LEOFF Plan 2 Retirement Board

September 26, 2018

Month of Death Payment

COMPREHENSIVE REPORT

By Jacob White

Senior Research & Policy Manager

360-586-2327

jacob.white@leoff.wa.gov

ISSUE STATEMENT

In the month a retiree or survivor passes away, the Department of Retirement Systems (DRS) prorates the last month benefit payment based on the number of days the person was alive in the month. Frequently this results in 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.

DRS requested the LEOFF 2 Board consider endorsing legislative action to no longer prorate the month of death pension benefit (See Appendix A). DRS provided an initial presentation on their proposal to the Board at the June 20, 2018. The Board voted at the July 25, 2018 meeting to receive a Comprehensive Report on the issue.

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 pro-rated 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.

Administrative Workload Data

Each month, on average, DRS retires 1,000 members and is notified of 500 retiree deaths.
For 2018, as of July 31, there were 856 active invoices for month of death overpayments. 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.

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 Draft Fiscal Note (see Appendix B) to assist the Select Committee on Pension Policy and LEOFF 2 Board on considering this proposal. The costs that arise from this proposal will be divided according to the standard funding method for LEOFF 2: 50 percent member, 30 percent employer, and 20 percent state. If this proposal passes during the 2019 Legislative Session the rate impact of this benefit improvement for LEOFF 2 would be:

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

The budget impact would be:

Budget Impact	
2019-2021	**Dollars in Millions**
State - General Fund	$0.4
Local Government	$0.8

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

2021-2023	Dollars in Millions
State - General Fund	$0.5
Local Government	$0.7
2019-2044	**Dollars in Millions**
State - General Fund	$1.2
Local Government	$1.5

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 recommends 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.

POLICY OPTIONS

Option 1: Pay full month of death payment

Option 2: Continue current practice

SUPPORTING INFORMATION

Appendix A: May 17, 2018 DRS Letter to LEOFF 2 Board

Appendix B: OSA Draft Fiscal Note

Appendix C: June 20, 2018 DRS Presentation to LEOFF 2 Board, "DRS Month of Death Payments Overview for L2".

STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS
P.O. Box 48380 • Olympia, WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

May 17, 2018

Dennis Lawson, Chair
Law Enforcement Officers' and Fire Fighters'
Plan 2 Retirement Board
PO Box 40918
Olympia, WA 98504

Dear Chair Lawson and Members of the LEOFF Plan 2 Retirement Board:

The Department of Retirement Systems respectfully requests that the LEOFF Plan 2 Retirement Board study and consider endorsing legislative action on the following issues this interim:

1. **Remove Spousal Consent Requirements for Certain Survivorship Selections**
Under current law, a member who is retiring must provide written consent from his or her spouse for any retirement survivorship option he or she selects – except in the case of a joint 50% survivorship option. This means that even when a member is providing a 100% or 66.67% survivorship option, the spouse must provide written consent, even though these options are greater than the default option of joint 50%. (The default option is in place because of Washington state's community property laws.) DRS would like the LEOFF Board to consider endorsing the Department's suggestion that written spousal consent be required only when the member chooses to have no survivor benefit go to the spouse.

2. **Eliminate Pro Ration of Month of Death Benefit Payment**
When a retiree or survivor passes away, the last monthly benefit payment must be pro-rated based on the number of days the person was alive in the month. For example, an individual who passes away on the 10th of the month will have accrued 1/3 of his or her monthly payment. In most cases, however, DRS isn't aware of a death until after the full monthly payment has been processed. In these instances, DRS bills the family or the estate to recover the pro-rated overpayment. This comes at a time when survivors are already navigating through paperwork and other difficult issues related to the member's death. Additionally, pro-rating the last payment can cause hardships for health insurance payments. DRS requests that the LEOFF Board consider endorsing the Department's suggestion that the pro ration of month of death benefit payments be discontinued.

Please let us know how we can assist the board in reviewing these issues. We are available to answer questions and provide additional background and data as needed.

Thank you for your consideration.

Sincerely,

Tracey Guerin
Director

cc: Steve Nelsen, Executive Director

SUMMARY OF RESULTS

BRIEF SUMMARY OF PROPOSAL: DRS will no longer prorate a retiree's last month of benefits when that retiree dies during a month.

