Inflation Adjustment for $150,000 Death Benefit Final Proposal

LEOFF Plan 2 Retirement Board

December 18, 2007

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
  - CPI for Seattle, Tacoma, Bremerton
  - Capped at 3% per year

Inflation Adjustment for $150,000 Death Benefit

QUESTIONS?

$150,000 Death Benefit Inflation Adjustment

Final Proposal

December 18, 2007

1. Issue

The $150,000 lump-sum death benefit currently is a fixed amount and is losing purchasing power over time due to inflation.

2. Proposal Summary

The proposal would add an inflation adjustment to the current $150,000 lump-sum death benefit amount beginning in July 1, 2008. The inflation adjustment would be the same calculation used for the cost of living adjustment (COLA) used for a LEOFF Plan 2 member's retirement benefit.

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 September 30, 2006 there were 15,718 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 will be paid to the designated beneficiary. The benefit amount is fixed at $150,000 and has been the same since 1996.

6. Background Information and Policy Issues

Background Information

During the 2006 Legislative session, the Board introduced 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 in the same manner as the cost of living adjustments (COLA) members receive on their pensions. 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 that all of the other plans also 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 matter during the 2006 Interim and work cooperatively with the Board on joint legislation.

A bill was developed jointly with the SCPP during the 2006 Interim and introduced during the 2007 Legislative session. This bill expanded the eligibility for the $150,000 death benefit to include death from duty-related illness in all plans where it is not already provided, and added an annual inflation adjustment for all plans. The legislature passed the bill but amended out the annual inflation adjustment.

The Board sent a letter to SCPP in June of 2007 indicating that this was one of five issues that the Board would like to pursue jointly with the SCPP. The SCPP did agree to work on this issue during the 2007 Interim and in their November 13, 2007 meeting passed out a bill that uses the same inflation adjustment as recommended by the Board in 2006 (option 2 below).

During the original cost analysis done by the Office of the State Actuary (OSA) for the 2005 LEOFF Plan 2 proposal, the addition of the inflation adjustment did not create an increase in contribution rates for LEOFF Plan 2. However, during subsequent meetings of the SCPP, OSA reported that the addition of the inflation adjustment would not create an increase in contribution rates for any of the systems or plans, except LEOFF Plan 2. The increase in contribution rates for the inflation adjustment would be one basis point for member and employer, zero state.

Other Plan Comparisons

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, 2006, the amount is $295,194.

Policy Issues:
Should the Board adopt the recommendation of the SCPP or move forward with its own recommendation? The original 2005 proposal by the Board included an annual inflation adjustment similar to option 2 below, presented to the SCPP during their September 2006 meeting.

7. Policy Options

The following three options for an annual inflation adjustment were presented to the SCPP in October. At the November 21, 2006 regular committee meeting, the SCPP recommended the $150,000 Line of Duty Death Benefit be indexed to the changes in the Consumer Price Index for Seattle, Tacoma and Bremerton with a three percent maximum (option 2). This is the same option that the Board recommended at the October 25, 2006 meeting and uses the same language as the LEOFF Plan 2 post-retirement cost of living adjustment (LEOFF Plan 2 COLA).

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 could become an issue.
2. **Index to changes in the CPI-W STB with a 3 percent per year maximum.** Under this option, the value of the benefit is preserved as long as the long-term rate of inflation is at 3 percent or less. Having a ceiling on the index helps to control costs and promote stable funding.
3. **Increase the benefit by 3 percent per year.** This option is the most simple to administer and in years where inflation is less than 3 percent, would actually increase the value of the benefit.

None of the above options add enough costs to increase the contribution rates for the LEOFF Plan 2 retirement system.

Select Committee on Pension Policy Action:
At the October meeting the SCPP Executive Committee recommended option 2 be brought before the full committee in November. In addition to the annual inflation adjustment, the SCPP Executive Committee also recommended that payment of the death benefit for occupational illness included in the Board's proposal in 2005 be added to all systems.

At the November 21, 2006 meeting, the SCPP moved option two forward, including payment for death due to occupational illness, to be introduced to the 2007 Legislature.

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0708.1/08
ATTY/TYPIST:	LL:ean
BRIEF DESCRIPTION:	Indexing the one hundred fifty thousand dollar death benefit for public employees.

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 the calculation under this subsection (1)(b), "index" means the same as the definition in RCW 2.12.037(1).

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

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

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

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

(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:

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

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

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

(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.

(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.

(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. 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>

<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. 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.

<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>

(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 FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**10/4/07**	**Z-0708.1**

INTENDED USE

This draft actuarial fiscal note was prepared by the Office of the State Actuary. The changes in liability, contribution rates, and fiscal costs are based on our understanding of the proposal as of the date of this draft fiscal note. Liabilities, contribution rates, and fiscal costs presented herein are subject to change should actual bill language for this proposal be introduced as legislation in the upcoming Legislative Session. This draft fiscal note is intended to be used by the Select Committee on Pension Policy during the 2007 Interim only.

Any third party recipient of this draft fiscal note is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in the absence of such professional guidance. The analysis presented in this draft fiscal note should be read as a whole. Distributing or relying on only portions of this draft fiscal note could result in misuse and may be misleading to others.

EXECUTIVE SUMMARY

This proposal would index the amount of the $150,000 death benefit to changes in the CPI. The death benefit is provided for all state retirement system members and other public employees who die from duty-related causes.

Increase in Actuarial Liabilities			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	$64,274	3	$64,277
Unfunded Actuarial Accrued Liability	4,470	0	4,470
Unfunded Liability (PVCPB)	$960	3	$963

Total Increase in Contribution Rates						
Current Biennium	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Employer	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
State					0.00%	

Fiscal Costs			
(Dollars in Millions)	**2008-2009**	**2009-2011**	**25-Year**
General Fund-State	$0.0	$0.1	$0.8
Total Employer	$0.1	$0.4	$6.1

See the Actuarial Determinations section of this Draft Fiscal Note for additional detail.

SUMMARY OF PROPOSAL

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 (WSP),
- Volunteer Firefighters' Relief and Pension Fund (VFF),
- Members of the Judicial Retirement System (JRS),
- Members of the Higher Education Retirement Plans (HIED),
- And state, school district, and higher education employees who are not members of a state retirement system.

The proposal indexes the amount of the $150,000 duty-death lump sum benefit to changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton (CPI-W). The index is calculated based on cumulative changes in the CPI-W with a maximum annual change of no more than 3%. The amount of the death benefit is not allowed to decrease below the original amount in periods of deflation.

Assumed Effective Date: July 1, 2008

CURRENT SITUATION

Survivors of public employees who die as a result of injuries sustained or illnesses contracted in the course of employment are eligible to receive a lump-sum death benefit of $150,000. The benefit amount does not adjust for inflation. This benefit is provided for all members of PERS, TRS, SERS, PSERS, LEOFF, WSP, VFF, JRS, HIED, and to state, school district and higher education employees who are not members of a state retirement system. The amount of the lump-sum death benefit is $152,000 in VFF.

SUMMARY OF MEMBERS IMPACTED

We estimate that all 16,314 active members of LEOFF Plans 1 and 2, all 155,027 active members of PERS Plans 1, 2 and 3, all 2,073 active members of PSERS Plan 2, all 50,818 active members of SERS Plans 2 and 3, all 67,736 active members of TRS Plans 1, 2 and 3, all 1,022 active members of WSP Plans 1 and 2, all 15,591 active members of VFF, and all 11 active members of JRS could be affected by this proposal through improved benefits. However, we only expect this to happen to approximately 1 in 22,500 people per year.

We estimate that for a typical member impacted by this proposal, the increase in benefits would be any accumulated inflation amounts above the original $150,000 death benefit. For example, if the CPI in the next year increased by 3%, the beneficiary of a public employee who dies from duty-related causes would receive a lump sum in the amount of $154,500 whereas without the an indexed death benefit the survivor would receive the standard lump-sum benefit of $150,000.

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

METHODS

We adjusted the results of the 2006 AVR to include liabilities for SHB 1266 which passed in 2007 which was the starting point for our pricing. Utilizing pension valuation software, we projected the increase in the $150,000 death benefit amount due to the proposed indexing and discounted for interest to determine the actuarial present value of the liability. An index of 3 percent per year was applied to the $150,000 death benefit and this assumption will be outlined in the following section. The ultimate cost of this increased benefit is presented below with all future payments discounted to present day dollars.

Otherwise, costs were developed using the same methods as those disclosed in the September 30, 2006 actuarial valuation report (AVR).

The methods chosen are reasonable for the purpose of the actuarial calculations presented in this draft fiscal note. Use of another set of methods may also be reasonable and might produce different results.

Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Rate increases calculated under the Aggregate actuarial cost method are used to determine the increase in funding expenditures for current plan members.

ASSUMPTIONS

The rate of duty-related deaths will not change because the death benefit is indexed. An index based upon the CPI-W with a 3% yearly maximum will be applied each year to the $150,000 death benefit. We assumed the maximum 3% increase for this pricing to produce results that would outline the highest possible increases in contribution rates. Therefore, actual experience in the future may cost less than the increases outlined here.

Otherwise, costs were developed using the same assumptions as those disclosed in the AVR.

The assumptions chosen are reasonable for the purpose of the actuarial calculations presented in this draft fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

DATA

Costs were developed using the same data and assets as those disclosed in the AVR.

FISCAL IMPACT

Description

This proposal has a cost because it increases the benefit amount payable in future years to survivors of duty related deaths.

We excluded JRS because we do not expect anyone to receive this benefit. The cost of indexing the proposed benefit for survivors of LEOFF inactive members who die within five years of separation from service is not included in this preliminary fiscal note. Additionally, SHB 1266 (Chapter 487 Laws of 2007), has not been included in the base liability for LEOFF 1. Including deaths as a result of occupational diseases for LEOFF 1 members would increase the liabilities in this fiscal note, although the additional liability would not be sufficient to take LEOFF 1 out of a surplus. Furthermore, the costs attributable to ESHB 1833, which passed in 2007, have not been included in the base liabilities, thus understating the LEOFF liability increase due to this proposal by not including the additional occupational diseases defined in ESHB 1833. However, we do not expect this exclusion to affect the supplemental rate increase provided in this draft fiscal note. The increase in the present value future benefits for VFF is approximately $420,000. We do not have data on the higher education retirement plans.

Actuarial Determinations

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

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$13,723	$0.0	$13,723
PERS 2/3	18,966	0.8	18,967
PERS Total	**32,689**	**0.8**	**32,690**
TRS 1	10,834	0.0	10,834
TRS 2/3	6,804	0.1	6,804
TRS Total	**17,638**	**0.1**	**17,638**
SERS 2/3	**2,610**	**0.2**	**2,610**

PSERS 2	**169**	**0.0**	**169**
LEOFF 1	4,316	0.0	4,316
LEOFF 2	6,004	1.7	6,006
LEOFF Total	**10,320**	**1.7**	**10,322**
WSPRS 1/2	**$848**	**$0.1**	**$848**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,196**	**$0.0**	**$3,196**
TRS 1	**1,976**	**$0.0**	**1,976**
LEOFF 1	**($702)**	**$0.0**	**($702)**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 1	$3,750	$0.0	$3,750
PERS 2/3	(2,338)	$0.8	(2,337)
PERS Total	**1,412**	**$0.8**	**1,413**
TRS 1	2,348	$0.0	2,348
TRS 2/3	(1,116)	$0.1	(1,116)
TRS Total	**1,232**	**$0.1**	**1,232**
SERS 2/3	**(336)**	**$0.2**	**(336)**
PSERS 2	**0**	**$0.0**	**0**
LEOFF 1	(738)	$0.0	(738)
LEOFF 2	(521)	$1.7	(519)
LEOFF Total	**(1,259)**	**$1.7**	**(1,257)**
WSPRS 1/2	**($89)**	**$0.1**	**($89)**

Note: Totals may not agree due to rounding.

LEOFF is the only system with a rate impact for the current biennium. For the other systems, the un-rounded 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, the un-rounded rate increase shown below is applied to all subsequent biennia.

	Increase in Contribution Rates:	(Effective 9/1/2008)				
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Current Members						
Employee (Plan 2)	0.001%	0.000%	0.002%	0.001%	0.006%	0.003%
Employer	0.001%	0.000%	0.002%	0.001%	0.004%	0.003%
State					0.002%	
New Entrants*						
Employee (Plan 2)	0.000%	0.000%	0.001%	0.000%	0.003%	0.002%
Employer	0.000%	0.000%	0.001%	0.000%	0.002%	0.002%
State					0.001%	

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations

(Dollars in Millions)	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	Total
			Fiscal Costs				
2008-2009							
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	0.1	0.0	0.1
Total Employer	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.1	$0.0	$0.1
2009-2011							
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	0.0	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	0.2	0.0	0.0	0.0	0.2	0.0	0.4
Total Employee	$0.1	$0.0	$0.0	$0.0	$0.2	$0.0	$0.3
2008-2033							
General Fund	$0.3	$0.2	$0.2	$0.0	$1.2	$0.0	$0.8
Non-General Fund	0.5	0.0	0.0	0.0	0.0	0.1	0.6
Total State	0.8	0.2	0.2	0.0	1.2	0.1	1.1
Local Government	1.3	0.1	0.2	0.0	2.0	0.0	3.6
Total Employer	1.2	0.3	0.4	0.0	3.2	0.1	6.1
Total Employee	$1.5	$0.0	$0.2	$0.0	$3.2	$0.1	$5.0

Note: Totals may not agree due to rounding.

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

Sensitivity Analysis

The number of members expected to have a duty-related death would have to increase for this proposal to impact rates in systems besides LEOFF. The table below shows the multiple of how many more assumed duty-related deaths are required before the rate impact would reach 0.005% for each system. For example, in WSP, the employee rate impact would reach 0.005% if 2 times as many members as expected had a duty-related death.

System	Multiple
PERS	7
TRS	15
SERS	3
PSERS	7
LEOFF	1
WSP	2

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

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 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; plus
- 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.

Present Value of Credited Projected Benefits (PVCPB): 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 Liability (Unfunded PVCPB): The excess, if any, of the Present Value of Credited Projected Benefits 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.