

BOARD MEETING AGENDA

December 16, 2015 - 9:30 AM



LOCATION

STATE INVESTMENT BOARD
Large Conference Room, STE 100
2100 Evergreen Park Drive S.W.
Olympia, WA 98502
Phone: 360.586.2320
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|---|----------|
| 1. Approval of Minutes | 9:35 AM |
| 2. Disaster Response Coverage
Ryan Frost, Research and Policy Manager | 9:45 AM |
| 3. Retiree Return to Work
Paul Neal, Senior Research and Policy Manager | 10:30 AM |
| 4. Retiree Annuity Purchase
Paul Neal, Senior Research and Policy Manager | 11:15 AM |
| 5. Administrative Update <ul style="list-style-type: none">• SCPP Update• Outreach Activities | 12:00 PM |
| 6. 2016 Calendar Adoption | 12:30 PM |
| 7. Agenda Items for Future Meetings | 1:00 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.



Disaster Response Coverage

Report Type:

Final Proposal

Date Presented:

12/16/2015

Presenter Name and Title:

Ryan Frost, Research and Policy Manager

Summary:

Provide LEOFF Plan 2 members who are called up into eligible federal service to respond to natural disasters (Oso, wildfires) or other federal emergencies (WTO riots) with similar benefit protections provided to members of the National Guard or Military Reserves who are called up during a time of war.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Enhance the benefits for the members.

ATTACHMENTS:

Description		Type
	Disaster Response Presentation	Presentation
	Disaster Response Report	Report



December 16, 2015

Disaster Response Coverage

Final Proposal

By Ryan Frost

Research and Policy Manager

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ISSUE STATEMENT

LEOFF Plan 2 members who are called up to federal service to respond to natural disasters receive reduced non-duty death and disability benefits from LEOFF Plan 2 if they are killed or disabled in the course of that service.

PROPOSAL SUMMARY

Provide LEOFF Plan 2 members who are called up into eligible federal service to respond to natural disasters (Oso, wildfires) or other federal emergencies (WTO riots) with similar benefit protections provided to members of the National Guard or Military Reserves who are called up during a time of war.

Eligible federal service means a member left the employ of an employer to enter the uniformed services of the United States or the federal emergency management agency or the national disaster medical system of the United States department of health and human services to perform service in response to a disaster, major emergency, special event, federal exercise or official training.

The bill proposal found in Appendix A accomplishes that by doing the following:

- Provides the survivor of a member who is killed while providing eligible federal service with service credit at no cost for the period of service up until the member's death.
- Provides a member who is disabled while providing eligible federal service with service credit at no cost for the period of service up until the member's separation from that service.
- Provides survivor retirement benefits which are not actuarially reduced for the survivor of a member who is killed while providing eligible federal service on or after March 22, 2014.
- Provides disability retirement benefits which are not actuarially reduced for a member who is killed while providing eligible federal on or after March 22, 2014.

FULL OVERVIEW OF ISSUE

A number of LEOFF Plan 2 members were recently called into federal service with the National Guard, Military Reserves, and the National Disaster Medical System (NDMS) to respond to natural disasters such as the Oso mudslide and the Chelan wildfires. A LEOFF Plan 2 member called into federal service is classified as “on-leave” from their employer.

POLICY ISSUES & BACKGROUND

Policy Issues

Currently, no in-service benefits are provided for LEOFF Plan 2 members disabled or killed while providing federal service responding to natural disasters. The survivor of a member killed in federal service responding to natural disasters has the same benefits as the survivor of a member who left employment for other reasons.

Washington State Benefits

A member who dies before retirement is entitled to a standard death benefit ranging from a refund of contributions, up to an actuarially reduced monthly benefit paid to a surviving spouse or minor child. The monthly benefit received by the survivor is determined by the number of years the member has in the system at the time of death.

In addition to the monthly benefit, if a member dies in the line of duty, as of July 1, 2015 a \$236,443 death benefit will be paid to their designated beneficiary. This death benefit is not available to members who are called into federal service and killed responding to natural disasters during a time of peace.

Washington State Legislative History

The LEOFF Plan 2 Board and the Select Committee on Pension Policy previously recommended joint legislation to provide some pension benefit protections to members on leave for federal service in the military during a time of war:

1. A 2005 bill¹ permitted survivors of members of all plans to purchase up to 5 years of military service credit if the member died while in the uniformed services. This bill had no effect on contribution rates.
2. A 2009 bill² provided an unreduced survivor annuity to qualifying survivors of members of all systems and plans who leave public employment due to service in the National Guard or Military Reserves and die while honorably serving during a period of war. This bill had no effect on contribution rates.

¹ House Bill 1325 (2005)

² House Bill 1551 (2009)

The “period of war” language from the 2009 bill created a gap where members who are called by the National Guard, Military Reserves, or the NDMS to respond to natural disasters not having the unreduced survivor annuity option. Additional legislation with language allowing natural disaster responders to acquire the unreduced survivor annuity and to purchase up to five years of service credit would be required.

	Employees Responding to Natural Disasters	
	LEOFF 2 member assigned by employer	LEOFF 2 member called up by the National Guard, Military Reserves, or the NDMS
LEOFF 2 duty death benefit	X	
LEOFF 2 disability benefit	X	
Federal military benefits		X
Federal death & disability benefits	X	X
PSOB benefits	X	

Currently in 2015, there have been 60 fire fighter fatalities nationwide while responding to natural disasters.³ Washington also just experienced the largest wildfire outbreak in state history.⁴

NEXT STEPS - POLICY OPTIONS

Option 1: Vote to submit bill draft to Legislature for passage.

Option 2: Take no further action.

³ <http://apps.usfa.fema.gov/firefighter-fatalities/>

⁴ <http://www.usatoday.com/story/news/2015/08/24/washington-wildfires-largest/32302927/>

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0689.1/16

BRIEF DESCRIPTION: Providing benefits for certain retirement system members who die or become disabled in the course of providing emergency management services.

AN ACT Relating to benefits for certain retirement system members who die or become disabled in the course of providing emergency management services; amending RCW 41.26.510 and 41.26.470; and reenacting and amending RCW 41.26.520.

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

Sec. 1. RCW 41.26.510 and 2015 c 78 s 1 are each amended to read as follows:

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse or domestic partner as if in fact such spouse or domestic partner

had been nominated by written designation, or if there be no such surviving spouse or domestic partner, then to such member's legal representatives.

(2) Except as provided in subsection (4) of this section, if a member who is killed in the course of employment or a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse, domestic partner, or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 41.26.430, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.26.460 and if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.26.430; if a surviving spouse or domestic partner who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse or domestic partner, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse or domestic partner eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated as herein provided making the assumption that the ages of the spouse or domestic partner and member were equal at the time of the member's death; or

(b)(i) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670; or

(ii) If the member dies on or after July 25, 1993, one hundred fifty percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670. Any accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies after October 1, 1977, and is not survived by a spouse, domestic partner, or an eligible child, then the accumulated contributions standing to the member's

credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) The retirement allowance of a member:

(a) Who is killed in the course of employment, as determined by the director of the department of labor and industries, ((or the retirement allowance of a member))

(b) Who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, or

(c) Who has left the employ of an employer due to service in the national guard, military reserves, federal emergency management agency, or national disaster medical system of the United States department of health and human services and dies while performing service in response to a disaster, major emergency, special event, federal exercise, or official training on or after March 22, 2014,

is not subject to an actuarial reduction for early retirement as provided in RCW 41.26.430 or an actuarial reduction to reflect a joint and one hundred percent survivor option under RCW 41.26.460. The member's retirement allowance is computed under RCW 41.26.420, except that the member shall be entitled to a minimum retirement allowance equal to ten percent of such member's final average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five.

(5) The retirement allowance paid to the spouse or domestic partner and dependent children of a member who is killed in the course of employment, as set forth in RCW 41.05.011(5), shall include reimbursement for any payments of premium rates to the Washington state health care authority pursuant to RCW 41.05.080.

(6) In addition to the benefits provided in subsection (4) of this section, if the surviving spouse or domestic partner of a member who is killed in the course of employment is not eligible to receive industrial insurance payments pursuant to RCW 51.32.050 due to remarriage, the surviving spouse or domestic partner shall receive an amount equal to the benefit they would receive pursuant to RCW 51.32.050 but for the remarriage. This subsection applies to

surviving spouses and domestic partners whose benefits pursuant to RCW 51.32.050 were suspended or terminated due to remarriage prior to July 24, 2015. The monthly payments to any surviving spouse or domestic partner who received a lump sum payment pursuant to RCW 51.32.050 shall be actuarially reduced to reflect the amount of the lump sum payment.

Sec. 2. RCW 41.26.520 and 2009 c 523 s 8 and 2009 c 205 s 8 are each reenacted and amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.26.410 through 41.26.550.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The basic salary reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (7) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if the member makes the employer, member, and state contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner.

(4) A law enforcement member may be authorized by an employer to work part time and to go on a part-time leave of absence. During a part-time leave of absence a member is prohibited from any other employment with their employer. A member is eligible to receive credit for any portion of service credit not earned during a month of part-time leave of absence if the member makes the employer, member, and state contributions, plus interest, as determined by the department for the period of the authorized leave within five years of

resumption of full-time service or prior to retirement whichever comes sooner. Any service credit purchased for a part-time leave of absence is included in the two-year maximum provided in subsection (3) of this section.

(5) If a member fails to meet the time limitations of subsection (3) or (4) of this section, the member may receive a maximum of two years of service credit during a member's working career for those periods when a member is on unpaid leave of absence authorized by an employer. This may be done by paying the amount required under RCW 41.50.165(2) prior to retirement.

(6) For the purpose of subsection (3) or (4) of this section the contribution shall not include the contribution for the unfunded supplemental present value as required by RCW 41.45.060, 41.45.061, and 41.45.067. The contributions required shall be based on the average of the member's basic salary at both the time the authorized leave of absence was granted and the time the member resumed employment.

(7) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.45.060, 41.45.061, and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2); or

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during a period of war as defined in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of

such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, or adequate proof under (a)(iv), (d)(iv), or (e)(iv) of this subsection, the department shall establish the member's service credit and shall bill the employer and the state for their respective contributions required under RCW 41.26.450 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse, domestic partner, or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during a period of war as defined in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children.

Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during a period of war as defined in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

(f) The surviving spouse, domestic partner, or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, federal emergency management agency, or national disaster medical system of the United States department of health and human services and died while performing service in response to a disaster, major emergency, special event, federal exercise, or official training on or after March 22, 2014, may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in such service. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children provides to the director proof of the member's death while in such service.

(g) A member who leaves the employ of an employer to enter the uniformed services of the United States, federal emergency management agency, or national disaster medical system of the United States department of health and human services and becomes totally incapacitated for continued employment by an employer while providing such service is entitled to retirement system service credit under this subsection up to the date of separation from such service if the member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while performing such service.

(8) A member receiving benefits under Title 51 RCW who is not receiving benefits under this chapter shall be deemed to be on unpaid, authorized leave of absence.

Sec. 3. RCW 41.26.470 and 2013 c 287 s 2 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the director shall be eligible to receive an allowance under the provisions of RCW 41.26.410 through 41.26.550. Such member shall receive a monthly disability allowance computed as provided for in RCW 41.26.420 and shall have such allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age fifty-three, except under subsection (7) of this section.

(2) Any member who receives an allowance under the provisions of this section shall be subject to such comprehensive medical examinations as required by the department. If such medical examinations reveal that such a member has recovered from the incapacitating disability and the member is no longer entitled to benefits under Title 51 RCW, the retirement allowance shall be canceled and the member shall be restored to duty in the same civil service rank, if any, held by the member at the time of retirement or, if unable to perform the duties of the rank, then, at the member's request, in such other like or lesser rank as may be or become open and available, the duties of which the member is then able to perform. In no event shall a member previously drawing a disability allowance be returned or be restored to duty at a salary or rate of pay less than the current salary attached to the rank or position held by the member at the date of the retirement for disability. If the department determines that the member is able to return to service, the member is entitled to notice and a hearing. Both the notice and

the hearing shall comply with the requirements of chapter 34.05 RCW, the administrative procedure act.