COST SUMMARY

If this proposal passes during the 2019 Legislative Session, the supplemental contribution rates displayed below would be collected during the 2020 Fiscal Year for the cost of this benefit improvement. 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)						
Fiscal Year 2019 State Budget	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Employee (Plan 2)	0.04%	0.02%	0.04%	0.01%	0.03%	0.07%
Employer						
Current Annual Cost	0.04%	0.02%	0.04%	0.01%	0.02%	0.07%
Plan 1 Past Cost	0.02%	0.03%	0.02%	0.02%	0.00%	0.00%
Total Employer	**0.06%**	**0.05%**	**0.06%**	**0.03%**	**0.02%**	**0.07%**
Total State					**0.01%**	

Budget Impacts			
(Dollars in Millions)	**2019-2021**	**2021-2023**	**25-Year**
General Fund-State	$9.6	$10.3	$86.4
Local Government	$9.5	$9.1	$76.8
Total Employer	**$22.7**	**$22.8**	**$190.4**

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- This proposal results in a cost to the retirement systems 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.
- We 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.
- We valued the cost of an additional half-month annuity benefit paid at the death of the member only. We examined the impacts of Joint-and-Survivor (J&S) options, and found them to be immaterial for all systems, except WSPRS. As such, we adjusted the expected cost for WSPRS only.
- This draft fiscal note excludes the impacts of this proposal on Plan 3 Total Allocation Portfolio (TAP) annuities, the Judicial Retirement System (104 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 proposal for future retirees.
- 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 proposal would have no cost. In contrast, if we assumed all members died on the first day of the month, the cost of this proposal would double.

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

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This proposal impacts the following systems:

- Public Employees' Retirement System (PERS) Plans 1, 2, and 3.
- Teachers' Retirement System (TRS) Plans 1, 2, and 3.
- School Employees' Retirement System (SERS) Plans 2 and 3.
- Public Safety Employees' Retirement System (PSERS) Plan 2.
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2.
- Washington State Patrol Retirement System (WSPRS) Plans 1 and 2.

The Department of Retirement Systems (DRS) will no longer prorate a retiree's last month of benefits when that retiree dies during a month. In other words, if a retiree has received benefits for an entire month and then dies on day 25 of a thirty-day month, DRS will not seek reimbursement of the remaining five days' worth of benefits from the retiree's estate.

Effective Date: 90 days after session.

What Is The Current Situation?

When a member of the state retirement systems dies, DRS only pays retirement benefits up to the precise date of that individual's death. However, in many cases the deceased has already received a retirement check for the full month in which he or she dies. As a result, DRS seeks a refund from the estate of the deceased if the individual dies prior to the last day of the month.

Who Is Impacted And How?

This proposal 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 proposal could affect 539,885 members of the impacted systems. These members include active, retired, disabled, and vested terminated members, as well as all joint-life survivors.

This proposal will increase the benefits for a typical member by providing the annuitant with a full month's annuity benefit in the month of death. For 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 proposal, 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 proposal impacts all active members of PERS, TRS, SERS, PSERS, LEOFF, and WSPRS through increased contribution rates. With the exception of WSPRS members, this proposal will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this proposal will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

This proposal 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 PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal 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 proposal 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.

For LEOFF 2, the costs that arise from this proposal 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 proposal constitutes a benefit improvement. As a result, any costs that arise from this proposal will be divided according to the standard funding method of 50 percent member and 50 percent employer. The statutory maximum member contribution rate will correspondingly increase as well.

HOW WE VALUED THESE COSTS

Assumptions We Made

Under this proposal, 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.

This analysis includes the most recent economic assumptions adopted by the Pension Funding Council (PFC) and the LEOFF Plan 2 Board during the 2017 Interim. These adoptions lowered the long-term rate of investment return assumption to 7.50 percent (7.40 percent for LEOFF 2), the general salary growth assumption to 3.50 percent, and the inflation assumption to 2.75 percent.

Otherwise, we developed these costs using the same assumptions as disclosed in the *June 30, 2016, 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 1/24th 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 the impact to be immaterial in all systems except WSPRS. As such, we adjusted the expected cost for WSPRS only.

The fiscal impact of this proposal represents the change in projected contributions. To estimate the fiscal impact of this proposal, we compared projected pension contributions under current law to the projected contributions we expect under this proposal. 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 proposal, we modified the base described above to reflect the provisions of the proposal 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 proposal 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	$12,605	$24.2	$12,630
PERS 2/3	42,227	51.0	42,278
PERS Total	**$54,833**	**$75.2**	**$54,908**
TRS 1	$9,067	$16.2	$9,083
TRS 2/3	15,984	16.1	16,000
TRS Total	**$25,051**	**$32.3**	**$25,084**
SERS 2/3	**$5,952**	**$7.4**	**$5,960**
PSERS 2	**$873**	**$0.8**	**$874**
LEOFF 1	$4,182	$8.5	$4,190
LEOFF 2	12,683	11.3	12,694
LEOFF Total	**$16,865**	**$19.8**	**$16,885**
WSPRS 1/2	**$1,358**	**$1.2**	**$1,359**
Unfunded Actuarial Accrued Liability			
*(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)***			
PERS 1	$5,452	$24.0	$5,476
TRS 1	$3,551	$16.1	$3,567
LEOFF 1	($1,093)	$8.5	($1,085)
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	$5,561	$24.1	$5,585
PERS 2/3	4,399	43.8	4,443
PERS Total	**$9,960**	**$67.9**	**$10,028**
TRS 1	$3,600	$16.2	$3,616
TRS 2/3	1,220	13.9	1,234
TRS Total	**$4,820**	**$30.1**	**$4,850**
SERS 2/3	**$632**	**$6.3**	**$638**
PSERS 2	**$22**	**$0.4**	**$23**
LEOFF 1	($1,097)	$8.5	($1,089)
LEOFF 2	(628)	8.8	(619)
LEOFF Total	**($1,725)**	**$17.3**	**($1,708)**
WSPRS 1/2	**$94**	**$1.1**	**$95**

Note: Totals may not agree due to rounding.
**Current liabilities will not match the 2016 AVR. The liabilities reflect updated economic assumptions adopted by the PFC after the publication of the AVR.*
***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 proposal 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 proposal 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 proposal.

Impact on Contribution Rates (Effective 09/01/2019)						
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Current Members						
Employee (Plan 2)	0.035%	0.025%	0.036%	0.011%	0.029%	0.068%
Employer						
Normal Cost	0.035%	0.025%	0.036%	0.011%	0.018%	0.068%
Plan 1 UAAL	0.023%	0.035%	0.023%	0.023%	0.000%	0.000%
Total	**0.058%**	**0.059%**	**0.058%**	**0.034%**	**0.018%**	**0.068%**
State						
Current Annual Cost					0.012%	
Plan 1 Past Cost					0.000%	
Total					**0.012%**	
New Entrants*						
Employee (Plan 2)	0.005%	0.006%	0.010%	0.011%	0.007%	0.005%
Employer						
Normal Cost	0.005%	0.006%	0.010%	0.011%	0.004%	0.005%
Plan 1 UAAL	0.023%	0.035%	0.023%	0.023%	0.000%	0.000%
Total	**0.028%**	**0.041%**	**0.032%**	**0.034%**	**0.004%**	**0.005%**
State						
Current Annual Cost					0.003%	
Plan 1 Past Cost					0.000%	
Total					**0.003%**	

**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	$2.3	$5.2	$1.5	$0.1	$0.4	$0.0	$9.6
Non-General Fund	3.5	0.0	0.0	0.0	0.0	0.1	3.6
Total State	**$5.8**	**$5.2**	**$1.5**	**$0.1**	**$0.4**	**$0.1**	**$13.2**
Local Government	6.6	1.1	1.0	0.1	0.8	0.0	9.5
Total Employer	**$12.3**	**$6.3**	**$2.5**	**$0.2**	**$1.2**	**$0.1**	**$22.7**
Total Employee	**$6.3**	**$0.7**	**$0.8**	**$0.1**	**$1.2**	**$0.1**	**$9.1**
2021-2023							
General Fund	$2.1	$6.2	$1.4	$0.1	$0.5	$0.0	$10.3
Non-General Fund	3.2	0.0	0.0	0.0	0.0	0.1	3.3
Total State	**$5.4**	**$6.2**	**$1.4**	**$0.1**	**$0.5**	**$0.1**	**$13.7**
Local Government	6.1	1.3	0.9	0.2	0.7	0.0	9.1
Total Employer	**$11.4**	**$7.5**	**$2.3**	**$0.3**	**$1.1**	**$0.1**	**$22.8**
Total Employee	**$4.7**	**$0.7**	**$0.5**	**$0.1**	**$1.1**	**$0.1**	**$7.3**
2019-2044							
General Fund	$17.3	$50.5	$12.0	$1.2	$5.4	$0.1	$86.4
Non-General Fund	25.9	0.0	0.0	0.2	0.0	1.0	27.1
Total State	**$43.2**	**$50.5**	**$12.0**	**$1.4**	**$5.4**	**$1.1**	**$113.5**
Local Government	49.1	10.3	7.7	1.5	8.2	0.0	76.8
Total Employer	**$92.3**	**$60.9**	**$19.6**	**$2.9**	**$13.6**	**$1.1**	**$190.4**
Total Employee	**$47.5**	**$12.3**	**$6.7**	**$1.9**	**$13.6**	**$1.1**	**$83.1**

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 proposal 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 proposal to be higher than shown in this fiscal note.

The analysis of this proposal 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.

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 draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

If this proposal is introduced in the 2019 Legislative Session, we would reprice the proposal based on the most current AVR, which could lead to different results.

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. For more information, please see our Risk Assessment webpage.

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 proposal 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 proposal 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 proposal 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 proposal 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 proposal will be greater since the additional half-month benefit would be paid earlier than assumed.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary (“we”) prepared this draft fiscal note based on our understanding of the proposal as of the date shown in the footer. We intend this draft fiscal note to be used by the Select Committee on Pension Policy during the 2018 Interim only.

We advise readers of this draft 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 draft fiscal note as a whole. Distribution of, or reliance on, only parts of this draft fiscal note could result in its misuse, and may mislead others.

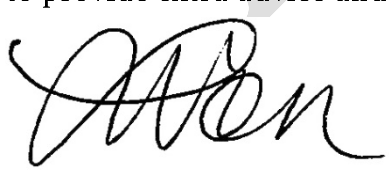
ACTUARY’S CERTIFICATION

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 draft 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. We prepared this draft fiscal note for the Select Committee on Pension Policy during the 2018 Interim.
6. We prepared this draft 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 draft 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 draft 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 proposal 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 proposal 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. Thus, for simplicity, 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. We then calculated the percent increases in the liability for the active and inactive retirement benefits, and applied these percentage increases as loads to all other active and inactive annuity benefits, respectively (for example, disability annuities and annuities paid to terminated vested members).

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, except for WSPRS. In WSPRS, a large proportion of the inactive population has elected to receive the free J&S option which is offered to Plan 1 members. We estimate that accounting for these J&S survivors in WSPRS would reduce the system's un-rounded contribution rate impact by 0.013 percent. As a result, we applied this rate reduction to WSPRS, but did not adjust contribution rates in any other 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.

Month-of-Death Payment Overview

LEOFF 2 Board
June 20, 2018

Seth Miller
Department of Retirement Systems

WASHINGTON STATE
Department of
Retirement Systems

Introduction

- It has been long standing practice for retirement systems in Washington to prorate the final pension payment.
- The proration process can cause burdens for grieving families and for estates.
- DRS believes proration should be discontinued in favor of paying the full monthly amount in the final benefit payment.

Proration – How it works

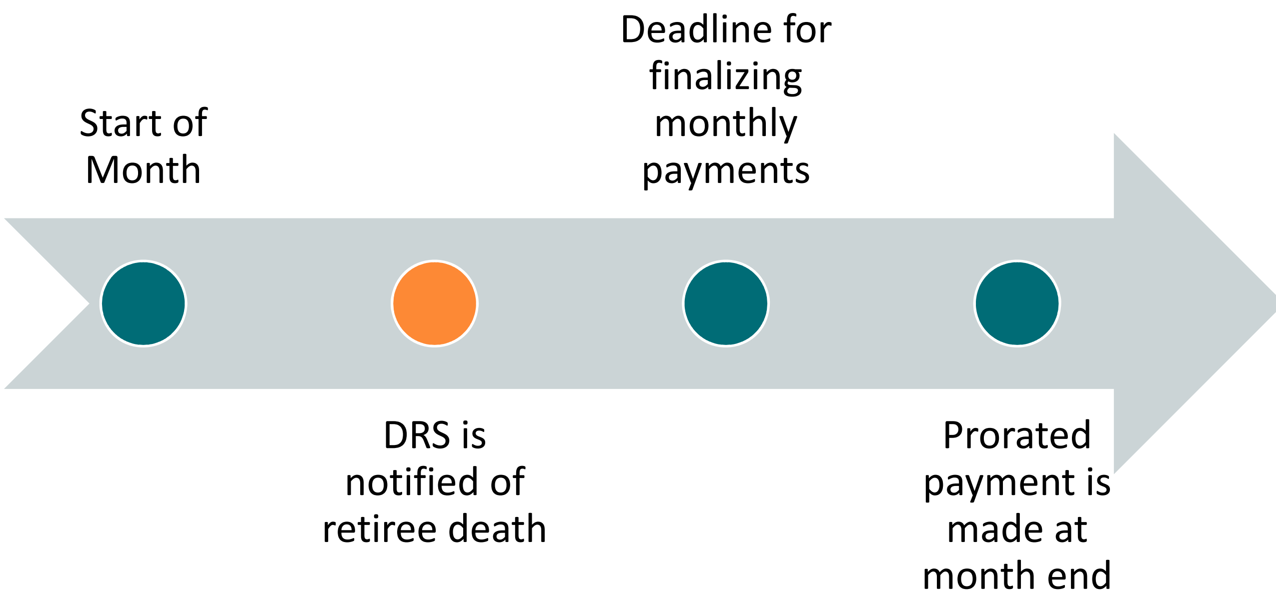
- The pension payment is prorated based on the number days a retiree lives in their final month.

