 2019-2021 Budget Preview Interim Work Plan Adoption Interruptive Military Service Credit - *Initial* Benefit Improvement Account Overview
July 24	Approval of Minutes New Risk Measures Funding Method Discussion Supplemental Rate Adoption 2019-2021 Budget Adoption Tribal Participation Study – *Initial* Month of Death – *Initial* Survivor Option Election – *Initial* Benefit Improvement Account Update
August 14	*Historically Cancelled*
Sept 25	Approval of Minutes Economic Experience Study Results Demographic Experience Study Preview Funding Method Adoption* DRS Public Pension Administration Benchmarking Board Officer Elections Month of Death – *Comprehensive* Survivor Option Election – *Comprehensive* Interruptive Military Service Credit – *Comprehensive* PEBB Coverage for Catastrophic Retirees – *Initial* Benefit Improvement Account Potential Goals & Policies
Oct 16	2020 Proposed Calendar Strategic Planning Meeting Funding Corridor Discussion Trustee Education Policy Attendance Policy Board Expectations Benefit Improvement Account Goals & Policies
Nov 20	Approval of Minutes 2020 Meeting Calendar Adoption DRS Annual Update LEOFF Actuarial Valuation (LAVR) Results Administrative Factor Adoption* Economic Assumption Adoption *(if needed)* Tribal Participation Study – *Comprehensive* Financial Audit Results – SAO Benefit Improvement Account – *Comprehensive**
Dec 18	Approval of Minutes WSIB Annual Update Funding Corridor Adoption* Month of Death – *Final* Interruptive Military Service Credit – *Final* Tribal Participation Study – *Final* Benefit Improvement Account – *Final**

*Tentative