LEOFF
Plan 2 Retirement Board

Survivor Option Reelection

Final Report
December 18, 2019

Issue

- Members must make an irrevocable decision for a survivor benefit prior to knowing exactly what their pension benefit will be

Two Windows Board has Considered

1. Immediately after retirement
2. After recalculation of retirement benefit

Window 1 - Immediately after retirement

- No expected material impact to LEOFF 2 from this option

Window 2 – After Recalc

- Cost – Unknown at this time
- New 2018 from DRS highlighted impact of recalcs on retirees
  - 80% resulted in a decrease to member's benefit
- Underlying issues of Recalc
  - Employer errors reporting "earnable compensation" impact members through taking reduction to pay back overpayments and reduction in future payments
  - Employer audits by DRS to catch these errors do not occur on a regular basis

Overpayment Responsibility

- Member Responsible
  - Typically, for reportable compensation errors
- Employer Responsible
  - Typically, for retirement status and separation from service errors
    - More of an issue with other plans because of their retiree return to work rules
    - Employer must verify status at the time of hire

Example

- Prospective pension payments
  - Due to reportable compensation error by employer pension reduced from $3,164 to $2,843.
- Overpayment payments
  - Option 1: Lump Sum - $6,662.22
  - Option 2: Installment plan (includes interest) – Reduction of $134.97/month for 60 months ($2,708/month)
  - Option 3: Actuarial reduction – Permanently reduce pension by $42.49/month ($2,800/month)

OSA Prepared Requested Analysis

- Prepared examples for a member experiencing the average increase or decrease above the 3 percent trigger based on calendar year 2018 data provided by DRS
- Relied on the most recent administrative factors provided to DRS to calculate increase or decrease between survivor options
  - Assumed spouse of member is three years younger. This is consistent with our assumption for male members of LEOFF 2.

Hypothetical Examples from OSA – Benefit Reduction

- Member with J&S 100% monthly benefit of $4,000 reduced by 6.5%
- New Benefit Amount = $4,000 x 93.5% = $3,740
- Member may then change survivor election

New Survivor Election	New Benefit	Change from Original Benefit	Percent Change in Benefit
No Change (J&S 100%)	$3,740	($260)	-6.50%
J&S 50%	$4,018	$18	0.45%
Single Life	$4,344	$344	8.59%

Hypothetical Examples from OSA – Benefit Increase

- Member with Single Life monthly benefit of $4,000 increased by 6.5%
- New Benefit Amount = $4,000 x 106.5% = $4,260
- Member may then change survivor election

New Survivor Election	New Benefit	Change from Original Benefit	Percent Change in Benefit
No Change (Single Life)	$4,260	$260	6.50%
J&S 50%	$3,941	($60)	-1.49%
J&S 100%	$3,668	($332)	-8.30%

Conclusions from OSA Examples

- Costs could emerge to the plan if members reelect a larger J&S benefit once long-term health prospects are known
- Savings could emerge to the plan if members reelect a single life and pass away prior to a surviving spouse
- OSA has not completed actuarial analysis on this proposal. OSA will prepare a formal actuarial fiscal note if this proposal becomes a bill during upcoming legislative session

Policy Option 1 – Window for all L2 Members

- All LEOFF 2 retirees have a window after the receipt of their first retirement payment to change their survivor election. If a member changes their survivor election they must pay or be refunded the difference in their pension payments that they have already received. The member must provide DRS with written spousal consent to change their survivor option, if the survivor option provides the spouse with a decreased survivor benefit.

  a) 60 day window

  b) 90 day window

  c) 120 day window

Policy Option 2 – Qualifying Event Window

- LEOFF 2 retirees may change their survivor election if a DRS recalc results in a change to the base benefit amount of more than:
  a) Any change in benefit amount
  b) 3%
  c) 5%

Policy Option 3 – Qualifying Event Window with Further Anti-selection Risks Mitigation

- The same as Option 2 except to further mitigate anti-selection risks a retiree's ability to change their survivor option election is limited based on the impact of the recalculation
  - If a retiree's benefit increases due to a recalculation they may only select a larger survivor option
  - If a retiree's benefit decreases due to a recalculation they may only select a smaller survivor option

Next Steps

- Endorse one or more of the policy options
  - Would the Board consider an amendment during session adding other plans to the bill to be a “friendly” amendment?
- Nothing further at this time
  - Board may direct staff to continue to study the underlying issues of the policy options for next interim

Thank You

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