BOARD MEETING AGENDA

SEPTEMBER 26, 2018 • 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

1.	**Approval of Minutes** *July 25, 2018*	**9:30 AM**
2.	**Public Pension Administration Benchmarking** *Mark Feldhausen, Budget and Performance Management Director, DRS*	**9:35 AM**
3.	**Administrative Factors** *Corban Nemeth, Associate Policy and Data Analyst, OSA*	**10:05 AM**
4.	**Out of Jurisdiction Duty** *Comprehensive Report* *Ryan Frost, Senior Research and Policy Manager*	**10:35 AM**
5.	**Career Change Alternatives** *Comprehensive Report* *Ryan Frost, Senior Research and Policy Manager*	**11:05 AM**
6.	**Survivor Option Election** *Comprehensive Report* *Jacob White, Senior Research and Policy Manager*	**11:35 AM**
7.	**Administrative Update** • SCPP Update • Outreach Activities	**12:00 PM**
8.	**Spousal Consent Requirement** *Comprehensive Report* *Jacob White, Senior Research and Policy Manager*	**12:30 PM**
9.	**Month of Death Retirement Payments** *Comprehensive Report* *Jacob White, Senior Research and Policy Manager*	**1:00 PM**
10.	**Cost of Survivor Benefit Improvement Pricing** *Ryan Frost, Senior Research and Policy Manager*	**1:30 PM**
11.	**Agenda Items for Future Meetings** Steve Nelsen, Executive Director	**2:00 PM**
12.	**Executive Session** Potential Litigation	**2:15 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.

Administrative Factors

Corban Nemeth
Associate Policy and Data Analyst

Presentation to: LEOFF Plan 2 Retirement Board

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

September 26, 2018

Today's Presentation

- Background Information on Administrative Factors
  - What are Administrative Factors?
  - How is an Admin Factor Developed?
  - Admin Factor Types
  - LEOFF 2 Admin Factor Updates
  - Anti-selection Risk and Risk Management
  - Next Steps
- No action required

Background: Why Is This Before The Board?

- The Board has authority to adopt factors
  - DRS adopts factors for all other plans
- The Board will be adopting factors later this fall

Background: What Are Administrative Factors?

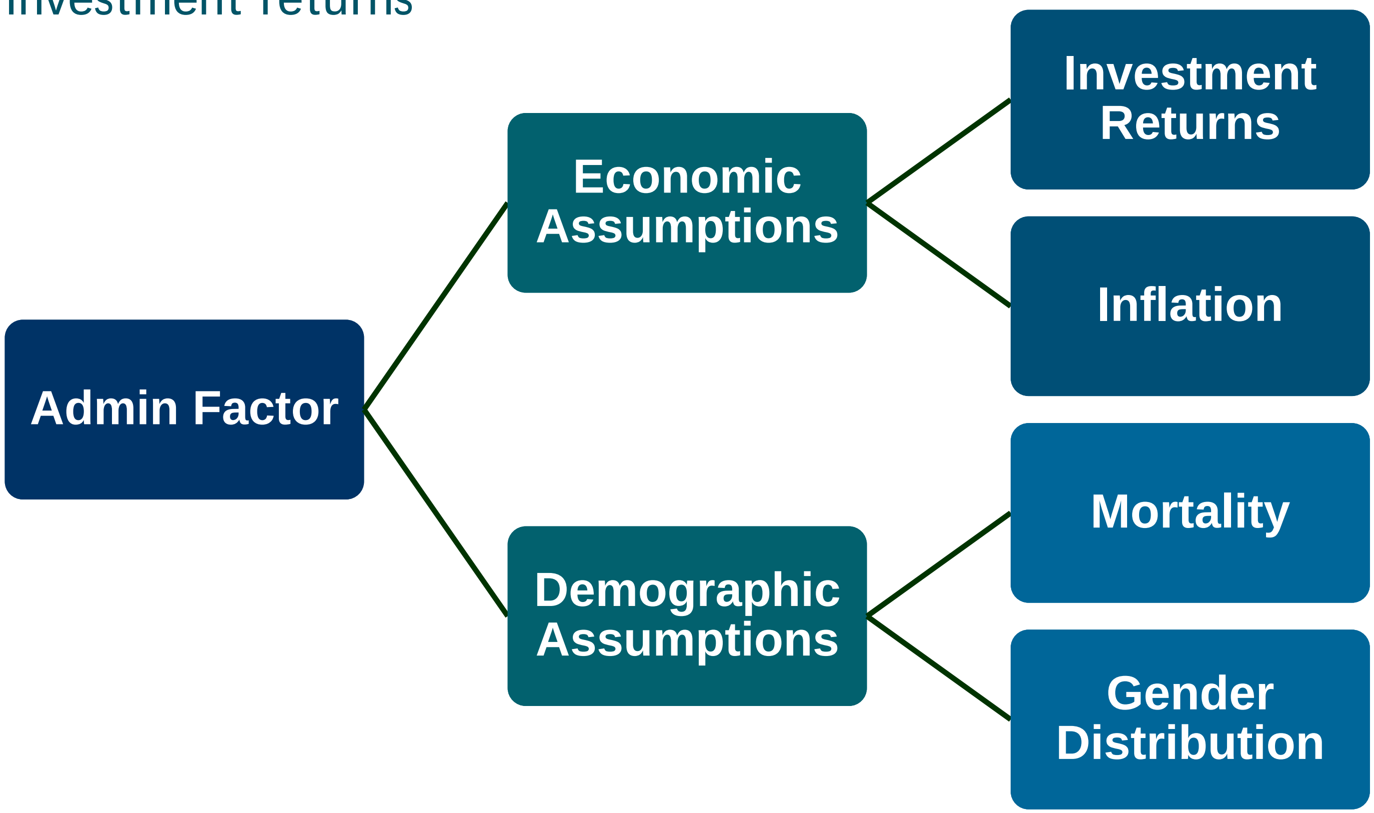
- Admin factors convert benefits to varying forms
- Applied to optional benefit calculations and purchases
  - Specifically, optional benefits to offset the additional plan costs
  - Provides more ways to provide the same amount of money
- Give members flexibility without increasing plan costs
- Sometimes called “reduction” or “actuarial” factors

Background: Administrative Factor Example

- The total expected value of an age 55 retiree's pension is $500,000
- Administrative factors transform $500,000 in cost-neutral ways
- For example
  - A single lifetime pension of $2,500/month
  - A J&S 100% pension of $2,000/month

How Is An Admin Factor Developed?

- An administrative factor takes a lump-sum dollar amount and converts it to a stream of future cash flows and vice versa
  - Takes into account survivorship option, expected lifetime, and investment returns



Admin Factors Depend On Assumptions

- Example: Optional Annuity Purchase
  - At the time of annuity purchase, the age and plan of the retiree is known
  - Based on age and plan, assumptions are used to estimate future experience of the annuitant
  - The only thing we know for certain is that the future won't look exactly like what we assume

Two Basic Types Of Admin Factors

Reduction Factors	Annuity Factors
❖Reduce monthly pensions to pay for optional benefits ▪ Early Retirement ▪ Joint and Survivor Benefits	❖Convert between one-time and lifetime payments ▪ Service Credit Restoration ▪ Monthly Benefit per $1 of Accumulation

LEOFF 2 Has Four Sets Of Factors To Update

- Reduction Factors
  - Early Retirement Factors (ERFs)
  - Joint and Survivor Option Factors (J&S Factors)
- Annuity Factors
  - Service Credit Restoration Factors (SCRFs)
  - Monthly Benefit per $1.00 of Accumulation (Annuity Factors)

Early Retirement Factors

- ERFs reduce a member's benefit for early payments
- Applies to non-duty disability or death benefits prior to Normal Retirement Age
- When benefits start earlier, they are paid longer and the total cost of a member's expected lifetime benefits increases
- Example
  - LEOFF 2 member with $500,000 in earned benefits choosing between $2,500/month at normal retirement, or $2,100/month two years earlier

Joint And Survivor Option Factors

- J&S factors reduce a member's benefit to provide an ongoing benefit for their survivor
- Three types of survivor benefits available under the plan
  - J&S 100%
  - J&S 66 2/3%
  - J&S 50%
- Example
  - Member with $500,000 in expected benefits choosing between single life of $2,500/month or, J&S 100 of $2,000/month

Service Credit Restoration Factors

- Factors used to calculate the cost of the increase in a member's benefit if they restore prior service credit
  - Service withdrawn in the past and member wants to restore it after window to pay contributions with interest
- Dependent upon additional assumptions, because purchase is made before the member is at retirement
  - When the member will retire
  - How much their salary will increase
- Example
  - To restore service, the value the extra service is providing in total retirement benefit must be estimated before the time of retirement
  - If restoring service credit increases the value of a member's earned benefit from $500,000 to $550,000, how much will that cost 20 years prior to retirement?

Monthly Benefit Per $1.00 Of Accumulation Factors

- "Annuity" factors convert a lifetime monthly benefit to a lump sum
- Calculation is made at retirement
- Applies to cash-out of small monthly pension or purchase of additional pension
  - "Air time" provides up to five years of service credit
  - Optional life annuity purchase
- Unlike SCRFs, the purchase is made at retirement
- Example
  - Age 55 plan member purchases an annuity with $100,000
  - Results in additional monthly annuity of $500

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Actuarial Equivalence Depends On Assumptions

- Admin factors are intended to be actuarially equivalent
- However, experience can be different
  - Members may live longer than expected
  - Investment returns can have a lower future expectation
  - Members may anti-select based on their health.
- What happens if the factors aren't actuarially equivalent?
  - The costs or savings are passed on to current members and employers
  - No true-up for those retired
  - Example: ROR reduced from 8% to 7.4% and mortality improvements

Anti-Selection May Lead To System Risk

- Admin factors are designed so that positive and negative experience will offset in the long run
- Anti-selection occurs when a higher-cost group makes more purchases than a lower-cost group but at the price for the average member
    - Individual plan members have better information about expected lifespan
        - Example: If only the healthy half of LEOFF 2 retirees purchase annuities, then risks to the system may emerge
    - Anti-selection may also occur in other admin factors

Potential System Risks Could Be Managed

- Based on administrative policy, current annuity purchases are priced based on the same assumptions used to fund the plan
- Risk management strategies using admin factors are being studied by OSA
  - Different assumptions could be used for annuities
    - Longer lifespans could be adopted to manage anti-selection concerns
  - Assets could reflect shorter investment time frame
  - Annuity factors could be priced at inflation cap
  - Other methods could be put in place to protect against system risks
- Actuaries will report back with recommendations

Next Steps

- No action required
- OSA will provide additional information and tables of new factors
- Board adopts final factors
- DRS will communicate factor changes to members and implement new factors effective October 2019

Questions?

