BOARD MEETING AGENDA

NOVEMBER 28, 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** *September 26 and October 24, 2018*	**9:30 AM**
2.	**Financial Audit Results** *State Auditor's Office*	**9:35 AM**
3.	**Funding Policy** *Steve Nelsen, Executive Director* *Lisa Won, Deputy State Actuary, OSA*	**10:00 AM**
4.	**Cost of Survivor Benefit Improvement - Edbrief** *Ryan Frost, Senior Research and Policy Manager*	**11:00 AM**
5.	**LEOFF/PERS Eligibility Gap - Initial** *Jacob White, Senior Research and Policy Manager*	**11:30 AM**
6.	**Administrative Update** • *SCPP Update* • *Outreach Activities*	**12:00 PM**
7.	**2019 Proposed Calendar Discussion/Adoption** *Steve Nelsen, Executive Director*	**12:30 PM**
8.	**Month of Death Payment - Final** *Jacob White, Senior Research and Policy Manager*	**1:00 PM**
9.	**Agenda Items for Future Meetings** Steve Nelsen, Executive Director	**1:30 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.

Office of the Washington State Auditor
Pat McCarthy

Schedule Audit Report

Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board

For the period July 1, 2017 through June 30, 2018

Published (Inserted by OS)
Report No. 1022443

Office of the Washington State Auditor
Pat McCarthy

Issue Date – (Issued by OS)

Mr. Steve Nelsen, Executive Director
Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
Olympia, Washington

Report on the Schedule

Please find attached our report on the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board's Statement of Expenditures – Budget Allotment to Actual for the fiscal year ending June 30, 2018.

We are issuing this report in order to provide information on specific financial activity of the Board.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER SCHEDULE REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF SCHEDULES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
July 1, 2017 through June 30, 2018

Mr. Steve Nelsen, Executive Director
Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Schedule of Expenditures – Budget Allotment to Actual of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board, for the year ended June 30, 2018, and the related notes to the schedule (the schedule), and have issued our report thereon dated October 18, 2018.

As described in Note 1, the schedule is prepared for the purpose of complying with the reporting requirements of the Revised Code of Washington, Section 41.26.720, and is not intended to be, and is not, a complete presentation of the Board's assets, liabilities and revenues, and is not a complete set of financial statements in accordance with the accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER SCHEDULE REPORTING

In planning and performing our audit of the schedule, we considered the Board's internal control over schedule reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the schedule, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board's schedule will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Board's schedule is free from material misstatement, we performed tests of the Board's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy
State Auditor
Olympia, WA

October 18, 2018

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE

Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
July 1, 2017 through June 30, 2018

Mr. Steve Nelsen, Executive Director
Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
Olympia, Washington

REPORT ON THE SCHEDULE

We have audited the accompanying Schedule of Expenditures – Budget Allotment to Actual of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board, for the year ended June 30, 2018, and the related notes (the schedule).

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule referred to above presents fairly, in all material respects, the budgeted and actual expenditures of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board, for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

We draw attention to Note 1 to the schedule, which states the schedule was prepared for the purpose of complying with the reporting requirements of the Revised Code of Washington, section 41.26.720, and is not intended to be, and is not, a complete presentation of the Board's assets, liabilities, or revenues, and is not a complete set of financial statements in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the schedule as a whole. The Other Information - Prior Year Comparison is presented for purposes of additional analysis for the Board and is not a required part of the schedule. Such information has not been subjected to the auditing procedures applied in the audit of the schedule, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the Board's internal control over schedule reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over schedule reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over schedule reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over schedule reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

October 18, 2018

FINANCIAL SECTION

Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
July 1, 2017 through June 30, 2018

SCHEDULE

OTHER INFORMATION

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF EXPENDITURES - BUDGET ALLOTMENT TO ACTUAL
For the Year Ended June 30, 2018

Line Item:	Budgeted	Actual	Variance
Salaries & Wages	$635,508	$620,061	$15,447
Employee Benefits & Payroll Taxes	$209,530	$200,029	$9,501
Professional Service Contracts	$23,000	$12,603	$10,397
Supplies and Materials	$300	$7,229	($6,929)
Communications/Telecommunications	$19,090	$20,832	($1,742)
Utilities	$5,640	$5,829	($189)
Rentals and Leases - Land & Buildings	$45,960	$45,954	$6
Repairs, Alterations & Maintenance	$0	$223	($223)
Printing and Reproduction	$6,650	$7,045	($395)
Employee Prof Dev & Training	$31,077	$52,559	($21,482)
Rental & Leases - Furn & Equipment	$4,220	$5,178	($958)
Subscriptions	$1,200	$1,858	($658)
Facilities and Services	$38,996	$39,427	($431)
Data Processing Services (Interagency)	$10,432	$7,296	$3,136
Attorney General Services	$22,284	$15,050	$7,234
Personnel Services	$5,628	$6,459	($831)
Insurance	$115	$25	$90
Other Contractual Services	$110,144	$110,222	($78)
Archives & Records Management Svcs	$156	$160	($4)
Software Licenses and Maintenance	$8,784	$11,138	($2,354)
Other Goods and Services - **Note 1 Section B**	$180	($3,340)	$3,520
Travel, Lodging & Subsistence	$42,000	$59,304	($17,304)
Noncapitalized Assets	$0	$523	($523)
Total Expenditures	$1,220,894	$1,225,664	($4,770)

Note 1 – Agency Description & Summary of Significant Accounting Policies

A. Agency Description, Background & Activities

The Law Enforcement Officers and Fire Fighters Plan 2 Retirement (the board) was created through taxpayer initiative 790 in November of 2002. In 2003 the board was created as a state agency governed by its board of trustees. The board exists to research, develop and execute broad policies beneficial to the members of the Law Enforcement and Firefighters Retirement Plan 2 Pension Fund's present and future recipients. The board employs seven full time employees to act as administrative, technical, and advisory experts to aid in carrying out the board's mission.

The eleven-member board, appointed by the Governor of the State of Washington, governs the board. Board members are appointed from the following groups:

- Three must be active law enforcement officers who participate in the plan and one of the members must be a retired law enforcement officer and a member of the plan.
- Three must be active fire fighters who participate in the plan and one of the members must be a retired fire fighter that participates in the plan.
- Three must be representatives of employers.
- One must be a member of the State House of Representatives.
- One must be a member of the State Senate.

The board is empowered to oversee the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF 2). They do not maintain custody or manage the investments in the plan. The custody and investment function is the responsibility of the Washington State Investment Board (SIB). The board is required to; (1) adopt actuarial tables, assumptions and cost methodologies, (2) adopt contribution rates for LEOFF Plan 2, (3) and other related duties. The other related duties the board activity incurs expenditures for include:

Professionals & Technical Advisors – Retain professionals and technical advisors necessary to accomplish the board's duties.

Actuary – Consulting with an enrolled actuary retained by the board (the state actuary shall provide assistance when the board requests). The actuary used must provide the state actuary with copies of its valuations, assumptions and cost methodology for a reasonableness review. If the two actuary do not agree, a third actuary must be appointed by the board and state actuary.

Other Costs – Retain administrative staff and acquire office space for operations. Process travel reimbursements for board members as provided by RCW 43.03.050 and 43.03.060.

B. Basis of Accounting and Reporting

The expense account used by the LEOFF 2 Plan Board is a governmental fund. The Board uses the modified-accrual basis of accounting with a measurement focus on current financial resources. The Schedule of Expenditures-Budget and Actual is not intended to be a complete presentation of the Board's assets, liabilities, and revenues nor does it constitute a complete set of financial statements in accordance with generally accepted accounting principles.

All of the Board's general accounting, reporting, payroll and budget functions are managed by the Washing State Department of Enterprise Service's Small Agency Financial Services and Human Resources Teams. All accounting data is maintained in the statewide Accounting & Financial Reporting System (AFRS) under agency 341.

The board relies heavily on the State Administrative and Accounting Manual (SAAM) in the development and execution of its accounting related policies.

Note for negative expenditure data: The "Other Goods and Services" category is reporting a negative balance for actual fiscal year 2018 results. This negative amount is caused by expense reimbursements from the U.S. Bank Purchase Card Rebate program. Rebate amounts are based on a fraction of expenditures from various expense categories and are consolidated into this category for reporting purposes.

Expenditure Authority (RCW 41.26.732)

The authority to establish all policies relating to the expense fund, other than the investment policies of the SIB, resides with the board. With the exception of investments by, and expenses of, the SIB, disbursements from the expense fund may be only with the authorization of the board.

Expenditures of the board are paid out of a singular operation account (LEOFF Plan 2 Board Expense Account / Account Number: 548). This expense account is administered by the state treasury. The board retains no other accounts for official board business.

Expenditures from the expense account may only be used in the execution of board duties. Allowable expenses include, but are not limited to:

- Salaries, benefits and related payroll costs of personnel.
- Lease Payments
- Travel
- Good & Services
- Audits
- Other general and reasonable costs of conducting board business

C. Budgetary Process

The board must develop an annual budget consistent with the requirements of chapter 43.88 of the Revised Code of Washington. The budget for the board is funded from the investment income of the LEOFF Trust fund held by the State Investment Board.

The budget for the agency is subject to the allotment process directed by the Office of Financial Management but is not subject to legislative appropriation. Allotments maybe updated as needed however, they are non-binding and are used an expense monitoring tool so that biennial budgets are not exceeded.

