



# **Dual Membership**

## **Initial Consideration**

### **Follow-up**

**WASHINGTON STATE**  
**Law Enforcement Officers' and Fire Fighters'**  
**Plan 2 Retirement Board**

**Date: October 26, 2005**

# Milestones

- Dual Membership - created in 1987
- LEOFF Plan 2 - added in 1993

# Terminology

- Dual member
- Current system
- Prior system
- Dual member system
- Indexing

# Dual Members

- Active LEOFF Plan 2 – 1,485
- Inactive LEOFF Plan 2 – 505
- Retired LEOFF Plan 2 – 57

# Dual Membership Review

- Combine service credit
- Restore withdrawn service credit
- Disability retirement
- Survivor benefits
- Salary substitution
- Indexing

# Limitations

- 30-year cap
- LEOFF Plan 2 indexing
- Salary substitution

# Options

- Remove 30-year cap
- Add LEOFF Plan 2 indexing
- Align dual membership salary definition

Questions?



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

## Dual Membership Initial Consideration Follow-up

October 26, 2005

---

### 1. Issue

An initial presentation was given in August on dual membership describing how it works and highlighting some of the issues. This is a follow-up report with three potential changes to the existing dual membership statutes.

### 2. Staff

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

### 3. Members Impacted

As stated in the earlier report, based on preliminary data as of September 30, 2004, there were 14,754 active, 1,788 inactive and 413 retired LEOFF Plan 2 members. Of the 14,754 active members, 1,485 have dual membership; of the 1,788 inactive members, 505 have dual membership; and of the 413 retired members, 57 have dual membership.

### 4. Current Situation

Under the current portability statutes (RCW 41.54), when members meet age and service requirements from one system they are eligible to retire out of all systems. Not all systems allow for portability. For example, LEOFF Plan 1 and the Judicial Retirement Systems (JRS) are not included in the portability statutes.

## 5. Background Information and Policy Issues

### History

Dual membership or portability was created with the passage of ESSB 5150 in 1987. LEOFF Plan 2 was added as a dual member system in 1993. The purpose of portability was to ensure that employees, who serve the public in multiple careers, neither had their benefit increased nor decreased due to their career path in multiple public retirement systems.

### Features of Dual Membership

- Allows members to combine their service credit in all systems to qualify for benefits in each system.
- Allows a member to restore withdrawn contributions from a prior system within two years of establishing membership in the current system.
- Allows a member to combine service credit from all systems to qualify for a disability retirement, but only in their current system. If they qualify for a disability retirement, they can receive a service retirement from the prior system, including actuarial reductions, if applicable.
- Allows plan 3 members to combine service credit from all systems to qualify for the indexing feature.
- Allows members to combine service credit from all systems to qualify for a survivor benefit. Many of the plans, including LEOFF Plan 2, require a minimum of 10 years of service credit in order for the surviving spouse or eligible minor children to be eligible for a retirement allowance.
- Allows members to substitute the base salary from any of the systems as compensation used in calculating the retirement allowance. The base salary does not include overtime, vacation leave cash-outs or other similar types of compensation enhancements. This feature can be particularly attractive if the member's service in the inactive system occurred in the past when compensation was much lower.

### Dual Membership Issues

1. **Thirty-year cap.** If a member is a dual member in LEOFF Plan 2 / PERS Plan 1, they are subject to a potential cap on their benefit calculation. Under the current dual membership statutes, the combined pension benefits from both plans may not exceed the maximum allowable benefits for any one of the dual member's plans. PERS Plan 1 has a limit of 30 years for calculating the maximum benefit allowance. Even though LEOFF Plan 2 does not have a 30 year cap, the dual member's benefit could still be affected by the Plan 1 cap if their combined service exceeds 30 years.
2. **Twenty-year indexing.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have an indexing provision within each system. Indexing increases a member's benefit by twenty-five one-hundredths of a percent compounded each month from the member's separation date to the date retirement benefits are received. Under the

current dual membership statutes members can combine service in all systems to qualify for indexing, except LEOFF Plan 2. The dual membership indexing statute does not include LEOFF Plan 2.

3. **Includable salary.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have the same provision defining what is included in salary for calculating a retirement benefit within each of the systems. Under the current dual membership statutes, a member can choose to use their “base salary” from any of the dual member systems to calculate their retirement benefit in that system. However, the “base salary” is not as inclusive as the normal salary within the definitions of each of the systems (Appendix A).

## 6. Options

1. **Remove thirty-year cap.** The thirty-year cap would only apply if the member’s dual membership was exclusively in plan 1 systems.

### Example

A member retires at age 54, with a total of 35 years combined service; 22 years in PERS Plan 1 and 13 years in LEOFF Plan 2. Their LEOFF Plan 2 final average salary is \$50,400 per year (\$4,200/month). Their PERS Plan 1 average final salary is \$54,000 per year (\$4,500/month).

Their benefit under current law would be:

LEOFF Plan 2 = \$1,042.97 per month  
PERS Plan 1 = \$1,897.03 per month  
TOTAL = \$2,940.00 per month

Their benefit without the cap:

LEOFF Plan 2 = \$1,092.00 per month  
PERS Plan 1 = \$1,980.00 per month  
TOTAL = \$3,072.00

2. **Include LEOFF Plan 2 in indexing.** The indexing language is the same in LEOFF Plan 2 as it is for the plan 3 systems. To change the dual member statutes, to allow a member to use their service credit in all systems, to qualify for the indexing, would require a simple change. This would make the application of indexing consistent among the plans that have indexing.

### Example

A member leaves employment at age 46 with four years of service credit in PERS Plan 2 and 18 years in LEOFF Plan 2. At age 53, they retire out of both systems, but choose to defer their PERS Plan 2 benefit until age 65. Their final average salary (FAS) when they terminated at age 46 is \$4,500.

Under current dual membership statutes, the FAS would not qualify for indexing because they have less than 20 years of service in LEOFF Plan 2. Their monthly benefit at age 53 would be \$1,620.00.

If the statute was changed to be consistent with indexing as applied to plan 3 systems, their monthly benefit at age 53 would be \$1,772.36.

3. **Use all elements of salary as defined in the plan 2 and plan 3 systems.** Change the definition of “base salary” in the dual membership statutes to match the definition of what is included in salary for the other system plans.

LEOFF Plan 2, PERS Plan 2 & 3, SERS Plan 2 & 3, TRS Plan 2 & 3 and PSERS Plan 2 all include the following elements in salary for calculating a retirement benefit:

- Salaries or wages for personal services,
- Overtime,
- Salaries deferred under the provisions established under sections 403(b), 414(h) and 457.

Base salary, as defined in the dual member statutes, includes:

- Salaries or wages for personal services,
- Salaries deferred under provisions of the United States internal revenue code.

The definition for base salary in the dual member statutes does not include overtime and is vague in the deferred salary provision. Since part of the original intent of the dual membership statutes was not to diminish a member’s retirement benefit because of a career change, the fact that certain salary elements are excluded in the calculation of a dual member benefit, would appear to be in conflict with the original intent.

However, had the member been a PERS Plan 3 and SERS Plan 3 dual member, they would have qualified for indexing from the date of separation until their retirement date. They would qualify even though all Plan 3 systems have the same 20 years of service requirement to qualify for indexing as LEOFF Plan 2. The difference is the portability statutes specifically allowing any Plan 3 dual member to combine all service credit to qualify for indexing.

## **7. Supporting Information**

### Appendix A – Salary RCWs

## **APPENDIX A: Salary RCWs**

### **LEOFF Plan 2:**

"Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

(i) The basic salary the member would have received had such member not served in the legislature;  
or

(ii) Such member's actual basic salary received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because basic salary under (b)(i) of this subsection is greater than basic salary under (b)(ii) of this subsection shall be paid by the member for both member and employer contributions.

### **PERS Plan 2 & 3:**

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

### **SERS Plan 2 & 3:**

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

### **TRS Plan 2 & 3:**

"Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

### **Dual Membership Definitions:**

"Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude **overtime payments** [emphasis added], nonmoney maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment.