
\$150,000 Death Benefit Inflation Adjustment Final Proposal

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

December 13, 2006

Background Summary

- First amended in 2005 to add payment for death due to occupational illness
- Bill included inflation adjustment
- Same amount since 1996
- Joint legislation with SCPP

Key Issues

- Loss of purchasing power
- Costs to add inflation adjustment

Proposal Summary

- Index tied to the Seattle/Tacoma/Bremerton CPI with a 3 percent per year maximum
- SCPP proposal
- Matches Board recommendation
- Consistent with LEOFF Plan 2 COLA

\$150,000 Death Benefit Inflation Adjustment

Questions?

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

\$150,000 Death Benefit Inflation Adjustment

Final Proposal

December 13, 2006

1. Issue

The \$150,000 lump-sum death benefit currently is a fixed amount and is losing purchasing power over time due to inflation.

2. Proposal Summary

The proposal would add an inflation adjustment to the current \$150,000 lump-sum death benefit amount beginning in July 1, 2007. The inflation adjustment would be the same calculation used for the cost of living adjustment (COLA) used for a LEOFF Plan 2 member's retirement benefit (Option 2 below).

3. Staff

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4. Members Impacted

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

5. Current Situation

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

6. Background Information and Policy Issues

Background Information

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

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

During the original cost analysis done by the Office of the State Actuary (OSA) for the 2005 LEOFF Plan 2 proposal, the addition of the inflation adjustment did not create an increase in contribution rates for LEOFF Plan 2. During subsequent meetings of the SCPP, OSA reported that the addition of the inflation adjustment would not create an increase in contribution rates for any of the systems or plans, except the Washington State Patrol Retirement System (WSPRS). The increase in WSPRS contribution rates for the inflation adjustment for member and employer would be one basis point each.

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

Policy Issues:

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

7. Policy Options

The following three options for an annual inflation adjustment were presented to the SCPP in October. At the November 21, 2006 regular committee meeting, the SCPP recommended the \$150,000 Line of Duty Death Benefit be indexed to the changes in the Consumer Price Index for Seattle, Tacoma and Bremerton with a three percent maximum (option 2). This is the same option that the Board recommended at the October 25, 2006 meeting and uses the same language as the LEOFF Plan 2 post-retirement cost of living adjustment (LEOFF Plan 2 COLA).

1. **Fully indexed to the Consumer Price Index for urban wage earners and clerical workers for the Seattle/Tacoma/Bremerton (CPI-W STB).** Under this option, the value of the benefit would be preserved. However, in times of high inflation funding could become an issue.
2. **Index to changes in the CPI-W STB with a 3 percent per year maximum.** Under this option, the value of the benefit is preserved as long as the long-term rate of inflation is at 3 percent or less. Having a ceiling on the index helps to control costs and promote stable funding.
3. **Increase the benefit by 3 percent per year.** This option is the most simple to administer and in years where inflation is less than 3 percent, would actually increase the value of the benefit.

None of the above options add enough costs to increase the contribution rates for the LEOFF Plan 2 retirement system.

Select Committee on Pension Policy Action:

At the October meeting the SCPP Executive Committee recommended option 2 be brought before the full committee in November. In addition to the annual inflation adjustment, the SCPP Executive Committee also recommended that payment of the death benefit for occupational illness included in the Board's proposal in 2005 be added to all systems.

At the November 21, 2006 meeting, the SCPP moved option two forward, including payment for death due to occupational illness, to be introduced to the 2007 Legislature.

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0267.2/07 2nd draft

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Determining death benefits for public employees.

1 AN ACT Relating to death benefits for public employees; amending
2 RCW 41.04.017, 41.24.160, 41.26.048, 41.32.053, 41.35.115, 41.37.110,
3 41.40.0931, 41.40.0932, and 43.43.285; providing an effective date; and
4 declaring an emergency.

