Military Service Death Benefit Final Proposal

LEOFF Plan 2 Retirement Board

December 17, 2008

Issue

- Beneficiaries of members who die while serving on active duty with the United States Military do not qualify for duty related death benefits.

Background Summary

- Survivors entitled to actuarially reduced benefit or accumulated contributions
- 2007 Legislative improvement to PERS 2
- 2008 Legislation did not pass

Proposal Summary

- Endorse SCPP Proposal
  - Interruption of employment
  - National guard or military reserves
  - Killed serving honorably during period of war
  - Survivor entitled to enhanced defined benefit

- Will not affect contribution rates in current biennium

Military Service Death Benefit

Questions?

Military Service Death Benefit

Final Proposal

December 17, 2008

1. Issue

Beneficiaries of members who die while serving on active duty with the United States Military do not qualify for duty related death benefits.

2. Proposal Summary

Endorse the Select Committee on Pension Policy (SCPP) proposal which would provide an enhanced monthly benefit by eliminating the early retirement actuarial reduction to the survivor of a LEOFF Plan 2 member who left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services.[1]

3. Staff

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4. Members Impacted

This issue impacts survivors of LEOFF Plan 2 members who are called to active military service and killed in the line of duty. The number of LEOFF Plan 2 members who have been called to active duty is currently unknown.

5. Current Situation

A LEOFF Plan 2 member that dies before retirement is entitled to a standard death benefit that ranges from a refund of contributions up to an actuarially reduced monthly benefit paid to a surviving spouse or minor child. The benefit received by the survivor is determined by the number of years the member has in the system at the time of death. If a member dies in the course of employment, a $150,000 special death benefit may also be paid to the designated beneficiary.

[1] Option 1

6. Background Information and Policy Issues

Expansion of Military Service Death Benefit in PERS Plan 2

The 2007 Legislature expanded the death benefit options available to survivors of a PERS Plan 2 member who had 10 years of PERS service and who dies while serving in the uniformed services of the United States in Operation Iraqi Freedom, Operation Enduring Freedom or Persian Gulf. The legislation provided these survivors with an option to receive a refund of 200 percent of the member's accumulated contributions and interest instead of an actuarially reduced benefit.

Standard Death Benefit

Beneficiaries of LEOFF Plan 2 members who die[2] with less than 10 years of service credit and were not eligible to retire, receive a refund of all the member's accumulated contributions. If the member has no living beneficiary, the accumulated contributions are paid to the surviving spouse, or if none, to the legal representative of the estate.

If a member dies and has 10 or more years of service credit or was eligible to retire, the surviving spouse, or if none, the guardian of any minor children, may choose between the following two benefits:

1. A payment of 150 percent of the member's accumulated contributions, or
2. A monthly benefit calculated as if the member had elected a joint and 100% survivor option. If the death is a non-duty death and the member is younger than age 53 and does not qualify for early retirement, the benefit is actuarially reduced from age 53. If the member's death was duty related, there is no actuarial reduction.

Interruptive Military Service Credit Purchase

LEOFF Plan 2 members have the option to purchase up to five years of service credit for periods of military service which interrupt their LEOFF employment. The qualifications for the purchase of military service credit are governed by federal law, but may be expanded by state law. The key qualifications for LEOFF Plan 2 include:

- The member must return to LEOFF Plan 2 covered employment within ninety days of honorable discharge from the armed forces.
- The member must pay the member contributions that would have been paid had the member not entered military service. The employer must pay the related employer contributions.
- The required member contributions must be paid within five years of returning to employment.

[2] Non-duty related

House Bill 1325, passed by the 2005 Legislature, provides a service credit purchase option to Washington public employees (or their survivors), including law enforcement officers and fire fighters, who are unable to return to public employment due to death or disability incurred during honorable active duty military service. A survivor of a member killed in service may purchase the member's interruptive military service credit, which would be used calculating any survivor benefits that are payable.

State Pension Policy[1]

Previous policy discussions about military service by Washington State public employees have focused primarily on granting service credit (interruptive and prior) for periods of service a member spent in the military. There are several polices from these prior discussions supporting and opposing additional benefits for military service. Prevalent within these discussions have been creating or keeping parity or uniformity among the retirement systems or plans, responsibility of the federal government to provide benefits, and the cost of providing military service related benefits.

