
Dual Membership Final Proposal

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

December 13, 2006

Background Summary

- Dual membership
 - 1993 LEOFF Plan 2 added
 - Membership features

- Joint legislation with SCPP

Key Issues

- Base salary
- Maximum benefit limit
- Twenty-year inflation adjustment (indexing)

Proposal Summary

- Redefine base salary such that if a payment is defined as “salary” in both dual member systems, then it is also “base salary”
- Maximum benefit limit would not apply if less than fifteen years of Plan 1 service
- Add LEOFF Plan 2 to the list of plans that are allowed to share service to qualify for twenty-year inflation adjustment (indexing)

Dual Membership

Questions?

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

Dual Membership

Final Proposal

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1. Issue

There are three key issues. They include the definition of “base salary”, the possible benefit limitation for a LEOFF Plan 2, Plan 1 system dual member with more than 30 years of service credit, and the exclusion of LEOFF Plan 2 from the list of systems that can use combined service to qualify for the twenty-year inflation adjustment.

2. Proposal Summary

The proposal would accomplish the following:

- Redefine base salary such that if a payment is defined as salary/compensation in both dual member systems, then it would be included in base salary.
- Eliminate the potential benefit reduction for members with more than thirty years of combined service in TRS or PERS Plan 1 and LEOFF Plan 2, provided they have less than 15 years of Plan 1 service.
- Add LEOFF Plan 2 to the list of plans that are allowed to use shared service to qualify for the twenty-year inflation adjustment (sometimes referred to as indexing).

3. Staff

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4. Members Impacted

Based on the data provided by the Office of the State Actuary (OSA) as of September 30, 2005, there were 15,168 active, 1,886 inactive and 546 retired LEOFF Plan 2 members. Of the 15,168 active members, 1,615 have dual membership; of the 1,886 inactive members, 531 have dual membership; and of the 546 retired members, 73 have dual membership; for a total of 2,219 LEOFF 2 members who currently have dual membership.

5. Current Situation

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

are not included in the portability statutes. A complete list of dual member systems is listed in Appendix A.

6. Background Information and Policy Issues

History

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

Features of Dual Membership

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

LEOFF Plan 2 Dual Membership Issues

During the 2005 Interim, the Board studied dual membership and the following three issues:

1. **Base salary.** Under the current dual membership statutes, a member can choose to use their "base salary" from any dual member system in which they are members to calculate their retirement benefit in that system. However, the definition of "base salary" is not as inclusive as the "salary" definitions used for benefit calculations under the individual plans (Appendix B). This means that certain compensation elements that would be used for calculating a retirement benefit under an individual system would not be used for calculating a dual member retirement benefit.

For example the definition for “base salary” in the dual member statutes does not include overtime but would be included in calculating benefits under both PERS and LEOFF. This exclusion of certain salary elements appears to be in conflict with the original intent of the dual membership statutes, which was to not diminish a member’s retirement benefit because of a career change.

2. **Maximum Benefit Limit.** If a member is a dual member in LEOFF Plan 2 and PERS Plan 1, they are subject to a potential cap on their benefit calculation. Under the current dual membership statutes, the combined pension benefits from both plans may not exceed the maximum allowable benefits for any one of the dual member’s plans. PERS Plan 1 has a limit (cap) of 30 years for calculating the maximum benefit allowance. Even though LEOFF Plan 2 does not have a 30-year cap, the dual member’s benefit could still be affected by the Plan 1 cap if their combined service exceeds 30 years.
3. **Inflation adjustment for twenty years of service.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have an inflation adjustment provision within each system. This inflation adjustment increases a member’s benefit by twenty-five one-hundredths of a percent, compounded each month from the member’s date of separation to the date retirement benefits are received. Under the current dual membership statutes, all of the systems allow members to combine service to qualify for the inflation adjustment, except LEOFF Plan 2.

7. Policy Options

At the October 25, 2006 meeting, the Board reviewed the three policy options below and moved all three options be brought back for consideration as a final proposal for legislation.

1. **Option 1: Use all elements of salary as defined in the plan 2 and plan 3 systems**
Change the definition of “base salary” in the dual membership statutes to provide that any payment type included in the definition of “salary” for both dual member plans be included in “base salary”.
2. **Option 2: Eliminate maximum benefit limitation.**
A dual member in LEOFF Plan 2 and either TRS Plan 1 or PERS Plan 1 would not be subject to the maximum benefit limitation if they had less than 15 years in the plan 1 system.
3. **Option 3: Include LEOFF Plan 2 in the inflation adjustment**
Add LEOFF Plan 2 to the list of plans that allow a member to use their service credit in all systems and qualify for the inflation adjustment. The change to the dual member statutes to include LEOFF Plan 2 would be straightforward and make the application consistent among all plans that have the inflation adjustment for twenty years of service.

8. Supporting Information

Appendix A – Dual Membership Systems

Appendix B – Salary RCWs

Appendix C – Examples

APPENDIX A: Dual Membership Systems

- **LEOFF Plan 2**
- **PERS Plan 1**
- **PERS Plan 2**
- **PERS Plan 3**
- **PSERS (effective July 1, 2006)**
- **SERS Plan 2**
- **SERS Plan 3**
- **TRS Plan 1**
- **TRS Plan 2**
- **TRS Plan 3**
- **Statewide City Employees' Retirement System (SCERS)**
- **First-class city retirement systems of Seattle, Tacoma, and Spokane**

APPENDIX B: Salary RCWs

LEOFF Plan 2 (41.26.030(13)(b)):

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

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

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

PERS Plan 2 & 3 (41.40.010(8)(b)):

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

SERS Plan 2 & 3 (41.35.010(6)(a)):

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

TRS Plan 2 & 3 (41.32.010(10)(b)):

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

Dual Membership Definitions (41.54.010(1)):

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

Appendix C – Examples

Thirty-year Cap Example:

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

Step 1: Determine benefit cap by calculating a monthly benefit in each system as if all of the service credit had been earned in one system subject to each system's rules.

$$\begin{array}{ll} \text{L2} = .02 \times \$4,200 \times 35 & \text{P1} = .02 \times \$4,500 \times 30 \text{ (can only use 30 because of cap)} \\ \text{L2} = \$2,940.00 & \text{P1} = \$2,700.00 \end{array}$$

The largest calculation amount is their benefit cap. In this example, their benefit cap is **\$2,940.00**.

Step 2: Calculate their monthly benefit in each system based on each system's rules.

$$\begin{array}{ll} \text{L2} = .02 \times \$4,200 \times 22 & \text{P1} = .02 \times \$4,500 \times 13 \\ \text{L2} = \$1,848.00 & \text{P1} = \$1,170.00 \end{array}$$

Step 3: Add the benefits from Step 2 and compare to benefit cap from Step 1. If the combined monthly benefits are greater than the cap, reduce the benefits proportionately in each to equal the cap.

$$\begin{array}{ll} \text{Monthly benefit} = \text{L2} + \text{P1} & \text{Benefit cap} = \$2,940 \\ = \$1,848 + \$1,170 & = \$2,940 \\ = \$3,018 & = \$2,940 \end{array}$$

The monthly benefit is greater than the benefit cap ($\$3,018 - \$2,940 = \$78$) therefore, both benefits would be reduced proportionately, to equal the benefit cap.

$$\begin{array}{ll} \text{L2} = \$1,848 - (\$78 \times (1848/3018)) & \text{P1} = \$1,170 - (\$78 \times (1170/3018)) \\ \text{L2} = \$1,848 - \$48 & \text{P1} = \$1,170 - \$30 \\ \text{L2} = \$1,800 & \text{P1} = \$1,140 \end{array}$$

If the statute was changed to eliminate the 30-year cap, the member would be entitled to a monthly benefit of \$3,072, instead of the capped benefit of \$2,940.

Inflation Adjustment Example:

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

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

If the LEOFF 2 statute was changed to be consistent with the Plan 3 Systems, their monthly benefit at age 53 would be \$1,772.36.



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WASHINGTON STATE PATROL TROOPERS ASSOCIATION
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November 29, 2006

Steve Nelsen, Executive Director
LEOFF Plan 2 Retirement Board
P.O. Box 40918
Olympia, WA 98504-0918

Dear Mr. Nelsen,

Please find enclosed a copy of a letter we sent to Senator Craig Pridemore, the Chair of the Select Committee on Pension Policy, regarding the dual (LEOFF Plan 2/WSPRS) retirement system membership proposal regarding the use of overtime in the calculation of Average Final Salary.

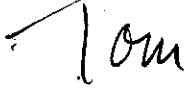
As you can see we are currently on record opposing this proposal as it relates to WSPRS at this time. It appears that the only cost associated with the proposal will be to the WSPRS members and employer. This added cost, while small, is our primary concern. In addition, it is not clear as to how the proposal will affect active members of the WSPRS and if the change would be worth the cost. Currently non-voluntary overtime is used in the calculation of Average Final Salary for WSPRS members. We are checking if this policy does or does not apply when dual membership with LEOFF Plan 2 service is applied to an active WSPRS member's AFS.

Contribution rates and creating stability within the WSPRS is our number one pension priority. We are asking the SPP to recommend our rate stabilization bill to the 2007 Legislature. The success of this measure will be directly related to the cost and the employer's ability to pay their share. Every basis point increase in the employer's rate affects the fiscal impact of the bill. Ours is a very small system that is subject to rate fluctuations from slight changes that aren't a factor in larger systems. Our commitment is to preserving the health of the WSPRS while maintaining the contribution rates at a competitive level.

We are interested in working with the LEOFF Plan 2 Board in developing benefits that are good for all our members. But for now we are focused on rate stabilization and will be opposing any unanticipated rate increases that could impact the chances of success.

Thank you for your interest.

Sincerely,

A handwritten signature in black ink that reads "Tom". The signature is written in a cursive style with a long horizontal stroke extending to the left.

Tom Pillow, President

Cc: Rick Jensen, Governmental Affairs