(3) Those members subject to this chapter who became disabled in the line of duty on or after July 23, 1989, and who receive benefits under RCW 41.04.500 through 41.04.530 or similar benefits under RCW 41.04.535 shall receive or continue to receive service credit subject to the following:

- (a) No member may receive more than one month's service credit in a calendar month.
- (b) No service credit under this section may be allowed after a member separates or is separated without leave of absence.
- (c) Employer contributions shall be paid by the employer at the rate in effect for the period of the service credited.
- (d) Employee contributions shall be collected by the employer and paid to the department at the rate in effect for the period of service credited.
- (e) State contributions shall be as provided in RCW 41.45.060 and 41.45.067.
- (f) Contributions shall be based on the regular compensation which the member would have received had the disability not occurred.
- (g) The service and compensation credit under this section shall be granted for a period not to exceed six consecutive months.
- (h) Should the legislature revoke the service credit authorized under this section or repeal this section, no affected employee is entitled to receive the credit as a matter of contractual right.

(4)(a) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or such person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no such designated person or persons still living at the time of the recipient's death, then to the surviving spouse or domestic partner, or, if there is neither such designated person or persons still living at the time of his or her death nor a surviving spouse or domestic partner, then to his or her legal representative.

(b) If a recipient of a monthly retirement allowance under this section died before April 27, 1989, and before the total of the retirement allowance paid to the recipient equaled the

amount of his or her accumulated contributions at the date of retirement, then the department shall pay the balance of the accumulated contributions to the member's surviving spouse or, if there is no surviving spouse, then in equal shares to the member's children. If there is no surviving spouse or children, the department shall retain the contributions.

(5) Should the disability retirement allowance of any disability beneficiary be canceled for any cause other than reentrance into service or retirement for service, he or she shall be paid the excess, if any, of the accumulated contributions at the time of retirement over all payments made on his or her behalf under this chapter.

(6) A member who becomes disabled in the line of duty, and who ceases to be an employee of an employer except by service or disability retirement, may request a refund of one hundred fifty percent of the member's accumulated contributions. Any accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent. A person in receipt of this benefit is a retiree.

(7) A member who becomes disabled in the line of duty shall be entitled to receive a minimum retirement allowance equal to ten percent of such member's final average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five.

(8) A member who became disabled in the line of duty before January 1, 2001, and is receiving an allowance under RCW 41.26.430 or subsection (1) of this section shall be entitled to receive a minimum retirement allowance equal to ten percent of such member's final average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five, and shall have the allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age fifty-three. An additional benefit shall not result in a total monthly benefit greater than that provided in subsection (1) of this section.

(9) A member who is totally disabled in the line of duty is entitled to receive a retirement allowance equal to seventy percent of the member's final average salary. The allowance provided under this subsection shall be offset by:

(a) Temporary disability wage-replacement benefits or permanent total disability benefits provided to the member under Title 51 RCW; and

(b) Federal social security disability benefits, if any;

so that such an allowance does not result in the member receiving combined benefits that exceed one hundred percent of the member's final average salary. However, the offsets shall not in any case reduce the allowance provided under this subsection below the member's accrued retirement allowance.

A member is considered totally disabled if he or she is unable to perform any substantial gainful activity due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months. Substantial gainful activity is defined as average earnings in excess of eight hundred sixty dollars a month in 2006 adjusted annually as determined by the director based on federal social security disability standards. The department may require a person in receipt of an allowance under this subsection to provide any financial records that are necessary to determine continued eligibility for such an allowance. A person in receipt of an allowance under this subsection whose earnings exceed the threshold for substantial gainful activity shall have their benefit converted to a line-of-duty disability retirement allowance as provided in subsection (7) of this section.

Any person in receipt of an allowance under the provisions of this section is subject to comprehensive medical examinations as may be required by the department under subsection (2) of this section in order to determine continued eligibility for such an allowance.

(10)(a) In addition to the retirement allowance provided in subsection (9) of this section, the retirement allowance of a member who is totally disabled in the line of duty shall include reimbursement for any payments made by the member after June 10, 2010, for premiums on employer-provided medical insurance, insurance authorized by the consolidated omnibus budget reconciliation act of 1985 (COBRA), medicare part A (hospital insurance), and medicare part B (medical insurance). A member who is entitled to medicare must enroll and maintain enrollment in both medicare part A and medicare part B in order to remain eligible for the reimbursement provided in this subsection. The legislature reserves the right to amend or repeal the benefits provided in this subsection in the future and no member or beneficiary has a contractual right to receive any distribution not granted prior to that time.

(b) The retirement allowance of a member who is not eligible for reimbursement provided in (a) of this subsection shall include reimbursement for any payments made after June 30, 2013, for premiums on other medical insurance. However, in no instance shall the reimbursement exceed the amount reimbursed for premiums authorized by the consolidated omnibus budget reconciliation act of 1985 (COBRA).

(11) A member who has left the employ of an employer due to service in the national guard, military reserves, federal emergency management agency, or national disaster medical system of the United States department of health and human services and who becomes totally incapacitated for continued employment by an employer as determined by the director while performing service in response to a disaster, major emergency, special event, federal exercise, or official training on or after March 22, 2014, shall be eligible to receive an allowance under the provisions of RCW 41.26.410 through 41.26.550. Such member shall receive a monthly disability allowance computed as provided for in RCW 41.26.420 except such allowance is not subject to an actuarial reduction for early retirement as provided in RCW 41.26.430. The member's retirement allowance is computed under RCW 41.26.420, except that the member shall be entitled to a minimum retirement allowance equal to ten percent of such member's final average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five.



Disaster Response Coverage

Final Proposal
December 16, 2015

Issue

LEOFF Plan 2 members who are called up to federal service to respond to natural disasters receive reduced non-duty death and disability benefits from LEOFF Plan 2 if they are killed or disabled in the course of that service.

Final Proposal Summary

Provide LEOFF Plan 2 members who are called up into eligible federal service to respond to natural disasters or other federal emergencies with similar benefit protections provided to members of the National Guard or Military Reserves who are called up during a time of war.

Final Proposal Summary

Eligible federal service means a member left the employ of an employer to enter the uniformed services of the United States or the federal emergency management agency or the national disaster medical system of the United States department of health and human services to perform service in response to a disaster, major emergency, special event, federal exercise or official training.

Final Proposal Summary

- **Provides the survivor of a member who is killed with service credit at no cost for the period of service up until the member's death.**
- **Provides a member who is disabled with service credit at no cost for the period of service up until the member's separation from that service.**

Final Proposal Summary

- **Provides survivor retirement benefits which are not actuarially reduced for the survivor of a member who is killed while providing eligible federal service on or after March 22, 2014.**
- **Provides disability retirement benefits which are not actuarially reduced for a member who is killed while providing eligible federal on or after March 22, 2014.**

Options

- 1. Vote to submit bill draft to Legislature for passage.**
- 2. Take no further action.**

Questions?

Contact:

Ryan Frost

Research and Policy Manager

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ryan.frost@leoff.wa.gov



Retiree Return to Work

Report Type:

Final Proposal

Date Presented:

12/16/2015

Presenter Name and Title:

Paul Neal, Senior Research and Policy Manager

Summary:

Follow up on Board direction to present option to resubmit prior legislation proposing restricting current ability of LEOFF Plan 2 retirees to return to work as a law enforcement officer or fire fighter.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Provide the stakeholders with a voice in plan governance., Maintain the financial integrity of the plan., Inform the stakeholders.

ATTACHMENTS:

Description	Type
📎 Retiree Return to Work Report	Report
📎 Retiree Return to Work Fiscal Note	Appendix
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FINAL PROPOSAL

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ISSUE STATEMENT

The LEOFF Plan 2 Board's (Board) 2014 proposal to tighten the career change law revealed tension between the policies of: 1) Maintaining public confidence that LEOFF Plan 2 is well designed and professionally managed; and 2) Facilitating smaller jurisdictions' access to highly trained and experienced LEOFF Plan 2 retirees.

PROPOSAL SUMMARY

Reintroduce 2014 Legislation (HB 2479) preventing LEOFF 2 retirees from drawing their pension while working in positions historically included in LEOFF such as police or fire chief even if those positions:

- are not full time;
- are not fully compensated;
- are not fully commissioned;
- include PERS duties; or
- purportedly filled by an independent contractor

OVERVIEW

During the 2013 interim the Board learned some LEOFF Plan 2 retirees were using the 2005 career change law to work as law enforcement officers or fire fighters while drawing their pensions. Some employers facilitated this expansion of the law's original intent by redefining historically LEOFF positions to avoid LEOFF eligibility. Some felt this was inappropriate.

The Board proposed curtailing the ability of a LEOFF Plan 2 retiree to draw a pension and work in a historically LEOFF position. The Board's proposal was introduced in 2014 as HB 2479. The Legislative debate revealed tension between the Board's original policy goal and the goal of allowing smaller jurisdictions to compete for law enforcement officers and fire fighters they would not otherwise be able to afford.

The Board revisited this issue during 2014 but voted to table it until the 2015 interim. At the November meeting, the Board directed staff to prepare and present a final proposal.

MEMBERS IMPACTED

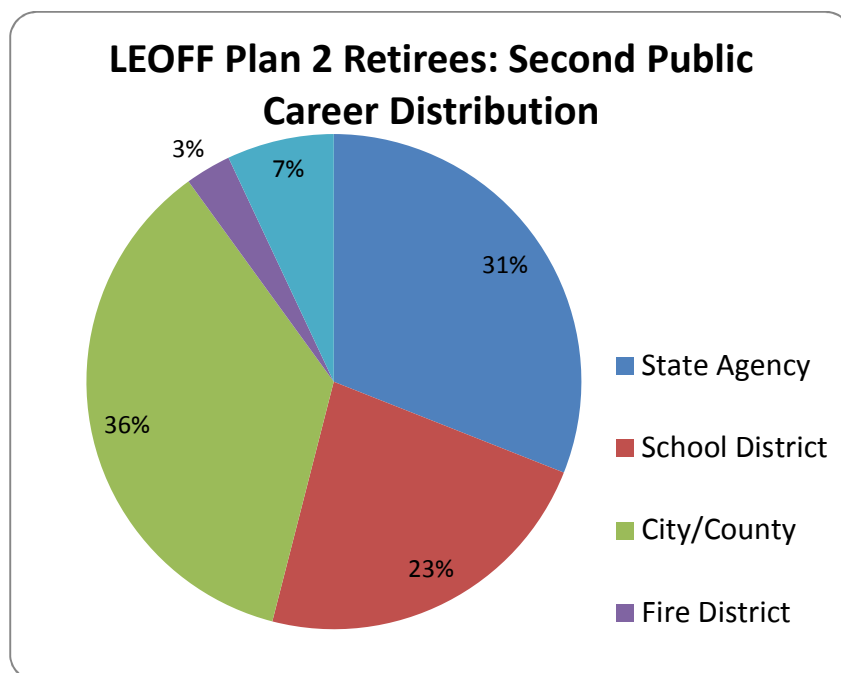
Two hundred sixty-five LEOFF Plan 2 retirees have utilized the provisions of the career change law since its inception in 2005¹. A similar number of members would be impacted by any changes to the law if those utilization numbers remain constant. Additionally, there are public trust issues addressed by the original bill that impact all LEOFF Plan 2 members.

BACKGROUND & POLICY ISSUES

Before 2005 a LEOFF Plan 2 retiree's pension stopped if they worked in a job covered by any state-wide public retirement system. The Board recognized member's may no longer be able to fulfill the physical demands of law enforcement or firefighting before they were ready, or could afford to stop working. The Legislature passed the Board's proposed Career Change legislation in 2005 enabling retired LEOFF Plan 2 retirees to start a second career in non-LEOFF public employment. A retiree accepting such a job can either establish membership in another public system, thus suspending their LEOFF Plan 2 pension, or waive membership in the new system and continue receiving their pension.

The Board intended to facilitate transition from a physically demanding profession to a second less strenuous career. The Board did not contemplate enabling retirees to continue working as a law enforcement officer or fire fighter while receiving their pension.

The vast majority of participating retirees use Career Change as intended: to facilitate public employment as something other than a law enforcement officer or fire fighter. Recent DRS data shows 265 LEOFF Plan 2 retirees working in public employment with an average annual salary of \$28,268. Sixty-one percent work for non-LEOFF employers. Most of those retirees working for LEOFF employers do not work in historically LEOFF positions:



¹ Data from November 2013 on career change usage report produced by the Department of Retirement Systems (DRS).

As discussed during the 2013 Career Change briefings, some employers seeking the benefit of the years of training and experience possessed by LEOFF Plan 2 retirees have redefined LEOFF positions as PERS positions. For instance, some employers have redefined full-time police chief and fire chief positions as “part-time.” This allows LEOFF Plan 2 retirees to hold those positions without losing receipt of their pensions.

An example of this appeared in 2015 involving the Tenino Chief of Police. He retired under LEOFF Plan 2 and subsequently went to work as the Tenino Police Chief. His contract required him to work 159 hours per month, one hour below the threshold of 160 hours which would have made him full-time, requiring reentry into LEOFF Plan 2 and suspension of his pension. DRS found that the chief was working additional hours such that he qualified as a full time employee. It stopped his pension and billed the City for \$82,462 in pension overpayments.

Proposal to Curtail Abuse

The Board proposed curtailing the ability of a LEOFF Plan 2 retiree to draw a pension and work in a historically LEOFF position. The proposal was introduced in 2014 as HB 2479. After passing the House, the bill failed to pass the Senate, in part because of concerns raised by stakeholder groups about the desirability of providing smaller jurisdictions access to highly trained and experienced fire chiefs and police chiefs they could not otherwise afford.

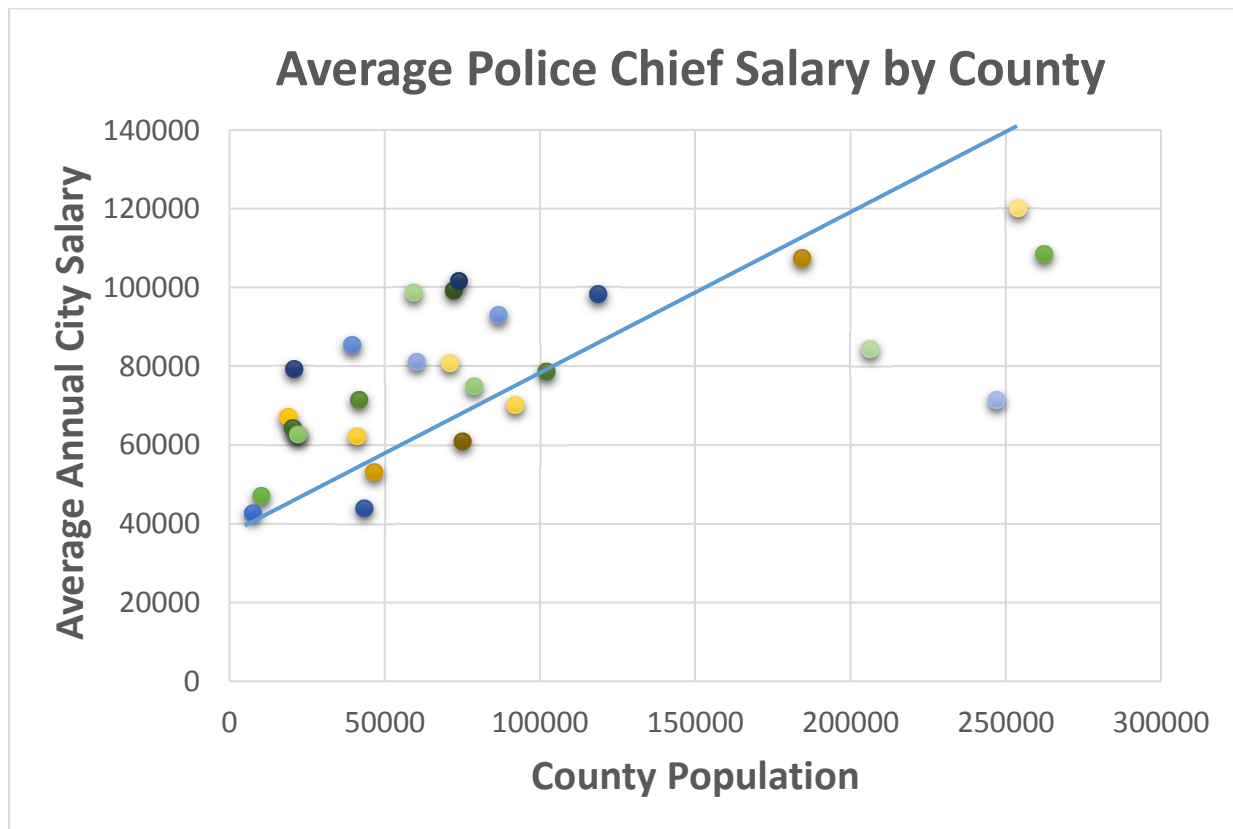
THE VALUE OF EXPERIENCE

Perhaps more than other public professions, law enforcement and firefighting require continuous, specific training. Over the course of a 25 year career a fire fighter’s employer spends approximately \$142,500 on training². Law enforcement employers also incur significant training costs. In addition to specific training, the years of field experience possessed by LEOFF Plan 2 retirees has great potential value to employers.

LEOFF employers are, by definition, mostly political subdivisions. Local government budgets, and hence public safety salaries, vary widely across Washington depending in large part on the tax base. The 2014 career change analysis looked at chief salaries by employer population. While salary ranged significantly between many small jurisdictions and large jurisdictions, a better predictor of salary range was a city’s location, i.e. urban vs. rural.

In an effort to examine the urban vs rural distinction, the data is sorted below by population of the county the city is in, rather than the city itself.

² The South King County Fire Training Coalition, which provides training to fire fighters from 8 different jurisdictions, charges employers \$5700 per year per fire fighter. $\$5700 \times 25 \text{ years} = \$142,500$.



While there is not a one-to-one correlation, the overall trend is that cities in counties with higher populations tend to pay higher salaries. This lends some support to the idea that allowing LEOFF Plan 2 retirees some ability to work while receiving their pensions could help lower paying jurisdictions compete for highly trained and experienced law enforcement officers and fire fighters.

IMPORTANCE OF A WELL DESIGNED AND PROFESSIONALLY MANAGED PLAN

Public perception of pension abuse can be exacerbated when benefits appear to flow disproportionately to highly placed employees. Public displeasure over perceived abuses undermines public confidence in the retirement system as a whole.

Uninterrupted Employment

If an employee appears to retire, then comes back to work in the same or similar position with their former employer, it raises questions whether the person ever actually retired. Both state retirement law and the Internal Revenue Code require a full separation from service before qualifying for a retirement allowance. These requirements exist to guard against pseudo-retirements, where a person goes through the process of retiring in order to qualify for their pension, but has only briefly, or in some cases never, left their employer.

Public Pension + Public Salary

Receiving both a public pension and a public salary at the same time is a common hot-button with the general public.

Newspaper articles have featured the total compensation received by LEOFF Plan 2 retirees who return to law enforcement officer or fire fighter employment. A recent Seattle Times report on LEOFF Plan 2 retirees working as police chiefs and fire chiefs described a LEOFF Plan 2 retiree working as a fire chief collecting a \$100,000 a year pension and a \$90,000 a year salary. See Appendix A.

One could argue adding together pensions for previous service and the salaries earned for current service is mixing apples and oranges. LEOFF Plan 2 pensions, unlike salaries for current service, are not paid out of current revenues. Those pensions are fully funded at retirement by employer and employee contributions paid over the course of the employee's career, plus earnings on those contributions³.

When a public employee retires and goes to work in the private sector or for a public entity in another state, no objections are heard. Some question why the result is different if that same public retiree goes to work in the public sector. Judging from the comments posted in response to recent newspaper articles, many members of the public do not find this analysis persuasive.

Perceived Favoritism

Some of the public anger over allegations of abuse flow from a perceived misuse of authority. Articles often feature persons working in upper management negotiating with the mayor and/or city council to create a position description allowing them to earn a salary as a law enforcement officer or fire fighter while drawing a LEOFF pension.

The vast majority of LEOFF Plan 2 retirees utilizing the career change law do not work as law enforcement officers or fire fighters and make less than in their first careers. For example, a retired police officer providing part-time security at a middle school. These are not the cases reported in the paper.

BALANCING OPTIONS

During Board discussions in 2014, many Board members saw the value of allowing LEOFF Plan 2 retirees to share the value of their experience with smaller employers, but were uncomfortable with the current situation where position descriptions for LEOFF positions were modified to facilitate employment of LEOFF retirees.

The Board directed staff to develop options which maintain LEOFF Plan 2 as a well-designed and professionally managed plan while providing a "bright line" defining when a LEOFF Plan 2 retiree could work in a historically LEOFF position without suspension of their entire pension.

Make Benefit Generally Available

An issue with the current situation is the appearance of a "work around" where an employer takes specific action to accommodate a specific employee. This perceived dynamic appears where the employee continues with the same employer. It also appears when the benefit appears limited to persons with a motivated prospective employer.

³ According to the Washington State Investment Board, 86% of every dollar paid out in LEOFF Plan 2 pension benefits comes from investment earnings.

These issues could be addressed by:

- Requiring the LEOFF Plan 2 retiree work for a different employer than they retired from;
- Openly provide the benefit so specific employer action would no longer be required.

This could be done by:

- making the benefit available to a specific class of employees (i.e. chiefs); or
- making the benefit generally available to all LEOFF Plan 2 retirees

Not Encouraging Earlier Retirement

Making the benefit generally available could incentivize employees to retire earlier to utilize the new standard. This could negatively impact the original employer and create an actuarial cost. The Actuary bases future costs in part by projecting when people will retire, i.e. how long they will draw a benefit. If the new standard creates enough incentive to retire earlier, this could create an actuarial cost.

A minimum service credit requirement, possibly 20 or 25 years, could help address this issue and ensure that persons eligible for LEOFF reemployment were highly experienced employees.

Limiting Total of Pension plus Salary

The public shows concern when a retiree's total income, pension plus salary, appears excessive. Concern is especially likely if the combination doubles or nearly doubles the person's compensation. While the objection is debatable, it is clearly an area of public concern.

This issue could be addressed by limiting the combined amount of a LEOFF Plan 2 retiree's salary and pension. Possible alternatives include:

- Limiting total compensation to a percentage of Final Average Salary: Limiting total pension and salary to a set percentage of Final Average Salary (FAS) would ensure that the retiree's total compensation would be similar to what he or she earned prior to retirement. This could address perceptions of abuse. On the other hand, requiring DRS to develop and track a new, LEOFF Plan 2 specific, post-retirement employment standard could generate an administrative cost.
- Limit the Timeframe for Collecting Both Pension and Salary: The State's other Plan 2 systems allow retirees to work in a system-covered position for up to 867 hours per year (approximately 5 months). Once a retiree reaches that point, their pension stops for the remainder of the calendar year. It restarts at the beginning of the next year, stopping again if the retiree works another 867 hours. DRS has systems and reporting requirements in place to track the 867 hour rule for the State's other Plan 2 systems.

Adopting this same standard for LEOFF Plan 2 retirees working in historically LEOFF positions would effectively limit the combined salary and pension, thus mitigating the "double-dipping" issue. It would be consistent with current policy in the State's other plan 2 systems. Finally, it would be easier for DRS than administering a new standard.

NEXT STEPS – OPTIONS

Pursuant to the Board's direction, a draft bill updating HB 2479 for introduction in 2016 is attached as Appendix B. The fiscal note for HB 2479 prepared by the State Actuary is attached as Appendix C. Because the current bill is identical to HB 2479, the prior fiscal note is still valid.

Option 1: Vote to submit bill draft to Legislature for passage

Option 2: Take no further action

SUPPORTING INFORMATION

Appendix A: *Fire, police officials get retire-rehire deals*, Seattle Times, November 21, 2013.

Appendix B: Updated Code Reviser Draft with same language as HB 2479 updated for introduction in 2016 Legislative session.

Appendix C: Fiscal note for HB 2479.

APPENDIX A

Seattle Times Article: *Fire, police officials get retire-rehire deals*

Published in Seattle Times:

Updated: 8:25 a.m. Thursday, Nov. 21, 2013 | Posted: 8:25 a.m. Thursday, Nov. 21, 2013

Fire, police officials get retire-rehire deals

By MIKE BAKER

The Associated Press

SEATTLE —

A couple years after retiring as Lakewood fire chief at age 58, Paul Webb returned to the profession and his former job title — this time at Orting Valley Fire and Rescue.

Hired under a contract without some of the typical employee benefits, Webb's arrangement at the end of 2009 allowed him to draw more than \$100,000 in annual pension payments while also earning up to \$90,000 in yearly pay. It was an interim position, according to his contracts. He stayed in the job for three years.

It wasn't long before six of Webb's past colleagues followed similar paths, retiring and taking jobs in various contract positions, according to records.