Note 2 Commitments & Non-Current Liabilities

D. Major Lease Payments and commitments

The board, acting through the Washington State Department of Enterprise Services, entered into an operating lease for office space until April 30, 2019. The agreement calls for monthly lease payments of $3,829.50. In additional to the monthly lease payments the agency is also required to pay the landlord for its prorated share (currently 5.36%) of water, sewer, garbage and restroom supplies as well as the cost of electricity and natural gas directly attributable to the office space occupied.

Upon expiration of the lease term the agency may renegotiate the lease for another five (5) year term, allow the lease to become a month-to-month lease, or vacate the space. The board currently intends to renew its lease at the current location. The lease expense incurred for fiscal year 2018 is $45,954 with projected payments of $38,295 expected for the remainder of the current lease agreement.

E. Compensated Absences

Consistent with statewide employment practices the board maintains an ongoing cost of compensated absences for employees that accrue sick and vacation leave on a monthly basis. Costs associated with compensated absences are not recorded as expenditures until absences are taken and annually the agency records the future liability related to compensated leave. The below table summarized the changes in compensated absences expenses for the year ended June 30, 2018 and reflects the potential cost of compensated leave.

Compensated Absences Summary	Vacation Leave Liability	Sick Leave Liability	Total
Current Year Opening Balance	$36,940	$23,476	$60,415
Net Increase in Liability for the Year	$24,552	$6,110	$30,662
Balance at year ending June 30,2018	$61,492	$29,586	$91,078

Note 3 – Related Party Transactions

The board obtains a significant amount of goods and services from other agencies within the state of Washington in the form of interagency agreements. The cost of these agreements are developed during the State's budget process and are generally structured to recover the cost of providing goods and services. The following table summarizes the most significant agreements/services provided with other state agencies and the cost of these agreements in fiscal year 2018.

Interagency & Central Billing (State Rendered Services)

Agency	Service	FY18 Charges	% of Total
Office of the State Actuary	Actuary Services	$ 109,658.04	32.9%
Department of Enterprise Services	Multiple Services**	$ 64,865.48	19.5%
Office of the Attorney General	Legal Services	$ 15,050.44	4.5%
Total		$ 189,573.96	56.9%*

*Note % of total is a comparison of all goods and services expenditures for FY18.

**Department of Enterprise Services charges includes charges for: Financial Services, Training Services, Real Estate Contracting Services, Statewide systems charges, Mail Services, Parking Services, and Risk Management Services.

LAW ENFORCEMENT OFFICERS FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Fiscal Year Ending June 30, 2018

Supplemental Report
Prior Year Comparison

Line Item Expenditure	FY 2018	FY 2017	Variance
Salaries & Wages	$620,061	$615,306	$4,755
Employee Benefits & Payroll Taxes	$200,029	$192,221	$7,808
Professional Service Contracts	$12,603	$55,827	($43,224)
Supplies and Materials	$7,229	($83)	$7,312
Communications/Telecommunications	$20,832	$20,586	$246
Utilities	$5,829	$6,078	($249)
Rentals and Leases - Land & Buildings	$45,954	$45,954	$0
Repairs, Alterations & Maintenance	$223	$15	$208
Printing and Reproduction	$7,045	$8,688	($1,643)
Employee Prof Dev & Training	$52,559	$24,692	$27,867
Rental & Leases - Furn & Equipment	$5,178	$4,138	$1,040
Subscriptions	$1,858	$804	$1,054
Facilities and Services	$39,427	$3,950	$35,477
Data Processing Services (Interagency)	$7,296	$6,142	$1,154
Attorney General Services	$15,050	$24,769	($9,719)
Personnel Services	$6,459	$6,051	$408
Insurance	$25	$25	$0
Other Contractual Services	$110,222	$139,668	($29,446)
Archives & Records Management Svcs	$160	$0	$160
Software Licenses and Maintenance	$11,138	$0	$11,138
Other Goods and Services	($3,340)	$7,725	($11,065)
Travel, Lodging & Subsistence	$59,304	$44,696	$14,608
Noncapitalized Assets	$523	$4,614	($4,091)
Grants & Benefits	$0	$200	($200)
Total	$1,225,664	$1,212,066	$13,598

Notes:

In FY18 payments to DES Small Agency Financial Services were coded to Facilities and Services while in FY17 expenditures were coded to Other Contractual Services.

Fiscal year 2017 figure excludes $1,957.50 in unaudited transactions that occurred after the fiscal year 2017 financial statement audit.

Negative expenditures in "Other Goods and Services" category is the result of expense reimbursements from the U.S. Bank Purchase Card Rebate program. Rebate amount is based on purchases coded to various categories and consolidated to this category for reporting purposes.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

Exit Conference

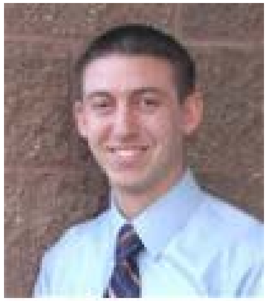
Presented to LEOFF Plan 2 Retirement Board

November 28, 2018

About Our Office

- The Washington State Auditor's Office's vision is an increased trust in government.
- Our goal is to make government work better through increased accountability, efficiency and transparency.
- The purpose of this meeting is to share our audit results and draft reporting.
- We value and appreciate your participation.

Your Audit Team



Jim Brownell, Audit Manager – Jim has been with the Washington State Auditor's Office since 2005 and manages the Single Audit teams. His notable work experiences include audits of the state's Comprehensive Annual Financial Report (CAFR), Statewide Single Audit - including Medicaid and financial statement audits for the Departments of Labor and Industries, Ecology and Health. He has also managed accountability audits at multiple state agencies and the state employee whistleblower program.

Jim supervised this engagement.

Michael Hutchinson, CPA, Assistant Audit Manager – Mike has been with the State Auditor’s Office since 1996. Notable work experiences include audits of local governments for nine years and supervising the Medicaid audit for seven years. He has also supervised accountability audits at multiple state agencies since 2009.

Mike performed the fieldwork for this engagement.

SAO Executive Management

Sadie Armijo, CFE, Director of State Audit – Sadie has been with the Washington State Auditor's Office since 1998. She oversees most of the state audits our Office performs. Teams under her direction include the Financial Audit team, which conducts accountability audits, as well as the annual audit of the State of Washington Comprehensive Annual Financial Report and other financial statement audits. The Single Audit team performs accountability audits and the State of Washington Single Audit, which examines state agencies' compliance with federal grant requirements. The third team Sadie leads is the Whistleblower team, which investigates assertions of improper governmental actions at state agencies. She previously was an Assistant Director of Local Audit for five years.

Troy Niemeyer, Assistant Director of State Audit – Troy has been with the Washington State Auditor's Office since 2006. As Assistant Director he assists with the statewide oversight and management of most audits of state government, including fraud and whistleblower investigations. He previously managed two local audit teams, along with the Whistleblower Program, and the Statewide Technology Audit Team (STAT). Troy is a member of the Institute of Internal Auditors.

Audit Scope

- We performed a financial statement audit of the LEOFF Board's Schedule of Expenditures
- The schedule included expenditures that occurred for the fiscal year ending June 30, 2018

Financial Statement Audit Results

Unmodified (clean) opinion on the financial statement

- The financial statement presented fairly, in all material respects, the budgeted and actual expenditures of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board

Audit Highlights

- Board staff responded to audit requests in a timely manner and were helpful and cooperative throughout the audit process

- There were no uncorrected misstatements in the audited financial statement

- There were no material misstatements in the financial statement corrected by management during the audit

What happens during a financial statement audit?

- We evaluate state agency internal controls over key financial systems and processes
- We evaluate whether there are adequate internal controls over the financial statement preparation process
- We test transactions (expenditures)
- We examine note disclosures to ensure they are fairly presented

Areas of focus for your audit

Completeness

Were all expenses recorded in the financial statement?

- Testing of Board salaries & wages

Classification –

Were expenses properly classified in the financial statement?

- Random selection and tests of Board expenses for employee development, facilities & related services and other purchased services

More areas of focus for your audit

Presentation and disclosures

- Was the financial statement clearly and appropriately presented?
- Were note disclosures complete and accurate?
- If significant financial events occurred, were they properly disclosed in the statement notes?

Exit Recommendation

We made one exit recommendation to management, which ***is not included or referenced*** in the audit report:

- The Department of Enterprise Service's Small Agency Financial Services (DES) classified all of the Board's expenditures. The Board, however, did not review the accounting codes assigned by DES.
  - We recommend the Board review the accounting codes assigned by DES to ensure expenses are properly classified in its Schedule of Expenditures.

Required Communications

- In your materials is a draft copy of the audit report
- The final report is scheduled to be published on our public website next week.
  - https://portal.sao.wa.gov/saoportal/Login.aspx
- We are pleased to report the audit identified no material misstatements requiring correction

Audit Cost

- The cost of the audit was $4,450
  - 50 hours x $89 per hour

- Should the Board chose to contract with our Office next year, we estimate the cost will be $3,800
  - 40 hours x $95 per hour

Concluding remarks

- Any questions?

