Inflation Adjustment for $150,000 Death Benefit Final Proposal

LEOFF Plan 2 Retirement Board

December 17, 2008

Background Summary

- Original 2006 Board Bill
  - Added inflation adjustment
  - Added death due to occupational illness

- 2007 Joint Bill With SCPP
  - Added inflation adjustment to all system plans
  - Added death due to occupational illness to all plans

Key Issues

- Loss of Purchasing Power
- Cost

Proposal Summary

- Add Inflation Adjustment
- One-time Adjustment
- Both a One-time and Inflation Adjustment
- Select Committee on Pension Policy Update

Costs

Costs from the Office of the State Actuary

Option	Member Rate	Employer Rate	State Rate
Lump-sum Only ($175,000)	0.00%	0.00%	0.00%
Inflation Only	0.01%	0.01%	0.00%
Lump-sum Only ($205,000)	0.01%	0.01%	0.00%
Combination of Lump-sum ($205,000) and Inflation	0.02%	0.01%	0.01%

Inflation Adjustment for $150,000 Death Benefit

QUESTIONS?

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

$150,000 Death Benefit Adjustment

Final Proposal

December 17, 2008

1. Issue

The $150,000 lump-sum death benefit paid to survivors of public employees who die in the line of duty is not adjusted for inflation.

2. Proposal Summary

The Board has previously proposed legislation that would add an inflation adjustment to the existing $150,000 Death Benefit. During this Interim the Board has also explored other improvements such as a one-time increase in the benefit to $205,000 and an increase to $205,000 with an ongoing annual cost of living increase (COLA).

Additionally, the Board sent a letter to the Select Committee on Pension Policy (SCPP) asking to work together with them on this proposal. The SCPP held a public hearing on the subject at their November meeting. The presentation included an additional option of a one-time increase to $175,000. The SCPP deferred action until their December meeting.

3. Staff

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4. Members Impacted

Any member who dies in the line of duty would be impacted. According to the Office of the State Actuary, as of June 30, 2007 there were 16,099 active LEOFF Plan 2 members.

5. Current Situation

If a member dies in the line of duty as a result of an injury or occupational illness sustained in the course of employment, a $150,000 death benefit is paid to the designated beneficiary. The benefit amount is fixed at $150,000 and has been the same since 1996.

6. Background Information

Background Information

During the 2006 Legislative Session, the Board sponsored legislation to amend the $150,000 Death Benefit. The original bill included two amendments to existing statutes. The first added death due to an occupational illness as a qualified reason to receive the $150,000 lump-sum death benefit. The second amendment added an annual inflation adjustment to increase the $150,000 amount over time. The proposed inflation adjustment was to be calculated at the same rate as the cost of living adjustments (COLA) members receive on their pensions. During the original cost analysis done by the Office of the State Actuary (OSA), the addition of the inflation adjustment did not create an increase in contribution rates for LEOFF Plan 2. The Legislature passed the bill but removed the annual inflation adjustment portion of the bill.

The reason for the removal of the inflation adjustment clause was due to all other Washington State plans have the same $150,000 lump-sum death benefit and the Legislature wanted to understand how the other plans might be affected by an annual inflation adjustment before setting a precedent by adopting one for LEOFF Plan 2. The Select Committee on Pension Policy (SCPP) agreed to study this issue during the 2006 Interim and work together with the LEOFF 2 Board on joint legislation. At that time, the OSA reported the addition of the inflation adjustment would not create an increase in contribution rates for any of the systems or plans, except the Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2. The increase in LEOFF Plan 2 contribution rates for the inflation adjustment for member and employer would be one basis point each.

A bill developed jointly with the SCPP and introduced in the 2007 Legislative Session expanded the eligibility for the $150,000 death benefit to include death from duty-related illnesses in all plans where it is not already provided, and added an annual inflation adjustment for all plans. The Legislature passed the bill, but again amended out the annual inflation adjustment.

The SCPP introduced a bill in both the House and Senate during the 2008 Legislative Session that added an annual inflation adjustment for the $150,000 death benefit for all plans. The Board formally endorsed the legislation. Neither bill passed. The bill did not receive a hearing in the House, but did in the Senate Ways and Means; however, it was not passed out of committee.

