
Service Credit Transfer Waiting Period Final Proposal

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

December 13, 2006

Background Summary

- EMT transfer legislation included a five-year waiting period
- Cost control
- No exceptions to the waiting period

Key Issues

- Death during the waiting period
- Disability during the waiting period

Proposal Summary

- Service credit/payments transfer immediately upon death or disability
- Service credit/payments are used in calculation
- Creates options for unpaid bills

Service Credit Transfer Waiting Period

Questions?

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

Service Credit Transfer Waiting Period

Final Proposal

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1. Issue

A member who dies or becomes disabled prior to the end of the five-year window after electing to transfer PERS emergency medical technician (EMTs) service credit to LEOFF Plan 2 must wait until the end of the window to have that service credit included in their benefit calculation.

2. Proposal Summary

The proposal would make an exception to the five-year waiting period for those members who die or become disabled after electing to transfer PERS EMT service credit to their LEOFF Plan 2 account.

3. Staff

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4. Members Impacted

According to the fiscal note submitted by the Office of the State Actuary, there were 23 members estimated to be affected by SHB 1202, passed in 2003, and 60 members affected by SHB 1936, passed in 2005.

5. Current Situation

If a member elects to transfer their EMT time from PERS Plan 2 to LEOFF Plan 2, they must do so no later than June 30, 2013. The service credit cannot be transferred earlier than five years after the date on which the member elects to transfer.

The member must pay the difference between the contribution rate in PERS Plan 2 and LEOFF Plan 2, plus interest. They must make the payment in full no later than five years after the date the member elects to transfer, or prior to retirement, whichever occurs first. Regardless of whether they make their payment in full immediately or by the deadline, their service credit, contributions and payment will not be transferred to LEOFF Plan 2 until five years after the member elects to transfer.

6. Background Information and Policy Issues

The legislation allowing emergency medical technicians (EMTs) to transfer PERS service into LEOFF Plan 2 requires a five-year waiting period for the transfer of service credit. Creating a waiting period helps control the costs of a service credit transfer and eliminates the possibility of members transferring, and then immediately retiring. However, there may have been some unintended consequences of the five-year waiting period. If a member dies or becomes disabled during this time, there are questions regarding how the service credit would be used to calculate the member's retirement benefit.

The Department of Retirement Systems (DRS) has adopted rules for the 2003 EMT transfer legislation and is currently working on rules to implement the 2005 legislation. A copy of the rule can be found in section eight of this report. Questions regarding exceptions to the five-year waiting period in regard to duty-related disabilities or death may or may not be addressed in the rule-making process. There are additional, more detailed issues, regarding bill payment status that also need to be addressed.

Policy Issues

The number one policy issue is whether or not there should be an exception to the five-year waiting period if a member dies in service or becomes disabled in the line of duty. Secondary issues include whether or not the service credit and payment of a bill that is partially paid should be treated differently from a bill paid in full.

7. Policy Options

At their October 25, 2006 meeting, the Board moved that all three options be incorporated into a final proposal for possible legislative action.

Option 1: Death Benefit

Under this option, if a member dies during the five-year window period, their service credit and payments would immediately be transferred to their LEOFF Plan 2 account and used in the benefit calculation. For members with ten or more years of service, the payments would be included in their account balance for the refund of 150% of their accumulated contributions should their beneficiary choose the lump-sum withdrawal option.

Option 2: Line of Duty Disability

Under this option, if a member becomes disabled in the line of duty, the service credit and payment would immediately be transferred to their LEOFF Plan 2 account and used in the benefit calculation.

Option 3: Any Disability

Under this option, if a member becomes disabled for any reason, the service credit and payment would immediately be transferred to their LEOFF Plan 2 account and used in the benefit calculation.

8. Supporting Information – EMT Transfer WAC

WAC 415-104-475 How does a fire fighter who provides emergency medical services transfer PERS service credit to LEOFF Plan 2?

(1) **Who may use this section?** You may use this section if you:

- (a) Are currently employed in a law enforcement officers' and fire fighters' (LEOFF) Plan 2 covered position working for a fire department;
- (b) Were formerly employed in a position providing emergency medical services and the position was covered under PERS Plan 1 or 2; and
- (c) Worked for an employer that **relocated** your position to a fire department.

(2) **How do I know if my job providing emergency medical services was "relocated" to a fire department?** To be considered "relocated":

- (a) The duties of the position must have required providing emergency medical services and the position must have been covered under PERS Plan 1 or 2;
- (b) The employer must have been a city, town, county, or district that transferred the position to a fire department; and
- (c) The fire department must have covered the transferred position under LEOFF Plan 2.

(3) **I worked as an emergency medical technician/paramedic (EMT) and I am now enrolled in LEOFF Plan 2. Can I transfer my EMT service into LEOFF Plan 2?** Yes. You may transfer your EMT service into LEOFF Plan 2 if:

- (a) You provided emergency medical services as an EMT; and
- (b) You are in a LEOFF Plan 2 position with the fire department as a result of your employer relocating your position as described in subsection (2) of this section.

(4) **Who determines whether or not my job providing emergency medical services was "relocated" to a fire department?** The department of retirement systems (DRS) will determine whether or not your job was relocated based on the criteria described in subsection (2) of this section. To do so, DRS will contact your former employer that covered your job providing emergency medical services under PERS and verify:

- (a) That your position was relocated to a fire department; and
- (b) The number of months you worked in that position.

(5) **I formerly worked as an EMT for a PERS employer that relocated my job to a fire department. I was not working in the job at the time it was relocated, but am now working for the fire department in the same job. Can I transfer my PERS EMT service to LEOFF Plan 2?** Yes. Even though you were not working in the job at the time it was relocated, you can transfer your PERS EMT service as long as you are employed with the fire department covered under LEOFF Plan 2 at the time you request the transfer.

(6) **Can I transfer PERS EMT service into LEOFF Plan 2 if I worked for an employer that did not "relocate" the position to a fire department?** No. To transfer PERS EMT service to LEOFF Plan 2, you must have worked in a position that was relocated as described in subsections (1) and (2) of this section.

(7) **What do I need to do if I have PERS EMT service that can be transferred to LEOFF Plan 2?**

- (a) Contact the LEOFF unit at DRS. Once DRS verifies you meet the criteria to transfer as described in

subsections (1) and (2) of this section, DRS will provide you an *EMT Transfer Packet* that includes an "EMT transfer cost estimate and benefit comparison." DRS will also provide you an "EMT Request for Transfer Form." You must complete, sign and return the form to the LEOFF unit to choose to transfer the service credit.

(b) You must pay the difference in the member contribution rates between the PERS rate and the LEOFF rate, plus interest, for each month of EMT service that you transfer.

(8) **How is the interest calculated?** Interest is calculated at eight percent annually, compounded monthly, and is based on the difference between the required PERS contribution amount and the required LEOFF Plan 2 contribution amount for each month you transfer. DRS calculates the interest for the rate difference for each month being transferred, beginning with the oldest month, then totals each month's interest calculation for the "interest" portion of the bill.

Example: DRS creates a bill in October 2003 to transfer the months of June and July 2002. The member contribution rate difference for each month is \$35.00. The interest for June would be \$4.18, and for July \$3.92. The total interest charge for these two months is \$8.10; the total bill is \$78.10 (\$35.00 x 2 + \$8.10). The interest calculated for June 2002 is more because it includes one more month of interest than the month of July 2002. The chart below shows how the interest is calculated:

Month/Year of Interest Calculation		Interest for June 2002 @ .00667 ¹		Interest for July 2002 @ .00667	
June	2002	\$35.00	.23		
July	2002	\$35.23	.23	\$35.00	.23
August	2002	\$35.46	.24	\$35.23	.23
September	2002	\$35.70	.24	\$35.46	.24
October	2002	\$35.94	.24	\$35.70	.24
November	2002	\$36.18	.24	\$35.94	.24
December	2002	\$36.42	.24	\$36.18	.24
January	2003	\$36.66	.24	\$36.42	.24
February	2003	\$36.90	.25	\$36.66	.24
March	2003	\$37.15	.25	\$36.90	.25
April	2003	\$37.40	.25	\$37.15	.25
May	2003	\$37.65	.25	\$37.40	.25
June	2003	\$37.90	.25	\$37.65	.25
July	2003	\$38.15	.25	\$37.90	.25
August	2003	\$38.40	.26	\$38.15	.25
September	2003	\$38.66	.26	\$38.40	.26
October	2003	\$38.92	.26	\$38.66	.26
Total					
October	2003		\$4.18		\$3.92

(9) **Do I have to pay the bill in a lump sum?** No. You may make installment payments. Interest will be recalculated each month against the unpaid balance.

(10) **What is the time frame for transferring?** You must make the decision to transfer no later than June 30, 2008. You must complete the transfer by June 30, 2013.

(11) **When will the EMT service be transferred into my LEOFF Plan 2 account?** The EMT service will be transferred after:

- (a) The bill is paid in full; and
- (b) Five years have passed after DRS receives your request to transfer.

(12) **What if I decide not to transfer my PERS EMT service into LEOFF Plan 2?** Your EMT service will remain

in PERS and you may either withdraw or begin receiving a PERS retirement benefit when you are eligible. If you do not withdraw, you will be a dual member of PERS and LEOFF Plan 2 under the provisions of chapter [41.54](#) RCW.

(13) Can I retire before the transfer is completed? Yes.

(a) You may retire from LEOFF Plan 2 once you are eligible, but your retirement benefit will be calculated using only your LEOFF Plan 2 service.

(b) After the conditions described in subsection (11) of this section have been met, the PERS EMT service will be transferred into your LEOFF Plan 2 account and your retirement benefit will be recalculated and increased to include the transferred service. The increase will be prospective only from the day following the five-year waiting period. For example, if you requested the transfer on September 15, 2003, and you retired on August 1, 2007, your retirement benefit would be increased on September 16, 2008.

(14) What if I request to transfer but change my mind before the transfer is completed? If you decide to not transfer your PERS EMT service into LEOFF Plan 2, you must notify the LEOFF unit at DRS within five years from the date you requested the transfer. LEOFF staff will cancel your request and refund any money you have paid on the transfer bill.

(15) Can I transfer non-EMT PERS service into LEOFF Plan 2? No. Only the PERS service credit you earned working as an EMT for an employer that relocated your EMT position to a fire department can be transferred into LEOFF Plan 2.

(16) Can I transfer my PERS EMT service into LEOFF Plan 2 and withdraw my non-EMT PERS service? Yes. You can withdraw your non-EMT PERS service as soon as the PERS EMT service is fully transferred to LEOFF Plan 2. To be fully transferred, the conditions described in subsection (11) of this section must be met.

(17) Can I transfer my PERS EMT service into LEOFF Plan 1? No. If you reentered LEOFF Plan 1 membership after your position was relocated to a fire department, you may choose to remain in PERS or return to LEOFF Plan 1 membership, but you may not transfer the PERS EMT service into LEOFF Plan 1.

(18) What happens if I die before the PERS EMT service is transferred into my LEOFF Plan 2 account?

(a) If your bill **is not** paid in full at the time of your death, the transfer will be canceled and any payments made will be refunded to your designated beneficiary.

(b) If the bill **is** paid in full at the time of your death, but the five-year waiting period has not expired, then the following rules will apply.

(i) If you die with less than ten years of service, or you have at least ten years of service but you don't have an eligible surviving spouse or minor children, the contributions in your LEOFF 2 account, including any payments made on the EMT optional service bill, will be refunded to your designated beneficiary.

(ii) If you die with at least ten years of service and have an eligible surviving spouse or minor children and if your spouse or children choose a monthly benefit payment instead of a lump sum payment, the monthly benefit will be increased the day following the end of the five-year waiting period.

(iii) If you die after retirement and chose a survivor option, your survivor's benefit will be increased the first day following the expiration of the five-year waiting period.

(19) Terms used:

(a) DRS - Department of retirement systems.

(b) EMT - Emergency medical technician or paramedic who provides emergency medical services and is covered under LEOFF Plan 2 working for a fire department.

(c) LEOFF - Law enforcement officers' and fire fighters' retirement system.

(d) PERS - Public employees' retirement system.

[Statutory Authority: RCW [41.50.050](#)(5), [41.26.547](#). 04-04-039, § 415-104-475, filed 1/29/04, effective 3/1/04.]

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0298.1/07

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION:Addressing transfers of service credit for emergency medical technicians under the law enforcement officers' and firefighters' retirement system plan 2.

AN ACT Relating to transfers of service credit for emergency medical technicians under the law enforcement officers' and firefighters' retirement system plan 2; amending RCW 41.26.547; amending 2005 c 459 s 3 (uncodified); amending 2003 c 293 s 2 (uncodified); and providing an expiration date.

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

Sec. 1. RCW 41.26.547 and 2005 c 459 s 2 are each amended to read as follows:

(1) A member of plan 2 who was a member of the public employees' retirement system while employed providing emergency medical services for a city, town, county, or district and whose job was relocated from another department of a city, town, county, or district to a fire department, or a member of the public employees' retirement system who is eligible for membership in plan 2 under RCW 41.26.030(4)(h), has the following options:

- (a) Remain a member of the public employees' retirement system; or
- (b) Leave any service credit earned as a member of the public employees' retirement system in the public employees' retirement system, and have all future service earned in the law enforcement

officers' and firefighters' retirement system plan 2, becoming a dual member under the provisions of chapter 41.54 RCW; or

(c) Make an election no later than June 30, 2013, filed in writing with the department of retirement systems, to transfer service credit previously earned as an emergency medical technician for a city, town, county, or district in the public employees' retirement system plan 1 or plan 2 to the law enforcement officers' and firefighters' retirement system plan 2 as defined in RCW 41.26.030. Service credit that a member elects to transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system under this section shall be transferred no earlier than five years after the effective date the member elects to transfer except under subsection (3) of this section, and only after the member earns five years of service credit as a firefighter following the effective date the member elects to transfer except under subsection (3) of this section.

(2) A member of plan 1 who was a member of the public employees' retirement system while employed providing emergency medical services for a city, town, county, or district and whose job was relocated from another department of a city, town, county, or district to a fire department has the following options:

(a) Remain a member of the public employees' retirement system; or

(b) Leave any service credit earned as a member of the public employees' retirement system in the public employees' retirement system, and have all future service earned in the law enforcement officers' and firefighters' retirement system plan 1.

(3)(a) A member who elects to transfer service credit under subsection (1)(c) of this section shall make the payments required by this subsection prior to having service credit earned as an emergency medical technician for a city, town, county, or district under the public employees' retirement system plan 1 or plan 2 transferred to the law enforcement officers' and firefighters' retirement system plan 2. However, in no event shall service credit be transferred earlier than five years after the effective date the member elects to transfer, or prior to the member earning five years of service credit as a firefighter following the effective date the member elects to transfer, except under (e) of this subsection.

(b) A member who elects to transfer service credit under this subsection shall pay, for the applicable period of service, the

difference between the contributions the employee paid to the public employees' retirement system plan 1 or plan 2 and the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest on this difference as determined by the director. This payment must be made no later than five years from the effective date of the election made under subsection (1)(c) of this section and must be made prior to retirement, except under (e) of this subsection.

(c) For a period of service transferred by a member eligible for membership in plan 2 under RCW 41.26.030(4)(h), the employer shall pay an amount sufficient to ensure that the contribution level to the law enforcement officers' and firefighters' retirement system will not increase due to this transfer. This payment must be made within five years of the completion of the employee payment in (b) of this subsection.

(d) No earlier than five years after the effective date the member elects to transfer service credit under this section and upon completion of the payment required in (b) of this subsection except under (e) of this subsection, the department shall transfer from the public employees' retirement system plan 1 or plan 2 to the law enforcement officers' and firefighters' retirement system plan 2: (i) All of the employee's applicable accumulated contributions plus interest and an equal amount of employer contributions; and (ii) all applicable months of service, as defined in RCW 41.26.030(14)(b), credited to the employee under this chapter for service as an emergency services provider for a city, town, county, or district as though that service was rendered as a member of the law enforcement officers' and firefighters' retirement system plan 2.

(e) If a member who elected to transfer pursuant to this section dies or retires for disability prior to five years from their election date, the member's benefit is calculated as follows:

(i) All of the applicable service credit, accumulated contributions, and interest is transferred to the law enforcement officers' and firefighters' retirement system plan 2 and used in the calculation of a benefit.

(ii) If a member's obligation under (b) of this subsection has not been paid in full at the time of death or disability retirement, the member, or in the case of death the surviving spouse or eligible minor

children, have the following options:

(A) Pay the bill in full;

(B) If a continuing monthly benefit is chosen, have the benefit actuarially reduced to reflect the amount of the unpaid obligation under (b) of this subsection; or

(C) Continue to make payment against the obligation under (b) of this subsection, provided that payment in full is made no later than five years from the member's original election date.

(f) Upon transfer of service credit, contributions, and interest under this subsection, the employee is permanently excluded from membership in the public employees' retirement system for all service transfers related to their time served as an emergency medical technician for a city, town, county, or district under the public employees' retirement system plan 1 or plan 2.

Sec. 2. 2005 c 459 s 3 (uncodified) is amended to read as follows:

Section 2 of this act expires July 1, ((2013)) 2023.

Sec. 3. 2003 c 293 s 2 (uncodified) is amended to read as follows:

This act expires July 1, ((2013)) 2023.

NEW SECTION. **Sec. 4.** This act expires July 1, 2023.

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/1/06	EMT Service Credit Transfer

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) and the Public Employees' Retirement System (PERS) by changing the provisions governing the transfer of PERS service earned as an emergency medical technician (EMT) for a city, town, county or district into LEOFF 2. This bill would require the immediate transfer of PERS EMT service and the associated member contributions into LEOFF 2 if a member who elected to transfer such service dies or retires for disability prior to five years from their date of election. The bill would also allow the member or beneficiary to pay any outstanding member obligation for the transfer of the EMT service:

- In full, or
- By means of an actuarial reduction in the monthly benefit, or
- By continuing to make payments so that the obligation is paid in full by no later than five years from the member's original date of election.

Finally, the bill would extend the expiration date of the act to July 1, 2018. This is a technical correction that has no cost impact and is necessary to ensure that the act does not expire before the end of the period in which employers may be required to pay an employer portion of the service transfer cost.

Assumed Effective Date: 90 days after the end of session

CURRENT SITUATION:

Under current law, PERS EMT service will be transferred into LEOFF 2 no sooner than five years following the effective date of the member's election to transfer service, and only after the member has earned five years of service as a fire fighter following the effective date of the transfer and made all the required member payments. The act expires on July 1, 2013.

MEMBERS IMPACTED:

Any LEOFF 2 member with prior PERS EMT service that is eligible for transfer and who dies or retires for disability prior to end of the five year waiting period may be impacted. We estimate that there are 80 such members out of 15,168 active members of the LEOFF 2. We expect that about 5 of these members or their beneficiaries would benefit from this bill.

We estimate that for a typical member impacted by this bill, the value of the increase in benefits would be about \$60,000. This estimate is based on a member or beneficiary receiving increased annuity benefits due to the transferred EMT service of approximately \$2,000 per year an average of 30 months earlier than would otherwise be allowed.

ASSUMPTIONS:

- All eligible EMT's have similar average annual benefit amounts being transferred as the King County EMT's.
- On average, an EMT who disables or dies during their window period will collect their benefit for an additional 30 months.
- Up to five members may go out on a disability retirement or die during their waiting period.
- Members or beneficiaries who do not pay the outstanding member obligation for the transfer of service credit in full at the time of transfer or by means of an actuarial reduction to the monthly benefit, will pay the entire obligation within the time frame specified in the bill.

FISCAL IMPACT:

None. The liability increase of approximately \$0.3 million is insufficient to impact contribution rates.

We further determined that there would be no impact on contribution rates if as few as three or as many as ten members died or retired from disability during their waiting period.

In determining the liability increase for members impacted by this bill, we considered, but did not value any reduction in the retirement benefit that results from an early retirement reduction factor, nor did we discount earlier benefit payments with interest.

The effective date of this bill was not provided in the draft bill language. We have assumed the bill is effective 90 days after the end of session.

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 Law Enforcement Officers' and Fire Fighters' Retirement System.
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. 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.
4. This draft fiscal note is intended for use only during the 2007 Legislative Session.
5. 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.
6. 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.