- We appreciate the opportunity to work with the Board and your staff

LEOFF
Plan 2 Retirement Board

Funding Policy

November 28, 2018

Funding Policy Review

- The Board has the responsibility and authority to adopt the actuarial cost method for funding LEOFF Plan 2 and all the associated funding policies.
- The Board's Strategic Plan includes the goal:
  Maintain the Financial Integrity of the Plan
  1. Make sure that the liabilities of the plan are fully funded.
  2. Maintain stable contribution rates based on the expected long-term cost of the plan.

Current Funding Policy*

- The Board adopted the Aggregate Funding method with 100% floor in 2018. A funding method has two components:
  1. The normal cost or expected long-term cost of the plan.
  2. A method for managing the funded ratio.
- The Board is considering options for managing the current funded ratio of 109%.
- The Board has adopted contribution rates for both the 2019-21 and the 2021-23 biennia.

** This slide was corrected post Board meeting.*

Strategies for Managing a Positive Funding Ratio

- Contribution Reductions
  - One way of managing the funding ratio in the Entry-Age Normal Cost method is by amortizing the plan's unfunded liability over the expected working life of the members.
  - This helps keep the funded ratio around 100% but makes rates change frequently.
- Benefit Improvements
  - The cost of benefit improvements reduces the funding ratio but can create ongoing liabilities.
- Reduce Actuarial Risk
  - More conservative actuarial factors lower the funding ratio and reduce the likelihood of adverse actuarial experience.

Reducing Actuarial Risk

- The Board has taken action in the past to adopt more conservative actuarial factors based on recommendations of the State Actuary:
  - Lower investment return assumption.
  - Projected improvements in life expectancies.

- The Society of Actuaries is working on a number of new risk measures for pension plans.

Use of a funded ratio corridor

- One concept for managing the funded ratio is the use of a corridor with different levels of action or concern.
- For example, a funded ratio corridor of 95% - 110%

Less than 95%	“Zone of Action”	Increase contributions or reduce liabilities
95 – 100%	“Zone of Concern”	Monitor trends, prepare response
100 – 105%	“Zone of Comfort”	No concern or action necessary
105 – 110%	“Zone of Concern	Monitor trends, prepare response
Over 110%	“Zone of Action”	Decrease contributions or decrease liabilities

Tactics for Managing the Current Funded Ratio

- The investment return for the past year was above the expected rate of 7.4% and the most recent actuarial valuation identified more deferred gains than losses from past biennia so the funding ratio trend is positive.
  - Potential benefit improvements in 2019 legislative session.
  - Potential experience gains or losses in current Demographic Experience Study.
- Consult with OSA to identify proposals or options for Board action in 2019.

Questions?

- Possible Board action to the adopt funding ratio corridor as a method for managing the funded ratio.

Thank You

Steve Nelsen

Executive Director

(360) 586-2323

steve.nelsen@leoff.wa.gov

November 28, 2018

Cost of Survivor Benefit Improvement

EDUCATIONAL BRIEFING

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

ISSUE STATEMENT

One of the goals of the LEOFF 2 Board's strategic plan is to keep the stakeholders informed. One of the ways of meeting that goal is for the Board to be briefed on the price of certain benefit improvements.

OVERVIEW

In September 2017, the Board was presented with the costs of increasing the multiplier in LEOFF Plan 2 (see results in Appendix A). In September 2018, the Board reported on the cost impacts of active LEOFF 2 members receiving a no cost 100% Joint and Survivor (J&S) benefit upon retirement proactively.

This report adds current retirees to the no cost 100% J&S, so all members would be eligible for this benefit improvement.

BACKGROUND

When a member applies for retirement, they will choose one of the four benefit options shown below.

1. Option 1 Single Life
    a. This option pays the highest monthly amount of the four choices, but it is for your lifetime only. No one will receive an ongoing benefit after you die. If you die before the benefit you have received equals your contributions plus interest (as of the date of your retirement), the difference will be paid in a lump sum to your designated beneficiary.
2. Option 2 Joint and 100% survivor
    a. Your monthly benefit under this option is less than the Single Life Option. But after your death, your survivor will receive the same benefit you were receiving for his or her lifetime.

3. Option 3 Joint and 50% survivor
    a. This option applies a smaller reduction to your monthly benefit than Option 2. After your death, your survivor will receive half the benefit you were receiving for his or her lifetime.
4. Option 4 Joint and 66.67% survivor
    a. This option applies a smaller reduction to your benefit than Option 2 and a larger reduction than Option 3. After your death, your survivor will receive 66.67% (or roughly two-thirds) of the benefit you were receiving for his or her lifetime.

PRICING DETAILS

OSA assumed 70% of members would be married at retirement and utilize the free survivor benefit. A different percent married assumption could be reasonable and would materially impact the results. As an example, a 50 or 100 percent married assumption would increase the employee and total employer contribution rates by approximately 180 or 370 basis points above current law, respectively.

Free 100% J&S for Active Members Only – September 2018 Board Meeting

The Office of the State Actuary estimated the cost if all currently active LEOFF 2 members were given the option for a free option 2 at retirement. This proposal would be a benefit improvement for future annuitants because it offers a free spouse benefit.

Overall, OSA estimated the employee and total employer contribution rates would each increase by approximately 260 basis points under this proposal. Over a 25-year period, OSA expects a total employer cost of this proposal to be approximately $1.3 billion. As a result of the increase in liabilities, the funded status would decline by approximately eight percent.

Free 100% J&S for Active and Retired Members – November 2018 Board Meeting

The Office of the State Actuary also estimated the cost if all retired LEOFF 2 members were given the option for a free option 2 at retirement.

Overall, OSA estimated the employee and total employer contribution rates would each increase by approximately 330 basis points under this proposal. Over a 25-year period, OSA expects a total employer cost of this proposal to be approximately $1.6 billion. As a result of the increase in liabilities, the funded status would decline by approximately ten percent.

TECHNICAL DETAILS

In general, a married couple would be expected to receive more benefit payments upon retirement than a single retiree as a result of this benefit improvement. Additionally, LEOFF 2 is heavily weighted toward male employees [approximately 90% male] and OSA's model assumes their spouse to be female. Females are expected to live longer than males and OSA thinks the following link http://www.longevityillustrator.org/ is a helpful illustrator of longevity between males and females. Not only is the spouse expected to live longer than the male member but OSA currently assumes the female spouse will be three years younger than the member at retirement.

To price this proposal, OSA assumed the member must be married at the time of retirement to select the no cost 100% J&S benefit. They then valued all future retiree benefits as 100% J&S benefits and made an assumption on the marital status of the future retirees. OSA considered three sources of data to develop our assumption for marital status (i.e. the "percent married" assumption):

1. "We considered our current valuation assumption which measures the likelihood that a survivor is both married and selects an annuity upon death of a member. This assumption will vary based on age but is between 60% and 70% for ages 50 through 60 which is where most LEOFF 2 retirements are expected to occur. We developed this assumption as part of the 2017-12 Demographic Experience Study (SurvAnn). In general, we feel the percent married assumption will be at least as high as this assumption.
2. We looked at United States Census Data for Washington State. The percent married for males ages 55 through 64 was approximately 68%.
3. We also considered the current J&S selection behavior of L2 retirees. As of the 2016 AVR, we observed approximately 56% of members selected a J&S option upon retirement. We expect the actual percent of L2 retirees who have a spouse to be higher than the percent currently selecting J&S benefits.

Given the three data sources above, we selected a 70% percent married assumption for this pricing."

This analysis reflects the lower economic assumptions adopted by the LEOFF 2 Board during the 2017 Interim. Unless noted above, these costs were developed using assumptions, data, and methods consistent with the June 30, 2016 Actuarial Valuation Report (AVR).

RESULTS

Free 100% J&S for Active Members Only

Impact on Contribution Rates: No Cost 100% J&S Benefit*	
	Best Estimate
Total Rate Increase	**5.18%**
Employee	2.59%
Employer	1.56%
State	1.03%

Rates with Benefit Improvement

Employee – 11.18%

Employer – 6.71%

State – 4.47%

Budget Impacts: No Cost 100% J&S Benefit			
(Dollars in Millions)	**2019-2021**	**2021-2023**	**25-Year**
General Fund-State	$40.7	$41.6	$536.1
Local Government	$61.6	$62.4	$804.7
Total Employer	**$102.3**	**$104.0**	**$1,340.8**

Free 100% J&S for Active Members and Annuitants

Impact on Contribution Rates: No Cost 100% J&S Benefit*	
	Best Estimate
Total Rate Increase	**6.56%**
Employee	3.28%
Employer	1.97%
State	1.31%

Rates with Benefit Improvement

Employee – 11.87%

Employer – 7.12%

State – 4.75%

Budget Impacts: No Cost 100% J&S Benefit			
(Dollars in Millions)	**2019-2021**	**2021-2023**	**25-Year**
General Fund-State	$51.8	$51.9	$630.5
Local Government	$77.8	$77.8	$946.0
Total Employer	**$129.6**	**$129.7**	**$1,576.5**

SUPPLEMENTAL INFORMATION

Appendix A – September 2017 Benefit Pricing

APPENDIX A – SEPTEMBER 2017 BENEFIT PRICING

Board staff requested the state actuary's office to price two specific multiplier increases:

- 2.50% multiplier on all service
- 2.50% multiplier on prospective service only

Impact on Contribution Rates	
2.50% Multiplier - All Service	
Total Rate Increase	**12.34%**
Employee	6.17%
Employer	3.70%
State	2.47%

