

\$150,000 Death Benefit Inflation Adjustment Preliminary Report

Washington State Law Enforcement
Officers' and Fire Fighters' Plan 2
Retirement Board

October 25, 2006

Brief Summary

- Key Issues
- Policy Options
- Select Committee on Pension Policy (SCPP) Meeting

Key Issues

- Same Benefit Amount Since 1996
- Costs to Add Annual Inflation Adjustment

Three Options Presented to SCPP

- Fully Indexed CPI
- Index to CPI with 3% Annual Cap
- 3% Per Year

Option 1: Fully Indexed to CPI

- Preserves value of the benefit
- High inflation funding can become an issue

Option 2: Index to CPI with 3% Cap

- Preserves value of the benefit if inflation is 3% or less
- Controls funding issue during high inflation because of cap

Option 3: 3% Per Year Increase

- Preserves value of benefit if inflation is 3%
- Can create windfall if inflation is less than 3%
- Can fall behind if inflation is greater than 3%

Summary

- Options
- SCPP
- Next Step

\$150,000 Death Benefit Inflation Adjustment

Questions?

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

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1. Issue

Currently, the \$150,000 lump-sum death benefit is a fixed amount. This report looks at the policy issues and costs related to adding an inflation adjustment to this benefit.

2. Staff

Greg Deam, Senior Research and Policy Manager
(360) 586-2325
greg.deam@leoff.wa.gov

3. Members Impacted

Any member who dies in the line of duty could potentially be impacted. According to the Office of the State Actuary, as of September 30, 2005 there were 15,168 active LEOFF Plan 2 members and 574 retirees.

4. Current Situation

If a member dies in the line of duty as a result of an injury or occupational illness sustained in the course of employment, a \$150,000 death benefit will be paid to the designated beneficiary. The benefit amount is fixed at \$150,000 and has been the same since 1996.

5. Background Information and Policy Issues

Background Information

In 2005, the Board introduced legislation to amend the \$150,000 Death Benefit. The original bill included two amendments to existing statutes. The first added death, due to an occupational illness, as a qualified reason to receive the \$150,000 lump-sum death benefit. The second amendment added an annual inflation adjustment to increase the \$150,000 amount over time. The proposed inflation adjustment was to be calculated the same as the cost of living adjustments (COLA) members receive on their pensions. The Legislature passed the bill but removed the annual inflation adjustment portion of the bill.

The reason for the removal of the inflation adjustment clause was that all of the other plans also have the same \$150,000 lump-sum death benefit and the Legislature wanted to understand how the other plans might be affected by an annual inflation adjustment before setting a precedent by adopting one for LEOFF Plan 2. The Select Committee on Pension Policy (SCPP) agreed to study this matter during the 2006 Interim and work cooperatively with the Board on joint legislation.

During the original cost analysis done by the Office of the State Actuary (OSA) for the 2005 LEOFF Plan 2 proposal, the addition of the inflation adjustment did not create an increase in contribution rates for LEOFF Plan 2. In the September 2006 SCPP meeting, OSA reported to the SCPP that the addition of the inflation adjustment would not create an increase in contribution rates for any of the systems or plans.

Of the eight states that provide a lump-sum death benefit of \$100,000 or more, three have an inflation adjustment. In addition to state provided lump-sum death benefits, there is a federal death benefit, the Public Safety Officers' Benefits (PSOB) Act. This legislation was enacted in 1976 to assist in the recruitment and retention of law enforcement officers and fire fighters by providing a lump-sum death benefit. Beginning October 15, 1988, an annual inflation adjustment was added and the benefit has been adjusted each year on October 1 to reflect the percentage of change in the Consumer Price Index. As of October 1, 2006, the amount is \$295,194.

Policy Issues:

Should the Board adopt the recommendation of the SCPP or go forward with its own recommendation? The original 2005 proposal by the Board included an annual inflation adjustment factor similar to option 2 below, presented to the SCPP during their September 2006 meeting.

Policy Options:

The following three options for an annual inflation adjustment were presented to the SCPP:

1. **Fully indexed to the Consumer Price Index for urban wage earners and clerical workers for the Seattle/Tacoma/Bremerton (CPI-W STB).** Under this option, the

value of the benefit would be preserved. However, in times of high inflation funding can become an issue.

2. **Index to changes in the CPI-W STB with a 3 percent per year maximum.** Under this option, the value of the benefit is preserved as long as the long-term rate of inflation is at 3 percent or less. Having a ceiling on the index helps to control costs and promote stable funding.
3. **Increase the benefit by 3 percent per year.** This option is the most simple to administer and in years where inflation is less than 3 percent, would actually increase the value of the benefit.

None of the above options add enough costs to increase the contribution rates for any of the retirement systems. The SCPP Executive Committee recommended option 2 be brought before the full SCPP at their October meeting. In addition to the annual inflation factor, the SCPP Executive Committee also recommended that the occupational illness included in the Board's proposal in 2005 be added to all systems.