

Summary of Draft Legislation

Duty Survivor Benefits

Background:

Several death benefits are paid to survivors of members of the Law Enforcement Officers' and Firefighters' Retirement System Plan 2 whose death results from injuries sustained in the course of employment. These benefits include a survivor benefit paid to the spouse or other eligible survivor. The amount of this survivor benefit is the greater of: 1) the member's accumulated contributions; or 2) the member's earned retirement benefit, actuarially reduced based on the difference in age between the member and their beneficiary and further actuarially reduced based on the difference between the member's age at death from the plan's normal retirement age (53).

Last session, the legislature unanimously passed HB 1519, which provides that the survivor benefit paid from a member's earned retirement benefit to survivors of PERS, SERS, and TRS members killed in the course of employment, is not subject to an early retirement actuarial reduction. The Select Committee on Pension Policy is considering an identical bill for the Washington State Patrol Retirement System Plan 2 for the 2004 session.

Legislation:

The bill eliminates the "early retirement" actuarial reduction from the survivor benefit paid from a LEOFF Plan 2 member's earned retirement benefit if the member is killed in the course of employment. The bill is identical to the provisions of HB 1519 from the 2003 legislative session.

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Copy of Z-0968.1/04 by LL:seg provided on 12/3/03.

Brief Description: Calculating the retirement allowance of a member of the law enforcement officers' and fire fighters' retirement system plan 2 who is killed in the course of employment.

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ELECTRONIC TRANSMITTAL

AN ACT Relating to calculating the retirement allowance of a member of the law enforcement officers' and fire fighters' retirement system plan 2 who is killed in the course of employment; and amending RCW 41.26.510.

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

Sec. 1. RCW 41.26.510 and 2000 c 247 s 1001 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 as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse 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 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, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse 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 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 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 who is killed in the course of employment, as determined by the director of the department of labor and industries, is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.26.420.

FISCAL NOTE - DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/12/03	Z-0968.1/04

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) by providing that the survivor benefit of a member killed in the course of employment, after having accumulated at least 10 years of service, is not subject to an early retirement actuarial reduction. This bill applies to any member killed in the course of employment, as determined by the director of the Department of Labor and Industries.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, a survivor of an active member who dies with less than 10 years of service credit is eligible to receive a cash refund of the member's contributions plus interest. If an active member dies with 10 or more years of service credit, their beneficiary or surviving spouse is eligible to receive either a cash refund of 150% of the member's contributions plus interest, or a monthly benefit actuarially reduced to reflect a joint and 100% survivor payment option and further reduced to reflect the difference in the member's age at death and the age of full retirement eligibility.

MEMBERS IMPACTED:

We estimate that all the 14,011 active members of LEOFF 2 would be affected by this bill. Our experience data, however, indicate that few would die in the course of employment and, as a result, few survivors would actually receive this enhanced benefit.

We estimate that duty-related deaths will occur at a rate of 0.02% each year. Not all of these deaths, however, would occur after the member has earned at least 10 years of service (the service needed to receive this benefit). A percentage of the survivors of these duty-related deaths will elect to take the cash refund of the member's contributions plus interest instead of this improved benefit. The survivor of a member who dies after being eligible for an unreduced benefit would not be affected as well.

ASSUMPTIONS:

We have assumed that duty-related deaths will occur at a rate of .02% each year. The "percent married" assumption employed in our actuarial valuation reflects the percentage of members who die with an eligible survivor and the survivor elects to receive the survivor annuity benefit rather than a refund of the member's contributions plus interest. We have assumed that the percent married assumption would increase as a

result of this bill since the proposed survivor annuity benefit is enhanced. We have increased this assumption to a flat 60% for all future duty-related deaths that would be eligible for the survivor annuity.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2			
<i>(Dollars in Millions)</i>			
	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$4,042	\$3	\$4,045
<i>(The Value of the Total Commitment to all Current Members)</i>			
Unfunded Actuarial Accrued Liability	NA	NA	NA
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
Unfunded Liability (PBO)	\$(709)	\$1	\$(708)
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
Increase in Contribution Rates:			
Employee		.01%	
Employer		.01%	
State		.00%	

Fiscal Budget Determinations:

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

Costs (in Millions):

2004-2005

State:

General Fund	\$0.0
Non-General Fund	<u>0.0</u>
Total State	\$0.0
Local Government	\$0.1
Total Employer	\$0.1
Total Employee	\$0.1

2005-2007

State:

General Fund	\$0.0
Non-General Fund	<u>0.0</u>
Total State	\$0.0
Local Government	\$0.2
Total Employer	\$0.2
Total Employee	\$0.2

2004-2029

State:

General Fund	\$0.0
Non-General Fund	<u>0.0</u>
Total State	\$0.0
Local Government	\$6.0
Total Employer	\$6.0
Total Employee	\$6.0

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) .
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in the body of this fiscal note above include the following: None
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

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.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

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.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

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

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