Contribution rates if this benefit was approved[1]*:*

- **Employee: 14.92%**
- **Employer: 8.95%**
- **State: 5.97%**

Impact on Contribution Rates	
2.50% Multiplier - Prospective Service Only	
Total Rate Increase	**4.88%**
Employee	2.44%
Employer	1.46%
State	0.98%

Contribution rates if this benefit was approved:

- **Employee: 11.19%**
- **Employer: 6.71%**
- **State: 4.48%**

Budget Impacts - 2.50% Multiplier - All Service			
(Dollars in Millions)	**2018-2019**	**2019-2021**	**25-Year**
General Fund-State	$42.6	$97.0	$1,278.6
Local Government	$63.7	$145.5	$1,917.9
Total Employer	$106.3	$242.5	$3,196.5

Budget Impacts - 2.50% Multiplier - Prospective Service Only			
(Dollars in Millions)	**2018-2019**	**2019-2021**	**25-Year**
General Fund-State	$16.9	$41.8	$777.8
Local Government	$25.2	$62.6	$1,166.5
Total Employer	$42.0	$104.4	$1,944.3

2015 Funded Status	
2015 Valuation Report	105%
2.5% Benefit Multiplier	90%
2.5% Benefit Multiplier Prospective Service Only	100%

[1] Current contribution rates: Employee – 8.75%; Employer – 5.25%; State – 3.50%

Tiered Multiplier

The following charts showcase the following options for a tiered multiplier:

1. Increased benefit multiplier from 2.0% to 3.0% for all earned and future service over 16 years (all service). Service earned from years 0 to 16 remains at a 2.0% multiplier.
2. Increased benefit multiplier from 2.0% to 3.0% for all service earned over 16 years after the valuation date (prospective service only). Service earned from years 0 to 16 remains at a 2.0% multiplier.

Impact on Contribution Rates	
Tiered Multiplier - All Service	
Total Rate Increase	**11.06%**
Employee	5.53%
Employer	3.32%
State	2.21%

Contribution rates if this benefit was approved[2]:

- **Employee: 14.28%**
- **Employer: 8.57%**
- **State: 5.71%**

Impact on Contribution Rates	
Tiered Multiplier - Prospective Service Only	
Total Rate Increase	**7.31%**
Employee	3.66%
Employer	2.19%
State	1.46%

Contribution rates if this benefit was approved:

- **Employee: 12.41%**
- **Employer: 7.44%**
- **State: 4.96%**

Budget Impacts - Tiered Multiplier - All Service			
(Dollars in Millions)	**2018-2019**	**2019-2021**	**25-Year**
General Fund-State	$38.1	$86.3	$1,103.5
Local Government	$57.2	$129.5	$1,655.4
Total Employer	$95.3	$215.9	$2,758.9

Budget Impacts - Tiered Multiplier - Prospective Service Only			
(Dollars in Millions)	**2018-2019**	**2019-2021**	**25-Year**
General Fund-State	$25.2	$58.7	$852.6
Local Government	$37.9	$88.0	$1,279.1
Total Employer	$63.1	$146.7	$2,131.8

2015 Funded Status	
2015 Valuation Report	105%
Tiered Benefit Multiplier	91%
Tiered Benefit Multiplier Prospective Service Only	96%

[2] Current contribution rates: Employee – 8.75%; Employer – 5.25%; State – 3.50%

Cost of Survivor Benefit Improvement

Educational Briefing – November 28, 2018

Issue

- One of the goals of the LEOFF 2 Board’s strategic plan is to keep the stakeholders informed. One of the ways of meeting that goal, is for the Board to be briefed on the price of certain benefit improvements.

Background

When a member applies for retirement, they will choose one of the four benefit options shown below.

1. Single Life
2. Joint and 100% survivor
3. Joint and 50% survivor
4. Joint and 66.67% survivor

Pricing Details

- September 2018 Board Meeting
  - Staff asked OSA to estimate the cost if all currently active LEOFF 2 members were given the option for a free option 2, joint and 100%, at retirement.
    - Overall, OSA estimated the employee and total employer contribution rates would each increase by approximately 260 basis points under this proposal.
    - Over a 25-year period, OSA expects a total employer cost of this proposal to be approximately $1.3 billion. As a result of the increase in liabilities, the funded status would decline by approximately eight percent.

Pricing Details

- November 2018 Board Meeting
  - Board Members expressed a desire to estimate the price of providing a free 100% J&S to annuitants as well.
  - OSA estimated that extending the benefit improvement to current annuitants adds $235 million to the 25-year total employer cost which is approximately a 69 basis point increase to the total employer rate.
    - Overall, OSA estimated the employee and total employer contribution rates would each increase by approximately 330 basis points under this proposal.
    - Over a 25-year period, OSA expects a total employer cost of this proposal to be approximately $1.6 billion. As a result of the increase in liabilities, the funded status would decline by approximately 10 percent.

Results

Free 100% J&S for Active Members Only

Impact on Contribution Rates: No Cost 100% J&S Benefit for Active Members	
	Best Estimate
Total Rate Increase	5.18%
Employee	2.59%
Employer	1.56%
State	1.03%

Rates w/ Benefit Improvement
Employee – 11.18%
Employer – 6.71%
State – 4.47%

Budget Impacts: No Cost 100% J&S Benefit for Active Members			
(Dollars in Millions)	2019-2021	2021-2023	25-Year
General Fund-State	$40.7	$41.6	$536.1
Local Government	$61.6	$62.4	$804.7
Total Employer	$102.3	$104.0	$1,340.8

Free 100% J&S for Active Members and Annuitants

Impact on Contribution Rates: No Cost 100% J&S Benefit for Actives and Annuitants	
	Best Estimate
Total Rate Increase	6.56%
Employee	3.28%
Employer	1.97%
State	1.31%

Rates w/ Benefit Improvement
Employee – 11.87%
Employer – 7.12%
State – 4.75%

Budget Impacts: No Cost 100% J&S Benefit for Actives and Annuitants			
(Dollars in Millions)	2019-2021	2021-2023	25-Year
General Fund-State	$51.8	$51.9	$630.5
Local Government	$77.8	$77.8	$946.0
Total Employer	$129.6	$129.7	$1,576.5

Thank You

Ryan Frost

Senior Research and Policy Manager

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November 28, 2018

LEOFF/PERS Eligibility Gap

INITIAL CONSIDERATION

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

ISSUE STATEMENT

Gaps in eligibility in Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1), Public Employees Retirement System (PERS), and Law Enforcement Officers and Fire Fighters Plan 2 (LEOFF 2) may have resulted in some career law enforcement officers and fire fighters not receiving a pension.

OVERVIEW

This report will provide historical information on LEOFF 1, PERS, and LEOFF 2 eligibility and how some full-time career law enforcement officers and fire fighters could have not received a pension benefit.

BACKGROUND AND POLICY ISSUES

LEOFF 1 Minimum Medical and Health Standards for Eligibility

LEOFF 1 required law enforcement officers and fire fighters to meet minimum medical requirements to be eligible for membership in the plan[1]. Minimum medical and health standards were adopted into rule by the Department of Retirement Systems (DRS)[2] . These standards included requirements for, but not limited to, weight, height, hearing, and vision. Failing to meet the minimum medical requirements did not prevent people from being hired as law enforcement officers or fire fighters, instead it only prevented them from being members in LEOFF 1. An Attorney General's Office (AGO) memo stated the policy reason for excluding these employees from the pension system was a belief that they would result in increased costs to LEOFF 1 (See Appendix A).

If a law enforcement officer or fire fighter was not eligible for LEOFF 1 because of failing to meet the minimum medical and health standards, they typically were eligible for PERS.

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[1] RCW 41.26.045

[2] WAC 415-104-500 through 415-104-755

However, there was an exception to this general rule. Prior to 1994, the AGO advised DRS and employers that “in cities or towns having more than two law enforcement officers and/or two fire fighters, those persons who do not meet the minimum medical and health standards for LEOFF may not join any other pension system the city has available for its employees.” (see Appendix A). This exception created a class of police officers and fire fighters who were not in a pension system. This issue was further exacerbated by the fact that most law enforcement officer and fire fighter positions were not enrolled in Social Security. Therefore, this class of police officers and fire fighters were left without a pension and without Social Security.

LEOFF 2 Created

Law enforcement officers and fire fighters who began service in October 1, 1977 forward were enrolled in LEOFF 2. LEOFF 2 did not impose any minimum medical and health standards for membership into the plan. Instead, employers had their own minimum medical and health standards to hire law enforcement officers and fire fighters. If an employer believes an applicant is physically and mentally qualified to be a law enforcement officer or fire fighter, the legislature did not impose additional minimum medical and health standards for membership in LEOFF 2.

LEOFF 2 Eligibility Window

In 1981, the legislature passed SB 3244to create a window for law enforcement officers and fire fighters who were not eligible for LEOFF 1 due to failing to meet the minimum medical and health standards to opt-in to LEOFF 2. The bill did not specify who was responsible for notifying, or define a process for identifying the employees eligible for this window. Instead, DRS sent a notice to all LEOFF employers regarding this window (see Appendix B).

Some law enforcement officers and fire fighters who would have been eligible for this window have stated that they never received notification from their employer or DRS and therefore, missed the window.

PERS Eligibility Clarified by Legislature

In 1994, the legislature passed ESHB 2643 which clarified that the AGO’s interpretation of RCW 41.26.045 (See Appendix A) was not what the legislature intended. This bill was retroactive, making those law enforcement officers and fire fighters who were not eligible for LEOFF 1 due to failing to meet the minimum medical and health standards and who had not opted into LEOFF 2 during the 1981 window, eligible for membership in PERS back to the date they entered an eligible position.

Again, the bill did not specify who was responsible for notifying, or define a process for identifying the employees eligible for this window. The data DRS typically receives from employers does not identify the position of employees. Therefore, DRS would not have had a list of law enforcement officers and fire fighters in PERS. Furthermore, for law enforcement officers and fire fighters who were not in LEOFF 1 or PERS, DRS would not have had any data from employers regarding these employees, since employers do not report ineligible employees. Consequently, DRS was reliant on each employer to identify employees impacted by this bill and report them to DRS, or for the employees to be aware of this law and to reach out to DRS for membership in PERS.

If a law enforcement officer or fire fighter qualified for PERS membership under this bill, their membership was mandatory. The employer was required to provide DRS with salary and service credit history and pay employer contributions. Members were required to pay their member contributions, and were given payment plan options by DRS.

If a vested member separates before paying their past contributions, DRS's past practice is to give the member two benefit options: 1) withdraw contributions foregoing a pension, or 2) receive a reduced pension benefit once the member is eligible to retire. Typically, DRS would have a record in the member's retirement file of having given the member this option prior to the member deciding to withdraw their contributions.

SUPPORTING INFORMATION

Appendix A: AGO 1971 No. 30

Appendix B: DRS Employer Notice No. 80-10

APPENDIX A

Attorney General Slade Gorton

OFFICES AND OFFICERS -- COUNTY -- DEPUTY SHERIFF -- PARTICIPATION IN RETIREMENT SYSTEM -- ELIGIBILITY

(1) Section 3, chapter 257, Laws of 1971, 1st Ex. Sess., does not prohibit a person who cannot meet the minimum medical and health standards necessary for membership in the Washington law enforcement officers' and fire fighters' retirement system from serving as a county deputy sheriff or from retaining his civil service position or rank under chapter 41.14 RCW.

(2) A county deputy sheriff who cannot meet the minimum medical and health standards necessary for membership in the Washington law enforcement officers' and fire fighters' retirement system is, if otherwise eligible under RCW 41.40.120, thereby required to participate in the Washington public employees' retirement system if the county by which he is employed is an employer under that system.

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October 5, 1971

Honorable Herbert H. Davis
Benton County Prosecuting Attorney
P. O. Box 510
Prosser, Washington 99350

Cite as: AGO 1971 No. 30

Dear Sir:

By recent letter you have requested an opinion of this office relative to the construction and effect of § 3, chapter 257, Laws of 1971, 1st Ex. Sess. We paraphrase your questions as follows:

(1) Does § 3, chapter 257, Laws of 1971, 1st Ex. Sess., prohibit a person who cannot meet the minimum medical and health standards necessary for membership in the Washington law enforcement officers' and fire fighters' retirement system from serving as a county deputy sheriff or from retaining his civil service position or rank under chapter 41.14 RCW?

[[Orig. Op. Page 2]]

(2) If question (1) is answered in the negative, is the deputy sheriff envisioned by this question, if otherwise eligible under RCW 41.40.120, thereby required to participate in the Washington public employees' retirement system where the county by which he is employed is an employer under that system?

We answer question (1) in the negative and question (2) in the affirmative, for the reasons set forth below.

ANALYSIS

Prior to the enactment of chapter 257, Laws of 1971, 1st Ex. Sess., chapter 41.26 RCW clearly required that all "law enforcement officers" and "fire fighters" be members of the law enforcement officers' and fire fighters' retirement system (LEFF) provided for in that chapter. See, RCW 41.26.040 (1), which reads as follows:

". . .

"(1) All fire fighters and law enforcement officers employed as such on or after March 1, 1970, on a full time fully compensated basis in this state shall be members of the retirement system established by this chapter with respect to all periods of service as such, to the exclusion of any pension system existing under any prior act except as provided in subsection (2) of this section.

". . ."

In addition, the language of various definitional phrases contained in RCW 41.26.030, also clearly reflected this intent:

". . .

"(2) 'Employer' means the legislative authority of <u>any</u> city, town, county or district or the elected officials of any municipal corporation that employs any law enforcement officer and/or fire fighter . . .

"(3) 'Law enforcement officer' means <u>any</u> person who is <u>serving</u> on a full time, fully compensated basis as a county sheriff or deputy sheriff, . . .

[[Orig. Op. Page 3]]

"(4) 'Fire fighter' means<u>any</u> person who is <u>serving</u> on a full time, fully compensated basis as a member of a fire department by an employer . . .

". . .

"(14) 'Service' means<u>all</u> periods of employment for an employer as a fire fighter or law enforcement officer, for which compensation is paid, . . ." (Emphasis supplied.)

It is easy to see from the foregoing that the law enforcement officers' and fire fighters' act as it was originally passed by the legislature<u>1</u>/ contemplated that all persons employed by an "employer" as "fire fighters" or "law enforcement officers" would be subject to mandatory coverage under the retirement system. However, by its recent enactment of § 3, chapter 257, Laws of 1971, 1st Ex. Sess., the legislature has created an exception to this general rule with the following language:

"After the effective date of this act no law enforcement officer or fire fighter, including sheriff, may become eligible for coverage in the pension system established by this chapter, until he has met and has been certified as having met minimum medical and health standards: PROVIDED, That in cities and towns having not more than two law enforcement officers and/or not more than two fire fighters and if one or more of such persons do not meet the minimum medical and health standards as required by the provisions of this 1971 act, then such person or persons may join any other pension system that the city has available for its other employees."

By virtue of this enactment it is to be seen that now, the only newly employed law enforcement officers or fire fighters who are to become members of the LEFF system are those who meet and [[Orig. Op. Page 4]] have been certified as having met minimum medical and health standards adopted by the state retirement board.<u>2</u>/

<u>Question (1)</u>:

Your first question asks whether, in view of this new statute, a person who cannot meet these minimum medical and health standards is prohibited from being employed as a county deputy sheriff or from retaining his civil service position or rank. As noted above, § 3, chapter 257, Laws of 1971, 1st Ex. Sess., merely creates an exception to the previous mandatory coverage under the LEFF system for those new employees who have not met or have not been certified as having met those standards. The relevant language is as follows:

". . . no law enforcement officer or fire fighter . . . may become eligible for coverage in the pension system . . . until he has met and has been certified as having met minimum medical and health standards: . . ."

It is important to note the use of the phrases "law enforcement officer" and "fire fighter." RCW 41.26.030 (3) and (4),supra, define these terms as meaning a person "who is serving" as a law enforcement officer or fire fighter. Both terms obviously relate to a person who is presently employed. Therefore, the new statute in question provides no restriction on employment, but merely upon coverage in the law enforcement officers' and fire fighters' retirement system. For this reason, a person's failure to meet the minimum medical and health standards for membership in the LEFF system does not preclude his continued employment; nor does it affect his civil service position or rating. Your first question, therefore, is answered in the negative.

Question (2):

Your county, as we understand it, is and for many years has been an "employer" participating in the Washington public employees' retirement system (PERS). Your second question asks whether, in view of the inability of the deputy sheriff described in question (1) to qualify for membership in the LEFF system, this individual is now to be covered by PERS [[Orig. Op. Page 5]] instead.

We begin our response by noting the material provisions of RCW 41.40.120, relating to membership in PERS as follows:

"Membership in the retirement system shall consist of all regularly compensated employees and appointive and elective officials of employers as defined in this chapter who have served at least six months without interruption or who are employed, appointed or elected on or after July 1, 1965, with the following exceptions:

". . .

"(4) Employees holding membership in, or receiving pension benefits under, any retirement plan operated wholly or in part by an agency of the state or political subdivision thereof, . . ."

It is, of course, partially because of subsection (4) of this statute that a county deputy sheriff who is a member of the LEFF system is not also to be covered by PERS where his county is an employer under both.3/ Conversely, if the deputy sheriff is not a member of the LEFF system, he falls within the mandatory coverage of PERS unless (a) one of the other exclusions in RCW 41.40.120 is applicable (and we have paraphrased your question to exclude this possibility) or (b) he is to be regarded as being barred from such coverage by virtue of the proviso to § 3, chapter 257, Laws of 1971, 1st Ex. Sess.,supra, which (repeated for ease of reference) says:

". . . PROVIDED, That in cities and towns having not more than two law enforcement officers and/or not more than two fire fighters and if one or more of such persons do not meet the minimum medical and health standards as required by the provisions of this 1971 act, then such person or persons may join any other pension system that the city has available [[Orig. Op. Page 6]] for its other employees."

This proviso expressly permits a physically disqualified (for LEFF membership) law enforcement officer or fire fighter employed by a city or town to be covered by another pension system only if such city or town does not have more than two law enforcement officers or fire fighters (as the case may be) in its police or fire department. By implication, in cities or towns having more than two law enforcement officers and/or two fire fighters, those persons who do not meet the minimum medical and health standards for LEFF may not join any other pension system the city has available for its employees. The issue raised by your second question is whether this negative implication should be extended to those physically disqualified law enforcement officers or fire fighters who are employed by some other category of employer; e.g., a county (as here) or a fire protection district. We think not.

At the present time, this state has by statute provided retirement security for almost every type of employee of state and local government.4/ It is hardly consistent with this manifested state policy and legislative purpose to exclude certain employees of political subdivisions from membership in all pension systems. Any such revolutionary change would have to be clearly expressed or implied (as above).

Of course, it is a rule of statutory construction that provisos should be strictly construed and not be held to include any instance not clearly within the purpose or express terms of the proviso. 50 Am. Jur., Statutes, § 437. In this instance, application of the rule limits the proviso's affect, both affirmative and negative, to "cities and towns."

It is also a rule of statutory construction that:

". . . in cases involving pensions when there is statutory ambiguity, doubt should [[Orig. Op. Page 7]] be resolved in favor of the party for whose benefit the pension statute was intended. . . ." Bowen v. Statewide Retirement System, 72 Wn.2d 397, 402, 433 P.2d 150 (1967).

Here, the statute in question was obviously intended to protect the fiscal integrity of the LEFF retirement system by excluding those members whose questionable health might lead them to seek retirement benefits (either for service or for disability) earlier than those whose health was clearly established. Of course, this end is served by the exclusion of persons who cannot meet the minimum medical and health standards necessary for membership in the system. Nothing is added by excluding those same persons from any other pension systems - particularly a pension system such as PERS which does not require, as a prerequisite for membership, that an employee have met minimum medical and health standards.

For these reasons, we conclude that a county deputy sheriff who is unable to meet the minimum medical and health standards required for membership in the LEFF retirement system, if otherwise eligible for membership in PERS under RCW 41.40.120 (4), is required to participate therein. Your second question is, therefore, answered in the affirmative.

We trust the foregoing information will be of assistance to you.

Very truly yours,

SLADE GORTON
Attorney General

WAYNE L. WILLIAMS
Assistant Attorney General

***** FOOTNOTES *****

1/Chapter 209, Laws of 1969, 1st Ex. Sess., as amended by chapter 6, Laws of 1970, 1st Ex. Sess.

2/See, RCW 41.26.050 and § 4, chapter 257, Laws of 1971, 1st Ex. Sess.

3/In addition, see RCW 41.26.040 (1), supra, which provides for exclusive LEFF coverage for the members of that system.

4/See, chapter 41.24 RCW (volunteer firemen's relief and pensions); chapter 41.26 RCW (law enforcement officers' and fire fighters' retirement system); chapter 41.28 RCW (retirement of personnel in certain first class cities); chapter 41.32 RCW (teachers' retirement); chapter 41.40 RCW (Washington public employees' retirement system); and chapter 41.44 RCW (state-wide [[statewide]]city employees' retirement system).

APPENDIX B

STATE OF WASHINGTON

Dixy Lee Ray
Governor

DEPARTMENT OF RETIREMENT SYSTEMS
1025 E. Union, Olympia, Washington 98504 (206) 753-5253
Dr. Robert L. Hollister, Jr., Director

M E M O R A N D U M

August 15, 1980

DRS Notice No. 80-010

To: Personnel/Payroll Officers
Law Enforcement Officers and Fire Fighters' Retirement System

From: Robert L. Hollister, Jr., Director

Subject: Minimum Medical & Health Standards (MM&HS)

My memorandum of July 30, 1979 (see DRS Notice No. 79-015) included instructions on the application of MM&HS to seven classes of employees. All seven classes are repeated here and classes 1, 3, 5 and 7 have been modified to reflect legislative enactment of chapter 130, Laws of 1980 (SB 3244), which adds a new section to chapter 41.26 RCW. The new provision allows a "law enforcement officer" or "fire fighter" previously excluded from membership or the right to reenter membership in this System due to failure to meet the MM&HS an opportunity to elect to become a member under LEOFF Plan II.

Persons employed as "law enforcement officers" or "fire fighters" on June 12, 1980, must make the election on or before December 31, 1981. Persons reemployed as "law enforcement officers" or "fire fighters" after June 12, 1980, shall have one year from the date of reemployment or until December 31, 1981, whichever is later, to make the election.

All persons initially employed by an employer, as defined in RCW 41.26.030(2)(b) as "law enforcement officers" or "fire fighters" on or after June 12, 1980, are required to enter LEOFF Plan II and MM&HS do not apply.

The seven classes of employees mentioned in the first paragraph are:

1. Individuals who were ever Plan I members and who reenter employment after a break in service of more than six months must again meet the requirements of the MM&HS and be certified as again meeting them by their employer. Note that individuals in this category who cannot meet this requirement cannot be reinstated in Plan I; however, they may elect to be enrolled in Plan II.

EXHIBIT 32-1

2. An individual who was first employed prior to October 1, 1977, but did not successfully pass the MM&HS until after that date will be enrolled as a Plan I member retroactive to the first day of employment.

3. An individual who was first employed after October 1, 1977, and failed to pass the MM&HS may elect to be enrolled in Plan II.

4. An individual who was first employed after October 1, 1977, and prior to July 1, 1979, and passes the MM&HS will be enrolled as a Plan II member effective on the date of employment. Certification is required.

5. An individual who was first employed after October 1, 1977, and prior to July 1, 1979, and failed to pass the MM&HS may elect to be enrolled in Plan II.

6. An individual who was first employed on or after July 1, 1979, is not required to take the MM&HS examination as a precondition for entry into the LEOFF retirement system, nor is any certification required. Note that this change relates only to membership in the retirement system. Retirement laws neither require nor preclude employers requiring a physical examination prior to employment.

7. Individuals who were first employed in a LEOFF position prior to July 1, 1979, and failed to successfully meet the MM&HS or terminated prior to completing the MM&HS examination and who were employed again (same or different employer) on or after July 1, 1979, must complete and pass the MM&HS examination. If their first employment was prior to October 1, 1977, they will become members of Plan I; if it was on or after October 1, 1977, they will become members of Plan II. If the individuals fail to pass the examination, they may elect to be enrolled in Plan II.

All exceptions to the MM&HS previously authorized by law are still in effect.

EXHIBIT 32-2

LEOFF
Plan 2 Retirement Board

LEOFF/PERS Eligibility Gap

Initial Presentation
November 28, 2018

Issue

- Gaps in eligibility in LEOFF 1, PERS, and LEOFF 2 may have resulted in some career law enforcement officers and fire fighters not receiving a pension

Overview

- This presentation will provide historical information on LEOFF 1, PERS, and LEOFF 2 eligibility and how some full-time career law enforcement officers and fire fighters could have not received a pension benefit.

LEOFF 1 Eligibility

- Full-time and fully-compensated fire fighters and law enforcement officers hired before October 1, 1977 were eligible for LEOFF 1
- <u>Exception: </u>They didn’t meet minimum medical and health standards

PERS Eligibility

- Law enforcement officers and fire fighters not eligible for LEOFF 1 due to minimum medical and health standards were eligible for PERS
- Exception: They were employed in a city or town with more than two law enforcement officers or fire fighters

1977 - LEOFF 2 Created

- Full-time and fully-compensated fire fighters and law enforcement officers first employed after October 1, 1977 are LEOFF 2 members
  - No minimum medical and health standards
- Did not include those employed prior to October 1, 1977 who were ineligible for LEOFF 1

1981 - LEOFF 2 Eligibility Window

- Allowed law enforcement officers and fire fighters not in LEOFF 1, due to failing to meet minimum medical and health standards, a window to join LEOFF 2
- DRS relied on employers to identify and notify employees of window

1994 - PERS Eligibility Clarified by Legislature

- Corrected AGO's interpretation of employer eligibility for PERS law enforcement officers and fire fighters
  - Applied retroactively
  - DRS relied on employers to notify eligible employees
  - Employees and employers had to pay back past contributions owed

Vested Member Withdrawal

- If a vested member separates before paying their past contributions DRS's past practice is to give the member two benefit options:
  1. withdraw contributions foregoing a pension, or
  2. receive a reduced pension benefit once the member is eligible to retire

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

November 13, 2018
10:00 a.m. – 12:00 p.m.*
House Hearing Room B
Olympia

AGENDA

10:00 a.m.	**1.**	**Approval of October Minutes**
10:05 a.m.	**2.**	**Preliminary Demographic Experience Study Results –** Matt Smith, State Actuary

Work Session

10:25 a.m.	**3.**	**Managing Future *Dolan*-Type Unfunded Liabilities –** Aaron Gutierrez, Senior Policy Analyst

Public Hearing with Possible Executive Action

10:50 a.m.	**4.**	**Retire-Rehire Proposal –** Aaron Gutierrez

Executive Action

11:15 a.m.	**5.**	**Month of Death –** Aaron Gutierrez
11:30 a.m.	**6.**	**Plan Membership Default –** Aaron Gutierrez
11:40 a.m.	**7.**	**Annuity Purchase –** Corban Nemeth, Associate Policy and Data Analyst
11:50 a.m.	**8.**	**3 Percent Ad-Hoc COLA for Plans 1 –** Corban Nemeth
12:00 p.m.	**9.**	**Adjourn**

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

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leg.wa.gov/SCPP.htm

STATE OF WASHINGTON

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

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

November 21, 2018

TO: State Register
Code Reviser's Office

FROM: Jessie Jackson
Executive Assistant

SUBJECT: 2019 LEOFF Plan 2 Retirement Board Meeting Schedule

The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board has scheduled their meetings for 2019. Please see these dates below.

Please feel free to contact me at (360) 586-2330 or by email at jessie.jackson@leoff.wa.gov should you have any questions. Thank you.