In recent years, Washington lawmakers changed laws to crack down on retire-rehire arrangements, seeking to prevent pensioners from double-dipping when they return to similar government jobs.

But The Associated Press found that gaps in the special rules created for law enforcement officers and firefighters have allowed them to draw salaries alongside their pension. And those retirees generally retire much younger and with much larger retirement plans than teachers or other government workers.

According to local and state records obtained by AP under public records law, dozens of public safety retirees around the state became contractors. Some took part-time jobs such as polygraph consultants or pilots or instructors, while others returned to prominent managerial positions.

Other retirees in those two retirement systems reserved for law enforcement officers and firefighters — called LEOFF-1 and LEOFF-2 — took jobs that had them work slightly less than full time or with slightly less benefits, also allowing them to bypass rules that would have halted pension payments.

Local governments gain from the arrangements because officials can hire someone with experience at either a discounted pay rate or without having to cover some typical benefits.

DuPont Mayor Michael Grayum recently worked closely with the Department of Retirement Systems to ensure the city was following the rules in the hiring of a police chief who had retired from a different department. The city didn't seek out pensioners, but three of the top candidates for the job were retirees.

"We were able to hire more experienced leadership for a lower cost than we have historically," he said. The new chief is able to keep his pension because his job is only 35 hours a week instead of 40.

The Legislature established retire-rehire rules for many government workers in 2003 due to concerns about the frequency and cost of those arrangements. In 2011, lawmakers placed even tighter controls on those deals, closing what some political leaders derided as "loopholes."

Rules for members of the newer LEOFF system were established in 2005 with the intent of preventing retire-rehire arrangements in similar jobs but designed to allow transition to less-demanding occupations in government.

Steve Nelsen, executive director of the LEOFF-2 Retirement Board, said the rules weren't meant to allow retirees to return to work in similar LEOFF jobs. "This was not the intent of the bill," Nelsen said. He said several Board members have expressed concern about the DuPont case that surfaced in the wake of a previous AP story and that the Board is now exploring the issue.

LEOFF rehire rules revolve around the issue of eligibility. Workers are eligible for the LEOFF system if they are fully compensated in full-time positions as a law enforcement officer, firefighter or supervisor. A retiree who gets rehired into a similar LEOFF-eligible position would have their pensions benefits halted.

But if a LEOFF retiree returns to a position that's less than full-time or not fully compensated, they technically would not qualify for the system and can avoid disruption of their benefits, according to the state.

Some have seized on that potential.

— In Maple Valley, in King County, Larry Rude was hired in 2007 to a contract position as assistant fire chief. He started in the new position the same day he retired from the state system, according to records.

For three years, Rude earned more than \$100,000 a year in salary — plus other benefits — along with a similar amount in retirement payments. Rude said he was allowed to draw pension and salary because he was only working in a part-time position, saying it "wasn't very many" hours a week.

Rude said he didn't have a specific number of hours that he typically worked, although the final contract he signed said Rude could work up to 159 hours a month — an average of about 37 hours a week.

— In Soap Lake, in central Washington, officials chose Glenn Quantz as an interim police chief last year, bringing him on as a contractor. Quantz had retired in 2009 at age 53 from the Thurston County Sheriff's Office.

Mayor Raymond Gravelle told state officials in a letter obtained by AP that Quantz was working 32 hours a week — making it a part-time job that wouldn't disrupt his benefits. However, Quantz is earning the full salary of the police chief and the same amount as the previous chief, according to records provided by the city's finance director.

Quantz declined to comment about his situation. Gravelle said the city is small enough that Quantz doesn't need to work full-time, but he said officials will be going back to review records to ensure they are compliant.

— In the Orting Valley case, documents show Webb consulted with the state about his rehire transition because he didn't want it to disrupt his retirement benefits. While Webb was working in a full-time post, a state official told him that there would be no impact because he didn't qualify for sick leave cash-outs and some other benefits.

"It was definitely full-time, but it wasn't fully compensated," Webb said in an interview.

Dave Nelsen, the legal and legislative services manager at the Department of Retirement Systems, said it's not clear what the review entailed at the time but said the issue of what qualifies as "fully compensated" is subjective and could be interpreted differently by other officials.

— At North Highline Fire District in the Seattle area, Steve Marstrom was hired to a contract as the administrative chief. Marstrom had retired from the Lakewood Fire District more than a decade before at age 50.

Marstrom's contract said he did not have set hours but would be paid \$8,000 a month. He could also get \$1,500 a month for housing. Marstrom said his role at North Highline was strictly an administrative one, since he was supervising personnel and not participating in any firefighting activities.

Because he wasn't personally involved in firefighting, Marstrom said the role didn't qualify for the LEOFF system so it wouldn't disrupt his LEOFF benefits.

Other LEOFF retirees in the system managed to get hired in similar roles that are technically in other pension systems. Some fire officials transitioned to become fire inspector or deputy fire marshal. Police officials transitioned to work as a "violence prevention" leader or agency security manager.

Depending on the circumstances, state officials could decide that workers hired as contractors should have been reported to the state as actual employees, potentially leading to a halting of pension payments. By hiring as contractors, however, the employees are more difficult for state pension managers to track.

One worker in the larger group of Lakewood retirees who became contractors had a part-time salary of \$90 per hour, while another was hired back as the department's full-time "emergency preparedness coordinator." Nelsen, the retirement system manager, said the agency was further examining the cases of Rude, Marstrom and Webb.

Earlier this year, after an AP report that described the case of former Lakewood official Greg Hull as part of a larger story about how some workers boosted their pensions with pre-retirement raises, the state audited files related to Hull and determined that he had been improperly classified as a contractor in his newer job at DuPont.

Retirement system managers are now seeking to recover more than \$550,000 in excess pension payments from that city.

Retirees in the two systems dedicated for law enforcement officers and firefighters have different rules than most other retirees. Many retired teachers, for example, would be unable to work more than 867 hours a year in a government job without having their benefits disrupted, but law enforcement and firefighter retirees could conceivably work more than 1,800 hours a year.

Law enforcement and firefighters also get more leeway even though their pay and benefits are typically much greater than other government workers. The median worker who retired over the last 10 years into a LEOFF system currently gets about \$45,000 per year in pension payments. By comparison, the median retiree into the teacher pension systems has a benefit about half that size — \$24,000.

Despite the much larger pension values, the median LEOFF retiree departed the job at age 56 while the median teacher retiree worked until age 61.

AP Writer Mike Baker can be reached on Facebook: <http://on.fb.me/HiPpEV>
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APPENDIX B

Updated Retiree Return to Work Bill – Code Reviser Draft

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0646.1/15

AN ACT Relating to retired law enforcement officers and firefighters employed in certain public positions; amending RCW 41.26.500; and creating a new section.

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

NEW SECTION. **Sec. 1.** The legislature has recognized the physical demands of law enforcement officer and firefighter duties by providing for earlier retirement from the law enforcement officers' and firefighters' retirement system than from other state retirement systems. Chapter 372, Laws of 2005 facilitates transition of firefighters and law enforcement officers to other careers, recognizing those career professionals could still provide valuable public service in positions other than law enforcement and firefighting.

It is not the intent, nor is it a reasonable expectation of members, that chapter 372, Laws of 2005 allow plan 2 retirees of the law enforcement officers' and firefighters' retirement system to continue in a law enforcement officer or firefighter career and still collect their retirement allowance.

Sec. 2. RCW 41.26.500 and 2005 c 372 s 2 are each amended to read as follows:

(1) Except under subsection (3) of this section, a retiree under the provisions of plan 2 shall not be eligible to receive such retiree's monthly retirement allowance if he or she is employed in an eligible position as defined in RCW 41.40.010, 41.32.010, 41.37.010, or 41.35.010, or as a law enforcement

officer or firefighter as defined in RCW 41.26.030. If a retiree's benefits have been suspended under this section, his or her benefits shall be reinstated when the retiree terminates the employment that caused his or her benefits to be suspended. Upon reinstatement, the retiree's benefits shall be actuarially recomputed pursuant to the rules adopted by the department.

(2) The department shall adopt rules implementing this section.

(3) A member or retiree who becomes employed in an eligible position as defined in RCW 41.40.010, 41.32.010, 41.35.010, or 41.37.010 shall have the option to enter into membership in the corresponding retirement system for that position notwithstanding any provision of RCW 41.04.270.

(a) A retiree who elects to enter into plan membership shall have his or her benefits suspended as provided in subsection (1) of this section.

(b) A member or retiree who does not elect to enter into plan membership shall be eligible to initiate or continue to receive his or her benefits without interruption except as provided in (c) of this subsection.

(c) This subsection (3) does not apply to retirees or members in positions that would otherwise be eligible for the law enforcement officers' and firefighters' retirement system except that:

(i) The position is less than full-time;

(ii) The position is less than fully compensated;

(iii) The position is not fully commissioned;

(iv) The position includes additional duties that would make the position ineligible for the law enforcement officers' and firefighters' retirement system; or

(v) The retiree or member is designated as an independent contractor.

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APPENDIX C
Original Fiscal Note for HB 2479

Multiple Agency Fiscal Note Summary

Bill Number: 2479 HB	Title: LEOFF restrictions
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Estimated Cash Receipts

NONE

Estimated Expenditures

Agency Name	2013-15			2015-17			2017-19		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total	0.0	\$0	\$0	0.0	\$0	\$0	0.0	\$0	\$0

Estimated Capital Budget Impact

NONE

Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Final 1/24/2014
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 36389

FNS029 Multi Agency rollout

Individual State Agency Fiscal Note

Bill Number: 2479 HB	Title: LEOFF restrictions	Agency: 124-Department of Retirement Systems
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Part I: Estimates

☒ No Fiscal Impact

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 01/20/2014
Agency Preparation: Mike Ricchio	Phone: 360-664-7227	Date: 01/24/2014
Agency Approval: Marcie Frost	Phone: 360-664-7224	Date: 01/24/2014
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/24/2014

Request # 14-002-1

Bill # 2479 HB

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill would restrict the ability of a retiree from Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System from continuing to receive their pension while employed in a position that performs primarily LEOFF duties but is not LEOFF eligible. An example of this type of position would be a less than full-time police officer or fire fighter.

This bill will not have a fiscal impact on the Department of Retirement Systems (DRS).

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Administrative Assumptions

- This bill will affect current employees, but all pension suspensions will be prospective. There will be no pension suspensions for time worked prior to the effective date of this bill.
- DRS will use existing processes to communicate the change to employers and to make appropriate pension adjustments within the agency's automated systems.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Request # 14-002-1

Bill # 2479 HB

Individual State Agency Fiscal Note

Bill Number: 2479 HB	Title: LEOFF restrictions	Agency: 341-LEOFF 2 Retirement Board
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Part I: Estimates

☒ No Fiscal Impact

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 01/20/2014
Agency Preparation: Cornelia Kirkpatrick	Phone: (360) 407-8131	Date: 01/22/2014
Agency Approval: Steve Nelsen	Phone: 360-586-2323	Date: 01/22/2014
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/22/2014

Request # 1401-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill amends RCW 41.26.500 - Suspension of Retirement Allowance upon Reemployment.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Request # 1401-1

Individual State Agency Fiscal Note

Bill Number: 2479 HB	Title: LEOFF restrictions	Agency: AFN-Actuarial Fiscal Note - State A
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 01/20/2014
Agency Preparation: Aaron Gutierrez	Phone: 360-786-6152	Date: 01/24/2014
Agency Approval: Lisa Won	Phone: 360-786-6150	Date: 01/24/2014
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/24/2014

Request # 2479-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Request # 2479-1

Bill # 2479 HB

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill removes the ability for a LEOFF 2 retiree to receive benefits if the retiree returns to work and is employed in a position that would normally have qualified for LEOFF 2 were it not for certain circumstances.

COST SUMMARY

The limitations on benefits that result from this bill could lead to LEOFF 2 members retiring later than they would under current law. When people retire later than previously expected, it generally leads to a savings to the plan. Due to a lack of data, however, that savings is indeterminate.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

Summary Of Change

This bill impacts the following system and plan:

- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2).

This bill removes the "opt in/opt out" provision (detailed in the next section) in certain circumstances. As a result, LEOFF 2 retirees who return to work in certain positions will have their retirement benefits suspended so long as they continue to work in those positions.

Under the bill, the "opt in/opt out" provision will not be available when the retiree is working in a position that would normally qualify for membership in LEOFF except for one or more of the following circumstances:

- ❖ The position is less than full-time.
- ❖ The position is less than fully compensated.
- ❖ The position is not fully commissioned.
- ❖ The position includes additional duties that would exempt the position from LEOFF 2.
- ❖ The retiree is deemed an independent contractor.

