

BOARD MEETING AGENDA

DECEMBER 19, 2018 • 9:30AM



LOCATION

STATE INVESTMENT BOARD
Large Conference Room, STE 100
2100 Evergreen Park Drive S.W.
Olympia, WA 98502

TRUSTEES

DENNIS LAWSON, CHAIR
Central Pierce Fire and Rescue

JASON GRANNEMAN, VICE CHAIR
Clark County Sheriff's Office

ADE' ARIWOOLA
City of Federal Way

MARK JOHNSTON
Vancouver Fire Department

REPRESENTATIVE JEFF HOLY
Spokane Police Department (Ret)

SENATOR JUDY WARNICK
WA State Senator

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

DWIGHT DIVELY
King County

PAT MCELLIGOTT
Pierce County Fire and Rescue

TARINA ROSE-WATSON
Spokane Intl Airport Police Dept.

STAFF

Steve Nelsen, Executive Director
Tim Valencia, Deputy Director
Jessie Jackson, Executive Assistant
Jessica Burkhart, Administrative Services
Manager
Ryan Frost, Research and Policy Manager
Jacob White, Senior Research and Policy
Manager
Tammy Harman, Benefits Ombudsman
Tor Jernudd, Assistant Attorney General

**THEY KEEP US SAFE,
WE KEEP THEM SECURE.**

1. **Approval of Minutes** 9:30 AM
November 28, 2018
2. **WSIB Annual Update** 9:35 AM
Theresa Whitmarsh, WSIB
3. **Plan Demographics** *Educational Briefing* 10:05 AM
Ryan Frost, Senior Research and Policy Manager
4. **Demographic Experience Study Preview** 10:30 AM
Lisa Won, Deputy State Actuary, OSA
5. **Spousal Consent Requirement** *Final* 11:00 AM
Jacob White, Senior Research and Policy Manager
6. **LEOFF/PERS Eligibility Gap** *Preliminary Follow-Up* 11:30 AM
Jacob White, Senior Research and Policy Manager
7. **Administrative Update** 12:00 PM
 - SCPP Update
 - Outreach Activities
8. **Final Average Salary Benefit Improvement Pricing** 12:30 PM
Ryan Frost, Senior Research and Policy Manager
9. **Survivor Option Election** *Preliminary Follow-Up* 1:00 PM
Jacob White, Senior Research and Policy Manager
10. **Benefit Improvement Account** *Educational Briefing* 1:30 PM
Ryan Frost, Senior Research and Policy Manager
11. **Funding Policy** 2:00 PM
Steve Nelsen, Executive Director
12. **2017-2019 Budget Adoption** 2:30 PM
Tim Valencia, Deputy Director

**Lunch is served as an integral part of the meeting.*

In accordance with RCW 42.30.110, the Board may call an Executive Session for the purpose of deliberating such matters as provided by law. Final actions contemplated by the Board in Executive Session will be taken in open session. The Board may elect to take action on any item appearing on this agenda.

BOARD MEETING MINUTES

NOVEMBER 28, 2018 DRAFT



TRUSTEE AND STAFF ATTENDANCE

In Attendance	Dennis Lawson, Chair – Central Pierce Fire and Rescue
In Attendance	Mr. Jason Granneman, Vice Chair – Clark County Sheriff’s Office
In Attendance	Representative Jeff Holy – Spokane Police Department (Retired)
In Attendance	Representative Steve Bergquist – WA State Representative
Absent	Senator Judy Warnick – WA State Senator
In Attendance	Mr. Adé Ariwoola – City of Federal Way
Absent	Mr. Dwight Dively – King County
In Attendance	Mr. Mark Johnston – Vancouver Fire Department
In Attendance	Mr. Pat McElligott – East Pierce County Fire and Rescue
In Attendance	Ms. Tarina Rose-Watson – Spokane Intl Airport Police Department
In Attendance	Steve Nelsen – Executive Director
In Attendance	Tim Valencia – Deputy Director
In Attendance	Jessie Jackson – Executive Assistant
In Attendance	Jessica Burkhart – Administrative Services Manager
In Attendance	Tammy Harman – Death and Disability Ombudsman
In Attendance	Jacob White – Senior Research and Policy Manager
In Attendance	Ryan Frost – Research and Policy Manager
In Attendance	Tor Jernudd – Assistant Attorney General

CALL TO ORDER

The LEOFF Plan 2 Retirement Board met in the Washington State Investment Board conference room in Olympia, Washington on November 28, 2018. A quorum of the members was present at this meeting.