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

6 **Sec. 1.** RCW 41.04.017 and 2003 c 402 s 4 are each amended to read
7 as follows:

8 (1) A one hundred fifty thousand dollar death benefit shall be paid
9 as a sundry claim to the estate of an employee of any state agency, the
10 common school system of the state, or institution of higher education
11 who dies as a result of (a) injuries sustained in the course of
12 employment; or (b) an occupational disease or infection that arises
13 naturally and proximately out of employment covered under this chapter,
14 and is not otherwise provided a death benefit through coverage under
15 their enrolled retirement system under chapter 402, Laws of 2003. The
16 determination of eligibility for the benefit shall be made consistent
17 with Title 51 RCW by the department of labor and industries. The
18 department of labor and industries shall notify the director of the
19 department of general administration by order under RCW 51.52.050.

1 (2)(a) Beginning July 1, 2007, and every year thereafter, the
2 department of retirement systems shall determine the following
3 information:

4 (i) The index for the 2005 calendar year, to be known as "index A";

5 (ii) The index for the calendar year prior to the date of
6 determination, to be known as "index B"; and

7 (iii) The ratio obtained when index B is divided by index A.

8 (b) The value of the ratio obtained shall be the annual adjustment
9 to the original death benefit and shall be applied beginning every July
10 1st. In no event, however, shall the annual adjustment:

11 (i) Produce a benefit which is lower than one hundred fifty
12 thousand dollars;

13 (ii) Exceed three percent in the initial annual adjustment; or

14 (iii) Differ from the previous year's annual adjustment by more
15 than three percent.

16 (c) For the purposes of this section, "index" means, for any
17 calendar year, that year's average consumer price index -- Seattle,
18 Washington area for urban wage earners and clerical workers, all items,
19 compiled by the bureau of labor statistics, United States department of
20 labor.

21 **Sec. 2.** RCW 41.24.160 and 2001 c 134 s 2 are each amended to read
22 as follows:

23 (1)(a) Whenever a participant dies as the result of injuries
24 received, or sickness contracted in consequence or as the result of the
25 performance of his or her duties, the board of trustees shall order and
26 direct the payment from the principal fund of (i) the sum of one
27 hundred fifty-two thousand dollars to his widow or her widower, or if
28 there is no widow or widower, then to his or her dependent child or
29 children, or if there is no dependent child or children, then to his or
30 her dependent parents or either of them, or if there are no dependent
31 parents or parent, then the death benefit shall be paid to the member's
32 estate, and (ii)(A) the sum of one thousand two hundred seventy-five
33 dollars per month to his widow or her widower during his or her life
34 together with the additional monthly sum of one hundred ten dollars for
35 each child of the member, unemancipated or under eighteen years of age,
36 dependent upon the member for support at the time of his or her death,

1 (B) to a maximum total of two thousand five hundred fifty dollars per
2 month.

3 (b) Beginning on July 1, 2001, and each July 1st thereafter, the
4 compensation amount specified in (a)(ii)(B) of this subsection shall be
5 readjusted to reflect the percentage change in the consumer price
6 index, calculated as follows: The index for the calendar year
7 preceding the year in which the July calculation is made, to be known
8 as "calendar year A," is divided by the index for the calendar year
9 preceding calendar year A, and the resulting ratio is multiplied by the
10 compensation amount in effect on June 30th immediately preceding the
11 July 1st on which the respective calculation is made. For the purposes
12 of the calculation under this subsection (1)(b), "index" means the same
13 as the definition in RCW 2.12.037(1).

14 (c)(i) Beginning July 1, 2007, and every year thereafter, the state
15 board shall determine the following information:

16 (A) The index for the 2005 calendar year, to be known as "index A";

17 (B) The index for the calendar year prior to the date of
18 determination, to be known as "index B"; and

19 (C) The ratio obtained when index B is divided by index A.

20 (ii) The value of the ratio obtained shall be the annual adjustment
21 to the original death benefit specified in (a)(i) of this subsection
22 and shall be applied beginning every July 1st. In no event, however,
23 shall the annual adjustment:

24 (A) Produce a benefit which is lower than one hundred fifty-two
25 thousand dollars;

26 (B) Exceed three percent in the initial annual adjustment; or

27 (C) Differ from the previous year's annual adjustment by more than
28 three percent.

29 (iii) For the purposes of the calculation specified in (c) of this
30 subsection, "index" means, for any calendar year, that year's average
31 consumer price index -- Seattle, Washington area for urban wage earners
32 and clerical workers, all items, compiled by the bureau of labor
33 statistics, United States department of labor.

34 (2) If the widow or widower does not have legal custody of one or
35 more dependent children of the deceased participant or if, after the
36 death of the participant, legal custody of such child or children
37 passes from the widow or widower to another person, any payment on
38 account of such child or children not in the legal custody of the widow

1 or widower shall be made to the person or persons having legal custody
2 of such child or children. Such payments on account of such child or
3 children shall be subtracted from the amount to which such widow or
4 widower would have been entitled had such widow or widower had legal
5 custody of all the children and the widow or widower shall receive the
6 remainder after such payments on account of such child or children have
7 been subtracted. If there is no widow or widower, or the widow or
8 widower dies while there are children, unemancipated or under eighteen
9 years of age, then the amount of one thousand two hundred seventy-five
10 dollars per month shall be paid for the youngest or only child together
11 with an additional one hundred ten dollars per month for each
12 additional of such children to a maximum of two thousand five hundred
13 fifty dollars per month until they become emancipated or reach the age
14 of eighteen years; and if there are no widow or widower, child, or
15 children entitled thereto, then to his or her parents or either of them
16 the sum of one thousand two hundred seventy-five dollars per month for
17 life, if it is proved to the satisfaction of the board that the
18 parents, or either of them, were dependent on the deceased for their
19 support at the time of his or her death. In any instance in
20 subsections (1) and (2) of this section, if the widow or widower, child
21 or children, or the parents, or either of them, marries while receiving
22 such pension the person so marrying shall thereafter receive no further
23 pension from the fund.

24 (3) In the case provided for in this section, the monthly payment
25 provided may be converted in whole or in part into a lump sum payment,
26 not in any case to exceed twelve thousand dollars, equal or
27 proportionate, as the case may be, to the actuarial equivalent of the
28 monthly payment in which event the monthly payments shall cease in
29 whole or in part accordingly or proportionately. Such conversion may
30 be made either upon written application to the state board and shall
31 rest in the discretion of the state board; or the state board is
32 authorized to make, and authority is given it to make, on its own
33 motion, lump sum payments, equal or proportionate, as the case may be,
34 to the value of the annuity then remaining in full satisfaction of
35 claims due to dependents. Within the rule under this subsection the
36 amount and value of the lump sum payment may be agreed upon between the
37 applicant and the state board.

1 **Sec. 3.** RCW 41.26.048 and 2006 c 351 s 1 are each amended to read
2 as follows:

3 (1) A one hundred fifty thousand dollar death benefit shall be paid
4 to the member's estate, or such person or persons, trust or
5 organization as the member shall have nominated by written designation
6 duly executed and filed with the department. If there be no such
7 designated person or persons still living at the time of the member's
8 death, such member's death benefit shall be paid to the member's
9 surviving spouse as if in fact such spouse had been nominated by
10 written designation, or if there be no such surviving spouse, then to
11 such member's legal representatives.

12 (2) The benefit under this section shall be paid only when death
13 occurs: (a) As a result of injuries sustained in the course of
14 employment; or (b) ~~((to a member of plan 2))~~ as a result of an
15 occupational disease or infection that arises naturally and proximately
16 out of employment covered under this chapter. The determination of
17 eligibility for the benefit shall be made consistent with Title 51 RCW
18 by the department of labor and industries. The department of labor and
19 industries shall notify the department of retirement systems by order
20 under RCW 51.52.050.

21 (3)(a) Beginning July 1, 2007, and every year thereafter, the
22 department shall determine the following information:

23 (i) The index for the 2005 calendar year, to be known as "index A";
24 (ii) The index for the calendar year prior to the date of
25 determination, to be known as "index B"; and
26 (iii) The ratio obtained when index B is divided by index A.

27 (b) The value of the ratio obtained shall be the annual adjustment
28 to the original death benefit and shall be applied beginning every July
29 1st. In no event, however, shall the annual adjustment:

30 (i) Produce a benefit which is lower than one hundred fifty
31 thousand dollars;
32 (ii) Exceed three percent in the initial annual adjustment; or
33 (iii) Differ from the previous year's annual adjustment by more
34 than three percent.

35 (c) For the purposes of this section, "index" means, for any
36 calendar year, that year's average consumer price index -- Seattle,
37 Washington area for urban wage earners and clerical workers, all items,

1 compiled by the bureau of labor statistics, United States department of
2 labor.

3 **Sec. 4.** RCW 41.32.053 and 2003 c 402 s 2 are each amended to read
4 as follows:

5 (1) A one hundred fifty thousand dollar death benefit shall be paid
6 to the member's estate, or such person or persons, trust or
7 organization as the member has nominated by written designation duly
8 executed and filed with the department. If no such designated person
9 or persons are still living at the time of the member's death, the
10 member's death benefit shall be paid to the member's surviving spouse
11 as if in fact the spouse had been nominated by written designation, or
12 if there is no surviving spouse, then to the member's legal
13 representatives.

14 (2) The benefit under this section shall be paid only where death
15 occurs as a result of (a) injuries sustained in the course of
16 employment; or (b) an occupational disease or infection that arises
17 naturally and proximately out of employment covered under this chapter.
18 The determination of eligibility for the benefit shall be made
19 consistent with Title 51 RCW by the department of labor and industries.
20 The department of labor and industries shall notify the department of
21 retirement systems by order under RCW 51.52.050.

22 (3)(a) Beginning July 1, 2007, and every year thereafter, the
23 department shall determine the following information:

- 24 (i) The index for the 2005 calendar year, to be known as "index A";
- 25 (ii) The index for the calendar year prior to the date of
26 determination, to be known as "index B"; and
- 27 (iii) The ratio obtained when index B is divided by index A.

28 (b) The value of the ratio obtained shall be the annual adjustment
29 to the original death benefit and shall be applied beginning every July
30 1st. In no event, however, shall the annual adjustment:

- 31 (i) Produce a benefit which is lower than one hundred fifty
32 thousand dollars;
- 33 (ii) Exceed three percent in the initial annual adjustment; or
- 34 (iii) Differ from the previous year's annual adjustment by more
35 than three percent.

36 (c) For the purposes of this section, "index" means, for any
37 calendar year, that year's average consumer price index -- Seattle,

1 Washington area for urban wage earners and clerical workers, all items,
2 compiled by the bureau of labor statistics, United States department of
3 labor.

4 **Sec. 5.** RCW 41.35.115 and 2003 c 402 s 3 are each amended to read
5 as follows:

6 (1) A one hundred fifty thousand dollar death benefit shall be paid
7 to the member's estate, or such person or persons, trust or
8 organization as the member has nominated by written designation duly
9 executed and filed with the department. If no such designated person
10 or persons are still living at the time of the member's death, the
11 member's death benefit shall be paid to the member's surviving spouse
12 as if in fact the spouse had been nominated by written designation, or
13 if there is no surviving spouse, then to the member's legal
14 representatives.

15 (2) The benefit under this section shall be paid only where death
16 occurs as a result of (a) injuries sustained in the course of
17 employment; or (b) an occupational disease or infection that arises
18 naturally and proximately out of employment covered under this chapter.
19 The determination of eligibility for the benefit shall be made
20 consistent with Title 51 RCW by the department of labor and industries.
21 The department of labor and industries shall notify the department of
22 retirement systems by order under RCW 51.52.050.

23 (3)(a) Beginning July 1, 2007, and every year thereafter, the
24 department shall determine the following information:

25 (i) The index for the 2005 calendar year, to be known as "index A";

26 (ii) The index for the calendar year prior to the date of
27 determination, to be known as "index B"; and

28 (iii) The ratio obtained when index B is divided by index A.

29 (b) The value of the ratio obtained shall be the annual adjustment
30 to the original death benefit and shall be applied beginning every July
31 1st. In no event, however, shall the annual adjustment:

32 (i) Produce a benefit which is lower than one hundred fifty
33 thousand dollars;

34 (ii) Exceed three percent in the initial annual adjustment; or

35 (iii) Differ from the previous year's annual adjustment by more
36 than three percent.

1 (c) For the purposes of this section, "index" means, for any
2 calendar year, that year's average consumer price index -- Seattle,
3 Washington area for urban wage earners and clerical workers, all items,
4 compiled by the bureau of labor statistics, United States department of
5 labor.

6 **Sec. 6.** RCW 41.37.110 and 2004 c 242 s 14 are each amended to read
7 as follows:

8 (1) A one hundred fifty thousand dollar death benefit shall be paid
9 to the member's estate, or the person or persons, trust, or
10 organization the member has nominated by written designation duly
11 executed and filed with the department. If the designated person or
12 persons are not still living at the time of the member's death, the
13 member's death benefit shall be paid to the member's surviving spouse
14 as if in fact the spouse had been nominated by written designation, or
15 if there is no surviving spouse, then to the member's legal
16 representatives.

17 (2) The benefit under this section shall be paid only where death
18 occurs as a result of (a) injuries sustained in the course of
19 employment; or (b) an occupational disease or infection that arises
20 naturally and proximately out of employment covered under this chapter.
21 The determination of eligibility for the benefit shall be made
22 consistent with Title 51 RCW by the department of labor and industries.
23 The department of labor and industries shall notify the department of
24 retirement systems by order under RCW 51.52.050.

25 (3)(a) Beginning July 1, 2007, and every year thereafter, the
26 department shall determine the following information:

27 (i) The index for the 2005 calendar year, to be known as "index A";

28 (ii) The index for the calendar year prior to the date of
29 determination, to be known as "index B"; and

30 (iii) The ratio obtained when index B is divided by index A.

31 (b) The value of the ratio obtained shall be the annual adjustment
32 to the original death benefit and shall be applied beginning every July
33 1st. In no event, however, shall the annual adjustment:

34 (i) Produce a benefit which is lower than one hundred fifty
35 thousand dollars;

36 (ii) Exceed three percent in the initial annual adjustment; or

1 (iii) Differ from the previous year's annual adjustment by more
2 than three percent.

3 (c) For the purposes of this section, "index" means, for any
4 calendar year, that year's average consumer price index -- Seattle,
5 Washington area for urban wage earners and clerical workers, all items,
6 compiled by the bureau of labor statistics, United States department of
7 labor.

8 **Sec. 7.** RCW 41.40.0931 and 1998 c 157 s 1 are each amended to read
9 as follows:

10 (1) A one hundred fifty thousand dollar death benefit for members
11 who had the opportunity to transfer to the law enforcement officers'
12 and fire fighters' retirement system pursuant to chapter 502, Laws of
13 1993, but elected to remain in the public employees' retirement system,
14 shall be paid to the member's estate, or such person or persons, trust,
15 or organization as the member has nominated by written designation duly
16 executed and filed with the department. If there is no designated
17 person or persons still living at the time of the member's death, the
18 member's death benefit shall be paid to the member's surviving spouse
19 as if in fact the spouse had been nominated by written designation, or
20 if there is no surviving spouse, then to the member's legal
21 representatives.

22 (2) Subject to subsection (3) of this section, the benefit under
23 this section shall be paid only where death occurs as a result of (a)
24 injuries sustained in the course of employment as a general authority
25 police officer; or (b) an occupational disease or infection that arises
26 naturally and proximately out of employment covered under this chapter.
27 The determination of eligibility for the benefit shall be made
28 consistent with Title 51 RCW by the department of labor and industries.
29 The department of labor and industries shall notify the department of
30 retirement systems by order under RCW 51.52.050.

31 (3) The benefit under this section shall not be paid in the event
32 the member was in the act of committing a felony when the fatal
33 injuries were suffered.

34 (4)(a) Beginning July 1, 2007, and every year thereafter, the
35 department shall determine the following information:

36 (i) The index for the 2005 calendar year, to be known as "index A";

1 (ii) The index for the calendar year prior to the date of
2 determination, to be known as "index B"; and

3 (iii) The ratio obtained when index B is divided by index A.

4 (b) The value of the ratio obtained shall be the annual adjustment
5 to the original death benefit and shall be applied beginning every July
6 1st. In no event, however, shall the annual adjustment:

7 (i) Produce a benefit which is lower than one hundred fifty
8 thousand dollars;

9 (ii) Exceed three percent in the initial annual adjustment; or

10 (iii) Differ from the previous year's annual adjustment by more
11 than three percent.

12 (c) For the purposes of this section, "index" means, for any
13 calendar year, that year's average consumer price index -- Seattle,
14 Washington area for urban wage earners and clerical workers, all items,
15 compiled by the bureau of labor statistics, United States department of
16 labor.

17 **Sec. 8.** RCW 41.40.0932 and 2003 c 402 s 1 are each amended to read
18 as follows:

19 (1) A one hundred fifty thousand dollar death benefit shall be paid
20 to the member's estate, or such person or persons, trust or
21 organization as the member has nominated by written designation duly
22 executed and filed with the department. If no such designated person
23 or persons are still living at the time of the member's death, the
24 member's death benefit shall be paid to the member's surviving spouse
25 as if in fact the spouse had been nominated by written designation, or
26 if there is no surviving spouse, then to the member's legal
27 representatives.

28 (2) The benefit under this section shall be paid only where death
29 occurs as a result of (a) injuries sustained in the course of
30 employment; or (b) an occupational disease or infection that arises
31 naturally and proximately out of employment covered under this chapter.

32 The determination of eligibility for the benefit shall be made
33 consistent with Title 51 RCW by the department of labor and industries.
34 The department of labor and industries shall notify the department of
35 retirement systems by order under RCW 51.52.050.

36 (3)(a) Beginning July 1, 2007, and every year thereafter, the
37 department shall determine the following information:

1 (i) The index for the 2005 calendar year, to be known as "index A";
2 (ii) The index for the calendar year prior to the date of
3 determination, to be known as "index B"; and
4 (iii) The ratio obtained when index B is divided by index A.
5 (b) The value of the ratio obtained shall be the annual adjustment
6 to the original death benefit and shall be applied beginning every July
7 1st. In no event, however, shall the annual adjustment:
8 (i) Produce a benefit which is lower than one hundred fifty
9 thousand dollars;
10 (ii) Exceed three percent in the initial annual adjustment; or
11 (iii) Differ from the previous year's annual adjustment by more
12 than three percent.
13 (c) For the purposes of this section, "index" means, for any
14 calendar year, that year's average consumer price index -- Seattle,
15 Washington area for urban wage earners and clerical workers, all items,
16 compiled by the bureau of labor statistics, United States department of
17 labor.

18 **Sec. 9.** RCW 43.43.285 and 1996 c 226 s 2 are each amended to read
19 as follows:

20 (1) A one hundred fifty thousand dollar death benefit shall be paid
21 to the member's estate, or such person or persons, trust or
22 organization as the member shall have nominated by written designation
23 duly executed and filed with the department. If there be no such
24 designated person or persons still living at the time of the member's
25 death, such member's death benefit shall be paid to the member's
26 surviving spouse as if in fact such spouse had been nominated by
27 written designation, or if there be no such surviving spouse, then to
28 such member's legal representatives.

29 (2) The benefit under this section shall be paid only where death
30 occurs as a result of (a) injuries sustained in the course of
31 employment; or (b) an occupational disease or infection that arises
32 naturally and proximately out of employment covered under this chapter.
33 The determination of eligibility for the benefit shall be made
34 consistent with Title 51 RCW by the department of labor and industries.
35 The department of labor and industries shall notify the department of
36 retirement systems by order under RCW 51.52.050.

1 (3)(a) Beginning July 1, 2007, and every year thereafter, the
2 department shall determine the following information:

3 (i) The index for the 2005 calendar year, to be known as "index A";

4 (ii) The index for the calendar year prior to the date of
5 determination, to be known as "index B"; and

6 (iii) The ratio obtained when index B is divided by index A.

7 (b) The value of the ratio obtained shall be the annual adjustment
8 to the original death benefit and shall be applied beginning every July
9 1st. In no event, however, shall the annual adjustment:

10 (i) Produce a benefit which is lower than one hundred fifty
11 thousand dollars;

12 (ii) Exceed three percent in the initial annual adjustment; or

13 (iii) Differ from the previous year's annual adjustment by more
14 than three percent.

15 (c) For the purposes of this section, "index" means, for any
16 calendar year, that year's average consumer price index -- Seattle,
17 Washington area for urban wage earners and clerical workers, all items,
18 compiled by the bureau of labor statistics, United States department of
19 labor.

20 NEW SECTION. Sec. 10. This act is necessary for the immediate
21 preservation of the public peace, health, or safety, or support of the
22 state government and its existing public institutions, and takes effect
23 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/16/06	Z-0267.2

SUMMARY OF BILL:

This bill impacts the following retirement systems and public employees:

- Public Employees' Retirement System (PERS),
- Teachers' Retirement System (TRS),
- School Employees' Retirement System (SERS),
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF),
- Washington State Patrol Retirement System (WSP),
- Public Safety Employees' Retirement System (PSERS),
- Volunteer Fire Fighters' Relief and Pension Fund (VFF);
- members of the Judicial Retirement System (JRS),
- members of the Higher Education Retirement Plans (HIED);
- and state, school district, and higher education employees who are not members of a state retirement system.

This bill indexes the amount of the \$150,000 duty-death lump sum benefit to changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton (CPI-W). The index is calculated based on cumulative changes in the CPI-W with a maximum annual change of no more than 3%. The amount of the death benefit is not allowed to decrease below the original amount in periods of deflation. This bill also expands eligibility for the death benefit to include death from occupational disease or duty-related illness for members of PERS, TRS, SERS, LEOFF Plan 1, WSP, PSERS, JRS, HIED; and state, school district and higher education employees who are not members of a state retirement system.

Effective Date: July 1, 2007

CURRENT SITUATION:

Survivors of public employees who die as a result of injuries sustained in the course of employment are eligible to receive a lump sum death benefit of \$150,000. The benefit amount does not adjust for inflation. This benefit is provided for all members of PERS, TRS, SERS, LEOFF, WSP, PSERS, VFF, JRS, HIED; and to state, school district and higher education employees who are not members of a state retirement system. The benefit is also provided for members of LEOFF Plan 2 and VFF who die from an occupational disease or duty-related illness. The amount of the lump sum death benefit is \$152,000 in VFF.

MEMBERS IMPACTED:

Any of the more than 465,000 estimated active, retired, disabled, and terminated vested members of PERS, TRS, SERS, LEOFF, WSP, PSERS, JRS, HIED, and the VFF retirement systems who die from duty-related causes may be impacted. State, school district, and higher education employees who are not members of a state retirement system and who die from duty-related causes may also be impacted.

It is expected that fewer than 13 duty-related deaths will occur each year. It is also expected that fewer than one additional death benefits will be paid each year due to the expansion of the eligibility criteria for death from duty-related illness.

The amount of the duty-death lump sum benefit may increase by up to 3% each year under this bill. On July 1, 2007, the amount of the duty-death lump sum benefit would increase to \$154,500 (\$156,560 for VFF) if inflation, as measured by the CPI-W, averages 3% or more between 2005 and 2006.

ASSUMPTIONS:

1. The rate of duty-related death will not change because the death benefit is indexed.
2. An index based on the CPI-W with a 3% yearly maximum is equivalent to a long term average increase of 2.96% a year. This assumption was developed using stochastic projections of expected inflation.
3. The inclusion of public employees who are not PERS, SERS, or TRS members does not increase the estimated number of eligible deaths.
4. The estimated increase in the duty death rate for duty-related illness is 10% for all systems except LEOFF 1. LEOFF 1 is 40%.
5. The liability for benefits paid to inactive members for death from duty-related illness will be proportionate to the number of benefits paid and will remain relatively constant as a percentage of the active liability for the benefit.
6. 20% of the currently inactive members (term vested, retired, and disabled) will be exposed to death from duty-related illness at 50% of the rate the active population is exposed.
7. Based on assumptions #5 and #6, the increase in liability for inactives as a percent of active liability is:

LEOFF 1	100%
LEOFF 2	0%
WSP	10%
PERS and TRS 1	40%
PERS 2/3, SERS 2/3, TRS 2/3, VFF, HIED	2%

8. The contribution rate increase calculated for PERS will apply to PSERS.
9. The current active VFF population will decrease by an average rate of 8% a year due to terminations, retirement, and deaths.
10. The rate of duty-related death for VFF is .000083 for all ages.

FISCAL IMPACT:

Description:

This bill would increase the dollar amount of the lump sum death benefit for future recipients and would likely increase the total number of lump sum death benefits paid.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below. This bill will increase the contribution rate for WSP, however, the liability increases in all other systems are insufficient to affect contribution rates. Liabilities for PSERS are included in the PERS totals.

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	\$13,604.57	\$0.06	\$13,604.63
	PERS 2/3	\$16,996.53	\$1.19	\$16,997.72
(The Value of the Total Commitment to all Current Members)	TRS 1	\$10,822.98	\$0.01	\$10,822.99
	TRS 2/3	\$6,296.52	\$0.20	\$6,296.72
	SERS 2/3	\$2,472.81	\$0.36	\$2,473.17
	LEOFF 1	\$4,238.27	\$0.05	\$4,238.32
	LEOFF 2	\$5,461.85	\$0.72	\$5,462.57
	WSP 1/2	\$803.40	\$0.08	\$803.48
	VFF	\$146.24	\$0.42	\$146.66
Unfunded Actuarial Accrued Liability	PERS 1	\$3,566.71	\$0.06	\$3,566.77
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	\$2,146.89	\$0.01	\$2,146.90
	LEOFF 1	\$(583.68)	\$0.05	\$(583.63)
Unfunded Liability (PBO)	PERS 1	\$3,439.44	\$0.06	\$3,439.50
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 2/3	\$(2,611.15)	\$0.67	\$(2,610.48)
	TRS 1	\$2,100.31	\$0.01	\$2,100.32
	TRS 2/3	\$(1,130.92)	\$0.10	\$(1,130.82)
	SERS 2/3	\$(314.69)	\$0.21	\$(314.48)
	LEOFF 1	\$(576.78)	\$0.05	\$(576.73)
	LEOFF 2	\$(396.81)	\$0.39	\$(396.42)
	WSP 1/2	\$(80.19)	\$0.06	\$(80.13)
	VFF	\$6.97	\$0.38	\$7.35

Increase in Contribution Rates:
(Effective 09/01/2007)

Current Members	<u>WSP</u>
Employee	0.01%
Employer State	0.01%
New Entrants*	
Employee	0.01%
Employer State	0.01%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	<u>WSP</u>
2007-2009	
State:	
General Fund	\$0.0
Non-General Fund	<u>0.0</u>
Total State	0.0
Local Government	0.0
Total Employer	0.0
Total Employee	\$0.0
2009-2011	
State:	
General Fund	\$0.0
Non-General Fund	<u>0.0</u>
Total State	0.0
Local Government	0.0
Total Employer	0.0
Total Employee	\$0.0
2007-2032	
State:	
General Fund	\$0.0
Non-General Fund	<u>0.4</u>
Total State	0.4
Local Government	0.0
Total Employer	0.4
Total Employee	\$0.4

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, and the Volunteer Fire Fighters' Relief and Pension Fund. We used counts of HIED membership as of October 2003 in estimating the number of members impacted. We relied upon the 2006 Key Facts published by the Higher Ed Coordinating board to obtain the counts of HIED membership.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

We relied on documentation of claims administration provided by the Department of Labor and Industries in setting our assumptions for increases in the rate of duty-related death.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2007 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

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. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

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; plus
- Amortization of the unfunded liability

The normal cost is 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.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which 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 Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

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.