With respect to parity/uniformity, RCW 41.50.005(1) sets forth as retirement policy that the retirement systems of the state should provide similar benefits whenever possible. A military service death benefit is currently provided only to PERS Plan 2. The Select Committee on Pension Policy and the LEOFF Plan 2 Retirement Board reviewed this issue within the perspective of extending the same or similar benefits to the other Washington State pension plans.

Providing benefits related to military service has been previously characterized as a responsibility of the Federal Government, rather than a responsibility of the State. The survivors of military service personnel killed while serving may currently qualify for Federal benefits from the Department of Defense and Social Security (discussed in the next section).

Cost has often been the primary roadblock to granting certain military service related benefits. However, this is largely because previous proposed benefit improvements would have granted prior military service for periods *prior* to membership in a retirement system. Granting *prior* service credit is among the most expensive type of service credit that can be provided, because not requiring payment of the full actuarial cost can result in additional liabilities to the plan. However, a military service death benefit may not have a significant cost as it would likely only apply to a relatively limited number of survivors.

Federal Benefits Available to Survivors of Military Service Members

Department of Defense (DoD) benefits for survivors of deceased members of the armed forces vary significantly in purpose and structure. Benefits such as the death gratuity provide immediate cash payments to assist these survivors in meeting their financial needs during the period immediately following a member's death. Similarly, the Servicemembers' Group Life Insurance (SGLI) provides the life insurance policy value in a lump sum payment following the service member's death. Other benefits such as the Veteran's Administration Dependency and Indemnity Compensation (DIC) and the Survivor Benefit Plan (SBP) are designed to provide long-term monthly income. Additional death benefits provided by the DoD for survivors and dependents include housing assistance, health care, commissary and exchange benefits, educational assistance, and burial, funeral, and related benefits. Survivors may also receive death benefits from Social Security.

Benefits Available to Survivors of Military Service Members in Other States

Only one out of twelve comparison systems of statewide police and fire pension plans contained a specific provision covering the death of a member while on a military leave of absence. The Colorado Fire and Police Pension Association (FPPA), which has a standalone death and disability plan, provides that a member on military leave continues to be covered by the Statewide Death and Disability Plan if the employer contributions continue to be paid by the employer. The continued coverage entitles the member's survivor to receive a benefit that is 40% of final salary (non-duty, vested death benefit). Without the continuation coverage, the survivor would only be entitled to a refund of accumulated contributions.

The other eleven states were situated similarly to the current Washington State benefits in that there is no specific coverage for a military service death. In general, survivors are entitled to either a refund of accumulated contributions or a reduced survivor annuity if the member had completed a required period of service, such as 10 years, which is the period used in Washington.

Select Committee on Pension Policy (SCPP) Proposal

The SCPP proposal applies to all systems and plans and provides an unreduced benefit to the survivor of a member who had 10 years of service, was called to military service and killed while serving honorably in the National Guard or military reserves during a period of war as defined in RCW 41.04.005 (Appendix B).

7. Policy Options

Option 1: Endorse SCPP Legislation

Under this option the Board would pass a resolution stating its support for the proposed SCPP legislation. This bill affects LEOFF Plan 2 by providing an enhanced monthly benefit by eliminating the early retirement actuarial reduction to the survivor of a LEOFF Plan 2 member who left the employ of an employer to enter the uniformed services of the United States, and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005.

8. Supporting Information

- **Appendix A - Federal Benefits Available to Survivors of Military Service Members**
- **Appendix B – RCW 41.04.005**
- **Endnotes**

Appendix A - Federal Benefits Available to Survivors of Military Service Members

Death Gratuity[2]

The death gratuity is a one-time non-taxable payment to help surviving family members deal with the financial hardships that accompany the loss of a service member.
A payment of $100,000 for survivors of those whose deaths under the following conditions:

- A member of an armed force under his jurisdiction who dies while on active duty or while performing authorized travel to or from active duty;
- A Reserve of an armed force who dies while on inactive duty training (with exceptions);
- Any Reserve of an armed force who assumed an obligation to perform active duty for training, or inactive duty training (with exceptions) and who dies while traveling directly to or from that active duty for training or inactive duty training;
- Any member of a reserve officers' training corps who dies while performing annual training duty under orders for a period of more than 13 days, or while performing authorized travel to or from that annual training duty; or any applicant for membership in a reserve officers' training corps who dies while attending field training or a practice cruise or while performing authorized travel to or from the place where the training or cruise is conducted; or
- A person who dies while traveling to or from or while at a place for final acceptance, or for entry upon active duty (other than for training), in an armed force, who has been ordered or directed to go to that place, and who
- Has been provisionally accepted for that duty; or
- Has been selected for service in that armed force.

Service Member Group Life Insurance[3]

Service members are automatically insured for $250,000 through the SGLI program, but may reduce or decline coverage as desired. Although participating members must pay premiums, SGLI is a government-sponsored insurance program that enables U. S. Service members to increase substantially the amount available to their beneficiaries in the event of their death.

SGLI is a VA program that provides low cost group life insurance to members of the Uniformed Services. Members are automatically insured under Service members' Group Life Insurance (SGLI) for the maximum amount of $400,000 unless an election is filed reducing the insurance by $50,000 increments or canceling it entirely.

In addition the SGLI coverage includes Traumatic Injury Protection, effective December 1, 2005. This coverage provides service members protection against loss due to traumatic injuries and is designed to provide financial assistance to members so their loved ones can be with them during their recovery from their injuries. The coverage ranges from $25,000 to $100,000 depending on the nature of the injury.

The cost for SGLI coverage alone is 70 cents per $10,000 or $29 per month for the maximum of $400,000, this includes a mandatory $1 charge for TSGLI. Coverage, regardless of duty status, is 24 hours per day, 365 days per year under SGLI.

The premium for part-time coverage is $29 per year for $400,000 of coverage. Members of the Individual Ready Reserve (IRR) will be charged $1.00 for $400,000 of coverage for 1-day call-ups.

Survivor Benefit Plan[4]

The primary survivor benefit applicable to survivors of retirees (and, in some situations, active duty members) is the Uniformed Services Survivor Benefit Plan (SBP). The Reserves have a related plan called the Reserve Component Survivor Benefit Plan (RC-SBP). The purpose of the Survivor Benefit Plan (SBP) is to insure that the surviving dependents of military personnel who die in retirement or after becoming eligible for retirement will continue to have a reasonable level of income. These are voluntary programs to ensure survivors continue to receive income throughout their lifetimes. A service member pays a monthly premium to be covered under SBP. SBP Premiums and benefits depend on the "base amount" that the person elects as the basis of coverage. The base amount can be the full monthly retired pay or just a portion, down to as little as $300. The SBP is an insurance plan to protect survivors against the risks of early death, a survivor outliving benefits; and inflation through cost of living adjustments.

A spouse under the age of 62 or dependent child receives 55% of the retired pay the service member would have been entitled to on the day he or she died, based on 100% total disability. If the spouse is the designated beneficiary, the annuity is reduced by the amount of the Dependency and Indemnity Compensation payment (DIC) that they may receive. If a child is the designated beneficiary, the monthly survivor Benefit Plan payment is not reduced by the Dependency and Indemnity Compensation Payment.

Dependency and Indemnity Compensation[5]

The Department of Veterans Affairs (VA) pays a benefit called Dependency and Indemnity Compensation (DIC) to a surviving spouse and dependent children if a service member dies of service-connected causes. This includes deaths after retirement if the cause of death is due to an injury or disease contracted while the member was on active duty.

DIC may also be paid if a person had a 100 percent VA disability rating for ten continuous years, or if less than ten years, then at least five continuous years from the date of release from active duty. The VA determines who may receive DIC.[6]

DIC payments to all surviving spouses are at the monthly rate of $1067, adjusted annually for cost of living. Whenever there is no surviving spouse of a deceased veteran entitled to DIC, it shall be paid in equal shares to the children of the deceased veteran. The basic DIC basic rate may be increase under certain circumstances.

Burial Expenses[7]

The Government will reimburse certain expenses for the member’s burial, depending on the type of arrangements and will provide travel for next-of-kin under invitational travel orders.

Government Housing or Allowances and Relocation Assistance[8]

Survivors are provided rent-free Government housing for 180 days or the tax-free Basic Allowance for Housing (BAH) appropriate to the member's grade for any portion of the 180 day period while not in quarters. Survivors are also entitled to transportation, per diem, and shipment of household goods and baggage.

Education Benefits[9]

When an active-duty service member dies, VA's Survivors' and Dependents' Educational Assistance Program generally provides up to 45 months of education benefits to the un-remarried surviving spouse for 10 years, or for children aged 18 to 26. Currently the rate is $788 a month for full-time attendance, with lesser amounts for part-time education. This benefit may be used to pursue secondary school programs; associate, bachelor or graduate degrees; technical or vocational training; apprenticeships; and other types of training, including work-study programs

Health Care[10]

An un-remarried surviving spouse and minor dependents of the member are eligible for space-available medical care at military medical facilities or are covered by TRICARE/CHAMPUS (MEDICARE after age 65). Dental insurance coverage and full TRICARE/CHAMPUS are extended for three years after the member's death.

Unused Leave[11]

Payment is made to a survivor for all of the service member's unused accrued leave.

Tax Benefits[12]

The next-of-kin of a Service member whose death occurs overseas in a terrorist or military action is exempt from paying the decedent's income tax for at least the year in which the death occurred. Payments made by the VA are tax-exempt.

Commissary and Exchange Privileges[13]

The unmarried surviving spouse and qualified unmarried dependents are eligible to shop at military commissaries and exchanges, normally providing a savings over similar goods sold in private commercial establishments. Families of retired members retain their privileges so long as a spouse is not remarried.

Refund of Service Member's Unused GI Bill Contribution[14]

If the deceased service member had contributed to the Montgomery GI Bill education program, the designated life insurance beneficiary or surviving spouse is entitled to a refund of the money that was collected through payroll deduction but was not awarded in education benefits during the service member's lifetime. Most active-duty military members participate in this educational benefit program, which deducts $1,200 from their pay at $100 monthly during their first year of service.

Home Loans[15]

Surviving spouses of military members may be eligible for a VA-guaranteed home loan from a private lender. The loan may be used to purchase, construct or improve a home, to refinance an existing mortgage or for certain other purposes. As with the program for veterans, VA guarantees part of the total loan, permitting the purchaser to obtain a mortgage with a competitive interest rate. Except for manufactured homes and other select cases, the surviving spouse may obtain a no-down payment loan if the lender agrees.

Social Security Benefits[16]

If a service member had enough credits, a special one-time payment of $255 will be paid after the servicemember's death. This benefit is paid only to the widow or minor children. Certain family members of the deceased service member may be eligible for benefits on the service member's Social Security record if they earned enough credits while they were working. Family members who can collect benefits include:

- A widow or widower who is 60 or older
- A widow or widower who is 50 or older and disabled
- A widow or widower at any age if she or he is caring for a child under age 16 or a disabled child who is receiving Social Security benefits;
- Children if:
  - They are unmarried and under age 18;
  - Under age 19 but in an elementary or secondary school as a full-time student; or
  - Age 18 or older and severely disabled (the disability must have started before age 22)
- The service member's parents, if they were dependent on him for at least half of their support

Appendix B – RCW 41.04.005

RCW 41.04.005 - "Veteran" defined for certain purposes.

(1) As used in RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, and *28B.15.380 "veteran" includes every person, who at the time he or she seeks the benefits of RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, or *28B.15.380 has received an honorable discharge, is actively serving honorably, or received a discharge for physical reasons with an honorable record and who meets at least one of the following criteria:

(a) The person has served between World War I and World War II or during any period of war, as defined in subsection (2) of this section, as either:

(i) A member in any branch of the armed forces of the United States;

(ii) A member of the women's air forces service pilots;

(iii) A U.S. documented merchant mariner with service aboard an oceangoing vessel operated by the war shipping administration, the office of defense transportation, or their agents, from December 7, 1941, through December 31, 1946; or

(iv) A civil service crewmember with service aboard a U.S. army transport service or U.S. naval transportation service vessel in oceangoing service from December 7, 1941, through December 31, 1946; or

(b) The person has received the armed forces expeditionary medal, or marine corps and navy expeditionary medal, for opposed action on foreign soil, for service:

(i) In any branch of the armed forces of the United States; or

(ii) As a member of the women's air forces service pilots.

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era, which means:

(i) The period beginning on February 28, 1961, and ending on May 7, 1975, in the case of a veteran who served in the Republic of Vietnam during that period;

(ii) The period beginning August 5, 1964, and ending on May 7, 1975;

(e) The Persian Gulf War, which was the period beginning August 2, 1990, and ending on the date prescribed by presidential proclamation or law;

(f) The period beginning on the date of any future declaration of war by the congress and ending on the date prescribed by presidential proclamation or concurrent resolution of the congress; and

(g) The following armed conflicts, if the participant was awarded the respective campaign badge or medal: The crisis in Lebanon; the invasion of Grenada; Panama, Operation Just Cause; Somalia, Operation Restore Hope; Haiti, Operation Uphold Democracy; Bosnia, Operation Joint Endeavor; Operation Noble Eagle; southern or central Asia, Operation Enduring Freedom; and Persian Gulf, Operation Iraqi Freedom.
[2005 c 255 § 1; 2005 c 247 § 1. Prior: 2002 c 292 § 1; 2002 c 27 § 1; 1999 c 65 § 1; 1996 c 300 § 1; 1991 c 240 § 1; 1984 c 36 § 1; 1983 c 230 § 1; 1982 1st ex.s. c 37 § 20; 1969 ex.s. c 269 § 1.]
Notes:

Reviser's note: *(1) RCW 28B.15.380 was amended by 2005 c 249 § 2 and no longer applies to veterans. For later enactment, see RCW 28B.15.621.

(2) This section was amended by 2005 c 247 § 1 and by 2005 c 255 § 1, each without reference to the other. Both amendments are incorporated in the publication of this section under RCW 1.12.025(2). For rule of construction, see RCW 1.12.025(1).

Severability -- 2005 c 247: "If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected." [2005 c 247 § 3.]

Effective date -- 2005 c 247: "This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately [May 3, 2005]." [2005 c 247 § 4.]

Effective date -- 1983 c 230: "This act is necessary for the immediate preservation of the public peace, health, and safety, the support of the state government and its existing public institutions, and shall take effect July 1, 1983." [1983 c 230 § 3.]

Effective date -- Severability -- 1982 1st ex.s. c 37: See notes following RCW 28B.15.012.

Endnotes

1 Steve Nelsen, “Military Service Credit”, Joint Committee on Pension Policy, September 23, 1997.

2 http://www.military.com/Resources/ResourcesContent/0,13964,30873--1,00.html (August 31, 2004)

3 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

4 http://www.military.com/Resources/ResourcesContent/0,13964,31293--0,00.html (August 31, 2004)

5 http://www.military.com/Resources/ResourcesContent/0,13964,30974--,00.html (August 31, 2004)

6 http://www.dod.mil/militarypay/survivor/sbp/11_va_benefits.html (August 31, 2004)

7 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

8 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

9 http://www1.va.gov/OPA/fact/docs/survivor_benefits.doc (September 1, 2004)

10 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

11 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

12 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

13 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

14 http://www1.va.gov/OPA/fact/docs/survivor_benefits.doc (August 31, 2004)

15 http://www1.va.gov/OPA/fact/docs/survivor_benefits.doc (August 31, 2004)

16 http://www.military.com/Resources/ResourcesContent/0,13964,31073,00.html (August 31, 2004)

16 http://www.dod.mil/militarypay/benefits/deathben.pdf (August 31, 2004)

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/3/08**	**Z-0072.1**

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 above. We intend this draft fiscal note to be used by the Select Committee on Pension Policy and the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board throughout the 2008 Interim only. If a legislator introduces this proposal as a bill during the next legislative session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

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.

SUMMARY OF RESULTS

This bill would provide an unreduced joint and survivor annuity to the survivor of a member who dies in war while serving in the National Guard or Military Reserves.

Impact on Pension Liability

(Dollars in Millions)	Current	Increase	Total
Today's Value of All Future Pensions	$67,081	$0.6	$67,081
Earned Pensions Not Covered by Today's Assets	$4,957	$0.0	$4,957

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer:						
Current Annual Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State					0.00%	

Budget Impacts

(Dollars in Millions)	2009-2011	2011-2013	25-Year
General Fund-State	$0.0	$0.0	$0.6
Total Employer	$0.0	$0.1	$1.8

See the Actuarial Results section of this draft fiscal note for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary of Benefit Improvement

This proposal impacts the following systems:

- Public Employees' Retirement System (PERS) Plans 1, 2, and 3
- Teachers' Retirement System (TRS) Plans 1, 2, and 3
- School Employees' Retirement System (SERS) Plans 2 and 3
- Public Safety Employees' Retirement System (PSERS)
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2
- Washington State Patrol Retirement System (WSPRS) Plans 1 and 2

This proposal increases the benefits offered to survivors of members who leave employment to serve in the National Guard or Military Reserves and die while serving honorably during a period of war. Period of war is defined in RCW 41.04.005. Under this proposal, a military survivor who met the existing eligibility standard for a monthly annuity option is now entitled to receive a survivor annuity that is *not* actuarially reduced for each year of retirement prior to the normal retirement age of the specific system and plan.

Assumed Effective Date: 90 days after session.

What Is The Current Situation?

Death benefits are provided to qualifying survivors of deceased members in all systems and plans. The eligibility for, and the value of, those survivor benefits differ according to the specific statutory language contained in each section of retirement law. Except in PERS Plan 2, the survivor benefits statutes of each system and plan do not provide different death benefits or eligibility standards for survivors of members who separate from employment for any type of military service and die while performing that service. In these systems and plans, military death survivors are treated the same as a survivor of a deceased member who separated for any other reason.

With the passage of 2SHB 1266 in the 2007 Legislative Session, a qualifying survivor of a PERS Plan 2 member who separates from employment to enter the uniformed services of the United States and dies while serving in the Iraq and Afghanistan conflicts on or after January 1, 2007, is entitled to the following:

- A refund of 200 percent of the member's retirement account balance; *or*
- A survivor annuity actuarially reduced to reflect the difference in age between the age of the member at the time of death and age 65.

The survivor annuity portion of the benefit provided is typically actuarially reduced for each year of retirement prior to the normal retirement age of that system/plan.

Who Is Impacted And How?

We estimate that all 158,022 active members of PERS Plans 1, 2 and 3, all 64,939 active members of TRS Plans 1, 2 and 3, all 50,825 active members of SERS Plans 2 and 3, all 2,755 active members of PSERS Plan 2, all 16,612 active members of LEOFF Plans 1 and 2, and all 1,037 active members of WSPRS Plans 1 and 2 could be affected by this proposal through improved benefits. However, we only expect this to happen to approximately 1 in 240,000 PERS members per year.

We estimate that for a typical survivor impacted by this bill, the increase in benefits would be an unreduced annuity versus a reduced annuity. For example, the 30 year old beneficiary of a 33 year old male, with 6 years of service in PERS Plan 2 and a $44,000 average final salary, would annually receive a $400 reduced joint and 100 percent survivor annuity, whereas the annual unreduced benefit would be a $4,000 joint and survivor annuity.

Additionally, Plan 2 members would have increased contribution rates in future biennia.

WHY THIS PROPOSL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This bill has a cost because it provides an unreduced joint and survivor annuity instead of a reduced joint and survivor annuity.

Who Will Pay For These Costs?

This bill does not allow for an alternate funding method. The individual plans will subsidize the increase in liability that results from this bill in the usual way. The result may be an increase in future contribution rates for members and employers of the respective systems.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed a certain number of members would enter military service in a given year. We adjusted this number based on which plan the member was in. For example, we assumed that more members in public safety plans would enter military service than members in TRS.

Next, we assumed how many members would die during military service. This assumption does not vary by plan.

For more detail please see Appendix A.

How We Applied These Assumptions

We gathered data for the members of each system and plan. We ran the grouped data through a spreadsheet which models the likelihood of entering military service, the probability of a military death, and the associated cost of an unreduced survivor benefit.

For more detail please see Appendix B.

Special Data Needed

We relied on a Washington Post article, based on Department of Defense records, dated August 23, 2006, that specifies the annual death rate for military personnel in Iraq is 3.92 deaths per 1,000 people. The article also states that troops aged 17-19 are 4.6 times more likely to die than those age 50 and older.

Also, we relied on a Department of Retirement Systems service credit report dated September 30, 2006, to estimate the number of members who enter military service.

Otherwise, we developed these costs using the same assets and data as disclosed in the 2007 Actuarial Valuation Report (AVR).

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding by increasing the present value of future benefits payable under the systems as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$0.0	$14,061
PERS 2/3	20,634	0.3	20,635
PERS Total	**$34,695**	**$0.3**	**$34,696**
TRS 1	11,021	0.0	11,021
TRS 2/3	7,078	0.1	7,078
TRS Total	**$18,099**	**$0.1**	**$18,099**
SERS 2/3	**$2,698**	**$0.0**	**$2,698**
PSERS 2	**$225**	**$0.0**	**$225**
LEOFF 1	4,358	0.0	4,358
LEOFF 2	6,149	0.1	6,149
LEOFF Total	**$10,507**	**$0.1**	**$10,507**
WSPRS 1/2	**$856**	**$0.0**	**$856**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$0.0**	**$3,609**
TRS 1	**2,288**	**0.0**	**2,288**
LEOFF 1	**($939)**	**$0.0**	**($939)**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$0.0	$3,990
PERS 2/3	(2,470)	0.2	(2,469)
PERS Total	**$1,520**	**$0.2**	**$1,520**
TRS 1	2,552	0.0	2,552
TRS 2/3	(1,229)	0.0	(1,229)
TRS Total	**$1,323**	**$0.0**	**$1,323**
SERS 2/3	**(443)**	**0.0**	**(443)**
PSERS 2	**(2)**	**0.0**	**(2)**
LEOFF 1	(975)	0.0	(975)
LEOFF 2	(974)	0.1	(974)
LEOFF Total	**($1,949)**	**$0.1**	**($1,949)**
WSPRS 1/2	**($121)**	**$0.0**	**($121)**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The increase in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01 percent, therefore the proposal will not affect contribution rates in the current biennium. However, we will use the un-rounded rate increase to measure the fiscal budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)

System/Plan	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Current Members						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
Employer:						
Normal Cost	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
State					0.000%	
New Entrants*						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
Employer:						
Normal Cost	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
State					0.000%	

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

Budget Impacts

(Dollars in Millions)	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	Total
2009-2011							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2013							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**
2009-2034							
General Fund	$0.2	$0.2	$0.0	$0.0	$0.1	$0.0	$0.6
Non-General Fund	0.3	0.0	0.0	0.0	0.0	0.0	0.3
Total State	**$0.5**	**$0.2**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.9**
Local Government	0.5	0.1	0.0	0.0	0.2	0.0	0.9
Total Employer	**$1.0**	**$0.4**	**$0.1**	**$0.0**	**$0.4**	**$0.0**	**$1.8**
Total Employee	**$0.7**	**$0.2**	**$0.0**	**$0.0**	**$0.4**	**$0.0**	**$1.3**

Note: Totals may not agree due to rounding.

The analysis of this proposal does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the systems will vary from those presented in the AVR or this draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

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

- The number of members expected to enter military service and die while serving.

The number of members expected to die while serving in the military would have to increase significantly for this proposal to impact contribution rates in the current biennium. The table below shows the multiple of how many more members would need to die while serving in the military before the rate impact would reach 0.005 percent for each system. For example, in LEOFF Plan 2, the employee rate impact would reach 0.005 percent if 11 times as many members as expected die during military service in the future.

System	Multiple
PERS 2/3	20
TRS 2/3	29
SERS 2/3	51
PSERS 2	24
LEOFF 2	11
WSP 1/2	6

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, assumptions, and data may also be reasonable, and might produce different results.
5. This draft fiscal note has been prepared for the Select Committee on Pension Policy and the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board.
6. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this draft fiscal note.

This draft fiscal note is a preliminary actuarial communication and the results shown may change. While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Matthew M. Smith, FCA, EA, MAAA
State Actuary

APPENDIX A – ASSUMPTIONS WE MADE

We made two main assumptions for this pricing – the number of members who enter military service and the number of members who die while serving in the military.

We assumed a certain number of members would enter military service in a given year. Using the DRS service credit report, we estimated 1 out of every 1,000 PERS members will enter the military. We adjusted this number based on which plan the member was in. For example, we assumed that more members in public safety plans would enter military service than members in TRS. More specifically, TRS and SERS members were assumed to enter at 1 out of every 2,000 members, PSERS members were assumed to enter at 1 out of every 750 members, and LEOFF and WSP members were assumed to enter at 1 out of every 500 members.

For simplicity, we assumed the population affected would be 100 percent male. We assumed there would be 20 percent fewer members entering military service after age 42 due to military age restrictions. Also, we assumed that all members leaving state employment to serve in the military will be in the National Guard or Military Reserves during a period of war.

Next, we estimated how many members would die during military service. We used the Washington Post article (cited in the data section) to set this assumption. The annual death rate for military personnel in Iraq is 3.92 deaths per 1,000 people. The article further explains the fact that troops aged 17-19 are 4.6 times more likely to die than those age 50 and older. Therefore, we approximated the age-based probability of death in the military using these two facts. The overall probability of death was maintained while significantly weighting higher probabilities to younger ages. Furthermore, the addition of accounting for non-combat related deaths will increase the overall assumption rate to approximately 4.4 deaths per 1,000 people. This assumption does not vary by plan.

The two assumptions for PERS can be seen in the table below. When combined, they create one overall assumption for the probability of a survivor receiving an increased benefit in this proposal.

Age	Probability of Interruptive Military Service	Probability of a Military Death	Probability of Receiving Survivor Benefit
20	0.00100	0.009667	0.0000097
25	0.00100	0.008406	0.0000084
30	0.00100	0.007145	0.0000071
35	0.00100	0.005884	0.0000059
40	0.00100	0.004623	0.0000046
45	0.00080	0.003362	0.0000027
50	0.00080	0.002102	0.0000017
55	0.00080	0.002102	0.0000017
60	0.00080	0.002102	0.0000017
65	0.00080	0.002102	0.0000017
70	0.00080	0.002102	0.0000017

Otherwise, we developed these costs using the same assumptions as disclosed in the 2007 AVR.

APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

We gathered average salary, average years of service, and total count for each age group of each plan. We ran the grouped data through a spreadsheet which models the likelihood of a military death and the associated cost of the unreduced survivor benefit for each year of their future service. The likelihood of a military death is outlined in the assumption section. The cost of the benefit increase (unreduced survivor benefit instead of reduced survivor benefit) was calculated as the present value of the unreduced life annuity times one minus the early retirement factor (ERF). The formula is shown below:

[Multiplier (0.01 or 0.02) * service * final average salary * annuity factor * survivorship * interest discount * (1-ERF)] * Probability of receiving survivor benefit.

The annual discount rate is 8 percent, consistent with the AVR.

Formula example: 30 year old TRS Plan 2 male, with 10 years of service and $50,000 final average salary. This member has an immediate annuity factor of 18.92 at age 30. The early retirement factor (ERF) for this member is 0.11.

Unreduced annuity (with ERF): 0.02 * 10 * 50,000 * 18.92 * 1 * 1 * 1 = $189,200
Reduced annuity (with ERF): 0.02 * 10 * 50,000 * 18.92 * 1 * 1 * 0.11 = $20,812
Difference: $189,200 - $20,812 = $168,388
Formula (1-ERF): 0.02 * 10 * 50,000 * 18.92 * 1 * 1 * 0.89 = $168,388

The formula was applied to each future year of the group's service to determine the present value of future benefits for the group. The sum of the present value of future benefits for each group was added up to determine the liability for each system.

Otherwise, we developed these costs using the same methods as disclosed in the June 30, 2007 AVR.

We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members and future new entrants.

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

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).

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

Unfunded 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.

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.