Effective Date: 90 days after session.

What Is The Current Situation?

Under the estoppel statute (RCW 41.04.270) anyone who is a member of, or receiving benefits from a state retirement system, is prohibited from becoming a member or earning benefits in another retirement system.

Each retirement system also has its own rules regarding when a retiree may return to work and continue receiving benefits at the same time. Typically, retirees in the various systems can receive benefits and work:

- ❖ Limited hours (up to 867 per year), if the position would otherwise be eligible for retirement system membership.
- ❖ Unlimited hours, if the position is in the private sector, or otherwise ineligible for retirement system membership.

LEOFF 2 statutes prohibit members from receiving LEOFF benefits and working in a law enforcement capacity at the same time. However, the statutes do allow members to retire, begin receiving benefits, and return to work in a non-law enforcement position without a restriction on hours.

Specifically, LEOFF 2 statutes contain both a general rule, and an exception to that rule.

Actuary's Fiscal Note For HB 2479/SB 6397

The general rule (RCW 41.26.500(1)) states that LEOFF 2 retirees cannot receive LEOFF pension benefits while employed in an eligible position in PERS, TRS, SERS, PSERS, or LEOFF.

However, the exception (RCW 41.26.500(3)) allows LEOFF 2 retirees hired into eligible positions in PERS, TRS, SERS, or PSERS (not LEOFF) to choose between either of the following:

- ❖ Opting in to the non-LEOFF retirement system, earning future service as a dual member, and having their LEOFF 2 benefits temporarily suspended; or
- ❖ Opting out of the non-LEOFF system and continuing to receive LEOFF 2 retirement benefits.

Who Is Impacted And How?

We estimate this bill could affect any current or future retirees in LEOFF 2. The table below shows counts of active, terminated and vested, and service-retired LEOFF 2 members at June 30, 2012.

Members Impacted			
System/Plan	Actives	Terminated Vested	Service Retirees
LEOFF 2	16,720	689	1,956

We estimate this bill will cause certain members' retirement benefits to be suspended under certain circumstances, where they might not be suspended under current law.

This bill could impact all 16,720 active LEOFF 2 members through decreased contribution rates.

WHY THIS BILL HAS AN INDETERMINATE SAVINGS AND WHO PAYS FOR IT

Why This Bill Has A Savings

This bill has a savings because placing restrictions on who can receive retirement benefits can encourage members to retire later than they otherwise would have. If a member begins collecting benefits later (and thus for a shorter time overall), it represents a savings to the plan relative to current law.

Who Will Receive These Savings?

The savings from this proposal would be divided between members, local employers, and the state according to the standard LEOFF 2 funding method.

- ❖ 50 percent member.
- ❖ 30 percent local employer.

❖ 20 percent state.

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.

As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the June 30, 2012, Actuarial Valuation Report or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2014 Legislative Session only.

We advise readers of this 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 fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. We prepared this fiscal note for the Legislature during the 2014 Legislative Session.
2. We prepared this 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 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 fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Lisa A. Won, ASA, FCA, MAAA
Senior Actuary

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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 Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

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 PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.



Retiree Return to Work

Final Proposal
December 16, 2015

Issue

Career Change legislation is sometimes used inappropriately

Board proposal to remedy revealed tension

- Public confidence in well designed and professionally managed public pension plan
- Access to highly trained and experienced LEOFF Plan 2 retirees for small jurisdictions

Proposal Summary

- Resubmit HB 2479 prohibiting LEOFF Plan 2 retirees from receiving pension if working in a position eligible for LEOFF except for the fact that it is:
 - Less than full time
 - Less than fully compensated
 - Not fully commissioned
 - Includes additional non-LEOFF duties
 - Worker is an independent contractor
- Fiscal Note

Next Steps - Options

1. Vote to submit bill draft to Legislature for passage
2. Take no further action

Questions?

Contact:

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Retiree Annuity Purchase

Report Type:

Final Proposal

Date Presented:

12/16/2015

Presenter Name and Title:

Paul Neal, Senior Research and Policy Manager

Summary:

Potential legislation allowing LEOFF Plan 2 retirees a window period to purchase an annuity from the trust fund.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Enhance the benefits for the members.

ATTACHMENTS:

Description	Type
 Retiree Annuity Purchase Report	Report
 Draft Fiscal Note	Report
 Retiree Annuity Purchase Presentation	Presentation



December 16, 2015

Retiree Annuity Purchase

FINAL PROPOSAL

By Paul Neal
Senior Research and Policy Manager
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ISSUE STATEMENT

Current state law does not allow retirees to roll over tax deferred savings into LEOFF Plan 2 to purchase an annuity.

PROPOSAL SUMMARY

Allow LEOFF Plan 2 retirees who retired before October 1, 2014, a six month window to purchase an annuity through LEOFF. The annuity would be offered under the same terms as the current option including built in COLA and a survivor option.

OVERVIEW

At the time of retirement, members can roll their retirement savings from a tax qualified plan into LEOFF Plan 2. The Department of Retirement Systems (DRS) will convert this rollover into a monthly life annuity. Because members are rolling over from a tax qualified savings plan, they do not have to pay taxes at the time the annuity is purchased. Instead, the money will be included in their taxable income as they receive it.

Members receive their pension dollars as well as this annuity in one monthly check from DRS. If they were to pass away before receiving the initial cost to purchase the annuity, the designated beneficiary receives the balance.

Following passage of the 2014 legislation allowing purchase of annuity at the time of retirement, existing retirees inquired whether they could also roll over and purchase an annuity after retirement. The current law does not allow existing retirees to purchase an annuity. An annuity can only be purchased *at* the time of retirement.

BACKGROUND & POLICY ISSUES

A 2012 IRS revenue ruling¹ allowed pension plan members to roll money from a deferred compensation account into the member's defined benefit plan to purchase an annuity if authorized by the plan document (i.e. the LEOFF Plan 2 statutes).

After studying the issue, the Board recommended legislation in 2014 which was passed unanimously by the Legislature. The legislation allows members of LEOFF Plan 2 who are retiring to purchase an optional actuarially equivalent life annuity from the LEOFF Plan 2 trust fund with a minimum payment of \$25,000. The payment may be made through an eligible or direct rollover, or trustee-to-trustee transfer from a tax-qualified plan offered by a governmental employer.

Existing retirees (retired before the 2014 Annuity Purchase legislation) began to raise questions about their ability to purchase an annuity. Neither the original revenue ruling nor the Board's legislation discussed whether existing retirees could also be given the opportunity to purchase an annuity.

Staff has since determined that federal tax law would allow retirees to purchase an annuity from the pension fund, if authorized in statute.

Value of an Annuity Purchase

Purchasing an annuity increases a retiree's monthly benefit for the rest of their life. An "annuity" is an investment on which a retiree receives fixed payments for their lifetime. If an annuity is purchased, the retiree would continue to receive the annuity portion of their monthly benefit even if they returned to work, or returned to membership.

Similar to a monthly benefit, the annuity portion may also be passed along to a survivor if a survivor option is selected at the time of retirement. If a survivor option is not selected, any portion of the annuity remaining at the time of death will be paid to the designated beneficiary or the retiree's estate. If the retiree is eligible for an annual Cost-of-Living Adjustment (COLA) on their monthly benefit, they will receive the same COLA percentage on their purchased annuity.

Many private annuity companies offer their own versions of this benefit. However, LEOFF's higher interest rate assumption (7.5% - compared to around 4% for a private annuity company)

¹ Internal Revenue Bulletin 2012-8; issued February 21, 2012.

translates into a larger annuity from the same lump sum. Additionally, administrative costs to the member are much lower.

Analysis supporting the Board's 2014 Annuity Purchase proposal is included from the December 18, 2013 Final Proposal as Appendix C.

Board Action

At the June and September (2015) meetings, the Board discussed the possibility of opening a window allowing an annuity purchase by persons who retired prior to the 2014 legislation. Representatives of LEOFF Plan 1 retirees and WSPRS retirees expressed interest in being included in such a bill. The Board directed staff to draft legislation limited to LEOFF Plan 2 retirees, while leaving open the possibility of considering expansion.

The Select Committee on Pension Policy (SCPP) discussed allowing retirees from plans other than LEOFF Plan 2 a window to purchase an annuity. The SCPP decided to include that issue on its interim agenda. Given the SCPP action, it would be duplicative for the Board to consider the including WSPRS and LEOFF Plan 1 retirees.

At the November meeting, the Board direct staff to prepare and present a final proposal to create a window period allowing LEOFF Plan 2 retirees to purchase an annuity under the same terms as the original legislation. A bill draft and fiscal note is attached as Appendices A and B.

NEXT STEPS - OPTIONS

Option 1: Vote to submit bill draft to Legislature for passage

Option 2: Take no further action

SUPPORTING INFORMATION

Appendix A: Draft bill authorizing LEOFF Plan 2 retirees to purchase an annuity

Appendix B: Fiscal Note

Appendix C: Promoting Individual Savings for Retirement – Final Proposal, December 18, 2013

APPENDIX A: DRAFT BILL AUTHORIZING WINDOW FOR RETIREE PURCHASE OF ANNUITY

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0682.1/16

AN ACT Relating to allowing certain law enforcement officers' and firefighters' plan 2 retirees to purchase annuities; and adding a new section to chapter 41.26 RCW.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW under the subchapter heading "plan 2" to read as follows, but because of its temporary nature is not codified:

(1) A plan 2 retiree whose retirement was effective before October 1, 2014, may purchase an annuity under subsection (2) of this section between January 1, 2017, and June 1, 2017.

(2) Plan 2 retirees who meet the requirements of subsection (1) of this section may purchase an optional actuarially equivalent life annuity benefit from the Washington law enforcement officers' and firefighters' retirement system plan 2 retirement fund established in RCW 41.50.075. A minimum payment of twenty-five thousand dollars is required.

(a) Subject to rules adopted by the department, a retiree purchasing an annuity under this section must pay all of the cost with an eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan.

(b) The department shall adopt rules to ensure that all eligible rollovers and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service.

The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(c) "Eligible retirement plan" means a tax qualified plan offered by a governmental employer.

--- END ---

APPENDIX B: FISCAL NOTE

APPENDIX B: PROMOTING INDIVIDUAL SAVINGS FOR RETIREMENT – FINAL PROPOSAL, DECEMBER 18, 2013



DECEMBER 18, 2013 PROMOTING INDIVIDUAL SAVINGS FOR RETIREMENT

FINAL PROPOSAL

By Paul Neal
Senior Legal Counsel
360-586-2327
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ISSUE

Members are not able to take advantage of a recent IRS ruling which provides new options for managing savings in retirement.

PROPOSAL SUMMARY¹

At the November 20th meeting the Board directed staff to prepare proposals on:

- Option 1: Authorize LEOFF Plan 2 to annuitize roll-overs of tax deferred savings;
- Option 3: Require LEOFF Employers to Offer DRS's Deferred Compensation Program to LEOFF Members; and
- Option 4: Encourage DRS to offer a Roth option as part of its 457 deferred compensation plan.

Those options are being presented for Board action at the December 18th meeting.

MEMBERS IMPACTED

New options encouraging member's retirement savings as part of LEOFF Plan 2 would be available to all 16,720 active LEOFF Plan 2 members².

OVERVIEW

The LEOFF Plan 2 defined benefit Plan, the first leg of the three-legged retirement stool, provides a defined lifetime payout that does not vary with investment return. Retirees must devise their own distribution strategy for the second leg of the stool, individual retirement savings. Members can reduce the risk of outliving their assets if they convert at least some of those assets into a lifetime annuity.

¹ The Board initially considered this issue at the August 28, 2013 Board meeting. At the September follow-up the Board looked at three options and requested additional information on: Annuitization of additional amounts rolled over into LEOFF Plan 2; and requiring LEOFF employers to participate in DRS's 457 plan. Staff also researched authorized "Roth" accumulations in governmental 457 plans.

² Membership number as of June 30, 2012; Office of the State Actuary 2011 LEOFF Plan 2 Valuation Report.

LEOFF Plan 2 members may purchase an additional monthly benefit through the LEOFF Plan 2 trust fund by buying up to 5 years of additional service credit at the time retirement. Under current law, only Plan 3 members (TRS, PERS & SERS³) can convert contributions to an annuity from their retirement system.

Leveraging the existing LEOFF Plan 2 infrastructure to authorize accumulation of savings and/or converting that account to a monthly benefit through the LEOFF Plan 2 trust fund would provide a cost-effective mechanism to encourage retirement savings. This can be particularly important for LEOFF Plan 2 members since many do not participate in social security through their employer.

This report examines federal laws encouraging retirement savings, the costs of savings for retirement, different mechanisms for annuitizing retirement savings, a recent IRS ruling authorizing annuitizing retirement savings through LEOFF Plan 2, and provides options for further action.

BACKGROUND INFORMATION & POLICY ISSUES

The LEOFF Plan 2 Retirement Board began studying ways to encourage increased retirement savings during the 2004 Interim. The Board recommended legislation allowing purchase of up to five years of service credit at retirement. The Legislature passed that recommendation in 2005 (HB 1269).

That same year the Department of Retirement Systems (DRS) began offering annuities through the Plan 3 programs. The Purchase of Annuity topic was studied by the Board during the 2006, 2007, 2008 and 2009 Interims reaching the Final Proposal stage in 2006, 2008 and 2009, but no legislation was recommended. The topic was deferred for joint consideration with the Select Committee on Pension Policy (SCPP) for the 2009 Interim. No further action was taken.

The paradox is that investors recognize that their retirement savings will need to last longer than ever before but they aren't making plans to ensure they will actually have the money they need. There tends to be a false sense of security when it comes to Planning for retirement. We hope that the money will somehow be there when we need it but we're not taking the action required to ensure it is. This is a serious problem, and addressing it must become an urgent priority.

Noel Archard, Head of BlackRock
Canada. July 2013

SAVING FOR RETIREMENT

Federal Law Encouraging Retirement Savings

³ Teachers' Retirement System (TRS); Public Employees' Retirement System (PERS); School Employees' Retirement System (SERS).

The federal tax code encourages individuals to save for, and invest in, retirement:

- Qualified deferred compensation plans, such as the IRS §457 plan offered through the Department of Retirement Systems (DRS) deferred compensation program, permit an individual to authorize pre-tax salary deductions for deposit into a personal investment account. Many LEOFF Plan 2 employers offer these types of plans to employees. Upon separation from employment a member may leave the funds invested or select a distribution option.
- Members may transfer funds between government defined benefit pension Plans like LEOFF Plan 2 and deferred compensation accounts such as 457, 403(b), and 401(k) Plans. This helps members manage retirement savings as they change employers.
- Purchase of up to five years of service credit or "air-time" was authorized in the Federal Pension Protection Act.
- A recent IRS revenue ruling⁴ allows members with funds in a deferred compensation account maintained by an employer to roll the funds over into their defined benefit plan and convert those funds to an annuity from the defined benefit Plan.
- The Small Business Jobs act of 2010 authorized governmental 457 plans to include a Roth option.

Using these federal provisions, some state and local government pension plans allow member fund transfers, including funds from tax-deferred accounts, into the primary defined benefit plans to purchase additional service credit or an annuity.

THE COST OF SAVING - DEFERRED COMPENSATION FEES

DRS operates a deferred compensation program under 26 U.S.C. §457, commonly called a "457 Plan". Washington's political subdivisions may participate in DRS's 457 Plan, or use another administrator, such as ICMA-RC. Administrative fees vary significantly. Comparing private administrator fees to DRS's annual .13% fee can be challenging since private administrators tend to use variable fee schedules rather than the flat fee charged by DRS, as demonstrated by the fee comparison table included as Appendix A.

The average net annual fee of the private 457 plan administrators examined in Appendix A is 1.29%, nearly 10 times the .13% charged by DRS. DRS's lower fees facilitate a larger accumulation from the same member contributions⁵:

⁴ Internal Revenue Bulletin 2012-8; issued February 21, 2012.

⁵ The comparison assumes \$3,602 per year contribution for 15 years, earning interest at LEOFF PLAN 2's assumed rate of 7.5%, less annual fees.

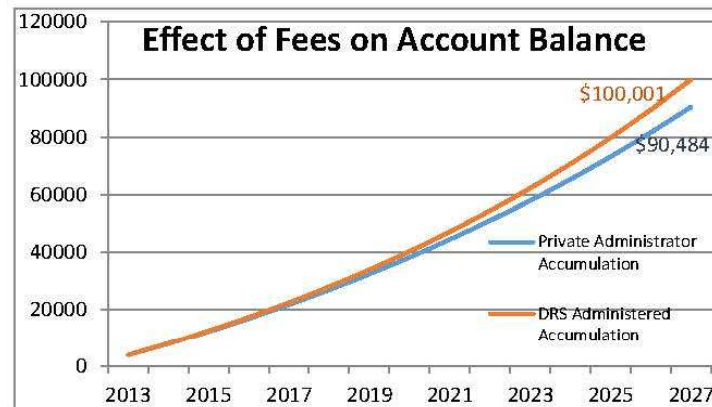


Figure 1

ANNUITIZING ASSETS

Annuities can convert retirement savings into a guaranteed monthly income (this process is called annuitization) for a specified period of time. A life annuity provides that income for the member's lifespan in exchange for a lump-sum dollar amount paid up front. Deferred compensation plans do not normally allow for the distribution of assets in the form of an annuity directly from the fund. LEOFF Plan 2 members wishing to annuitize their retirement savings must purchase the annuity through an insurance company.

The price/value of the annuity depends in part upon the features selected by the purchaser. The terms and conditions of an annuity contract specify features such as whether the annuity will be for a single life or a joint annuity (like a survivor benefit feature), the payment frequency, adjustments for cost of living, and death provisions. Different methods for annuitizing assets are listed below, though not all are currently available to LEOFF Plan 2 members.

Trust Fund Annuity Purchase

TRS Plan 3, SERS Plan 3, and PERS Plan 3 members and survivors may convert some or all of the funds from their Plan 3 member account to a life annuity, RCW 41.50.088. The features and options of the Plan 3 annuities administered by DRS are detailed in Appendix B. This option is not available to LEOFF Plan 2 members.

DRS calculates the annuity that can be purchased for a given lump sum using an age based actuarial table to compute the monthly benefit per \$1.00 of accumulation for defined benefits. There is no limit on the amount of funds in the member account that can be converted to an annuity.

RCW 41.32.067 also allows TRS Plan 1, 2 and 3 members to purchase additional benefits through a member reserve contribution which is actuarially converted to a monthly benefit at the time of retirement. The statute was passed to provide teachers with out-of-state service credit a mechanism for transferring contributions from a prior system into TRS⁶.

Service Credit Purchase

LEOFF Plan 2 members can annuitize retirement savings by purchasing up to five years of additional service credit at the time of retirement. To purchase service credit under this option the member pays the actuarial present value of the resulting increase in the member's benefit. A member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. For more information on the history and methodology for calculating service credit purchases, see Appendix C.

The federal 5-year "air time" limit works out to a maximum of \$86,484 that could be converted to a monthly benefit by the average LEOFF Plan 2 member⁷, see Appendix C. This is a key difference between a Plan 3 annuity conversion and a service credit purchase: the Plan 3 conversion does not have a maximum amount limit.

Commercial Market Annuity

Retirement savings can be annuitized by purchasing an annuity policy through insurance agents, financial planners, banks and life insurance carriers. However, only life insurance companies issue policies. Generally, commercial market annuities do not offer all the same features as the Plan 3 trust fund annuity and do not provide as favorable a payout. A primary reason for the payout difference is the different interest rate used to calculate the value of the annuity. Private insurers use a lower interest rate, due in part to the inclusion of a reasonable profit:

[A] private insurer will provide the annuity based on an interest rate of about 4 percent, whereas DRS will provide the annuity based on an interest rate of about 8%.⁸

The interest rate differential drives a significant difference in payout amounts between private annuity contracts and contributions annuitized through the trust fund. Five different insurance companies quoted the monthly annuity with a 3% annual COLA they would provide the average LEOFF Plan 2 retiree⁶ for \$100,000:

⁶ See Laws of 1991 c 278 § 2.]

⁷ Age 56 with 17 years of service credit and a final average salary of \$5000 per month.

⁸ 2010 State Actuary 2010 fiscal note on the Board's purchase of annuity proposal.

Insurance Company	Quote
American General	\$389
Aviva	\$402
Fidelity & Guaranty Life	\$421
Genworth Life Insurance	\$406
Integrity Life Insurance	\$400
Average	\$404

If that same average LEOFF Plan 2 member were able to leverage the institutional advantages of the retirement system by annuitizing \$100,000 within the LEOFF Plan 2 system, the payout would be \$578.14⁹. That's a 43% increase over the average commercial quote, or \$174 more per month for life.

The chart below uses the 15 year accumulations calculated in figure 1 and estimates the annuity those accumulations would purchase from either an insurance company or the LEOFF Plan 2 trust fund.

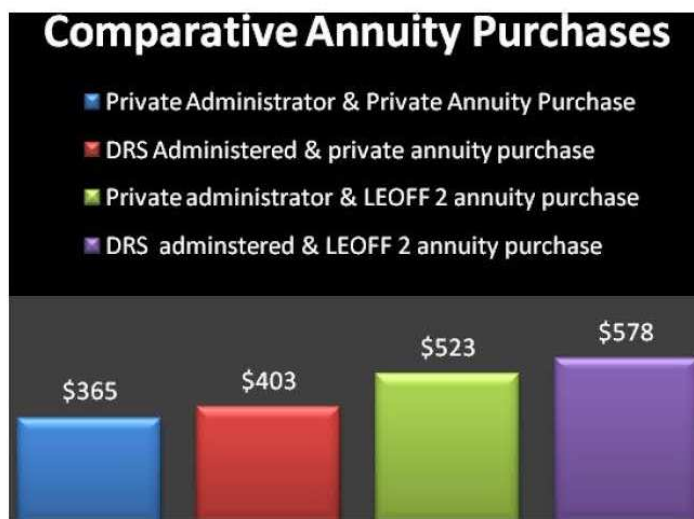


Figure 2

Current state law does not allow annuitization of retirement savings through the LEOFF Plan 2 trust fund. A recent IRS ruling gives the green light to such a program.

⁹ \$100,000 x .0057814 (conversion factor from DRS table for 56 year-old LEOFF member) = \$578.14 monthly life annuity

NEWLY AVAILABLE ALTERNATIVES:

Annuity through 401(a) plan

Federal tax law allows public defined benefit plans to add a member savings account within the plan, sometimes referred to as a companion account or "sidecar". Contributions to the employee savings account may be made by the employer or the employee and may be either pre-tax or after tax depending on plan design.

Under the recent IRS ruling cited above, a retirement savings account can be annuitized within the 401(a) defined benefit plan to obtain an additional monthly benefit paid through the trust fund. This can be done either through a employee savings account administered within the 401(a) plan or by rolling over retirement savings from another plan such as a 457 plan.

A "sidecar" plan administered through LEOFF Plan 2 could leverage the institutional advantages available to active members as participants in an existing state-administered Plan. Those advantages include the lower fees charged by DRS to administer the savings plan, and the more favorable annuity payout when purchased through the existing LEOFF Plan 2 trust fund.

Potential Risks

The purchase of an annuity through the LEOFF Plan 2 trust fund would not have a cost to the system¹⁰ under current actuarial assumptions. There is, however, a potential risk to the fund if those assumptions change or actual experience falls below assumed levels. When an annuity is purchased, the member locks in the actuarial assumptions in place at that time. A subsequent change in assumptions may knock the annuity out of actuarial equivalency.

For instance, the Actuary's 2010 fiscal note assumed a trust fund annuity would be calculated using the fund's 8% interest assumption. The Board has since reduced that assumption to 7.5%. An annuity locked in with an 8% interest assumption would be "too high" under a 7.5% assumption, causing a \$12,980 actuarial loss to the fund⁹.

Roth Contributions

The original 457 plan design allows employees to deduct contributions from their salary pre-tax. The amounts are taxed at the time of distribution. A Roth¹¹ plan reverses that system by taxing contributions, but then disbursing contributions and earnings tax free after retirement.

Governmental 457 plans were not originally allowed to offer a Roth option. The Small Business Jobs Act of 2010 authorizes government sponsored 457 plans to offer designated Roth accounts. Federal law now allows governmental 457 plans to permit participants to:

¹⁰ See OSA fiscal note on 2010 annuity purchase proposal, Appendix C.

¹¹ Named after Senator William Roth of Delaware, the chief legislative sponsor of the original legislation in the Taxpayer Relief Act of 1997 (Public Law 105-34).

- Designate a Roth elective deferral account within the plan; and/or
- Convert conventional pre-tax contributions into Roth contributions within the same plan. Participants wishing to convert existing contributions would have to pay taxes on amounts converted at the time of conversion.

Participants in DRS's 457(b) plans cannot take advantage of in-plan conversions/rollovers to designated Roth accounts unless DRS formally adopts those options in their plan document. DRS has the authority to do this under current law, though they are not required to.

POLICY OPTIONS

The specifics of options available to the Board are in many ways a function of federal tax laws. DRS has received some guidance from the law firm of Ice Miller as of this writing. The LEOFF Plan 2 Board staff had additional questions which are still pending at this time. The options presented below, while accurate in broad strokes, may have to be modified in subsequent presentations depending on future tax law guidance. Additionally, option 1 could be combined with either option 2 or option 3.

Option 1: Propose Legislation authorizing LEOFF Plan 2 to accept roll-overs of tax deferred savings and annuitize those amounts through the plan upon retirement.

Under this option the Board would direct staff to develop legislation authorizing DRS to accept roll-overs from LEOFF Plan 2 members for annuitization at the time of retirement. Further guidance is required to determine what types of roll-overs are allowable under federal tax laws and what limitations, if any, there are on annuitization of rolled over amounts.

Option 2: Propose Legislation establishing a 410(a) savings plan within LEOFF 2 to accept contributions from LEOFF Plan 2 members.

Under this option the Board would direct staff to develop legislation establishing a "sidecar" savings plan within LEOFF Plan 2 that could accept member contributions for distribution following retirement. Preliminary research indicates that this vehicle would be less flexible than a 457 plan such as that administered by DRS's Deferred Compensation Program. Member contributions may be required to follow the same rules as Plan 3 contributions. A member could be required to select a rate upon enrollment. Like the Plan 3 contribution rates, once selected the rate could not be changed except upon change of employment. Voluntary member contributions, which could apparently fluctuate, would be after-tax.

Option 3: Require LEOFF Employers to Offer DRS's Deferred Compensation Program to LEOFF Members.

This option provides a more flexible plan than the 401(a) option. The Board would propose legislation requiring all LEOFF Plan 2 employers to offer the state administered 457 plan. This would ensure that LEOFF Plan 2 members can avail themselves of a plan with the lowest possible administrative fees.

SUPPLEMENTAL POLICY OPTION INFORMATION

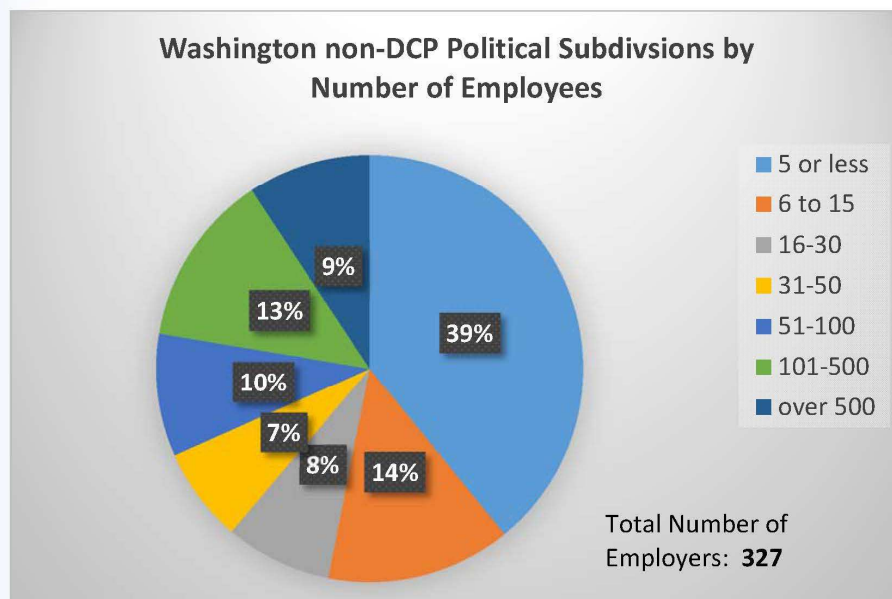
The Board requested additional consideration of options 1 and 3. A fourth option has been developed based on the additional information about Roth plans.

Option 1:

Staff has confirmed that the IRS will permit rollovers from any authorized tax-deferred savings plan (457, 403(b), 401(a)) into LEOFF 2 for purposes of purchasing an annuity. Further, there are no IRS limits on the amount that may be rolled over and annuitized, except that the total payout cannot exceed the IRS's section 415 limits on maximum allowable benefit.

Option 3:

Staff has drafted proposed legislation that is currently being reviewed by DRS for comments. DRS Director Marcy Frost has asked the Select Committee on Pension Policy to consider a similar directive for all Washington Public Employers. Additional data from DRS identifies Washington political subdivision that do not offer the State administered 457 plan:



Option 4: Roth Contributions to Governmental 457 plan.

The Board may wish to take action on the Roth option:

Option 4(a): Amend Deferred Compensation Statute to Require Roth Option.

Submit legislation requiring DRS to develop a Roth option as part of its deferred compensation plan. The Board may want to direct staff to work with DRS on bill language.

Option 4(b): Ask DRS to Offer a Roth Option

If the Board wished DRS to develop a Roth option without a bill, it may be sufficient to send a letter from the Board to DRS requesting them to take action.

Option 4(c): Take No Action at this Time

The Board could decline to take any action on the Roth option at this time.

SUPPORTING INFORMATION

- Appendix A: Deferred Compensation Fee Comparison
- Appendix B: Plan 3 annuity purchase option features
- Appendix C: Service Credit Purchase history and example
- Appendix D: OSA draft fiscal note - 2009
- Appendix E: Bill Draft re: annuitization of savings
- Appendix F: Bill Draft re: Required participation in DRS 457 plan
- Appendix G: Letter to DRS re: offering Roth option
- Appendix H: OSA draft fiscal note -2013

Appendix A

DEFERRED COMPENSATION FEE ANALYSIS

An approximation of annual fees for private administration of a 457 deferred compensation plan was derived by working from a table developed by The City of Duluth in 2013 to allow employees to compare costs of 4 different 457 Plan administrator. Fees were highly variable. Board staff averaged the fees of each provider and then averaged those to derive a net average estimated annual fee. Given the small sample and the assumptions that had to be made in averaging, this is a “ball park” figure provided solely for purposes of comparison.

	Hartford Life Deferred Compensation Plan		ICMA Retirement Corporation Deferred Compensation Plan		Minnesota State Deferred Compensation Plan MNDCCP – (Great West)		NationwideDeferred Compensation Program	
	Original data	Average fee	Original data	Average fee	Original data	Average fee	Original data	Average fee
Annual Account Fees	No	0 %	No.	0%	No	0%	No.	0%
Daily Asset-Based Charges	75 - 90 bps	.825 %	0.55% administration fees on all assets; additional 0.15% fee on assets in non-proprietary funds.	.55%	0.10% annual administrative fee, charged only on the first \$100,000 in an individual account.	.1%	0.50% annual administrative fee on all variable fund assets. 0.25% annual administrative fee on fixed account option.	.375%
Fund Operating Expenses	Varies by investment option, from 0.0% to 2.42%	1.21%	Fund expenses range from 0.46% to 1.40%	.93%	Fund expenses range from 0.01% to 0.93%.	.47%	Fund expenses range from 0.00% to 1.40%.	.7%
Net fee estimate	2.035%		1.48%		.57%		1.075%	
Average for all plans	1.29%							

APPENDIX B

CURRENT ANNUITY PURCHASE FEATURES

The purchase of annuity currently administered by DRS through the Plan 3 programs includes the following features:

WSIB Investment Program Annuity Features and Options	
Contract Provider	Washington State
Minimum Purchase Price	\$25,000
Annuity Payment Frequency	Monthly
Rescission Period	15 calendar days from date of purchase
Single Life Annuity	<ul style="list-style-type: none"> • Provides regular payment for as long as annuitant lives. • Automatic 3% Annual Cost of Living Adjustment (COLA) • Conversion option to Joint Life Annuity • Balance Refund
Joint Life Annuity	<ul style="list-style-type: none"> • Provides regular payment for as long as member or joint annuitant is alive. • Joint annuitant survivorship options: 100%, 66 2/3%, or 50% • Automatic 3% Annual COLA • Monthly payment pops-up to Single Life Annuity amount if joint annuitant predeceases member. • Balance Refund
<p>Annuitant – The member/owner who purchases the annuity; the payee who receives lifetime monthly payments.</p> <p>Balance Refund – Any remaining balance equal to the original purchase price minus the total of all annuity payments made to the single or joint annuitants, may be refunded to the specified beneficiary.</p> <p>Conversion Option – If a single life annuity is purchased and then a subsequent marriage occurs, a one-time opportunity is available to convert to a joint life annuity with the new spouse as the joint annuitant. If a joint annuity is purchased with someone other than a spouse named as the joint annuitant, the annuity may be converted to a single life annuity after payments have begun.</p> <p>Joint Annuitant – The person designated to receive an ongoing payment in the event of the annuitant's death.</p> <p>Pop-up – An increase from a joint annuity payment amount to the full single life annuity amount if the annuitant outlives the joint annuitant.</p> <p>Rescission Period – A period of time (typically 7 to 15 days) during which the terms of the contract may be canceled or altered</p>	

APPENDIX C

SERVICE CREDIT PURCHASE

Since the inception of the service credit purchase of “air time” benefit (2005), 214 service credit purchase billings have been requested from DRS and paid in full. The average cost of all billings was \$118,876.

LEOFF Plan 2 SC Purchases at Time of Retirement									
Year Paid	2006	2007	2008	2009	2010	2011	2012	2013	Grand Total
Number of PSC Bills Paid	6	10	11	15	30	42	57	43	214
Average Cost of PSC Bill	\$106,853	\$102,102	\$85,391	\$99,161	\$119,527	\$123,924	\$120,245	\$132,699	\$118,876
Average SC Months of PSC Bill	55	53	44	48.5	54.6	51.8	48.4	54.3	51.3

SUMMARY OF RESULTS

BRIEF SUMMARY OF PROPOSAL: This proposal allows certain retirees of LEOFF Plan 2 to purchase an additional annuity through the LEOFF Plan 2 trust fund during a temporary window.

COST SUMMARY: This annuity would be based on an actuarially equivalent purchase. As a result, this proposal is not expected to impact the actuarial funding of the system.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

This proposal does not have an expected cost because we assumed the member is paying the full actuarial value of the additional annuity. However, as the experience of the system emerges, if the purchase payment is more or less than the actual value of the annuity, then savings or costs would emerge and LEOFF Plan 2 contribution rates will decrease or increase accordingly.

For example, costs could emerge if retired members who purchase an annuity live longer than expected. Costs or savings could also emerge if investment returns are lower or higher than expected.

In addition, if the administrative factors adopted for this benefit are not based on actuarial equivalence, this proposal would result in either a cost or savings to the plan.

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 Proposal

This proposal impacts the following systems:

- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2.

Members of the LEOFF Plan 2 who retired on or before October 1, 2014, may purchase an additional monthly annuity from the LEOFF Plan 2 trust fund between January 1, 2017 and June 1, 2017.

This annuity purchase must follow the provisions found in RCW 41.26.463 and are subject to rules adopted by the Department of Retirement Systems (DRS) as well as applicable Internal Revenue Service regulations (e.g. IRC Section 415(c)(1)).

To pay for the annuity, retirees must make a contribution from an eligible retirement plan of at least \$25,000 to the LEOFF Plan 2 trust fund. The resulting annuity will be actuarially equivalent to the additional amount contributed by the retiree.

Retirees may make the contribution through any combination of eligible rollovers or transfers from a tax qualified plan offered by a governmental employer.

Assumed Effective Date: 90 days after session.

What Is The Current Situation?

In 2014, the Legislature passed SB 6201 (Chapter 91, Laws of 2014), allowing members of LEOFF Plan 2 to purchase an additional annuity through the trust fund at the time of retirement. This bill did not include plan retirees.

At retirement, members of all state retirement plans can increase their monthly benefits by purchasing up to five years of additional service credit. The cost of service is based on the annuity factor for the member's age and plan.

Plan 3 members of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System currently also have the option to purchase an annuity from the Total Allocation Portfolio at the time of retirement using funds in the defined contribution portion of the member's Plan 3 account.

For more information about the Plans 3 annuity options, please see Chapter 415-111-320 of the Washington Administrative Code.

Who Is Impacted And How?

We estimate this proposal could affect all 3,055 LEOFF Plan 2 members who retired on or before October 1, 2014, with the option of improved benefits.

We estimate this proposal will increase the benefits for a typical retired member by providing the option to annuitize their qualified personal retirement savings. Annuitizing their money provides a member security against outliving their assets. Additionally, the purchase of an annuity through DRS will likely cost less than the purchase of the same annuity from a private insurer. A private insurer typically calculates annuities based on a lower interest rate to account for risk and profit.

For example, we estimate a private insurer will provide the annuity based on an interest rate of about 4.0 percent, whereas DRS would provide the annuity based on an interest rate of 7.5 percent. For an average retired member age 61 buying a \$10,000 annual life annuity (including the LEOFF Plan 2 Cost-of-Living Adjustment [COLA]), this means a private insurer would charge about \$216,000, whereas DRS would charge about \$144,000.

WHY THIS PROPOSAL DOES NOT HAVE AN EXPECTED COST

Why This Proposal Does Not Have An Expected Cost

This proposal does not have an expected cost since the retired member would pay the full actuarial value of their annuity purchase. However, if experience differs from the assumptions used to determine the full actuarial value, costs or savings to the plan could arise.

Who Will Pay For Any Costs/Savings If They Arise?

As experience emerges, if the annuity purchase amount, on average, is less/more than the actual value of the annuity, then current LEOFF Plan 2 members and employers will pay for the costs/savings through an increase/decrease in contribution rates.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed that the LEOFF Plan 2 Board would adopt annuity purchase administrative factors that maintain actuarial equivalence. In addition, other administrative factors may be required for converting the purchased annuity to the same payment form of the retired member's current benefit. It is unlikely, however, that these factors would need to be updated since the annuity purchase option under this proposal is only available for a six-month window.

To determine the purchase price of an annuity, we would need to make several assumptions, primarily:

- ❖ Expected rate of investment return.
- ❖ Expected rate of mortality for the annuitant.
- ❖ Expected rate of inflation.

As with any actuarial calculation that involves estimating future events, actual experience may differ from the underlying assumptions made. When actual experience differs from what we assumed would occur, the system experiences an actuarial gain or loss. An actuarial gain would decrease plan liabilities (or increase assets); whereas, an actuarial loss would increase plan liabilities (or decrease assets). Therefore, we cannot say with certainty that this proposal will not impact plan costs in the future.

If the retired members who purchase annuities, on average, live shorter/longer than assumed, the system will experience actuarial gains/losses in the future. If the actual rate of investment return is more/less than the assumed rate, the system will experience actuarial gains/losses. For these two assumptions, we will not know whether a gain or loss has occurred until DRS has made all payments under each annuity contract.

The annual COLA for LEOFF Plan 2 annuitant benefits is based in part on the rate of inflation and can be no greater than 3 percent. Thus, lower than expected inflation would result in smaller calculated COLAs on an annuitant's annual benefit and produce a savings for the plan.

Otherwise, we developed these costs using the same assumptions as disclosed in the [*June 30, 2014, Actuarial Valuation Report*](#) (AVR).

The analysis of this proposal 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.

How We Applied These Assumptions

We developed these costs using the same methods, assets, and data as disclosed in the AVR.

ACTUARIAL RESULTS

No Expected Impact To Liabilities Or Present Value Of Future Salaries (PVFS)

This proposal is not expected to change the present value of future benefits payable or the PVFS, so there is no impact on the actuarial funding of the affected plan due to liability or PVFS changes.

No Expected Impact To The Contribution Rates Or Budgets

This proposal is not expected to change the contribution rates for members and employers, so there is no expected impact on the actuarial funding of the affected plan due to contribution rate changes.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions selected for this pricing, we varied the following assumptions:

- ❖ **Mortality Rate** – We determined the cost to the system if the annuity amount was calculated based on higher mortality rates than what actually occurs over time. In other words, retired members purchasing these annuities live longer than expected. For this sensitivity run we decreased the assumed age offsets as disclosed in the 2014 AVR. A decrease to the age offsets implies the mortality experience of an individual at a certain age is consistent with mortality experience of a younger individual.
- ❖ **Investment Returns** – We determined the cost to the system if the annuity amount was calculated based on higher/lower investment returns than what actually occurs over time (investments pay less/more than assumed). For this sensitivity run we used a 7.0/8.0 percent investment return rather than the assumed 7.5 percent.
- ❖ **All Of The Above** – We determined the cost to the system if lower than assumed mortality experience occurred in combination with both 7.0/8.0 percent investment returns. The combination of these two sensitivity variations produces an interactive effect.

The table below shows the expected results compared to the three sensitivity runs outlined above. The example shows the financial impact of an average retired member, currently age 61, who purchases an annuity under this proposal with \$100,000. When multiple scenarios occur at once, the cost to the plan is different than the sum of each of the two scenarios individually due to interaction between the assumptions. Note that this analysis illustrates how the costs to the plan could change under the different assumption scenarios above.

Financial impacts to the plan could also arise if inflation is less than expected or retired members purchasing benefits under this proposal have a shorter life span than expected. Under both of these situations, savings would arise and LEOFF Plan 2 contribution rates would decrease accordingly.

Sensitivity Example – 61-Year-Old Purchases Retirement Annuity with \$100,000			
Scenario	Cash Paid From Member to Plan	Present Value of Plan Annuity	Cost to the Plan
1) Expected	\$100,000	\$100,000	\$0
2) Lower Mortality Than Expected (purchasers live longer)	\$100,000	\$105,884	\$5,884
3) Lower Asset Returns Than Expected	\$100,000	\$104,917	\$4,917
4) Higher Asset Returns Than Expected	\$100,000	\$95,508	(\$4,492)
5) Scenarios 2 and 3	\$100,000	\$111,489	\$11,489
6) Scenarios 2 and 4	\$100,000	\$100,789	\$789

Note: Assumes annuity calculation based on 3% COLA and 90%/10% male/female mortality blend.

Another consideration with actuarially equivalent purchases pertains to the concept of anti-selection. This is defined as a risk where members with above-average costs make a choice (in this case, to purchase an annuity) resulting in higher costs for the plan. For example, retired members in poor health may be less likely to annuitize their savings, while members in relatively good health may be more likely to do so. Under the provisions of current law, only active members at retirement may purchase an annuity of this kind. While the possibility of anti-selection still exists under current law, the likelihood of anti-selection may be greater under this proposal since prospective purchasers of an annuity would likely be older and perhaps in a better position to assess their expected future lifetime.

Since the assumptions used to develop administrative factors include life expectancy, the LEOFF Plan 2 Board could adopt administrative factors that include mortality assumptions to address expected anti-selection, and limit that risk to the plan.

The Board may also want to consider an alternate investment return. Current retirees purchasing an annuity under this proposal have a shorter time horizon than active members so an assumed investment return that matches this shorter time horizon may be more appropriate to maintain actuarial equivalence.

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 LEOFF 2 Board during the 2015 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 LEOFF 2 Board during the 2015 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 A. Won, ASA, FCA, MAAA
Deputy State Actuary

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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 is 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 Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

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 PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.



Retiree Annuity Purchase

Final Proposal
December 16, 2015

Issue

Current state law does not allow retirees to roll over tax deferred savings into LEOFF Plan 2 to purchase an annuity.

Final Proposal Summary

- Draft Bill
 - Window for LEOFF Plan 2 retirees to purchase annuity: January 1 to June 30, 2016
 - Available only to those retired prior to October 1, 2014
 - Same terms as current law
- Fiscal Note

Options

1. Recommend bill to Legislature
2. Take no further action

Questions?

Contact:

Paul Neal

Senior Research and Policy Manager

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SCPP Update

Date Presented:

12/16/2015

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Inform the stakeholders.

ATTACHMENTS:

Description	Type
 SCPP Agenda 12.15.15	Report

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
state.actuary@leg.wa.gov

Regular Committee Meeting

December 15, 2015
10:00 a.m. – 12:35 p.m.*
Senate Hearing Room 4
Olympia

AGENDA

10:00 a.m. **1. Approval of Minutes**

10:05 a.m. **2. WSIB Update** – Theresa Whitmarsh, Director,
Washington State Investment Board

10:35 a.m. **3. Update on Budget Environment** – David Pringle,
Senior Counsel, Office of Program Research

Work Session

10:55 a.m. **4. LEOFF 1 and WSPRS Annuity Purchase** – Aaron
Gutierrez, Senior Policy Analyst

Public Hearing with Possible Executive Session

11:15 a.m. **5. SHB 1718 – PSERS Expansion** – Lauren
Rafanelli, Associate Policy Analyst

11:35 a.m. **6. SHB 1737 – Retired Teachers as Substitutes** –
Aaron Gutierrez

11:55 a.m. **7. HB 1036 and ESB 5873 – Survivor Benefits** –
Lauren Rafanelli

Possible Public Hearing with Executive Session

12:15 p.m. **8. Public Safety Bill Drafts** – To Be Announced

12:35 p.m.* **9. Adjourn**

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

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Senator Barbara Bailey

John Boesenberg
PERS/Higher Ed Employer

Patricia Bosmans
PERS Employers

***Representative Bruce
Chandler, Chair**

***Senator Steve Conway,
Vice Chair**

Annette Creekpaum
PERS Employers

Randy Davis
TRS Actives

***Beverly Freeman**
PERS Employers

***Marcie Frost, Director**
Department of Retirement Systems

Bev Hermanson
PERS Retirees

Senator Steve Hobbs

Robert Keller
PERS Actives

**Representative Matt
Manweller**

Representative Timm Ormsby

Senator Mark Schoesler

David Schumacher, Director
Office of Financial Management

Representative Pat Sullivan

J. Pat Thompson
PERS Actives

***Robert Thurston**
WSPRS Retirees

***David Westberg**
SERS Actives

**Executive Committee*

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Fax: (360) 586-8135
TDD: 711
leg.wa.gov/SCPP.htm



2016 Calendar Adoption

Report Type:

Final Proposal

Date Presented:

12/16/2015

Summary:

Adoption of 2016 board meeting dates.

ATTACHMENTS:

Description		Type
<input type="checkbox"/>	2016 potential meeting dates	Report
<input type="checkbox"/>	2016 Conference and Meeting Dates	Report



2016 PROPOSED MEETING DATES

JANUARY						
S	M	T	W	T	F	S
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APRIL						
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DECEMBER						
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2016 L2B MEETINGS

JANUARY 27

FEBRUARY 24

MARCH 23

APRIL 27

MAY 25

JUNE 22

JULY 27

AUGUST 24

SEPTEMBER 28

OCTOBER 18

NOVEMBER 23

DECEMBER 28

STATE HOLIDAYS

MEETING LOCATION

STATE INVESTMENT BOARD
Large Conference Room
2100 Evergreen Park Drive SW
Suite 100
Olympia, WA 98502

CONTACT

Phone: 360.586.2320
recep@leoff.wa.gov

2016 CONFERENCES & MEETING DATES

CONFERENCES	DATES
NAPPA	Annual: June 21-24 New Orleans
IFEBP	Annual: Nov 13-16 Florida
NCPERS	Annual: May 15-19 San Diego Public Safety: Oct 23-26 Las Vegas
WSCFF	Leg Conf - Feb 2 Olympia Edu Conf - Apr 19 Spokane Annual - June 28 Vancouver
WACOPS	Winter - Jan 13-15 Spring - May 25-28 Fall - Oct 18-21
NASRA	Annual: Aug 6 -10

MEETINGS	DATES
LEOFF PLAN 2 BOARD MEETINGS PROPOSED DATES	1/27, 2/24, 3/23, 4/27, 5/25, 6/22, 7/27, 8/24, 9/28, 10/18, 11/23, 12/28
LEGISLATIVE SESSION	1/1-3/10
SCPP - PROPOSED	5/17, 6/21, 7/19, 9/20, 10/18, 11/15, 12/13
WSIB - ADOPTED	2/18, 4/21, 5/19, 6/16, 7/19-21, 9/15, 11/17, 12/15-16
STATE HOLIDAYS	1/1, 1/18, 2/15, 5/30, 7/4, 9/5, 11/11, 11/24, 11/25, 12/26
WSIB BOARD ROOM	BOARDROOM NOT AVAILABLE

JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	S M T W T F S 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31