OPENING

Chair Lawson called the meeting to order at 9:35 AM and requested those present to take a moment of silence to honor those who had fallen since the last the Board meeting, including those involved in the multi-vehicle accident on Interstate 5 this morning.

1. APPROVAL OF MINUTES

MINUTES APPROVED

It was moved to approve the Board meeting minutes from September 26 and October 24, 2018. Motion was seconded. The Board approved the minutes without objection.

2. FINANCIAL AUDIT RESULTS

The team from the State Auditor’s Office provided the results of their financial statement audit of the LEOFF 2 Board’s schedule of expenditures. The schedule included expenditures that occurred for the fiscal year ending June 30, 2018. An unmodified (clean) opinion on the financial statement was given. The financial statement presented fairly, in all material respects, the budgeted and actual expenditures of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board. Michael Hutchinson, CPA, Assistant Audit Manager performed the fieldwork for this engagement and Jim Brownell, Audit Manager supervised this engagement. Sadie Armijo, CFE, Director of State Audit and Troy Niemeyer, Assistant Director of State Audit were present at

BOARD MEETING MINUTES

NOVEMBER 28, 2018 DRAFT



the meeting as well. The report will be posted to the State Auditor’s website on Monday as well on www.LEOFF.wa.gov.

3. FUNDING POLICY

Steve Nelsen, Executive Director reviewed the Board’s responsibility and authority to adopt the actuarial cost method for funding LEOFF Plan 2 and all the associated funding policies. The current funding policy was reviewed as well as strategies for managing a positive funding ratio, reducing actuarial risk, use of a funded ratio corridor and tactics for managing the current funded ratio. No action was taken at this time.

4. COST OF SURVIVOR BENEFIT IMPROVEMENT

Ryan Frost, Senior Research and Policy Manager provided an educational briefing on the cost of survivor benefit improvements. One of the goals of the LEOFF 2 Board’s strategic plan is to keep the stakeholders informed. To meet this goal the Board is to be briefed on the price of certain benefit improvements. The Board expressed a desire to estimate the price of providing a free 100% Joint & Survivor to annuitants as well. The Office of the State Actuary estimated that extending the benefit improvement to current annuitants adds \$235 million to the 25-year total employer cost, which is approximately a 69 basis point increase to the total employer rate. Overall, OSA estimated the employee and total employer contribution rates would each increase by approximately 330 basis points under this proposal. Over a 25-year period, OSA expects a total employer cost of this proposal to be approximately \$1.6 billion. As a result of the increase in liabilities, the funded status would decline by approximately 10 percent. No action was taken by the Board at this time.

5. LEOFF/PERS ELIGIBILITY GAP

Jacob White, Senior Research and Policy Manager presented an initial presentation on LEOFF/PERS eligibility gap. Gaps in eligibility in Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1), Public Employees Retirement System (PERS), and Law Enforcement Officers and Fire Fighters Plan 2 (LEOFF 2) may have resulted in some career law enforcement officers and fire fighters not receiving a pension.

PUBLIC TESTIMONY - James A Fossos, Vice President of the Retired Firefighters of Washington

MOTION

A motion was made to direct staff to bring forward options for the December meeting. Motion was seconded. Motion passed unanimously.

6. ADMINISTRATIVE UPDATE

Steve Nelsen, Executive Director gave his administrative update to the Board. *During this time the audio recording machine had technical difficulties and did not capture the audio for this portion of the meeting.*

OUTREACH ACTIVITIES

Tammy Harman presented at the WSCFF District 2 meeting in Pullman on October 25th.

BOARD MEETING MINUTES

NOVEMBER 28, 2018 DRAFT



7. 2019 PROPOSED CALENDAR DISCUSSION/ADOPTION

Potential board meeting dates for 2019 are before the Board for adoption. *Due to technical difficulties with the audio recording system we were unable to capture the introduction and discussion of 2019 calendar.*

MOTION

A motion was made to adopt the proposed calendar dates as follows:

1/23/18
2/27/18
3/27/18
4/24/18
5/15/18
6/26/18
7/24/18
8/14/18
9/25/18
10/16/18
11/20/18
12/18/18

Motion was seconded. Motion passed unanimously.

8. MONTH OF DEATH RETIREMENT PAYMENTS

Jacob White, Senior Research and Policy Manager presented a final proposal to the Board on month of death payment. In the month a retiree or survivor passes away, the Department of Retirement Systems (DRS) prorates the last month benefit payment based on the number of days the person was alive in the month. Frequently this results in an invoice being sent to the family or estate to collect any amount that should have been prorated.

The following policy options are before the Board for consideration:

- **Option 1** – Pay full month of death payment
 - A)** Do not include a Reservation of Rights clause
 - B)** Include a Reservation of Rights clause
- **Option 2** – Pay full month of death payment, with reservation of rights clause
- **Option 3** – Continue current practice

MOTION

A motion was made to adopt option 1 A, Pay the full month of death payment without a Reservation of Rights clause. Motion was seconded. Motion passed unanimously.

9. AGENDA ITEMS FOR FUTURE MEETINGS

Steve Nelsen, Executive Director reviewed upcoming agenda items for December's meeting which will include an annual update from the Executive Director of the Washington State Investment Board, and a preview of the next demographic experience study from the Office of the State Actuary.

BOARD MEETING MINUTES

NOVEMBER 28, 2018 DRAFT



ADJOURNMENT

MOTION

Motion was made to adjourn at 12:20PM. Motion seconded and passed unanimously.

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for January 23rd, 2019 at the Washington State Investment Board located at 2100 Evergreen Park Drive SW, Olympia, WA 98502.



Washington State Investment Board: Focusing on Long-Term Results in a World of Transition and Disruption



**Theresa Whitmarsh, Executive Director
December 19, 2018**



Our Purpose – Overview of the WSIB



Asset Management

- ❑ Created by the Legislature in 1981 to manage retirement and public trust assets
- ❑ One of the largest and most diversified institutional investment managers in the United States
- ❑ \$120 billion assets under management as of September 30, 2017
- ❑ 17 pension funds
- ❑ 5 Labor and Industries' insurance funds
- ❑ 13 Permanent and other trust funds

Success Benchmarks

- ❑ Meet or exceed the financial objectives of those we serve
- ❑ Maximize investment returns at a prudent level of risk
- ❑ Generate sustainable, long-term results for our beneficiaries

Global Implementation

- ❑ Investing in 74 different countries, across 6 continents
- ❑ More than 12,000 investment holdings
- ❑ Large scale allows both access and cost-efficiency

WSIB Investment Responsibility (34 Funds Managed)

Retirement Funds

17

- ❑ Public Employees' Plans 1, 2, 3 *
- ❑ School Employees' Plans 2, 3
- ❑ Teachers' Plans 1, 2, 3 *
- ❑ Law Enforcement Officers' and Firefighters' Plans 1, 2
- ❑ Judicial Retirement Account – Defined Contribution
- ❑ Washington State Patrol Plans 1, 2
- ❑ Volunteer Firefighters' Relief and Pension Fund
- ❑ Deferred Compensation Program
- ❑ Public Service Employees' Plan 2
- ❑ Higher Education Retirement Plan Supplemental Benefit Fund

Labor & Industries' Funds

5

- ❑ Accident
- ❑ Medical Aid
- ❑ Pension Reserve
- ❑ Supplemental Pension
- ❑ Industrial Insurance Rainy Day Fund (unfunded)

Permanent Funds

7

- ❑ Agricultural College
- ❑ Common School
- ❑ Normal School
- ❑ Scientific
- ❑ State University
- ❑ American Indian Endowed Scholarship
- ❑ Foster Care Endowed Scholarship

Other Funds

5

- ❑ Guaranteed Education Tuition
- ❑ Developmental Disabilities Endowment
 - ❑ Private
 - ❑ State
- ❑ Washington State Opportunity Scholarship Fund
 - ❑ Scholarship
 - ❑ Endowment

* Plan 1s are closed to new participants. The Plan 3s are hybrid plans with both defined benefit and defined contribution assets.



Market Value of Retirement Plans

September 30, 2018

- Multiple plan types with investments structured in a commingled trust fund

Defined Benefit and Hybrid Defined Benefit/Defined Contribution Plans	Market Value
Public Employees' Retirement System Plan 1 (PERS)	\$7,605,001,269
Public Employees' Retirement System Plan 2/3	\$41,108,482,141
Teachers' Retirement System Plan 1 (TRS)	\$5,720,893,070
Teachers' Retirement System Plan 2/3	\$19,910,945,161
Volunteer Fire Fighters' Relief & Pension Fund (VOLFF)	\$227,455,338
Washington State Patrol Retirement System Plan 1 (WSPRS)	\$1,219,644,289
Washington State Patrol Retirement System Plan 2	\$74,838,253
Law Enforcement Officers' & Fire Fighters' Plan 1 (LEOFF)	\$5,886,938,508
Law Enforcement Officers' & Fire Fighters' Plan 2	\$13,177,726,832
School Employees' Retirement System Plan 2/3 (SERS)	\$7,051,371,869
Public Safety Employees' Retirement System Plan 2 (PSERS)	\$616,197,828
Total	\$102,599,494,559