Example: Date of death is June 10

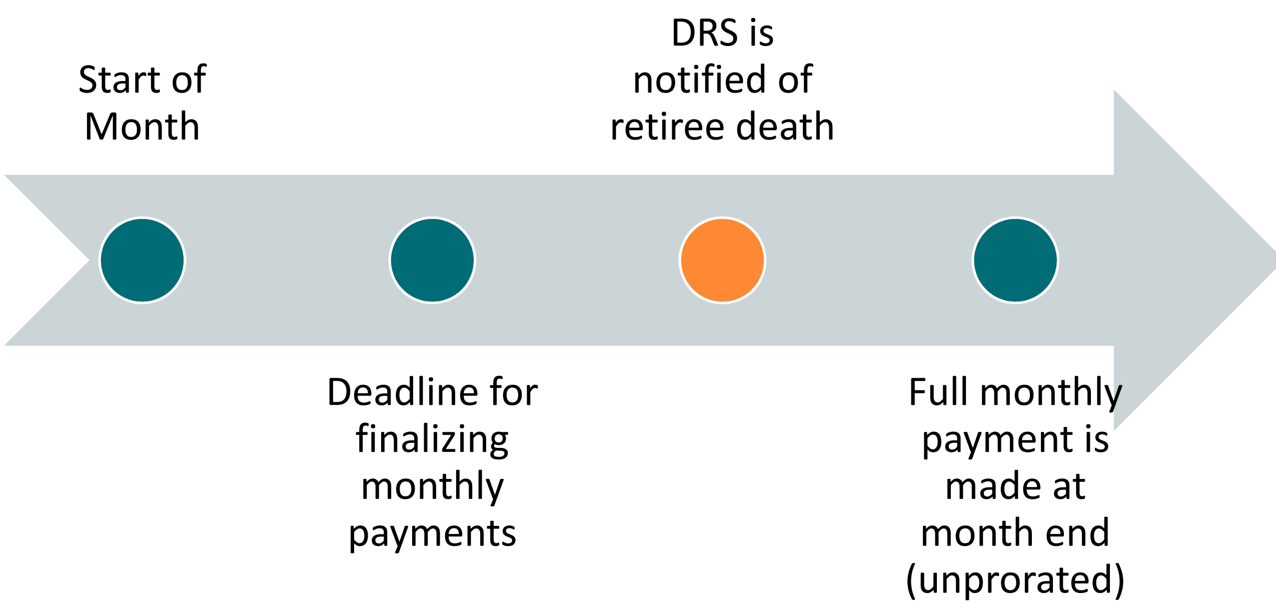
10 days ÷ 30 days in the month =

1/3 of monthly pension is paid

Notification of a death received before cutoff



Notification of a death received after cutoff



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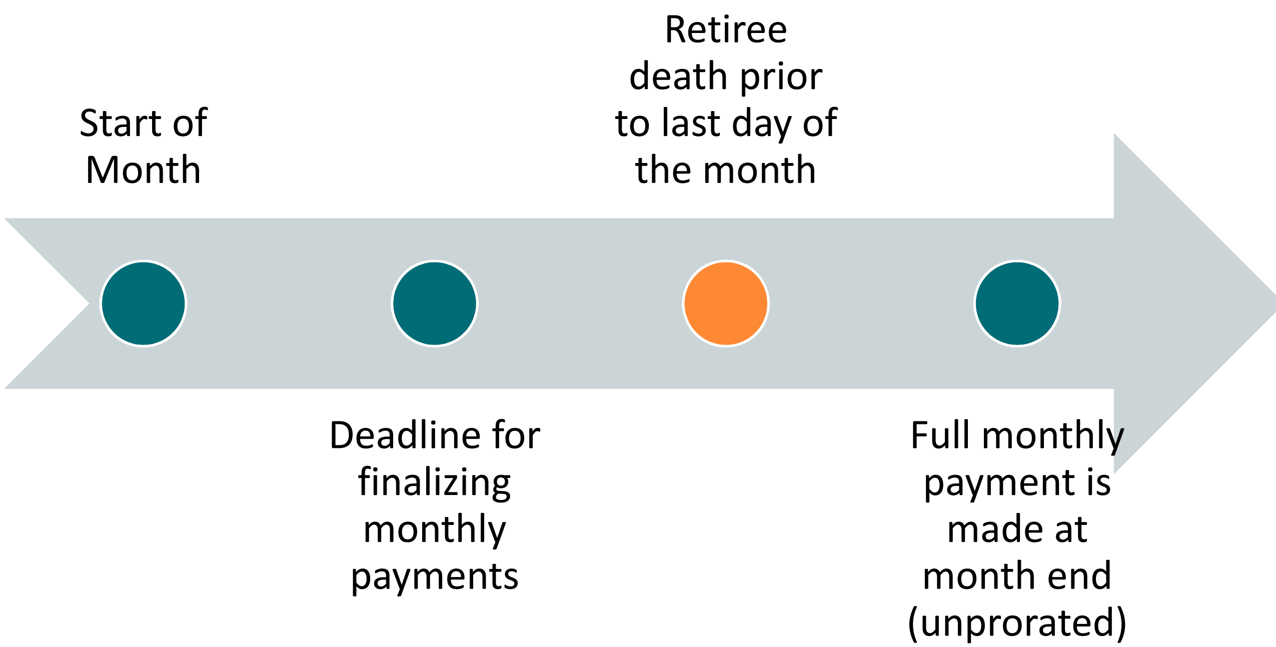
Death after monthly deadline



A burden on families and estates

- Survivors are often in the position of getting a collection notice during a time of grief.
- Proration can sometimes interfere with the deduction of insurance premiums and payment of insurance claims made during the retiree's final month.

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An increasing challenge

- Each month, on average, DRS:
  - Retires 1,000 members
  - Is notified of 500 retiree deaths
- Volume will increase in years to come.
- Proration process is administratively cumbersome.

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Benefits of change

Paying a full month:

- Reduces burden on loved ones.
- Allows for deduction of health insurance and other monthly premiums to occur.
- Applies to all plan members.

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Cost of change

- Since proration is a long standing practice, it has been priced into the cost of the plans by the Office of the State Actuary (OSA).
- Draft bill language has been created and OSA is drafting a fiscal note.

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Questions?

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Plan 2 Retirement Board

Month of Death Payment

Comprehensive Report
September 26, 2018

Issue

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

DRS Proposal

- The Department of Retirement Systems (DRS) requested the LEOFF 2 Board consider endorsing legislative action to no longer prorate the month of death pension benefit (see Appendix A).
- DRS provided an initial presentation on their proposal to the LEOFF 2 Board at the June 20, 2018.
- The LEOFF 2 Board voted at the July 25, 2018 meeting to receive a Comprehensive Report on the issue.

Overview

- This report provides background information on the month of death payment, including:
  - Current policy
  - Legislative history
  - Policy considerations
  - Costs to the plan
  - Data regarding who is impacted by the policy
  - Information regarding other retirement systems

Current Policy

- 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 and DRS will need to invoice the estate for repayment.

Example

- A retiree dies on day 10 of a 30-day month, entitling them to receive pro-rated benefits for only 1/3 of the month.
- A full month's pension benefit is automatically deposited into the member's bank account.
- DRS will seek repayment of the remaining 2/3 of the monthly benefit.

Policy Considerations

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

Rate Impact

- 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.

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

- OSA also recommends administrative factors be recalculated.

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	$1.2
Local Government	$1.5

Policy Options

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

Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov