



Reduction Factors for Survivor Retirements Final Proposal

LEOFF Plan 2 Retirement Board

December 18, 2007

Background Summary

- Survivor Can Choose Between Accumulated Contributions Or Benefit
- Ongoing Benefit
 - Duty
 - No early retirement reduction factor
 - Joint and 100% survivor factor applies
 - Non-Duty
 - Early retirement reduction factor applies
 - Joint and 100% survivor factor applies

Key Issues

- Survivor Retirements Use Same Joint And Survivor Reduction Factors as a Service or Disability Retirement
 - Service and disability retirements paid over two lifetimes
 - Survivor retirements paid over single lifetime
- Joint and 100% Survivor Applies To Duty Deaths

Proposal Summary

- Create New Actuarial Reduction Factors for Survivor Benefits
- Eliminate Joint and 100% Survivor Reduction Factor for Survivor Benefits for Line of Duty Deaths

Reduction Factors for Survivor Retirements

Questions?

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

Reduction Factors for Survivor Benefits

Final Proposal

December 18, 2007

1. Issue

Should the actuarial reduction for joint and 100% survivor option used for disability and service retirements be applied to survivor retirements?

2. Proposal Summary

There are two proposals being considered.

Proposal 1 would create a new actuarial reduction table for all survivor benefits. Under this option a new and separate table would be created for surviving spouses in lieu of the current joint and 100% survivor tables.

Proposal 2 would eliminate the use of the existing joint and 100% survivor reduction factors for survivors of members killed in the line of duty.

3. Staff

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4. Members Impacted

Any member who dies in the line of duty with ten years of service credit would be impacted. According to the Office of the State Actuary, as of September 30, 2006 there were 15,718 active LEOFF Plan 2 members.

5. Current Situation

If a member dies prior to retirement and they have ten or more years of service credit or are eligible to retire and their eligible spouse chooses a monthly benefit, the benefit is actuarially reduced using the same joint and 100 percent reduction factors as those used for a service or disability retirement.

6. Background Information and Policy Issues

Background Information

Under the current statutes, if a member dies and has ten or more years of service credit or is eligible to retire, their surviving spouse is eligible for a survivor benefit. The benefit calculation differs if the death was line of duty versus non-duty. In either case, the benefit is actuarially reduced as if the member had chosen a joint and 100 percent survivor option. If the death was non-duty, and the member was not otherwise eligible to retire, there is an additional actuarial reduction for early retirement (reduced from age 53).

The purpose of a survivor option is to ensure a member's spouse will have a continuing benefit. The value of the benefit the member has earned is based on years of service, final average salary and the number of payments expected to be paid over a lifetime, including cost of living increases. When a survivor option is added to the benefit experience shows that the number of payments paid out over two lifetimes is greater than that paid over a single life time.

In order to ensure that an equivalent benefit is paid if a joint survivor option is chosen, the benefit is reduced. The amount of the reduction is based on the interrelationship of many different factors including experience studies, projections on life expectancies, and several economic and demographic assumptions. The calculations to create reduction factors for survivor options as well as early retirements are performed by the Office of the State Actuary (OSA).

However, in the case of a survivor retirement the payments are not made over two lifetimes, they are made only over the survivor's life. This raises the question of whether or not the current survivor factors are the most appropriate.

Comparable Plans

In reviewing other peer retirement plans, their survivor benefits fall mainly into two categories, a specified payment amount or the earned benefit (see Appendix A). The majority use a specified payment amount. Those that use the earned benefit tend to also apply a joint survivor reduction factor.

7. Policy Options

Policy Option 1: Create New Actuarial Reduction Factors

Under this option a new and separate table would be created for surviving spouses in lieu of the current joint and 100% survivor tables. Spouses who choose the ongoing monthly benefit would have this new table used.

Policy Option 2: Eliminate the Reduction Factor

Under this option no survivor reduction factor would be used for duty-related deaths. For non-duty deaths the existing joint and 100% survivor factors would still be used.

8. Supporting Information

Appendix A: Survivor Benefits Peer Comparison Table

Appendix A

Survivor Benefits Comparison

Plan	Less than minimum number of years	Minimum or more years of service	
		Duty	Non-Duty
Washington State Law Enforcement Officers' & Fire Fighters' Plan 2	1) Refund of accumulated contributions (less than ten years of service)	1) Refund of 150% of accumulated contributions or 2) Earned benefit reduced by joint 100% survivor option (ten or more years of service required)	1) Refund of 150% of accumulated contributions or 2) Earned benefit reduced by joint and 100% survivor option factor and an early retirement factor (if not eligible for normal or early retirement) (ten or more years of service required)
Arizona Public Safety Personnel Retirement System	NA	1) Earned benefit is 100% of deceased member's average monthly benefit compensation, less any amount payable for an eligible child.	1) 80% of either 50% of average monthly compensation or 80% of normal pension amount, whichever is greater.
Arkansas Local Police & Fire Retirement System	1) Refund of accumulated contributions (less than five years)	1) 50% of a benefit calculated as if the member had accrued 25 years of service, reduced by survivor option factor. (five or more years required)	1) 50% of earned benefit, reduced survivor option factor. (five or more years required)
Colorado Fire and Police Pension Association	NA	1) 70% of annual salary.	1) 40% of annual salary.
Delaware County & Municipal Police/Fire Pension	1) Refund of accumulated contribution (less than one year non-duty death).	1) 50% of final average compensation.	1) 50% of final average compensation.
Kansas Police and Firemen's Retirement Systems	NA	1) 50 % of final average salary. For each eligible child also receive an annual benefit of ten percent of final average salary. The maximum total benefit is 75 percent of your final average salary.	1) Lump-sum payment of ten0% of final average salary, plus an annual benefit of final average salary x 2.5% x years of service. The maximum annual benefit is 50% of final average salary
Maryland Pension System for Local Fire Fighters and Police Officers	1) Refund of accumulated contributions (less than one year of service non-duty)	1) Lump-sum equal to ten0% of annual salary at time of death plus accumulated contributions (begins day one of service) or 2) If retirement eligible, earned benefit reduced by the joint ten0% survivor option factor (begins day one of service).	1) Lump-sum equal to ten0% of annual salary at time of death plus accumulated contributions (begins after one year of service) or 2) If retirement eligible, earned benefit reduced by the joint ten0% survivor option factor (begins after one year of service).
New Hampshire Retirement System (Group II – Police & Fire)	1) Lump-sum payment equal to member's annual earnable compensation plus accumulated contributions (less than ten years of service)	1) Lump-sum payment of the member's accumulated contributions plus 50% of the member's annual rate of earnable compensation at the date of the member's death. (ten or more years of service)	1) Lump-sum payment equal to member's annual earnable compensation plus accumulated contributions or 2) 50% of the member's earned pension (ten or more years of service)
Ohio Police and Fire Pension Fund	NA	1) 100% of base pay, provided member is not eligible for an age and service retirement (no service credit requirement). 2) 50% of base pay at the time the member would have been eligible for an age and service retirement, plus \$410 per month plus, COLAs.	1) \$661 per month plus COLAs



Office of the State Actuary

"Securing tomorrow's pensions today."

November 30, 2007

Mr. Steve Nelsen, Executive Director
LEOFF Plan 2 Retirement Board
P.O. Box 40918
Olympia, Washington 98504-0918

RE: REDUCTION FACTORS FOR SURVIVOR RETIREMENTS

Dear Steve:

At the Board's November meeting, they requested actuarial pricing for their December meeting for the following two proposals:

- Adoption of distinct survivor option factors for pre- and post-retirement survivor benefits; and
- Removal of the joint and survivor reduction factor for survivor benefits resulting from line-of-duty deaths.

In order to have the actuarial pricing complete and audited for the second proposal, I recommend a concurrent audit of the fiscal note before the Board's December meeting. We would also appreciate a written description of the proposal, preferably draft bill language, before we begin our pricing exercise.

Concerning the first proposal, the pricing cannot be initiated until the proposal is defined. Since this proposal includes changes to the current administrative factors, it also requires a complete definition of the new administrative factors before the pricing can begin. Several questions surrounding the definition of actuarial equivalence for the pre-retirement option factors must be answered by the Board and DRS before the factors can be developed. Also, since the proposed factors are non-industry standard, I would strongly encourage an actuarial audit and complete review/testing of the new factors by DRS before the factors are finalized for the proposal. The Board may also want to consider deferring consideration of this proposal until next interim since you will review and likely update all existing administrative factors following the conclusion of the current demographic experience study. If the Board decides to solicit an actuarial audit of the updated factors, they could also include an audit of the new factors proposed.



Mr. Nelsen
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We appreciate the opportunity to provide actuarial services to the Board. Please let me know if you have any questions concerning these pricing exercises.

Sincerely,

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

cc: Chris Jasperson
Dave Nelsen
Christi Steele
Jeff Wickman