Defined Contribution Plans	Market Value
Deferred Compensation Program (DCP)	\$4,551,229,714
Judicial Retirement Account (JRA)	\$10,167,478
Total	\$4,561,397,193

Organizational Structure

- ▣ Board comprised of 15 members
 - ▣ 10 voting
 - ▣ 5 non-voting
- ▣ 95 staff



	Appointment Authority	Name	Position
10 Voting	Ex-Officio	Duane Davidson	State Treasurer
		Tracy Guerin	Director, DRS
		Joel Sacks, Vice Chair	Director, Labor & Industries
	Senate President	Sen. Mark Mullet	State Senator
		House Speaker	Rep. Timm Ormsby
	Governor	Judy Kuschel, Chair	Active Member, PERS
		Yona Makowski	Retired Member, State Pension System
		Greg Markley	Active Member, LEOFF
	Superintendent of Public Instruction	Arlista D. Holman	Active Member, SERS
		Stephen Miller	Active Member, TRS
5 Investment Professionals	Selected by the Board	David Nierenberg	President, Nierenberg Investment Management Co.
		William A. Longbrake	Retired CFO; member of Governor's Council of Economic Advisors
		Richard Muhlebach	Real Estate Executive; past president Institute of Real Estate Management
		Mary Pugh	Founder and CEO, of Pugh Capital
		George Zinn	Vice President and Treasurer, Microsoft

Our Distinctions – What Makes WSIB Different?

Our Investment Strategy

- ❑ Leader in institutional private markets investing in U.S.
- ❑ Policy asset allocation updated in September 2017:
 - ❑ 23 percent private equity
 - ❑ 18 percent real estate
 - ❑ 7 percent tangible assets
 - ❑ 32 percent public equity
 - ❑ 20 percent fixed income
- ❑ Fixed income is internally managed and 100% actively managed program
- ❑ All others employ external investment managers or general partners

Private markets

Public markets

Our Focus

- ❑ Diversification globally and across all major asset classes
- ❑ Long-term discipline avoids “fear and greed” behavior in risk cycles
- ❑ Large scale allows cost-effective implementation
 - ❑ WSIB costs are 15.5 basis points lower than peer pension funds*

Our People

- ❑ Highly skilled investment team with multi-asset class experience



* Source: 2017 CEM Benchmarking Analysis, September 20, 2018

The Market Environment – Prospects for 2019



U.S. equity markets trading at rich valuations

- ❑ Corporate earnings growth expected to moderate

Potential threats to markets and global growth are numerous

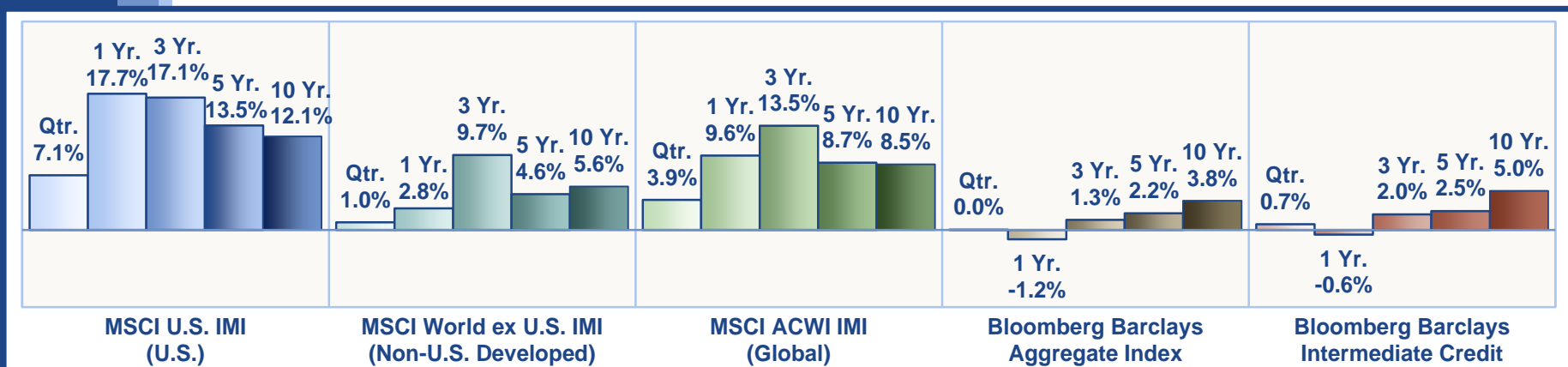
- ❑ Uncertainties and unknowns are very high
- ❑ Political and policy uncertainty in the U.S.
- ❑ Global trade wars and new tariffs
- ❑ Outlook and pace for interest rate rises
- ❑ Unclear outlook for inflation
- ❑ Uncertainty and political risks around the world, including:
 - ❑ UK – Brexit
 - ❑ New leader in Brazil
 - ❑ Angela Merkel in Germany will not seek re-election
 - ❑ Potential slowdown in China

Sentiment can swing from positive to disappointment very quickly

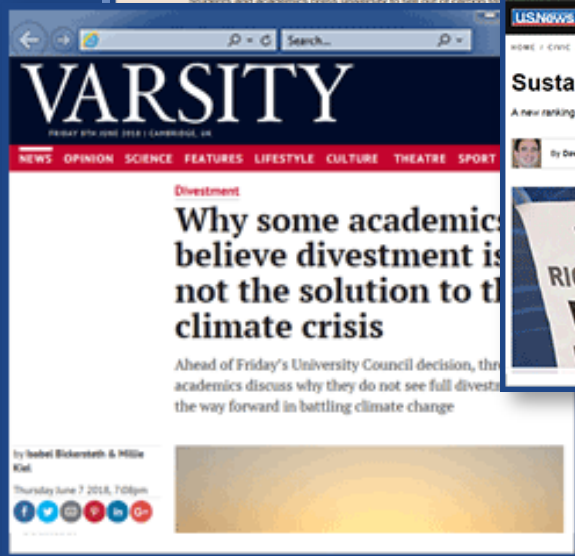
- ❑ Expect volatility and more muted equity returns
- ❑ Risks may be asymmetrical (more downside risks than upside)

The Markets at a Glance Through 3Q

- Third quarter saw new highs in developed equity markets despite market volatility, trade wars, and ongoing geopolitical risk; now volatility is taking hold
- Global index (MSCI World Developed IMI) was up 0.28% in September and 4.56% for the third quarter as strong fundamentals continued to support stocks.
- Geopolitical risk and trade wars had a cooling effect on emerging markets, with the MSCI Emerging Markets IMI index returning -1.45% for the quarter.
- The Fed raised interest rates 0.25% in September; this marked the eighth increase since the current hiking cycle began back in 2015.
- Unemployment continued to drop, reaching 3.7% in September -- the lowest unemployment rate since December 1969.
- 10-year Treasury rate ended September at 3.06%, up 0.20% for the quarter -- the first month-end closing above 3% since July 2011.



External Issues: A Growing Focus on Sustainability



Environmental, social and governance (ESG) factors are increasingly part of the investment process

Climate change risks gets the headlines but social and governance issues are prevalent within due diligence

Addressing sustainability through investment discipline helps us keep fiduciary duty and long-term investing as the key driver to strategy

How the WSIB is Keeping Pace with Sustainability Drivers

Enhanced Asset Stewardship

- ❑ Pursuing four priorities for how we vote our corporate proxies
 - ❑ Sustainability
 - ❑ Diversity
 - ❑ Executive Compensation
 - ❑ Governance practices that focus on building long-term value
- ❑ Enabling customized proxy voting to flag our specific priorities
- ❑ Posting all WSIB proxy voting results twice per year on our website
- ❑ Engaging directly and selectively with Washington-based companies on climate change risks and governance practices





How the WSIB is Keeping Pace with Sustainability Drivers

Enhanced Integration and Transparency Around Sustainability

- ❑ Investment research on the ongoing energy transition
- ❑ Each asset class is evaluating ESG risks and opportunities
- ❑ Focused education/updates for our Board members
- ❑ Responsive/respectful handling of activists, media, and interest groups
- ❑ Annual Sustainability (ESG) Report posted on our website