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September 26, 2018

Out of Jurisdiction Duty

COMPREHENSIVE REPORT

By Ryan Frost
Senior Research and Policy Manager
360-586-2325
ryan.frost@leoff.wa.gov

ISSUE STATEMENT

Members who are injured while responding to an emergency out of their jurisdiction are not entitled to LEOFF 2 duty disability or duty death benefits.

OVERVIEW

This report will discuss the issues that have arisen from public safety officers responding to the domestic terrorist attacks in Las Vegas, provide information on what LEOFF Plan 2 benefits are currently available to members who are injured or killed while responding to incidents out of jurisdiction, and review how federal benefits apply. This report will also identify several questions that policymakers may want to consider.

BACKGROUND AND POLICY ISSUES

An off-duty member who becomes disabled or is killed while responding to a mass casualty incident has the same level of benefits as a member who becomes disabled or is killed from any other type of non-duty occurrence.

There has been a recent push across the west coast (in response to last year's Las Vegas terrorist attack) to ensure first responders receive duty related benefits when responding to an incident no matter where it takes place.

A number of California law enforcement officers were shot and injured while providing lifesaving care at the Las Vegas terrorist attack, but when they went to file workers compensation claims, they were denied. Had those off-duty officers been shot and injured while responding to a mass-killing in California, they likely would have received benefits without dispute. But because they were injured in Nevada, their life-saving efforts cost them.

Legislation has been introduced in California to address this issue. See Appendix A.

A law enforcement officer from Tacoma, Aaron McNeely, was vacationing in Las Vegas the night of the terrorist attack. McNeely heard muffled booms in the distance and his wife noticed a lot of sirens. McNeely told his wife to stay in their room while he took off running. McNeely ended up treating at least 10 of the more than 850 people wounded in the shooting near the Mandalay Bay Resort, in which 58 people died. For his actions, McNeely was awarded the Medal of Valor, the Tacoma Police Department's highest award, on July 2, 2018. Had McNeely been injured or killed for his brave acts, he and his family would have had no benefits to fall back on.

Current LEOFF Benefits

Current statute limits duty disability retirement and duty related death benefits to members who become injured while "on the clock" with their employer.

Any member who becomes disabled during their off time is limited to a non-duty disability benefit. The calculation for a non-duty disability benefit is as follows:

- 2% x FAS x service credit years

The monthly benefit is actuarially reduced to reflect the difference between the members' age at the time of their disability retirement, and age 53. Suffering a disability at a younger age will lead to a larger reduction.

The survivors of any member who is killed during their off time are limited to either a withdrawal of member contributions (less than 10 years of service) or a non-duty death benefit. The calculation for a non-duty death benefit is actuarially reduced in the same manner as a non-duty disability benefit.

Federal Benefits - Public Safety Officers Benefits Program

Opponents of granting more benefits to these members argue that the coverage for these types of events should be done at the federal level. The most common federal benefit for public safety officers who are killed or become catastrophically disabled is the Public Safety Officers Benefits (PSOB) Program.

The PSOB provides a $343,589 lump sum death and total-disability benefits for eligible public safety officers. The PSOB definition of eligibility states that a public safety officer's death or total and permanent disability must result from injuries sustained in the line of duty. "Line of duty" means any action that the public safety officer is authorized or obligated to perform by law, rule, regulation or condition of employment or service.

If law enforcement, fire suppression, rescue or ambulance service is not a person's primary function, then, to be covered by the Act, that person must be engaged in his or her authorized law enforcement, fire suppression, rescue or ambulance duties when the fatal or disabling injury is sustained.

Therefore, the federal PSOB benefits do not apply to out of jurisdiction deaths or disabilities.

What Level of Benefits is Appropriate?

The primary policy question is whether the Board wants to expand disability coverage for these types of events. The current benefit for these members' only provides the normal retirement formula, actuarially reduced by the difference between the members' age and age 53.

- Should the level of benefits rise to the level of a line of duty disability/death providing full earned benefits?
- If a member becomes catastrophically disabled, should the level of benefits rise to the catastrophic duty disability benefit, where a member would receive 70% of their FAS as well as medical premium reimbursements?
- If a member dies while performing this type of service, should his survivor be entitled to the lump sum payment of 150% of their contributions plus interest or a monthly benefit?
- If a member dies while performing this type of service, should his survivor be entitled to the lump sum line of duty death benefit[1]?
- If a member dies while performing this type of service, should the level of benefits include medical premium reimbursements provided to survivor of a member killed in the course of employment?

Policy Issues

This issue of compensation is certain to remain in the forefront as communities across the country face a threat from mass-casualty events, including terrorist attacks and wildfires. These events continue to show the necessity for our society to protect our public safety officers, irrespective of the areas they are from and where they perform their service on behalf of all Americans.

[1] $251,353 as of 7/1/18

In a series of enactments signed by Presidents Bush and Obama, beginning with the "Law Enforcement Officers' Safety Act" and culminating with provisions from the "National Defense Authorization Act," federal law has encouraged public safety officers to be available when duty calls, and to that end allows them to carry their service weapons across state lines, regardless of the laws of any particular state. Therefore, the members injured on October 1, 2017, in Las Vegas, Nevada, were properly and lawfully armed, and expected to perform the duties of a peace officer if conditions warranted.

With more of these tragic events occurring, off duty officers who are injured or killed protecting our society will have no benefit protection for their families. This causes all public safety officers to have to weigh their willingness to step into dangerous areas to offer their help, with the reality that if they were to be injured or killed their families would be left with nothing.

Policy Options

1. Offer off duty members, who are injured or killed while responding to a public emergency, the same death and disability benefits as afforded to on duty members.
2. Offer off duty members, who are injured or killed while responding to a public emergency, a lower level of benefits than granted to those injured or killed while on duty.
3. Maintain current policy.

SUPPORTING INFORMATION

Appendix A: California Assembly Bill 1749

APPENDIX A: CALIFORNIA ASSEMBLY BILL 1749

Existing law establishes a workers' compensation system, administered by the Administrative Director of the Division of Workers' Compensation, to compensate an employee for injuries sustained in the course of his or her employment. Existing law provides that whenever any peace officer, as defined, is injured, dies, or is disabled from performing his duties as a peace officer by reason of engaging in the apprehension or attempted apprehension of law violators or suspected law violators, or protection or preservation of life or property, or the preservation of the peace anywhere in this state, including the local jurisdiction in which he is employed, but is not at the time acting under the immediate direction of his employer, he or his dependents, as the case may be, shall be accorded by his employer all of the same benefits, including the benefits of this division, which he or they would have received had that peace officer been acting under the immediate direction of his employer. Existing law provides that any injury, disability, or death incurred under the circumstances described in this section shall be deemed to have arisen out of and been sustained in the course of employment for purposes of workers' compensation and all other benefits.

This bill would provide that whenever any peace officer is injured, dies, or is disabled from performing his duties as a peace officer by reason of engaging in the apprehension or attempted apprehension of law violators or suspected law violators within or out of the state, or protection or preservation of life or property within or out of the state, or the preservation of the peace anywhere in this state, but is not at the time acting under the immediate direction of his employer, he or his dependents shall be accorded by his employer all of the same benefits the peace officer or his dependents would have received had that peace officer been acting under the immediate direction of his employer. The bill would provide that this provision is declaratory of existing law.

The people of the State of California do enact as follows:

SECTION 1. Section 3600.2 of the Labor Code is amended to read:
3600.2. (a) Whenever any peace officer, as defined in Section 50920 of the Government Code, is injured, dies, or is disabled from performing his duties as a peace officer by reason of engaging in the apprehension or attempted apprehension of law violators or suspected law violators within or out of the state, or protection or preservation of life or property within or out of the state, or the preservation of the peace anywhere in this state, including the local jurisdiction in which he is employed, but is not at the time acting under the immediate direction of his employer, he or his dependents, as the case may be, shall be accorded by his employer all

of the same benefits, including the benefits of this division, which he or they would have received had that peace officer been acting under the immediate direction of his employer. Any injury, disability, or death incurred under the circumstances described in this section shall be deemed to have arisen out of and been sustained in the course of employment for purposes of workers' compensation and all other benefits.

(b) Nothing in this section shall be deemed to:

(1) Require the extension of any benefits to a peace officer who at the time of his injury, death, or disability is acting for compensation from one other than the city, county, city and county, judicial district, or town of his primary employment.

(2) Require the extension of any benefits to a peace officer employed by a city, county, city and county, judicial district, or town which by charter, ordinance, or departmental regulation, whether now in force or hereafter enacted or promulgated, expressly prohibits the activity giving rise to the injury, disability, or death.

(3) Enlarge or extend the authority of any peace officer to make an arrest; provided, however, that illegality of the arrest shall not affect the extension of benefits by reason of this act if the peace officer reasonably believed that the arrest was not illegal.

SEC. 2.

The amendments to Section 3600.2 of the Labor Code made by this act do not constitute a change in, but are declaratory of, existing law.

LEOFF
Plan 2 Retirement Board

Out of Jurisdiction Duty

Comprehensive Report
September 26, 2018

Issue

- Members who are injured while responding to an emergency out of their jurisdiction are not entitled to LEOFF 2 duty disability or duty death benefits

Overview

- This report will discuss the issues that have arisen from public safety officers responding to the domestic terrorist attacks in Las Vegas, provide information on what LEOFF Plan 2 benefits are currently available to members who are injured or killed while responding to incidents out of jurisdiction, and review how federal benefits apply. This report will also identify several questions that policymakers may want to consider

Background

- An off-duty member disabled or killed responding to a mass casualty incident out of jurisdiction only has same benefits as a member disabled from any other type of non-duty injury
- Recent push across the west coast (in response to the Las Vegas terrorist attack) to ensure that officers and other first responders can get benefits no matter where an incident takes place

Background

- California law enforcement officers shot and injured while providing lifesaving care at the Las Vegas terrorist attack
  - Issues with approval of Workers' Compensation Claim
- Had those off-duty officers been shot and injured while responding to a mass-killing in California, they likely would be taken care of without dispute

Current LEOFF Benefits

- Limits duty disability and duty death benefits to members who become injured while “on the clock” with their employer
- Any member who becomes disabled in their off time is limited to a non-duty disability benefit
  - 2% x FAS x service credit years (Actuarially Reduced)
  - Suffering a disability at a younger age will lead to a larger reduction
  - <10 YOS– withdrawal of members contributions plus interest

Federal Benefits - PSOB

- Opponents argue that coverage should be done at the federal level
- Public Safety Officers Benefits Program (PSOB) provides benefits for public safety officers killed or disabled in line of duty
- Public safety officer's death or total and permanent disability must result from injuries sustained in the “line of duty”
- $343,589 lump sum payment for line of duty death and total-disability
- PSOB benefits do not apply to out of jurisdiction (off-duty) situations

Benefit Considerations

- Does the Board wants to expand duty disability coverage for out of jurisdiction events?
- Should benefits rise line of duty disability & death providing full earned benefits?
- If catastrophically disabled, should benefits rise to the catastrophic duty disability benefit?
- If a member dies while performing this type of service, should his survivor be entitled to full survivor benefits?

Policy Issues

- This issue of compensation is certain to remain in the forefront as communities across the country face a threat from mass-casualty events, including terrorist attacks and wildfires
- Series of enactments signed by Presidents Bush and Obama encouraged public safety officers to be available when duty calls, and allows them to carry their service weapons across state lines:
  - “Law Enforcement Officers' Safety Act"
  - "National Defense Authorization Act“

Policy Issues

- With more of these tragic events occurring, off duty officers who are injured or killed protecting our society will have no benefit protection for their families
- This causes all public safety officers to have to weigh their willingness to step into dangerous areas to offer their help, with the reality that if they were to be injured or killed their families would be left with nothing

Policy Options

1. Offer off duty members, who are injured or killed while responding to a public emergency, the same death and disability benefits as afforded to on duty members
2. Offer off duty members, who are injured or killed while responding to a public emergency, a lower level of benefits than granted to those injured or killed while on duty
3. Maintain current policy

Questions?

Ryan Frost

Senior Research and Policy Manager

360-586-2325

ryan.frost@leoff.wa.gov

September 26, 2018

Career Change Alternatives

COMPREHENSIVE REPORT

By Ryan Frost
Senior Research & Policy Manager
360-586-2325
ryan.frost@leoff.wa.gov

ISSUE STATEMENT

Since the passage of the Board's 2005 career change law, multiple issues have surfaced related to employers' interest in hiring LEOFF retirees into LEOFF positions.

OVERVIEW

The LEOFF Plan 2 membership is aging. According to the 2017 Actuarial Valuation there are currently 4,200 LEOFF 2 retirees; 1,750 of those retirees retired in the last 3 years and 1,297 are under age 60. This means 26% of LEOFF 2 members are currently eligible to retire.

According to a Federal Reserve Board[1] study, a full 1/3 of those who retire eventually reverse retirement and return to work on either a full or part time basis. As more LEOFF 2 members retire, some employers are struggling to fill open LEOFF positions. In some instances employers are looking for ways to hire experienced law enforcement officers and fire fighters to temporarily fill those vacancies. Some LEOFF 2 retirees, in turn, are interested in returning to work in LEOFF positions, while continuing to receive their pension. Current rules do not allow this. While LEOFF Plan 2 retirees can work full time in a Public Employees' Retirement System (PERS) and draw a pension, that pension is suspended while working in a LEOFF position. The tension between that prohibition and the desire to employ LEOFF Plan 2 retirees in LEOFF positions has led some to redefine positions to avoid the restrictions. Some of those efforts have been successful, while some have not.

Past Board studies on career change alternatives focused on chiefs and other high level positions. Employers and employees have recently expressed interest in employing retirees at all levels, including line positions.

This report will provide information on the history of the current LEOFF 2 career change law; issues that occurred from employers attempting to fill law enforcement and fire fighter positions with LEOFF 2 retirees; and the continued and evolving interest in hiring retirees into LEOFF positions.

[1] https://www.federalreserve.gov/econresdata/feds/2016/files/2016053pap.pdf

BACKGROUND AND POLICY ISSUES

Career Change Law

Before 2005 a LEOFF Plan 2 retiree's pension stopped if they worked in a job covered by any state-wide public retirement system. The Board recognized member's may no longer be able to fulfill the physical demands of law enforcement or firefighting before they were ready, or could afford, to stop working. The Legislature passed the Board's proposed Career Change legislation in 2005 enabling retired LEOFF Plan 2 retirees to start a second career in non-LEOFF public employment. A retiree accepting such a job can either establish membership in another public system, thus suspending their LEOFF Plan 2 pension, or waive membership in the new system and continue receiving their pension.

The Board intended to facilitate transition from a physically demanding profession to a second less strenuous career. The Board did not contemplate enabling retirees to continue working as a law enforcement officer or fire fighter while receiving their pension.

The vast majority of participating retirees use Career Change as intended: to facilitate public employment as something other than a law enforcement officer or fire fighter. According to data provided by the Department of Retirement Systems (DRS), 581 retirees utilized the provisions of the career change law since 2005. Ten of those retirees opted to enter membership in a new retirement system:

- 7 PERS
- 1 SERS
- 1 PSERS
- 1 TRS

Fifty-five LEOFF retirees re-entered LEOFF membership by working a LEOFF eligible position.

Prior Board Studies

Career change concerns have been revisited multiple times since the passage of the 2005 law. During the 2013 interim the Board learned some LEOFF 2 retirees used the 2005 career change law to work as law enforcement officers or fire fighters while drawing their pensions. Some employers facilitated this expansion of the law's original intent by narrowly crafting historically LEOFF positions to avoid LEOFF eligibility.

In 2014 the Board proposed curtailing retirees' ability to draw a LEOFF 2 pension and work in a historically LEOFF position (HB 2479). Under this bill retirement benefits for retired members of LEOFF 2 would be suspended if a member returned to work in a position that was not covered by LEOFF 2, but would have qualified except that the position:

- is less than full time;
- is less than fully compensated;
- is not fully commissioned;
- includes additional non-LEOFF duties; or
- is designated as an independent contractor.

The Legislative debate revealed tension between the Board's original career change policy goal and the goal of allowing smaller jurisdictions to compete for law enforcement officers and fire fighters they could not otherwise afford. HB 2479 did not pass.

The Board revisited this issue during 2014, 2015 and 2016 interims but did not take action.

Current Post-retirement Employment Rules

The essential differences between provisions covering uniformed and civilian employees are:

- Uniformed Employees: There is no effect on a retiree's LEOFF 2 pension if the retiree's job is covered by a different retirement system. However, their pension is suspended immediately if they take a LEOFF position. When they re-retire their pension is recalculated with the additional service credit and salary.
- Civilian Employees: A PERS, TRS, or SERS retiree may work up to 867 hours per year regardless of system, so long as they are not a 2008 Early Retirement Factor (ERF) retiree. For instance, a PERS retiree can work up to 867 hours per year in a PERS, TRS, SERS, or LEOFF position before his or her pension is stopped. A 2008 ERF retiree may not return to work for a public employer in any capacity for any amount of time without having their pension suspended.

Whether employing LEOFF retirees as chiefs or in line positions, the primary determination governing continued pension payments is: Is it a LEOFF position?

To be eligible for LEOFF as a law enforcement officer, an employee must (1) be employed on a full-time, fully compensated basis by a governmental entity that meets the definition of a general authority law enforcement agency; (2) be a general authority law enforcement officer; and (3) meet the training or other requirements of that job.

To be eligible for LEOFF as a firefighter, an employee must be serving on a full-time, fully compensated basis as a member of a fire department as a qualified firefighter, emergency medical technician, or as firefighter supervisory personnel.

For both law enforcement officers and fire fighters, DRS defines "fully compensated" as "an employee who is normally expected to earn a basic monthly salary no less than 160 times the state minimum hourly wage [currently $1840 per month]" and "full-time" as 160 or more hours per month.

Return to Work Restrictions by System

<table>
<tr><th rowspan="2">System</th><th rowspan="2">Qualified Full Retiree if:</th><th colspan="2">Return to Work Restrictions</th></tr>
<tr><th>Employed in position eligible for system retired from</th><th>Employed in position eligible for other system</th></tr>
<tr><td>LEOFF 2</td><td>Receive at least one retirement check</td><td>Mandatory return to membership – pension stopped.</td><td>Option to:
Join new system and have LEOFF pension suspended; or
Stay out of new system and continue LEOFF pension.</td></tr>
<tr><td>WSPRS</td><td>Receive at least one retirement check</td><td>Mandatory return to membership – pension stopped.</td><td>Retiree continues to receive pension; prohibited from establishing membership in second system.</td></tr>
<tr><td>TRS, SERS and PERS</td><td>Remain absent for at least one full calendar month</td><td>Optional return to membership.
If retiree returns to membership, pension stops.
If retiree does not return to membership – same restrictions as if he or she was employed in position eligible for other system.</td><td>Prohibited from membership in second system
May work up to 867 hours (5 months) per calendar year
If retiree exceeds 867 hours pension stopped for remainder of year
Clock starts over with new calendar year[9]</td></tr>
<tr><td>PSERS</td><td>Remain absent for at least one full calendar month</td><td>Mandatory return to membership, pension stops.</td><td>If retiree works in non-PSERS position, same return to work rules as TRS, SERS, and PERS.</td></tr>
</table>

Avoiding LEOFF 2 Career Choice Restrictions

Issues have occurred where employers narrowly crafted positions with the alleged intent of avoiding membership in LEOFF 2, so they could hire a LEOFF 2 retiree. The examples of this happening have typically involved Chief positions, not line positions.

An instance of an employer narrowly crafting a historically LEOFF eligible position to avoid membership in LEOFF 2, was a city hired a LEOFF 2 retiree as Police Chief, and officially scheduled him to work 159 hours per month, so that he would not be "full-time". DRS audited the employer and found the position was full-time and therefore LEOFF eligible. However, there have also been examples of LEOFF 2 retirees who were hired into legitimately part-time chief positions and therefore were able to continue to receive their pension since the position was a PERS position.

Another way in which employers have allegedly attempted to circumvent the current career change laws are by reclassifying Fire Chief and Police Chief positions as independent contractors and filling those positions with LEOFF 2 retirees. Bona fide independent contractors are not employees and are not eligible for membership in state retirement plans. In 2013, DRS began conducting a review of independent contractors and uncovered multiple instances of employers incorrectly classifying employees as independent contractors. DRS's review of independent contractor positions appears to have effectively deterred this issue, as DRS has not found any new instances of LEOFF positions being incorrectly classified as independent contractors since.

Expanding Interest in Line Positions

At the time of the 2013, 2014, and 2015 reports the primary retiree career change issue was LEOFF 2 retirees drawing their pension while returning to work as a chief for a LEOFF employer. Over the last few years retirees and employers have also expressed interest in filling line positions with retirees. One explanation for this interest is the shifting workforce demographics discussed above in the "General Background" section.

Some employers have expressed they are facing recruitment issues and they see employing LEOFF 2 retirees as a way to help alleviate those issues. The Board recently received a letter from Senator Kevin Van De Wege (see Appendix A), requesting the Board explore a change to current career change laws that would assist rural employers who are having trouble recruiting qualified candidates for LEOFF positions. The Senator stated this issue "became apparent through a budget request this past session that some rural departments are having trouble recruiting candidates and having money to pay additional employees. This was in addition to [his] own anecdotal experience."

In recent years the legislature has considered alleviating shortages of certain professions through easing retiree return to work restrictions. Most of these bills have centered on the 2008 ERF restrictions, which impact plans 2 and 3 for PERS, SERS, and TRS members. The 2008 ERFs were a benefit enacted by the legislature when they repealed the gain sharing benefit in 2007. Under the 2008 ERFs a member with 30 years of service credit can retire at 62 without taking a reduction in their benefit. However, if a 2008 ERF retiree returns to work for a DRS covered employer, in any capacity, their benefit is suspended. In 2016 the legislature passed a bill which temporarily lifted the prohibition on teachers who retired under the 2008 ERFs returning to work as substitute teachers (E2SSB 6455).

Public Pension and Public Salary

Receiving both a public pension and a public salary at the same time is a common hot-button topic with the general public. Newspaper articles generally refer to it as “double dipping”, highlighting the pension and the salary received by a retiree who returns to public employment. One could argue adding together pensions for previous service and the salaries earned for current service is mixing apples and oranges. LEOFF 2 pensions, unlike salaries for current service, are not paid out of current revenues. Those pensions are fully funded at retirement by employer and employee contributions paid over the course of the employee’s career, plus earnings on those contributions. When a public employee retires and goes to work in the private sector or for a public entity in another state, no objections are heard. Some question why the result is different if that same public retiree goes to work in the public sector.

A result of restrictions on LEOFF retirees returning to work in LEOFF positions, is that some employers filled positions with retired law enforcement officers and fire fighters from other states. These retirees are able to collect their pension from another state pension system, while working in a LEOFF position and earning a LEOFF 2 pension. LEOFF retirees would have the same option to work in another state

The vast majority of retiree-return-to-work situations that become publicized are regarding public employees in high ranking positions, such as Police and Fire Chiefs. When the legislature has allowed retirees to return to work into lower paying positions or with other limitations, this receives much less negative attention. For example in 2016 the legislature passed a bill which temporarily lifted the prohibition on teachers who retired under the 2008 ERFs returning to work as substitute teachers (E2SSB 6455). This change in the law did not result in newspaper articles or public outcry. However, it was met with resistance in the legislature as the proposal took three legislative sessions to pass.

The public shows concern when a retiree’s total income, pension plus salary, appears excessive. Concern is especially likely if the combination doubles or nearly doubles the person’s compensation. While the objection is debatable, it is clearly an area of public concern. This issue could be addressed by limiting the combined amount of a LEOFF Plan 2 retiree’s salary and pension. Options may include:

- **Limiting total compensation to a percentage of Final Average Salary**: Limiting total pension and salary to a set percentage of Final Average Salary (FAS) would ensure that the retiree’s total compensation would be similar to what he or she earned prior to retirement. This could address perceptions of abuse. On the other hand, requiring DRS to develop and track a new, LEOFF Plan 2 specific, post-retirement employment standard could generate an administrative cost.

- **Limit the Timeframe for Collecting Both Pension and Salary**: The State's other Plan 2 and 3 systems allow retirees to work in a system-covered position for up to 867 hours per year (approximately 5 months). Once a retiree reaches that point, their pension stops for the remainder of the calendar year. It restarts at the beginning of the next year, stopping again if the retiree works another 867 hours. DRS has systems and reporting requirements in place to track the 867 hour rule for the State's other Plan 2 systems. Adopting this same standard for LEOFF Plan 2 retirees working in historically LEOFF positions would effectively limit the combined salary and pension, thus mitigating public concern over "double-dipping". It would be consistent with current policy in the State's other plan 2 systems. Finally, it would be easier for DRS than administering a new standard.

POLICY OPTIONS

Option 1: Restrict the ability of LEOFF 2 Retiree to receive a pension and work in a historically LEOFF position.

In 2014 the Board proposed curtailing retirees' ability to draw a LEOFF 2 pension and work in a historically LEOFF position (HB 2479). Under this bill retirement benefits for retired members of LEOFF 2 would be suspended if a member returned to work in a position that was not covered by LEOFF 2, but would have qualified except that the position:

- is less than full time;
- is less than fully compensated;
- is not fully commissioned;
- includes additional non-LEOFF duties; or
- is designated as an independent contractor.

Option 2: Create Limited Retiree Return to Work Option

Reconcile the policies discussed above by proposing legislation that would amend HB 2479 by retaining prohibition on avoiding LEOFF membership by modifying positions; and allowing LEOFF Plan 2 retirees to work in LEOFF positions under specified circumstances. Possibilities include:

a) Require the retiree to work for a different employer;
b) Limit LEOFF reemployment to chief positions;
c) Limit LEOFF reemployment to line positions;
d) Limit LEOFF reemployment to employers who have a documented recruitment shortage;

e) Limit LEOFF reemployment to retirees with 25 or more years' experience;
f) Limit combined pension and salary to a percentage of FAS
g) Limit pension eligibility to 867 hours per year
h) Senator Kevin Van De Wege's proposal
i) Limit LEOFF reemployment to employees who have been retired for at least 365 days
j) Take no further action on this issue

Option 3: Combination of Option 1 and 2

SUPPORTING INFORMATION

Appendix A: Senator Van De Wege's email sent to LEOFF 2 Board on April 28, 2018.

Jackson, Jessie (LEOFF)

From: Kevin Van De Wege <kevinvandewege@hotmail.com>
Sent: Saturday, April 28, 2018 7:58 PM
To: Nelsen, Steve (LEOFF); Dennis Lawson; bud@wacops.org
Subject: Idea for LEOFF 2 Board

Hi Steve,

As we spoke about on the phone I could like to ask the board to explore a small retire/rehire LEOFF 2 program. It became apparent through a budget request this past session that some rural departments are having trouble recruiting candidates and having money to pay additional employees. This was in addition to my own anecdotal experience.

The idea I came up with would allow police or fire departments the ability to hire a small number of retirees for a short period and would include the following restrictions:

Retirees would have to eligible for LEOFF 2 retirement (age 50 with minimum 20 years of service or age 53).

Retirees could only go to work for a department that is outside the county they retired from.

Retirees could only be rehired for a maximum of 24 months.

Departments would have a minimum and maximum pay to pay rehires (say 3,000/month and 4,000/month).

The goal of this program would be to allow rural departments (but urban departments would not specifically be exempted) to rehire retirees that are desiring to help out the community in which they live or planning to retire to for a short period. These retirees would be able to collect their pension and also be receiving additional pay for a couple of years. The target would be line personnel but again, administrative positions would not be specifically exempted.

For this to come to fruition in any form I think the LEOFF 2 board would need to support as would police and fire labor groups (I cc'd Dennis and Bud on this email). In addition I think a study of its usefulness and success would need to coincide with the program. Lastly I think an expiration date in case it is abused would need to be included (for instance a start date of January 1, 2020 with an expiration of January 1, 2024; thus, if it is not renewed by the Legislature the last retire/rehire would need to leave employment by December 31, 2025.)

I think this is something that potentially could be useful for retirees and rural departments but of course do not want to do anything without support of labor. The goal here would not be minimizing additional positions but actually to maximize positions. Rural departments are having recruiting issues. Retirees could fill some of those positions, pass on their experience and knowledge, while at the same time free up a position in the department that they are leaving and actually encourage them to retire. A maximum age to enter the retire/rehire program, like 55, might also be worth consideration. I think the LEOFF 2 board is well positioned to explore this option. I hope you will consider.

Thanks,

Kevin Van De Wege

Sent from Outlook

LEOFF

Plan 2 Retirement Board

Career Change Alternatives

Comprehensive Report

September 26, 2018

Issue

- Since the passage of the Board’s 2005 career change law, multiple issues have surfaced related to employers’ interest in hiring LEOFF retirees into LEOFF positions.

Overview

- According to a Federal Reserve Board study, a full 1/3 of those who retire eventually reverse retirement and return to work on either a full or part time basis
- This presentation will provide information on:
  - the history of the current LEOFF 2 career change law.
  - issues that occurred from employers attempting to fill law enforcement and fire fighter positions with LEOFF 2 retirees.
  - the continued and evolving interest in hiring retirees into LEOFF positions.

2005 Career Change Law

- The 2005 career change law allows a LEOFF 2 retiree to return to work in a non-LEOFF position and to choose to either:
  - receive LEOFF 2 retirement benefits while employed in the non-LEOFF position and be prohibited from entering a new retirement plan; or
  - enter into the membership of his or her new position's retirement plan, make contributions and accrue service credit, and have their LEOFF 2 retirement benefit suspended until the employment covered by the other retirement plan ends. The member receives the suspended pension payments when they separate from employment.

Board Intent of 2005 Law

- In proposing the 2005 career change law, the Board intended to facilitate members' transition to a less physically demanding profession that would allow LEOFF retirees to utilize their knowledge and skills while continuing to serve the public.
- The Board did not intend to enable LEOFF 2 retirees to return to work as law enforcement officers or fire fighters while continuing to receive their pension.

Concerns with Current Law

- Concerns have been brought to the board in the past where employers narrowly crafted positions with the alleged intent of avoiding membership in LEOFF 2, so they could hire a LEOFF 2 retiree.

Retirement Data

- 581 retirees utilized the provisions of the career change law since 2005.
  - 10 opted to enter membership in a new retirement:
    - 7 PERS
    - 1 SERS
    - 1 PSERS
    - 1 TRS
- 55 LEOFF retirees reentered LEOFF membership.

Return to Work Restrictions by System

System	Qualified Full Retiree if:	Return to Work Restrictions	
		Employed in position eligible for system retired from	Employed in position eligible for other system
LEOFF 2	Receive at least one retirement check	Mandatory return to membership – pension stopped.	Option to: • Join new system and have LEOFF pension suspended; or • Stay out of new system and continue LEOFF pension.
WSPRS	Receive at least one retirement check	Mandatory return to membership – pension stopped.	Retiree continues to receive pension; prohibited from establishing membership in second system.
TRS, SERS and PERS	Remain absent for at least one full calendar month	Optional return to membership. • If retiree returns to membership, pension stops. • If retiree does not return to membership – same restrictions as if he or she was employed in position eligible for other system. →	• Prohibited from membership in second system • May work up to 867 hours (5 months) per calendar year • If retiree exceeds 867 hours pension stopped for remainder of year • Clock starts over with new calendar year[9]
PSERS	Remain absent for at least one full calendar month	Mandatory return to membership, pension stops.	If retiree works in non-PSERS position, same return to work rules as TRS, SERS, and PERS.

Is it a LEOFF position?

- Law Enforcement Officer: Must (1) be employed on a full-time, fully compensated basis by a governmental entity that meets the definition of a general authority law enforcement agency; (2) be a general authority law enforcement officer; and (3) meet the training or other requirements of that job.
- Fire Fighter: Must be serving on a full-time, fully compensated basis as a member of a fire department as a qualified firefighter, emergency medical technician, or as firefighter supervisory personnel.

Is it a LEOFF position?

- “Full-time” = 160 or more hours per month
- “Fully Compensated” = Normally expected to earn a basic monthly salary no less than 160 times the state minimum hourly wage [currently $1840 per month]

Examples

- Full-time
- Fully Compensated
- Independent Contractor
  - DRS conducted a review of independent contractors in 2014 to determine if the positions were employees.
    - “Scope of Control” test

Interest in hiring retirees into LEOFF positions

- Some employers are struggling to fill LEOFF positions and believe retired LEOFF members could help.
  - Approximately 4,200 LEOFF 2 retirees.
    - 1,750 retired in the last 3 years.
    - 1,297 are under age 60.
  - 26% of LEOFF 2 members are currently eligible to retire.
- Legislature has precedent of utilizing retirees to help ease shortages of certain professions.

Expanding Interest in Line Positions

- At the time of the 2013, 2014, and 2015 reports, the primary career change issue was LEOFF 2 retirees drawing their pension while returning to work as a chief for a LEOFF employer.
- Over the last few years retirees and employers have also expressed interest in filling line positions with retirees.
- Senator Kevin Van De Wege's Letter
  - Return to work outside the county they retired from
  - Rehired for a max of 2 years
  - Minimum salary of $3,000/month
  - Maximum salary of $4,000/month

Public Pension and Public Salary

- Receiving both a public pension and a public salary at the same time is a common hot-button topic with the general public.
- Adding together pensions for previous service and the salaries earned for current service is mixing apples and oranges.
  - LEOFF 2 pensions are fully funded at retirement by employer and employee contributions paid over the course of the employee's career
  - When a public employee retires and goes to work in the private sector or for a public entity in another state, no objections are heard

Public Pension and Public Salary

- The public shows concern when a retiree's total income, pension plus salary, appears excessive.
- Concern is especially likely if the combination doubles or nearly doubles the person's compensation.
- While the objection is debatable, it is clearly an area of public concern. This issue could be addressed by limiting the combined amount of a LEOFF Plan 2 retiree's salary and pension. Options may include:
  - Limiting total compensation to a percentage of Final Average Salary
  - Limit the Timeframe for Collecting Both Pension and Salary

Policy Options

- Option 1: Restrict the ability of LEOFF 2 Retiree to receive a pension and work in a historically LEOFF position
- Option 2: Create Limited Retiree Return to Work Option
- Option 3: Combination of Option 1 and 2

Thank You

Ryan Frost

Senior Research and Policy Manager

(360) 586-2325

ryan.frost@leoff.wa.gov

September 26, 2018

Survivor Option Election

COMPREHENSIVE REPORT

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

ISSUE STATEMENT

It may be considered unfair to have a member make their irrevocable retirement election for a survivor option without all the information that is important to them.

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 makes this election when they apply for retirement. There are four options for a survivor benefit:

1. **<u>Single Life</u>** - This option pays the highest monthly amount of the four choices, but it is for the member's lifetime only. 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. **<u>Joint and 100% Survivor</u>** – 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 for his or her lifetime.
3. **<u>Joint and 50% Survivor</u>** – 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 for 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 for 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.

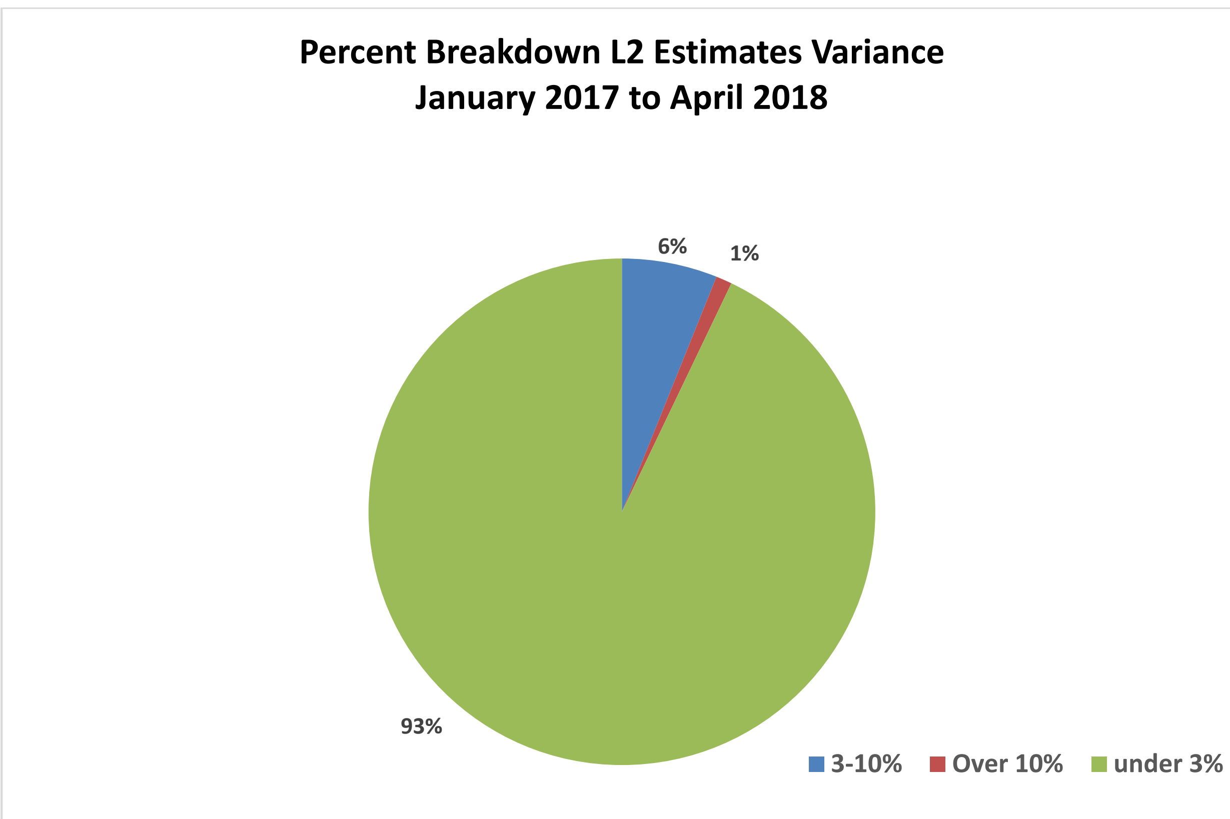
How does a member know what their benefit will be prior to retiring?

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% to 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, is the member choosing a different retirement date or choosing 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 retirees; however, in some instances may occur years after retirement. 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. The policy concern for allowing a retiree to change their survivor benefit option is 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, not 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.

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 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 second and third anniversary following 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 90 day 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

[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/

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 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 – Both option 1 and 2

LEOFF
Plan 2 Retirement Board

Survivor Option Election

Comprehensive Report

Issue

- It may be considered unfair to have a member make their irrevocable retirement election for a survivor option without all the information that is important to them

Overview

- What is a survivor option?
- How accurate are retirement estimates?
- How does a “recalc” impact a members benefit and survivor option election?
- What are the policy reasons for why the decision to leave a survivor benefit is irrevocable?
- How do other retirement plans treat survivor options?

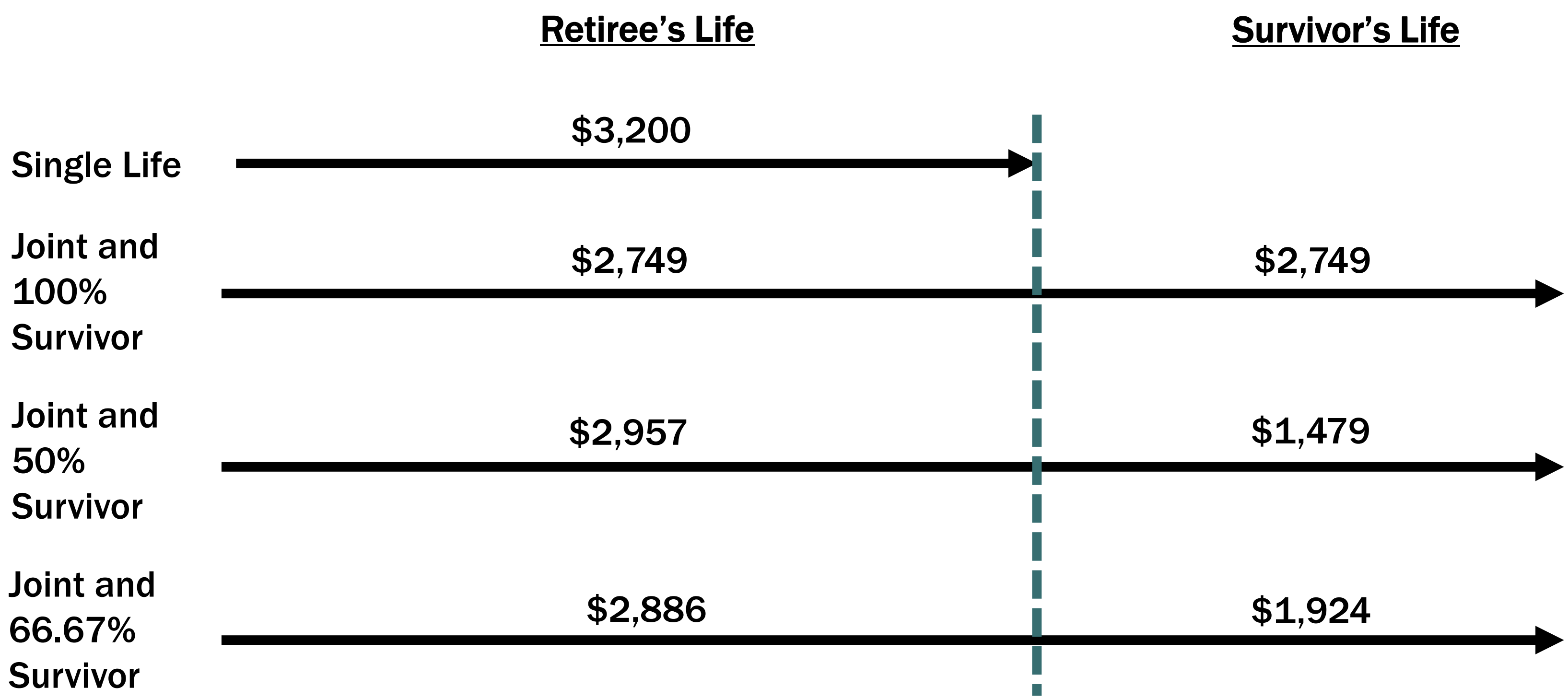
What is a survivor option?

- 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.
- There are 4 survivor options:
  1. Single Life - No one will receive an ongoing benefit after the retiree dies
  2. Joint and 100% Survivor - The survivor receives the same benefit the retiree was receiving
  3. Joint and 50% Survivor – The survivor receives half the benefit the retiree was receiving
  4. Joint and 66.67% Survivor - The survivor receives 2/3 of the benefit the retiree was receiving

Survivor Option Example

- Member: Age 53
- Spouse: Age 50
- Final Average Salary: $8,000/month
- Service Credit: 20 years
- 2% x 20 x $8,000 = $3,200 Monthly Pension Benefit

Survivor Option Example



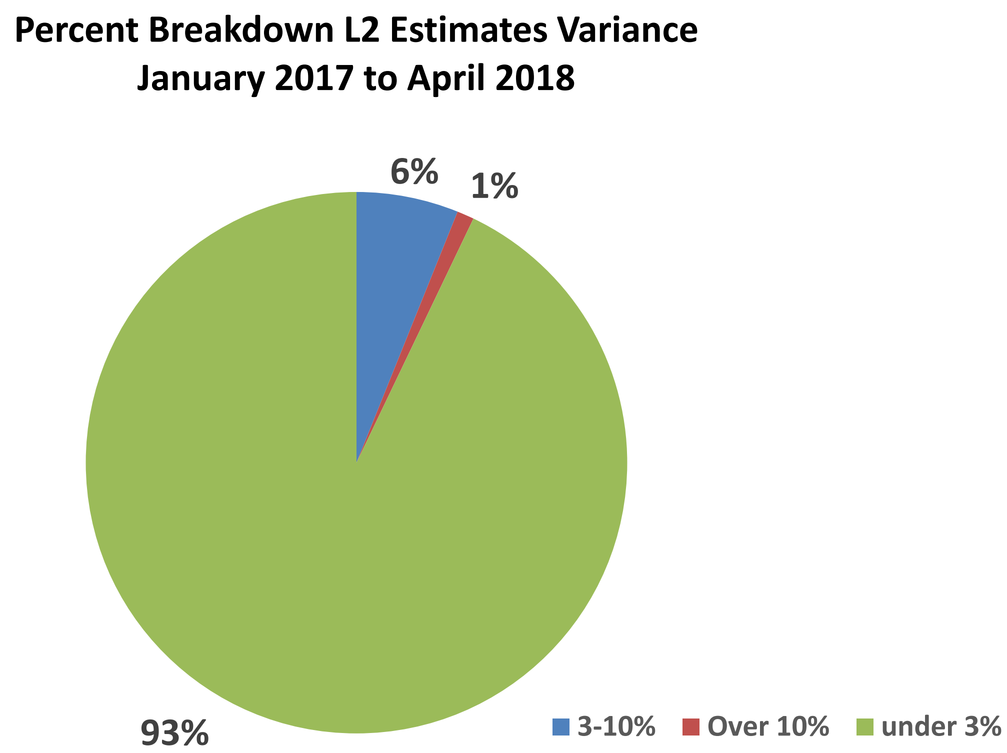
When can a member change their survivor option?

- A retiree's survivor option choice is irrevocable unless the following occur:
  - They designated someone other than their spouse to receive their survivor benefit. The non-spouse survivor can be removed only
  - They marry or remarry after retirement. To qualify, they must request the change between their first and second years of marriage
  - They chose a survivor option, and their survivor dies before they do. Their benefit is adjusted to Option 1
  - 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

How does a member know what their benefit will be?

- DRS encourages members to request a benefit estimate within a year of retirement
  - To create an estimate, DRS asks a member their expected retirement date and what survivor option they would like to select
  - The estimate also takes into account the expected Final Average Salary
  - A member can receive multiple retirement estimates

How accurate are benefit estimates?



Why are estimates different than actual benefits?

- Common reasons for estimates to be different than benefit, include:
  - Member selecting a different survivor option
  - Member retiring at a different date than they expected
  - Changes to Final Average Salary
    - Pay raise or decrease
    - Employer error in reportable compensation
  - Incorrect birth date for survivor

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 the retiree's retirement benefit (recalc)
- A recalc may result in either an increase or a decrease to a member's 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
  - 46 (18%) of those recalcs resulted in a decrease to a member's benefit

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

Recalc Data

- 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
  - 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
- 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
- The more opportunity a member has to change that election the more likely anti-selection will impact LEOFF 2

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
- Federal Employee Retirement System
  - 18 month window to increase survivor benefit option
- Minnesota Public Employees Retirement Association Police and Fire Plan
  - Rescind survivor benefit option
- United States Uniformed Services Retirement System
  - Rescind survivor benefit option

Policy Options

- **Option 1 – Window for all L2 Members:** All LEOFF 2 retirees have a 90 day 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

Policy Options

- **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. 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

Policy Options

- **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

Policy Option

- **Option 4 – Both Option 1 and 2**

Thank You

Jacob White

Senior Research and Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
state.actuary@leg.wa.gov

Regular Committee Meeting

September 18, 2018
10:00 a.m. – 12:20 p.m.*
House Hearing Room B
Olympia

AGENDA

10:00 a.m. **1. Approval of July Minutes**

10:05 a.m. **2. WSIB Update –** Theresa Whitmarsh, Executive Director, Washington State Investment Board

10:25 a.m. **3. DRS CEM Benchmarking –** Mark Feldhausen, Budget and Performance Management Director, Department of Retirement Systems, and Mike Heale, Principal, CEM Benchmarking

10:55 a.m. **4. Update on PFC Rate Adoption –** Frank Serra, Actuarial Analyst

Work Session with Possible Public Testimony

11:00 a.m. **5. Plan 1 Minimum Benefits –** Corban Nemeth, Associate Policy and Data Analyst

11:30 a.m. **6. Retire-Rehire –** Aaron Gutierrez, Senior Policy Analyst

Public Hearing with Possible Executive Action

11:50 a.m. **7. Month of Death –** Aaron Gutierrez

12:05 p.m. **8. Spousal Consent –** Aaron Gutierrez

12:20 p.m. **9. Adjourn**

These times are estimates and are subject to change depending on the needs of the Committee.

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(360) 786-6140
Fax: (360) 586-8135
TDD: 711
leg.wa.gov/SCPP.htm

September 26, 2018

Spousal Consent

COMPREHENSIVE REPORT

By Jacob White

Senior Research & Policy Manager

360-586-2327

jacob.white@leoff.wa.gov

ISSUE STATEMENT

Under current law, a member who is retiring under LEOFF Plan 2 must provide written consent from their spouse for any survivorship option the member selects – except in the case of a joint 50% survivorship option. This means that a spouse must provide written consent even when their survivor benefit would be greater than 50%.

OVERVIEW

This report provides information on written spousal consent for the election of a survivor benefit, including the current policy, legislative history, policy considerations and data regarding who is impacted by the policy.

The Department of Retirement Systems (DRS) requested the LEOFF 2 Board consider endorsing legislative action to remove spousal consent requirements for certain survivorship selections (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.

BACKGROUND AND POLICY ISSUES

Survivor Benefits Overview

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 makes this election when they apply for retirement. There are four options for a survivor benefit:

1. <u>Single Life</u> – This option pays the highest monthly amount of the four choices, but it is for the member's lifetime only. 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. <u>Joint and 100% Survivor</u> – 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 for 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 for his or her lifetime.
4. Joint and 66.67% Survivor – 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 for his or her lifetime.

Current Policy

Written spousal consent is required under current law for all survivor options except for Option 3, Joint and 50% Survivor. This includes not only Option 1, Single Life, which would leave the survivor no ongoing retirement benefit after the retiree's death, but Option 2, Joint and 100% Survivor and Option 4, Joint and 66.67% Survivor, which would leave the survivor a larger ongoing benefit than Option 3. Written spousal consent includes having the signature notarized to ensure it meets the legal requirement of being a "written designation duly executed".

Department of Retirement System Proposed Policy

DRS requested the LEOFF 2 Board consider requesting legislation that would only require written consent where a member selects a benefit less than the 50% option or names someone other than their spouse as their beneficiary. Any benefit that is a 50% joint-life option or higher would no longer require written consent from the member's spouse. DRS has requested that the Select Committee on Pension Policy (SCPP) consider requesting similar legislation for the other state retirement systems.

Survivor Option	Current Law	DRS Proposal
Single Life	Written Consent	Written Consent
50%	No	No
66.67%	Written Consent	No
100%	Written Consent	No

Fiscal Impacts

DRS stated the one-time administrative costs associated with making this change in policy would be minimal. The Office of the State Actuary (OSA) stated there is no expected fiscal impact because of this change in policy.

Plan Costs

The OSA completed a draft fiscal note on this proposal for the SCPP. The fiscal note stated this proposal is not expected to impact the pension systems.

Members Impacted

29% of retirees, from all DRS covered plans, select a survivorship option greater than the 50% option, and would therefore no longer be required to get spousal consent for selecting a survivor option.

Survivor Option	Count	%
Single Life	6,487	60%
50%	1,207	11%
66.67%	711	6%
100%	2,531	23%

Under the current requirements of the spousal consent law, approximately 89% of retirees, must complete a spousal consent form. Under the proposed change in policy this would lower to 60% of retirees.

In the last year, 348 (51%) LEOFF 2 retirees completed their retirement application online. The percentage of online applications continues to rise each year; however, it has slowed to 1% growth in the last year. If the member is applying for retirement online they must complete the spousal consent form on paper and mail that form in separately from the rest of their retirement application. Removing the spousal consent requirement will allow more members to apply for retirement completely online.

Legislative History

RCW 41.26.460 was amended in 1990 to require DRS to adopt rules to allow LEOFF 2 Members to elect an actuarially equivalent survivor benefit. The 1990 law, SHB 2643, required the survivor be nominated by "written designation duly executed and filed with [DRS]" and if the member was married that the spouse "must provide written consent […]to the option selected […]". If the member does not provide written consent the law defaults the retiree to a joint and 50% survivor benefit. The requirement for spousal consent has not been modified since it was originally enacted in 1990.

The legislative materials from SHB 2643 did not contain any discussion regarding why the requirement for written spousal consent was required or why a joint and 50% survivor benefit was set as the default benefit. However, the reasoning behind the default survivor benefit being a joint and 50% survivor benefit may be due to Washington State being a community property state. In a community property state, the spouses are deemed to equally own all income and assets earned or acquired during the marriage. Typically, the division of community property results in each spouse receiving 50% of assets. Therefore, it is possible that the legislature sought to align the default survivor benefit with existing community property laws.

It is also possible that the current policy was driven by an attempt to align the State's pension plans with federal requirements of Employee Retirement Income Security Act (ERISA). Public pension plans are not subject to ERISA; however, many public pension plans choose to adhere to many of the requirements of ERISA as best practices. ERISA requires spousal consent for Joint and Survivor Annuity elections.

As of 2013, the majority of state public pension plans required spousal consent or at least spousal notification if a retiree selects a single life annuity.[1] However, nineteen states do not require spousal consent or notification for a married member selecting a single-life annuity.[2]

Policy Considerations

DRS believes this change would simplify the process for many members when applying for retirement, by allowing a greater number of members to retire completely online by forgoing the added steps of getting the spousal consent notarized. In addition to the customer service benefit, this policy change also makes logical sense if the policy concern driving spousal consent is to protect the financial interest of the spouse. Since current law does not require spousal consent for leaving a 50% survivor benefit, it is logical to not require spousal consent for a retiree who chooses to leave his spouse a larger benefit.

Not requiring written spousal consent may lessen spousal participation in the retirement process. This may occur because members would not necessarily need to consult spouses for most of the survivorship benefit options. As a result, some beneficiaries may feel this change removes their role in the decision-making process.

POLICY OPTIONS

Option 1: Endorse DRS Proposal

No longer require written spousal consent for survivor options which leave the surviving spouse a benefit greater than 50%.

Option 2: No Change in Policy

Continue to require written spousal consent for all survivor options, except for 50%.

SUPPORTING INFORMATION

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

Appendix B: June 20, 2018 DRS Presentation to LEOFF 2 Board, "Written Spousal Consent Overview"

Appendix C: OSA Draft Fiscal Note

[1] http://www.pensionrights.org/publications/fact-sheet/state-plans-and-survivor-rights-information
[2] http://www.pensionrights.org/publications/fact-sheet/state-retirement-system-rules-%E2%80%9Cspousal-consent%E2%80%9D

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

Written Spousal Consent Overview

LEOFF 2 Board
June 20, 2018

Seth Miller
Department of Retirement Systems

WASHINGTON STATE
Department of
Retirement Systems

Introduction

- Under current law, written spousal consent is required for the selection of all but one of the survivorship options available to retirees.
- Written consent complicates the retirement application process, especially online.
- DRS suggests that written spousal consent be required only when the member chooses to have no survivor benefit go to the spouse.

DRS
WASHINGTON STATE
Department of
Retirement Systems

Survivorship Options

- In most DRS plans, members select one of four survivorship options at the time of retirement.
    1. Single Life (no survivorship)
    2. 100% Survivorship
    3. 50% Survivorship
    4. 67% Survivorship
- Selection of a survivorship benefit means the retiree's lifetime monthly benefit will be actuarially reduced.

WASHINGTON STATE
Department of
Retirement Systems

Survivorship Options

Example: LEOFF 2 retiree, pension benefit of $5000, spouse of the same age as the retiree

Option	Retiree Benefit	Survivor Benefit	Current Law	Proposed Law
Single Life	$5000	$0	Written Consent	Written Consent
100%	$4355	$4355	Written Consent	No
50%	$4655	$2328	No	No
67%	$4550	$3033	Written Consent	No

WASHINGTON STATE
Department of
Retirement Systems

Current Law

- If a member is married, the spouse must provide written consent to the selected survivorship option unless a 50% option is chosen (or a dissolution order is provided).
- This means a spouse must provide written consent even when he or she would be receiving a two-thirds or full survivor benefit.

WASHINGTON STATE
Department of Retirement Systems

Proposed change

Only require spousal consent in cases where a married member is providing a benefit less than 50% to the spouse.

WASHINGTON STATE
Department of
Retirement Systems

Benefits of change

- The change would simplify the process for many members when applying for retirement.
  - Currently more than 50% of members complete their retirement application online.
  - More than 25% of retirees select a survivorship option greater than the 50% option.
- One-time administrative costs associated with streamlining consent requirements would be minimal.

WASHINGTON STATE
Department of
Retirement Systems

Questions?

WASHINGTON STATE
Department of
Retirement Systems

SUMMARY OF RESULTS

BRIEF SUMMARY OF PROPOSAL: Written consent for a survivorship benefit would only be required when a member selects the Single Life Option, or names someone other than their spouse or domestic partner as the survivor beneficiary.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

Under this proposal, there is no expected fiscal impact to the retirement systems because behavior is not expected to change. In other words, we do not anticipate members will select different Survivor Benefit Options as a result of this proposal.

If behavior were to change, a fiscal impact would still not be expected because the survivorship payment forms use administrative factors that are intended to be actuarially equivalent. Regardless of the benefit payment form chosen, whether paid over a member's lifetime, or over the member's lifetime and a survivor beneficiary's lifetime, the actuarial liability at retirement is expected to be the same.

As a result, there is no expected impact to the pension systems.

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 Change

This proposal 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) Plan 2.
- ❖ Washington State Patrol Retirement System (WSPRS) Plan 2.

For survivorship benefits, written consent from a spouse or domestic partner would only be required where a member selects a benefit less than the Joint and 50 Percent Survivor Option (i.e., the Single Life Option) or names someone other than their spouse or domestic partner as their survivor beneficiary. Any benefit that is a Joint and 50 Percent Option or higher would no longer require written consent from the member’s spouse or domestic partner.

LEOFF and WSPRS Plans 1 have a free Joint and 100 Percent Option, so this proposal has no applicability to those plans.

Effective Date: 90 days after session.

What Is The Current Situation?

Under current law, members of most plans administered by the Department of Retirement Systems (DRS) have the option of selecting a survivorship benefit as part of their pension benefit upon retirement. Please see the **Appendix** for a list of the statutes that contain the written consent requirement.

Currently, members have four survivorship benefit options to choose from:

- ❖ Single Life, where there is no survivorship benefit;
- ❖ Joint and 100 Percent, a full survivorship benefit;
- ❖ Joint and 66.67 Percent, a two-thirds survivorship benefit; and,
- ❖ Joint and 50 Percent, a half survivorship benefit.

Of the options listed above, written consent for the Joint and 50 Percent Survivor Option is not required. All other options under current law require written consent from the member’s spouse or domestic partner. In addition, DRS currently requires members to notarize the written consent.

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. We prepared this draft fiscal note for the Select Committee on Pension Policy during the 2018 Interim.
2. 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.

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.

Michael T. Harbour, ASA, MAAA
Actuary

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APPENDIX

The written consent requirement is contained in the following statutes:

- PERS 1: 41.40.188 (2)(a)
- PERS 2: 41.40.660 (2)(a)
- PERS 3: 41.40.845 (2)(a)
- TRS 1: 41.32.530 (2)(a)
- TRS 2: 41.32.785 (2)(a)
- TRS 3: 41.32.851 (2)(a)
- SERS 2/3: 41.35.220 (2)(a)
- PSERS 2: 41.37.170 (2)(a)
- LEOFF 2: 41.26.460 (2)(a)
- WSPRS 2: 43.43.271 (2)(a)

LEOFF
Plan 2 Retirement Board

Spousal Consent

Comprehensive Report
September 26, 2018

Issue

- Under current law, a member who is retiring under LEOFF Plan 2 must provide written consent from their spouse for any survivorship option the member selects – except in the case of a joint 50% survivorship option.
- This means that a spouse must provide written consent even when their survivor benefit would be greater than 50%.

DRS Proposal

- The Department of Retirement Systems (DRS) requested the LEOFF 2 Board consider endorsing legislative action to remove spousal consent requirements for certain survivorship selections.
- 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 meeting to receive a Comprehensive Report on the issue.

Overview

- This report provides information on written spousal consent for the election of a survivor benefit, including:
  - Survivor benefit options
  - Current policy
  - Legislative history
  - Policy considerations
  - Member impacts

Survivor Benefits

- 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.
- There are 4 survivor options:
  1. Single Life - No one will receive an ongoing benefit after the retiree dies
  2. Joint and 100% Survivor - The survivor receives the same benefit the retiree was receiving
  3. Joint and 50% Survivor – The survivor receives half the benefit the retiree was receiving
  4. Joint and 66.67% Survivor - The survivor receives 2/3 of the benefit the retiree was receiving

Current Policy

- Written spousal consent is required under current law for all survivor options except for Option 3, Joint and 50% Survivor
- If no spousal consent is obtained the benefit defaults to Option 3
- Written spousal consent includes having the signature notarized to ensure it meets the legal requirement of being a “written designation duly executed”

Legislative History

- Current law was adopted in 1990, and has not been amended.
  - Required DRS to adopt rules to allow members to elect an actuarially equivalent survivor benefit
  - Required written consent
  - Default joint and 50% survivor benefit
- Legislative materials did not include why the requirement for written spousal consent was required or why a joint and 50% survivor benefit was set as the default benefit.
  - Possible that the legislature sought to align the default survivor benefit with existing community property laws and ERISA.

Other States

- The majority of state public pension plans require spousal consent or at least spousal notification if a retiree selects a single life annuity.
- Nineteen states do not require spousal consent or notification for a married member selecting a single-life annuity.

DRS Proposal

- Only require written consent where a member selects a benefit less than the 50 Percent Option or names someone other than their spouse as their beneficiary.

Survivor Option	Current Law	DRS Proposal
Single Life	Written Consent	Written Consent
50%	No	No
66.67%	Written Consent	No
100%	Written Consent	No

Policy Considerations

- Potential Improvements
  - Better Customer Experience - Allows more members to retiree completely online, without needing to find a notary and mail in spousal consent form.
  - Logical Sense - Since current law does not require spousal consent for leaving a 50% survivor benefit, it is logical to not require spousal consent for a retiree who chooses to leave his spouse a larger benefit.
- Potential Concerns
  - Lessen Spousal Participation - This may occur because members would not necessarily need to consult spouses for most of the survivorship benefit options. As a result, some beneficiaries may feel that this change removes their role in the decision-making process.

Members Impacted

Survivor Option	Count	%
Single Life	6,487	60%
50%	1,207	11%
66.67%	711	6%
100%	2,531	23%

- Under current law, 89% of retirees, must complete a spousal consent form.
- Under proposed policy this would lower to 60% of retirees.

Members Impacted

- In the last year, 348 (51%) LEOFF 2 retirees completed their retirement application online.
- If the member is applying for retirement online they must complete the spousal consent form on paper and mail that form in separately from the rest of their retirement application.
  - Removing the spousal consent requirement will allow more members to apply for retirement completely online.

Plan Costs

- The Office of the State Actuary draft fiscal note stated this proposal is not expected to impact the pension systems.

Policy Options

- Option 1: Endorse DRS Proposal - No longer require written spousal consent for survivor options which leave the surviving spouse a benefit greater than 50%.
- Option 2: No Change in Policy.

Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov

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.

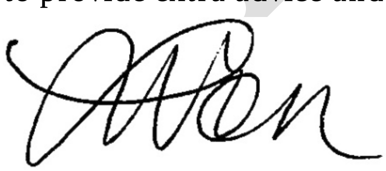
ACTUARY'S CERTIFICATION

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.

DRS
WASHINGTON STATE
Department of
Retirement Systems

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

WASHINGTON STATE
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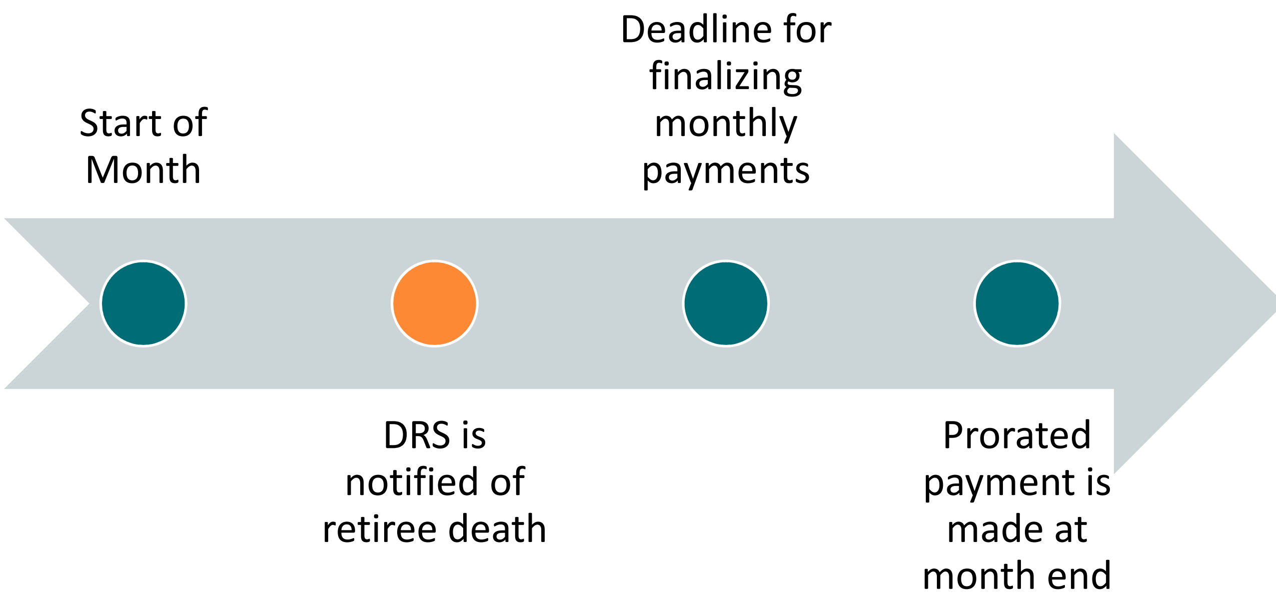
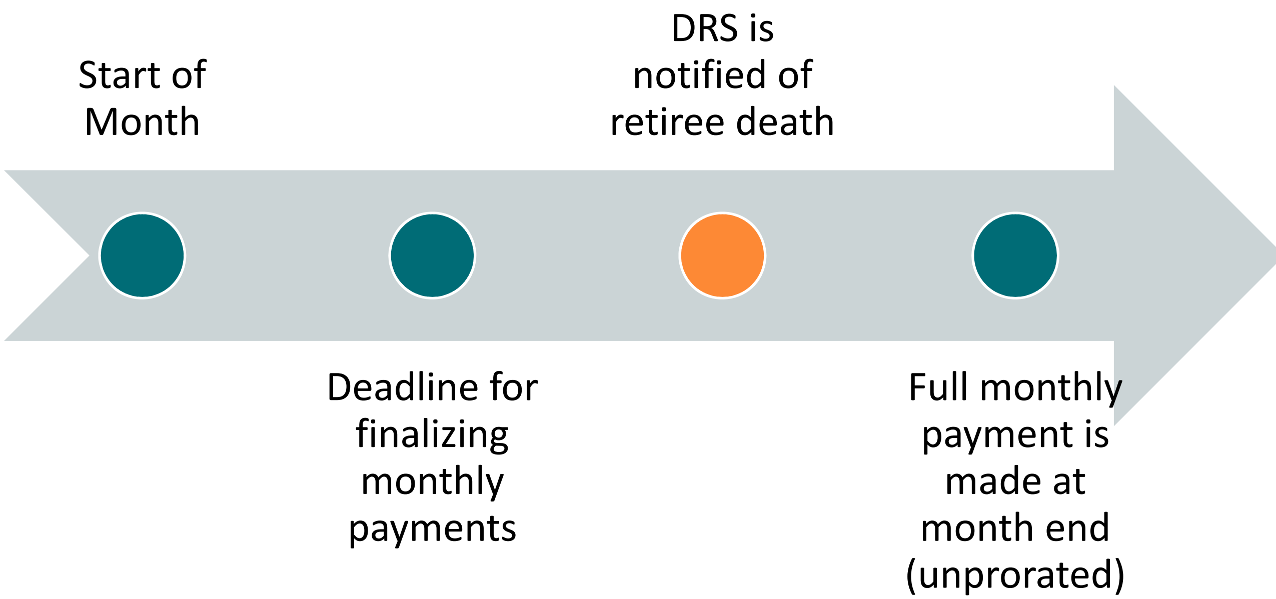
Notification of a death received before cutoff



Notification of a death received after cutoff



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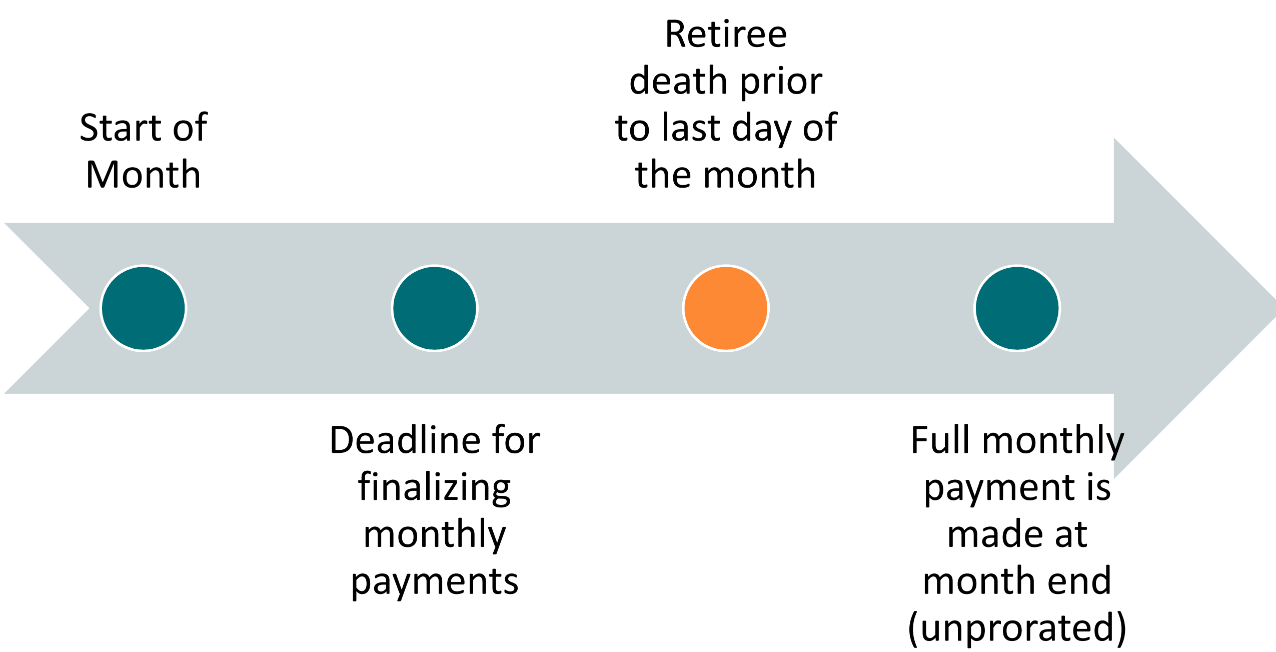
Death after monthly deadline



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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LEOFF
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

2018 AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
Jan 17	Legislative Update Administrative Update
Feb 28	Legislative Update Administrative Update
March 28	Approval of Minutes 2018 Legislative Update Interim Planning Administrative Update Executive Session
April 25	Approval of Minutes Definition of Child – *Initial Consideration* Out of Jurisdiction Duty – *Initial Consideration* Disabled Members Return to Work – *Initial Consideration* PEBB Coverage for Catastrophic Retirees – *Initial Consideration* Standby Pay as Basic Salary – *Initial Consideration* PTSD Benefits – *Educational Briefing* Budget Update
May 23	Approval of Minutes Benefit Improvement Account – *Educational Briefing* Funding Method Contribution Rate Setting Introduction Supplemental Rate Introduction LAVR Preview Possible Executive Session
June 20	Approval of Minutes DRS Request Legislation – Seth Miller, DRS Career Change Alternatives – Initial Consideration Survivor Option Election Medical Conditions Presumed to Be Duty-related– Educational Briefing Funding Method Options Contribution Rate Setting Options Supplemental Rate Options
July 25	Approval of Minutes Valuation Audit Result – Milliman DRS Annual Update – Tracy Guerin, DRS ***Decision on Preliminary Reports*** Funding Method Contribution and Supplemental Rate Adoption Budget Update
August 22	*Historically Cancelled*
Sept 26	Approval of Minutes Public Pension Administration Benchmarking – Mark Feldhausen, DRS Administrative Factors Introduction – Corbin Nemeth, OSA Out of Jurisdiction Duty *Comprehensive Report* Career Change Alternatives *Comprehensive Report* Survivor Option Election *Comprehensive Report* Spousal Consent Requirement *Comprehensive Report* Month of Death Retirement Payments *Comprehensive Report* Cost of Survivor Benefit Improvement Pricing Executive Session (Potential Litigation)
Oct 24	*Strategic Planning Meeting*
Nov 28	Approval of Minutes Budget Update Administrative Factors Adoption Final Average Salary Benefit Improvement Pricing Independent Audit - SAO
Dec 19	Approval of Minutes Demographic Experience Study Preview WSIB Annual Update – Theresa Whitmarsh, WSIB