Wednesday, January 23

Wednesday, February 27

Wednesday, March 27

Wednesday, April 24

Wednesday, May 15, ~~22~~ or 31

Wednesday, June 26

Wednesday, July 24

Wednesday, August 14 or 21

Wednesday, September 25

Wednesday, October 16

Wednesday, November 20

Wednesday, December 18

LEOFF Plan 2 Retirement Board

November 28, 2018

Month of Death Payment

FINAL PROPOSAL

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, reservation of rights clause, 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 C). 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, and on September 9, 2018 to receive a Final Proposal.

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 (all DRS administered plans)

Each month, on average, DRS retires 1,000 members and is notified of 500 retiree deaths. For 2018, there were 856 active invoices for month of death overpayments across, as of July 31. Approximately 90% of the overpayments DRS processes are connected to the month of death payment.

Social Security

Social Security benefits are not prorated for the month of death. Instead, a member does not receive a benefit if they die at any point during the month because the benefit accrues at the end of the month. Furthermore, Social Security payments are delayed one month, meaning that the payment a member receives in September is actually their August payment. This gives Social Security Administration (SSA) additional time to receive notice that a member is deceased and stop payment of the benefit. If a benefit is paid for the month of death, then SSA collects that payment from the estate.[1]

Policy Considerations

The proration process can cause burdens for grieving families and for estates. Survivors are often in the position of getting a collection notice during a time of grief. Furthermore, proration can sometimes interfere with the deduction of insurance premiums and payment of insurance claims made during the retiree's month of death.

There is an administrative cost for prorating a benefit, which includes the collection of overpayments. According to DRS, enacting this proposal would likely not result in a savings, but instead would result in a redeployment of staff resources that are currently dedicated to pursuing these repayments.

Reservation of Rights Clause

Since prorating month of death benefits impacts all DRS administered systems and plans, DRS requested in addition to the LEOFF 2 Board considering legislation for no longer prorating month of death benefits for LEOFF 2 that the Select Committee on Pension Policy (SCCP) consider doing the same for the other DRS administered systems and plans. In considering this legislation, the SCCP passed out of the committee during the September meeting a version of the bill[2] with a reservation of rights clause. During the September meeting there was no discussion of the reservation of rights clause. A reservation of rights clause, in the context of Washington state pension law, when included with a new pension benefit allows that new pension benefit to be repealed or amended by the legislature at a later date.

In the October SCPP Executive Committee Meeting, members of the SCPP raised concerns regarding the reservation of rights clause being included in the bill. No SCPP members spoke in favor of the reservation of rights clause being included. The SCPP Executive Committee passed a motion to have the draft bill place on the November SCPP agenda for reconsideration.

In the November SCPP meeting the SCPP received a briefing from SCPP staff on the reservation of rights clause and general policy reasons to consider adding a reservation of rights clause to a bill. The

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

[2] See Appendix D: Bill Draft Z-0119.1

presentation did not discuss specific policy reasons for adding the clause to the month of death bill. The SCPP unanimously voted a version of the bill without a reservation of rights clause out of the committee.

Legal History of Reservation of Rights Clauses

The legislature's ability to repeal a benefit using a reservation of rights clause was affirmed in two Washington State Supreme Court decisions: Washington Education Association et al. v. Washington Department of Retirement Systems, Case No. 88546-0; and, Washington Education Association et al. v. Washington Department of Retirement Systems, Case No. 87424-7.

Gain sharing, enacted in 1998 for PERS 1, TRS 1 and 3, SERS 3 (ESHB 2491 and SSB 6306), and in 2000 for PERS 3 (ESSB 6530), gave members and retirees a share of "extraordinary investment returns" whenever the pension trust funds had average investment gains of more than ten percent over the preceding four years. The Legislature repealed gain sharing provisions in 2007 and replaced them with other pension benefits, including options for early retirement. In approving the replacement benefits, the Legislature made them contingent on the successful repeal of gain sharing.

The UCOLA benefit, originally enacted in 1995 (SSB 5119), was an annual increase provided to certain retirees and beneficiaries in the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1). The UCOLA was repealed by the Legislature in 2011.

Both cases centered on the Legislature's ability to reserve the right to cancel or change certain benefit enhancements at the time those benefits are enacted. When gain sharing and UCOLA provisions were originally approved, the Legislature specified they were not a contractual right and that the Legislature reserved the right to amend or repeal them. The Supreme Court upheld that "reservation of rights" authority.

A major policy reason behind the legislature including reservation of rights clauses in these benefits was the significant and uncertain ongoing cost of these benefits. The UCOLA benefit had an actuarial fiscal note that projected a total cost from 1995 to 2020 of $855 million.[3] In the case of the gainsharing benefit the Office of the State Actuary was uncertain of gain sharing's long-term impact on the pension system and believed the program may need to be revised over time.[4]

LEOFF2 Reservation of Rights Clauses

Reservation of rights clauses have been included in new pension benefits sparingly. Currently, LEOFF 2 has two benefits which includes a reservation of rights clause: catastrophic disability medical insurance premiums reimbursement; and, survivor health care insurance.

[3] OSA Fiscal Note for SSB 5119 (1995)

[4] Washington Education Association et al. v. Washington Department of Retirement Systems, Case No. 87424-7

In 2006, the legislature passed the survivor health care insurance benefit (SB 6723), which was a board requested bill. This law extended the option to purchase health insurance from the state to the surviving spouses of members who were killed in the line of duty prior to 1998. The LEOFF 2 Board included the reservation of rights clause because of concerns that benefits could change under PEBB and that it would be difficult for the board to make changes to the benefit due to contractual “Bakenhus” rights.

In 2010, the legislature passed the catastrophic disability medical insurance premiums reimbursement benefit (SHB 1679), which was a board requested bill. The original bill did not include a reservation of rights clause, but it was added during the legislative process due to concern about the benefit’s potential costs being impacted by Medicare. The benefit was meant to be a bridge between when a member becomes catastrophically disabled to when they are eligible for Medicare. Therefore, changes in Medicare coverage could make the benefit more costly to LEOFF 2. Since changes to Medicare were beyond the control of the Washington State legislature the reservation of rights clause gave the legislature the ability to revisit this benefit improvement if it became more costly than anticipated.

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
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

- Appendix E

Option 2: Pay full month of death payment, with reservation of rights clause

- Appendix D

Option 3: 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".

Appendix D: Bill Draft with Reservation of Rights Clause

Appendix E: Bill Draft without Reservation of Rights Clause

APPENDIX A

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.

WASHINGTON STATE
Department of
Retirement Systems

Proration – How it works

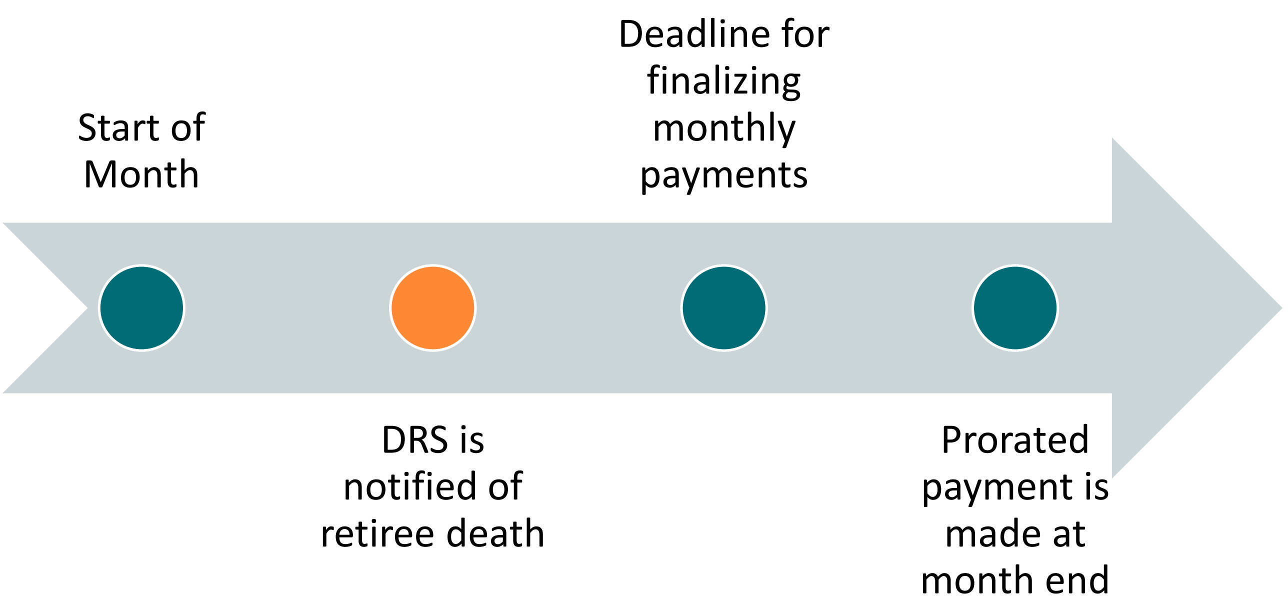
- The pension payment is prorated based on the number days a retiree lives in their final month.