The proposed inflation adjustment in all three previous proposals is the same adjustment that is used for the cost of living adjustment (COLA) on the LEOFF Plan 2 benefit. That option would be to index changes to the Consumer Price Index for urban wage earners and clerical workers for the Seattle/Tacoma/Bremerton region (CPI-W STB) with a three percent maximum per year.

Comparison to Other Lump-Sum Death Benefits
Of the eight states that provide a lump-sum death benefit of $100,000 or more, three have an inflation adjustment. In addition to state provided lump-sum death benefits, there is a federal death benefit, the Public Safety Officers' Benefits (PSOB) Act. This legislation was enacted in 1976 to assist in the recruitment and retention of law enforcement officers and fire fighters by providing a lump-sum death benefit. Beginning October 15, 1988, an annual inflation adjustment was added and the benefit has been adjusted each year on October 1 to reflect the percentage of change in the Consumer Price Index. As of October 1, 2008, the amount is $315,746.

Policy Issue
Over the last three years, the Board or the Board and the SCPP together, have introduced legislation adding an annual inflation adjustment to the $150,000 lump-sum death benefit. The original policy issue was to determine what kind of index should be used. The Board reviewed the following three options and chose to move forward with Option 2 in 2006. This option was subsequently chosen for the next two Legislative Sessions (a copy of the most current version of the bill and fiscal note is attached).

1. **Fully indexed to the Consumer Price Index for urban wage earners and clerical workers for the Seattle/Tacoma/Bremerton (CPI-W STB)**. Under this option, the value of the benefit would be preserved. However, in times of high inflation, funding can become an issue.
2. **Index to changes in the CPI-W STB with a three percent per year maximum (similar to the COLA on pensions).** Under this option, the value of the benefit is preserved as long as the long-term rate of inflation is at three percent or less. Having a ceiling on the index helps to control costs and promote stable funding.
3. **Increase the benefit by three percent per year.** This option is the most simple to administer and in years where inflation is less than three percent, would actually increase the value of the benefit.

The policy issue is whether or not an annual inflation adjustment is the best design for regaining the purchasing power lost over the past twelve years the benefit has been $150,000. Based on the CPI-W for Seattle/Tacoma/Bremerton, the amount the $150,000 lump-sum death benefit would have to be today, using the same calculation method as is used for the cost of living adjustment for retirement benefits, would be approximately $205,000. Or instead of adding an annual inflation adjustment the amount could be changed from $150,000 to $205,000 and then periodically request adjustments. A third possibility could be a combination of both a lump-sum increase and an inflation adjustment.

7. Options

Option 1: Add an annual inflation adjustment

Under this option the Board would add an annual inflation adjustment to the $150,000 Death Benefit beginning July 1, 2009 similar to the cost of living adjustment (COLA) paid on retirement benefits. An update of the 2008 proposed bill would be submitted to the 2009 Legislature. The Office of the State Actuary indicated the cost of this option would add a total of two basis points (0.02%) to the contribution rate. This would be divided equally between member and employer.

Option 2: Introduce a bill with a change in the lump-sum amount

Under this option the Board would introduce a bill that would change the lump-sum amount to $205,000. This would be the equivalent value today of the $150,000. The Office of the State Actuary indicated the cost of this option would add a total of two basis points (0.02%) to the contribution rate. This would be divided equally between member and employer.

Option 3: Introduce a bill with a combination of a change in the lump-sum amount and an inflation adjustment

Under this option the Board would introduce a bill that would change the lump-sum amount to $205,000 and would also contain an annual COLA similar to the one paid on retirement benefits that would be used July 1, 2010. The Office of the State Actuary indicated the cost of this option would add a total of four basis points (0.04%) to the contribution rate. This would be divided two basis point (0.02%) member, one basis point (0.01%) employer and one basis point (0.01%) state.

Option 4: Select Committee on Pension Policy will be considering a lump-sum amount in December

Under this option, if chosen, the Select Committee on Pension Policy would introduce a bill that would change the lump-sum amount to $175,000. The Office of the State Actuary indicated the cost of this option would not be sufficient to increase rates.

8. Supporting Information

Appendix A: Copy of 2008 Bill Draft

Appendix B: Office of the State Actuary Fiscal Note – 2008 Session

Appendix C: Office of the State Actuary Draft Fiscal Note - $175,000 Option

Z-0708.1

HOUSE BILL 3026

State of Washington 60th Legislature 2008 Regular Session

By Representatives Fromhold, Conway, Crouse, Liias, VanDeWege, Hurst, Sullivan, Kenney, Simpson, and Linville; by request of Select Committee on Pension Policy and LEOFF Plan 2 Retirement Board

Read first time 01/21/08. Referred to Committee on Appropriations.

AN ACT Relating to indexing the one hundred fifty thousand dollar death benefit for public employees; amending RCW 41.04.017, 41.24.160, 41.26.048, 41.32.053, 41.35.115, 41.37.110, 41.40.0931, and 41.40.0932; reenacting and amending RCW 43.43.285; and providing an effective date.

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

Sec. 1. RCW 41.04.017 and 2007 c 487 s 1 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee of any state agency, the common school system of the state, or institution of higher education who dies as a result of ((~~(1)~~)) (a) injuries sustained in the course of employment; or ((~~(2)~~)) (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter, and is not otherwise provided a death benefit through coverage under their enrolled retirement system under chapter 402, Laws of 2003. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

(2)(a) Beginning July 1, 2008, and every year thereafter, the department of retirement systems shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 2. RCW 41.24.160 and 2001 c 134 s 2 are each amended to read as follows:

(1)(a) Whenever a participant dies as the result of injuries received, or sickness contracted in consequence or as the result of the performance of his or her duties, the board of trustees shall order and direct the payment from the principal fund of (i) the sum of one hundred fifty-two thousand dollars to his widow or her widower, or if there is no widow or widower, then to his or her dependent child or children, or if there is no dependent child or children, then to his or her dependent parents or either of them, or if there are no dependent parents or parent, then the death benefit shall be paid to the member's estate, and (ii)(A) the sum of one thousand two hundred seventy-five dollars per month to his widow or her widower during his or her life together with the additional monthly sum of one hundred ten dollars for each child of the member, unemancipated or under eighteen years of age, dependent upon the member for support at the time of his or her death,

(B) to a maximum total of two thousand five hundred fifty dollars per month.

(b) Beginning on July 1, 2001, and each July 1st thereafter, the compensation amount specified in (a)(ii)(B) of this subsection shall be readjusted to reflect the percentage change in the consumer price index, calculated as follows: The index for the calendar year preceding the year in which the July calculation is made, to be known as "calendar year A," is divided by the index for the calendar year preceding calendar year A, and the resulting ratio is multiplied by the compensation amount in effect on June 30th immediately preceding the July 1st on which the respective calculation is made. For the purposes of <u>the calculation under</u> this subsection <u>(1)(b)</u>, "index" means the same as the definition in RCW 2.12.037(1).

<u>(c)(i) Beginning July 1, 2008, and every year thereafter, the state board shall determine the following information:</u>

<u>(A) The index for the 2006 calendar year, to be known as "index A";</u>

<u>(B) The index for the calendar year prior to the date of determination, to be known as "index B"; and</u>

<u>(C) The ratio obtained when index B is divided by index A.</u>

<u>(ii) The value of the ratio obtained shall be the annual adjustment to the original death benefit specified in (a)(i) of this subsection and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:</u>

<u>(A) Produce a benefit which is lower than one hundred fifty-two thousand dollars;</u>

<u>(B) Exceed three percent in the initial annual adjustment; or</u>

<u>(C) Differ from the previous year's annual adjustment by more than three percent.</u>

<u>(iii) For the purposes of the calculation specified in this subsection (1)(c), "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.</u>

(2) If the widow or widower does not have legal custody of one or more dependent children of the deceased participant or if, after the death of the participant, legal custody of such child or children passes from the widow or widower to another person, any payment on account of such child or children not in the legal custody of the widow

or widower shall be made to the person or persons having legal custody of such child or children. Such payments on account of such child or children shall be subtracted from the amount to which such widow or widower would have been entitled had such widow or widower had legal custody of all the children and the widow or widower shall receive the remainder after such payments on account of such child or children have been subtracted. If there is no widow or widower, or the widow or widower dies while there are children, unemancipated or under eighteen years of age, then the amount of one thousand two hundred seventy-five dollars per month shall be paid for the youngest or only child together with an additional one hundred ten dollars per month for each additional of such children to a maximum of two thousand five hundred fifty dollars per month until they become emancipated or reach the age of eighteen years; and if there are no widow or widower, child, or children entitled thereto, then to his or her parents or either of them the sum of one thousand two hundred seventy-five dollars per month for life, if it is proved to the satisfaction of the board that the parents, or either of them, were dependent on the deceased for their support at the time of his or her death. In any instance in subsections (1) and (2) of this section, if the widow or widower, child or children, or the parents, or either of them, marries while receiving such pension the person so marrying shall thereafter receive no further pension from the fund.

(3) In the case provided for in this section, the monthly payment provided may be converted in whole or in part into a lump sum payment, not in any case to exceed twelve thousand dollars, equal or proportionate, as the case may be, to the actuarial equivalent of the monthly payment in which event the monthly payments shall cease in whole or in part accordingly or proportionately. Such conversion may be made either upon written application to the state board and shall rest in the discretion of the state board; or the state board is authorized to make, and authority is given it to make, on its own motion, lump sum payments, equal or proportionate, as the case may be, to the value of the annuity then remaining in full satisfaction of claims due to dependents. Within the rule under this subsection the amount and value of the lump sum payment may be agreed upon between the applicant and the state board.

Sec. 3. RCW 41.26.048 and 2007 c 487 s 2 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit 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 death benefit 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) The benefit under this section shall be paid only when death occurs: (a) As a result of injuries sustained in the course of employment; or (b) as a result of an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 4. RCW 41.32.053 and 2007 c 487 s 3 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

<u>(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:</u>

<u>(i) The index for the 2006 calendar year, to be known as "index A";</u>

<u>(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and</u>

<u>(iii) The ratio obtained when index B is divided by index A.</u>

<u>(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:</u>

<u>(i) Produce a benefit which is lower than one hundred fifty thousand dollars;</u>

<u>(ii) Exceed three percent in the initial annual adjustment; or</u>

<u>(iii) Differ from the previous year's annual adjustment by more than three percent.</u>

<u>(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.</u>

Sec. 5. RCW 41.35.115 and 2007 c 487 s 4 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 6. RCW 41.37.110 and 2007 c 487 s 5 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or the person or persons, trust, or organization the member has nominated by written designation duly executed and filed with the department. If the designated person or persons are not still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 7. RCW 41.40.0931 and 2007 c 487 s 6 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit for members who had the opportunity to transfer to the law enforcement officers' and firefighters' retirement system pursuant to chapter 502, Laws of 1993, but elected to remain in the public employees' retirement system, shall be paid to the member's estate, or such person or persons, trust, or organization as the member has nominated by written designation duly executed and filed with the department. If there is no designated person or persons still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) Subject to subsection (3) of this section, the benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment as a general authority police officer; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3) The benefit under this section shall not be paid in the event the member was in the act of committing a felony when the fatal injuries were suffered.

<u>(4)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:</u>

<u>(i) The index for the 2006 calendar year, to be known as "index A";</u>

<u>(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and</u>

<u>(iii) The ratio obtained when index B is divided by index A.</u>

<u>(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:</u>

<u>(i) Produce a benefit which is lower than one hundred fifty thousand dollars;</u>

<u>(ii) Exceed three percent in the initial annual adjustment; or</u>

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 8. RCW 41.40.0932 and 2007 c 487 s 7 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 9. RCW 43.43.285 and 2007 c 488 s 1 and 2007 c 487 s 9 are each reenacted and amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit 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 death benefit 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)(a) The benefit under this section shall be paid only where death occurs as a result of (i) injuries sustained in the course of employment; or (ii) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(b) The retirement allowance paid to the spouse and dependent children of a member who is killed in the course of employment, as set forth in RCW 41.05.011(14), shall include reimbursement for any payments of premium rates to the Washington state health care authority under RCW 41.05.080.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

NEW SECTION. **Sec. 10.** This act takes effect July 1, 2008.

--- END ---

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/02/2008**	**$150,000 Death Benefit**

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' Plan 2 Retirement 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 proposal increases the amount of the duty-related death benefit from $150,000 to $175,000. Current law provides the duty-related death benefit to members of all state retirement systems and other public employees who die from duty-related illnesses or injuries.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$67,081	$2.6	$67,083
Earned Pensions Not Covered by Today's Assets	$4,957	$0.1	$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	$0.1	$3.5
Total Employer	$0.0	$0.4	$11.1

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 retirement systems and public employees:

- Public Employees' Retirement System (PERS).
- Teachers' Retirement System (TRS).
- School Employees' Retirement System (SERS).
- Public Safety Employees' Retirement System (PSERS).
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).
- Washington State Patrol Retirement System (WSPRS).
- Volunteer Firefighters' Relief and Pension Fund (VFF).
- Members of the Judicial Retirement System (JRS).
- Members of the Higher Education Retirement Plans (HIED).
- State, school district, and higher education employees who aren't members of a state retirement system.

This proposal increases the amount of the duty-related death benefit from $150,000 to $175,000.

Assumed Effective Date: Immediately upon passage

What Is The Current Situation?

The retirement systems and, in some cases, the state general fund pay a lump-sum death benefit for public employees who die as a result of a duty-related injury or illness. The amount of the benefit is currently $150,000. This benefit is provided for all members of PERS, TRS, SERS, PSERS, LEOFF, WSPRS, VFF, JRS, and HIED; and to state, school district and higher education employees who aren't members of a state retirement system. The lump-sum death benefit in VFF includes an additional $2,000.

Who Is Impacted And How?

This proposal could affect all 308,267 active members of the systems listed above through improved benefits. In addition, this proposal could affect 577 inactive fire fighters of LEOFF who are eligible for the benefit up to five years after separation of service. However, we only expect this benefit to be paid to about one member out of 24,500 members per year.

This proposal will increase the lump-sum death benefit by $25,000 for any member that dies as a result of a duty-related injury or illness.

Although this proposal does not produce supplemental contribution rate increases in the current biennium, this proposal impacts all 165,035 Plan 2 members of these systems through increased contribution rates in future biennia. With the exception of WSPRS members, this proposal will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this proposal will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal increases the amount of the lump-sum death benefit by $25,000. This increases the present value of future benefits of the affected systems. This proposal will not result in more lump-sum death benefits being paid, but when the benefits are paid, the amount will be larger.

Who Will Pay For These Costs?

Each system will subsidize the increase in liability that results from this proposal in their normal funding method:

- LEOFF 2: 50 percent member, 30 percent employer, and 20 percent State
- Plan 1: 100 percent employer
- Plan 2: 50 percent member and 50 percent employer
- Plan 3: 100 percent employer

HOW WE VALUED THESE COSTS

We changed the lump-sum duty death benefit to provide a $175,000 benefit in place of the current $150,000 benefit. We assumed no members of JRS will die from a duty-related illness or injury and have excluded these members from this pricing.

Otherwise, we developed these costs using the same assumptions, methods, assets, and data as disclosed in the June 30, 2007 Actuarial Valuation Report (AVR).

We used the Entry Age Normal actuarial funding method to determine the fiscal budget changes for future new entrants. We used the Aggregate actuarial funding method to determine the fiscal budget changes for current plan members.

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding of the plans by increasing the present value of future benefits payable under the plans as shown in the following table.

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	0.7	20,635
PERS Total	**34,695**	**0.7**	**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**	**0.2**	**2,698**
PSERS 2	**225**	**0.0**	**225**
LEOFF 1	4,358	0.1	4,358
LEOFF 2	6,149	1.5	6,151
LEOFF Total	**10,507**	**1.6**	**10,509**
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)**	**$0.1**	**($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)	0.7	(2,469)
PERS Total	**1,520**	**0.7**	**1,521**
TRS 1	2,552	0.0	2,552
TRS 2/3	(1,229)	0.1	(1,229)
TRS Total	**1,323**	**0.1**	**1,323**
SERS 2/3	**(443)**	**0.2**	**(443)**
PSERS 2	**(2)**	**0.0**	**(2)**
LEOFF 1	(975)	0.1	(975)
LEOFF 2	(974)	1.5	(972)
LEOFF Total	**(1,949)**	**1.6**	**(1,947)**
WSPRS 1/2	**($121)**	**$0.0**	**($121)**

Note: Totals may not agree due to rounding.

In addition, this proposal increases the pension liability of the VFF pension plan by $128,000.

We did not value the impact of this proposal on the following members since we do not currently value them in any of our actuarial valuations:

- 2,854 Volunteer Fire Fighters that are not members of the pension plan;
- Members of HIED; and
- State, school district, and higher education employees who aren't members of the Washington State Retirement Systems.

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%, 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)	0.001%	0.000%	0.001%	0.000%	0.005%	0.003%
Employer:						
Normal Cost	0.001%	0.000%	0.001%	0.000%	0.003%	0.003%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.001%	0.000%	0.002%	0.000%	0.003%	0.003%
State					0.002%	
New Entrants*						
Employee (Plan 2)	0.001%	0.000%	0.002%	0.001%	0.008%	0.005%
Employer:						
Normal Cost	0.001%	0.000%	0.002%	0.001%	0.005%	0.005%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.001%	0.000%	0.002%	0.001%	0.005%	0.005%
State					0.003%	

**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	$0.1	$0.0	$0.1
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.2**
Local Government	0.1	0.0	0.0	0.0	0.1	0.0	0.2
Total Employer	**0.1**	**0.0**	**0.1**	**0.0**	**0.2**	**0.0**	**0.4**
Total Employee	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.2**	**$0.0**	**$0.3**
2009-2034							
General Fund	$0.6	$0.2	$0.6	$0.0	$2.1	$0.0	$3.5
Non-General Fund	0.9	0.0	0.0	0.0	0.0	0.2	1.1
Total State	**1.5**	**0.2**	**0.6**	**0.0**	**2.1**	**0.2**	**4.6**
Local Government	2.3	0.1	0.9	0.0	3.1	0.0	6.5
Total Employer	**3.9**	**0.4**	**1.5**	**0.0**	**5.1**	**0.2**	**11.1**
Total Employee	**$2.6**	**$0.2**	**$0.9**	**$0.0**	**$5.1**	**$0.2**	**$9.1**

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 used in this pricing, we varied the duty-related death assumption for LEOFF 2. We chose LEOFF 2 for our sensitivity testing for two reasons:

1. We developed our current duty-related death assumptions for LEOFF 2 in 2006 and 2007 in response to new laws for duty-related injuries and illnesses. We have not had sufficient experience in the plan to determine if these assumptions are accurate in the long-term. As a result, there is a higher risk for this pricing with LEOFF 2.

2. If we experience any catastrophic events impacting duty-related injuries or illnesses that result in death, we expect this will affect our law enforcement officers and fire fighters. A single catastrophic event, while short-term, could add a significant cost to the plan, particularly with lump-sum benefits.

We changed the duty-related death assumption by doubling the rate of deaths that we expect will result from a duty-related injury or illness. We did not increase our mortality assumptions, only the number of deaths that are duty-related. The next table shows our current assumptions ("Base Assumptions") and increased assumptions ("Sensitivity Assumptions").

	Base Assumptions	Sensitivity Assumptions
Duty Death Rate	0.0376%	0.0752%
Occupational Disease Death Rate (Fire Fighters only)		
Age 20-49	14.742%	29.484%
Age 50+	27.393%	54.786%

The result of increasing the rate of deaths from a duty-related injury or illness is detailed in the following table. We compare the assumptions used in this proposal ("Best Estimate Pricing") with the increased assumptions ("Sensitivity Pricing") to show the sensitivity of this pricing proposal on the duty-related death assumptions.

(Dollars in Millions)	Best Estimate Pricing	Sensitivity Pricing
Liability Increase	$1.5	$2.4
Contribution Rate Increase		
Employee	0.005%	0.008%
Employer	0.003%	0.005%
State	0.002%	0.003%
Budget Impacts		
2009-2011		
General Fund - State	$0.0	$0.0
Total Employer	$0.0	$0.3

There is also a possibility that fewer duty-related deaths will occur than we assume for LEOFF 2 in the future. If we tested lower rates, we would expect lower costs than our pricing of this proposal shows.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost and asset valuation 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. This draft fiscal note has been prepared for the Select Committee on Pension Policy and Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement 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

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.