Example: Date of death is June 10

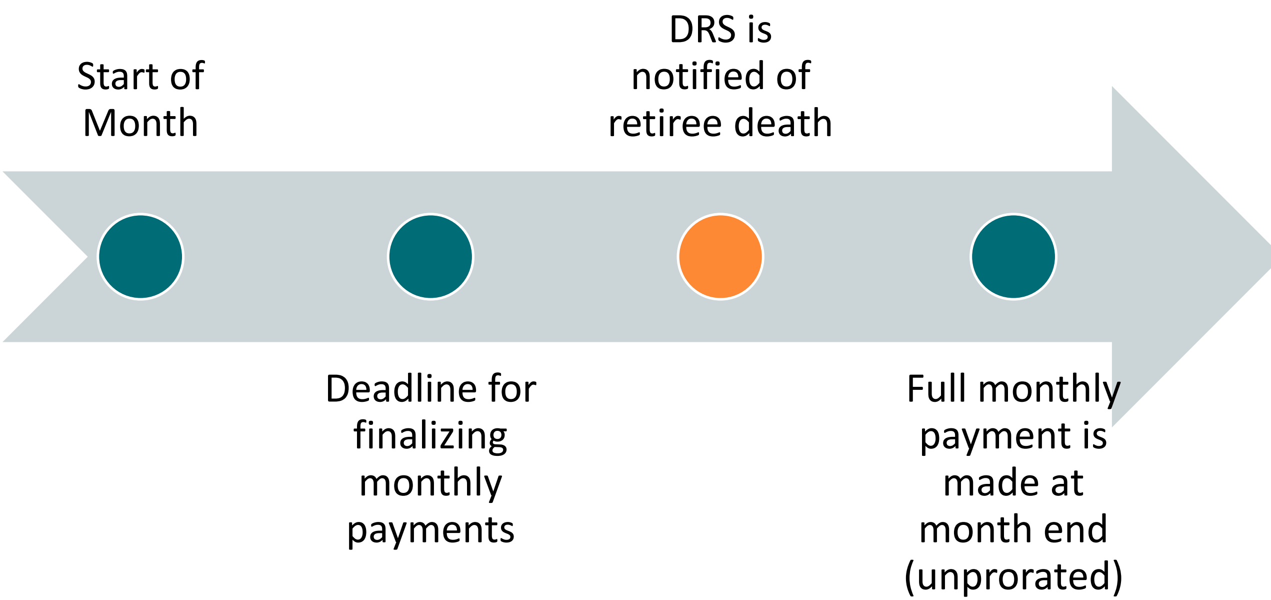
10 days ÷ 30 days in the month =

1/3 of monthly pension is paid

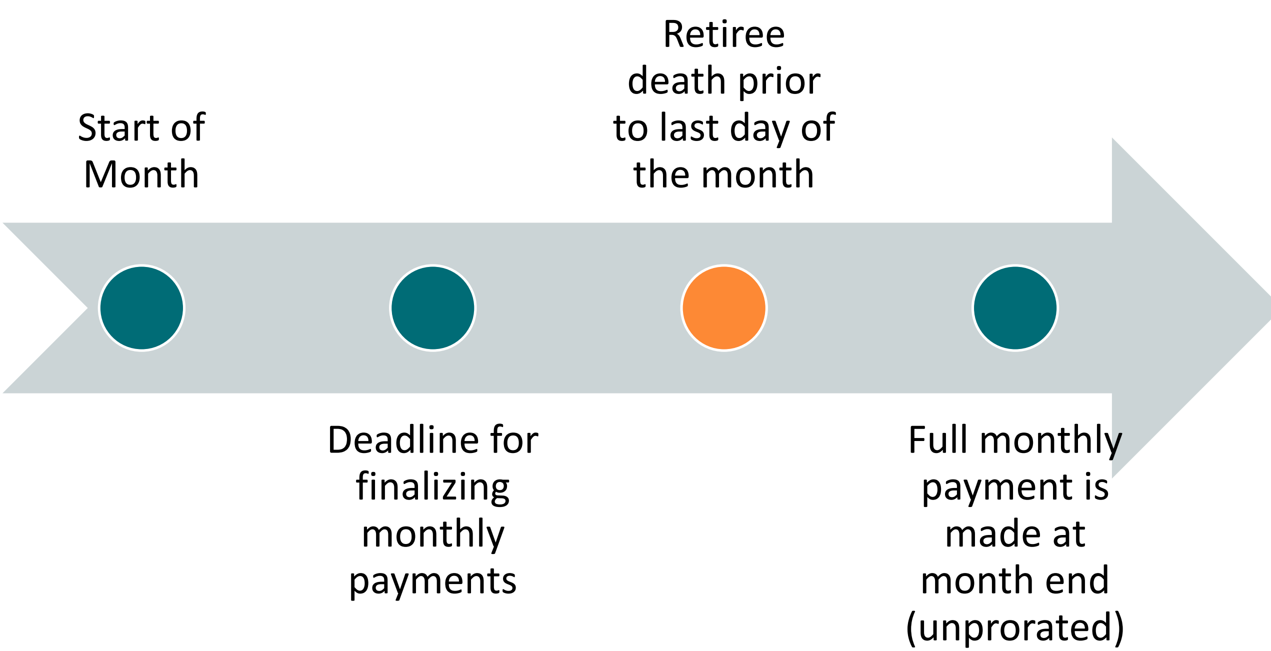
Notification of a death received before cutoff



Notification of a death received after cutoff



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.

Washington State Department of Retirement Systems

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.

WASHINGTON STATE
Department of
Retirement Systems

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.

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.

Questions?

WASHINGTON STATE
Department of
Retirement Systems

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0119.1/19

ATTY/TYPIST: KB:akl

BRIEF DESCRIPTION: Paying state retirement benefits until the end of the month in which the retiree or beneficiary dies.

AN ACT Relating to paying state retirement benefits until the end of the month in which the retiree or beneficiary dies; adding a new section to chapter 41.50 RCW; creating a new section; and providing an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** The legislature finds that when a retiree or beneficiary of state retirement benefits dies, the department of retirement systems only pays benefits up to the precise date of that individual's death. If the retiree or beneficiary has already received payment for that month by the time the death occurs, the department of retirement systems requires repayment of any benefits received after the death. For example, if death occurs on the twenty-fifth day of a thirty-day month, the beneficiary's estate may be required to refund five days' worth of benefits.

The legislature intends to change that practice by paying benefits until the end of the month in which the death occurs.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.50 RCW to read as follows:

(1) When a retiree or beneficiary under chapter 2.10, 2.12, 41.26, 41.32, 41.35, 41.37, 41.40, or 43.43 RCW dies, the department

must continue paying benefits until the end of the month in which death occurred. Survivor benefits, when applicable, will begin on the first day of the following month.

(2) This section applies to any and all benefit payments issued by the department including optional annuities.

(3) The department must continue to require the beneficiary, survivor, or estate of the deceased to refund any benefit payments made following the month of death.

(4) The legislature reserves the right to amend or repeal this section in the future and no member, survivor, beneficiary, or estate has a contractual right to receive or keep any extended payments not granted before that time.

(5) This section applies prospectively only and not retroactively. No beneficiary, survivor, or estate that has been subject to repayment of benefits before January 1, 2020, has a right to receive a refund of those repayments.

NEW SECTION. **Sec. 3.** This act takes effect January 1, 2020.

--- END ---

AN ACT Relating to paying state retirement benefits until the end of the month in which the retiree or beneficiary dies; adding a new section to chapter 41.50 RCW; creating a new section; and providing an effective date.

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NEW SECTION. **Sec. 3.** This act takes effect January 1, 2020.

--- END ---

LEOFF
Plan 2 Retirement Board

Month of Death Payment

Final Report
November 28, 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 requested the LEOFF 2 Board and Select Committee on Pension Policy endorse legislative action to pay the full month of death payment.

Current Policy - 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.

Reservation of Rights Clause

- SCPP initially passed version with Reservation of Rights Clause.
- A reservation of rights clause, when included with a new pension benefit, allows that pension benefit to be repealed or amended by the legislature at a later date.
- Supreme Court affirmed legislature’s authority in Gainsharing and UCOLA cases.

Policy History

- Reservation of rights clause included in two LEOFF 2 laws:
  - Catastrophic disability medical insurance premiums reimbursement.
  - Survivor health care insurance.

Rate Impact

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%**	

Total Budget Impact

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**

LEOFF 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
  A. Do not include reservation of rights clause
  B. Include reservation of rights clause
- Option 2: Continue current practice

Thank You

Jacob White

Senior Research & Policy Manager

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jacob.white@leoff.wa.gov

2018 AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
Jan 17	Legislative & Administrative Updates
Feb 28	Legislative Update & Administrative Updates
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* *2019 Proposed Calendar*
Nov 28	Approval of Minutes Financial Audit Results – SAO Funding Policy – L2/OSA Cost of Survivor Benefit Improvement Pricing – *RF* LEOFF/PERS Eligibility Gap – *Initial JW* 2019 Proposed Calendar Discussion/Adoption Month of Death Retirement Payments – *Final JW* Budget Update
Dec 19	Approval of Minutes WSIB Annual Update – *Theresa Whitmarsh, WSIB* Demographic Experience Study Preview – OSA Administrative Factors Adoption – *L2 & OSA* Spousal Consent Requirement – *Final* Final Average Salary Benefit Improvement Pricing Survivor Option Election – *Comprehensive Follow-up* Benefit Improvement Account – *Educational Briefing* 2017 – 2019 Budget