Collaborative Industry Leadership

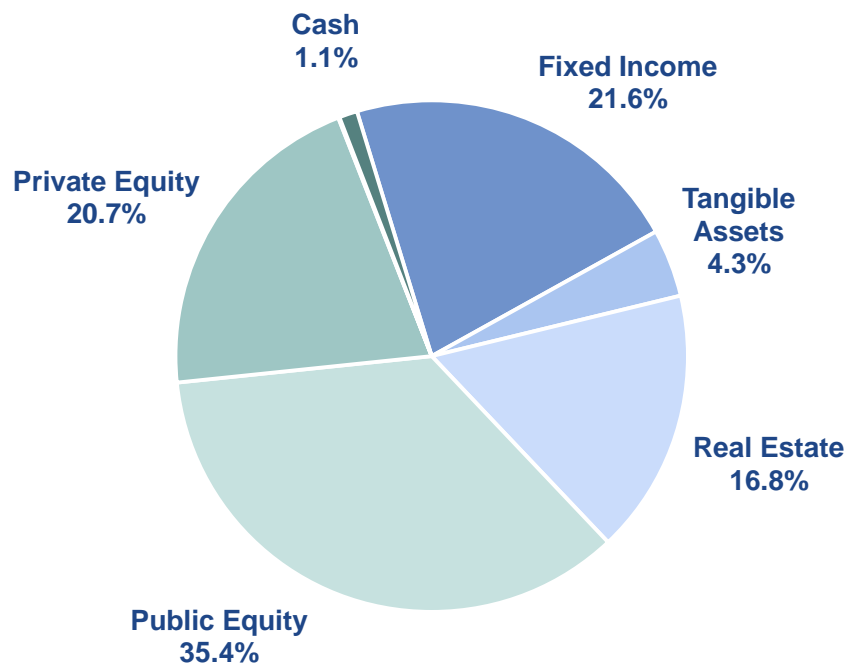
- ❑ Promoting effective ESG metrics, industry standards, and transparency
- ❑ Advocating efficient processes for companies and investors
- ❑ Advocating shareholder rights



Commingled Trust Fund (CTF) Performance and Allocation

September 30, 2018

	1 Year	3 Year	5 Year	10 Year	20 Year
Total Fund	8.53%	10.61%	9.11%	7.79%	7.71%
Passive Benchmark	6.51%	10.12%	7.08%	7.69%	6.19%



Currently 69% MSCI ACWI IMI w/ U.S. Gross, 31% Bloomberg Barclays Universal. Over time the benchmark has been adjusted by changing both benchmarks and percentages.



CTF Public Equity Performance

September 30, 2018

10 years of performance demonstrates effort and diligence can pay dividends

	1 Year	3 Year	5 Year	10 Year	20 Year
Public Equity	10.93%	14.17%	9.48%	8.96%	7.03%
Custom Benchmark	9.94%	13.83%	9.02%	8.81%	6.79%

CTF public equity continues to outperform

- ▣ Adding value across all periods; execution/trading efficiency monitored by Zeno AN Solutions (Zeno)
- ▣ Execution and trading of the WSIB's public equity managers, as measured by Zeno as of September 30, 2018, on a rolling 4-quarter basis, ranked in the first quartile of Zeno's Total Cost universe and in the first quartile in Zeno's Execution Efficiency universe



CTF Private Equity Performance

September 30, 2018

Focus on quality generates long-term value

	1 Year	3 Year	5 Year	10 Year	20 Year
Private Equity	16.97%	13.24%	13.90%	10.30%	11.03%
Custom Benchmark	14.47%	11.68%	12.93%	9.45%	8.01%

- ▣ Relatively concentrated portfolio among high quality investment partners
- ▣ Early commitment to private equity (1980) has resulted in longstanding relationships in a marketplace where demand outstrips supply
- ▣ Our Board is very comfortable with private equity when compared to many peer funds

Private Equity benchmark is a custom historical blend. Historically it was the Russell 3000 (Lagged One Quarter) +300bps. As of April 1, 2008 it changed to the MSCI ACWI IMI w/U.S. Gross (Lagged One Quarter) +300bps.



CTF Real Estate Performance

September 30, 2018

Real estate performance has been very good

	1 Year	3 Year	5 Year	10 Year	20 Year
Real Estate	8.20%	10.01%	12.02%	6.27%	10.53%
Benchmark	1.81%	7.19%	8.25%	9.77%	6.22%

- ❑ Net returns for the real estate portfolio have outperformed the NCREIF gross returns over 1, 3, 5, 10, and 15 years
- ❑ 10-year performance is below our benchmark (8 percent over a rolling 10 years) due to large write-downs in the fourth quarter of 2008
- ❑ The WSIB portfolio has continued to appreciate more quickly as the broad market's appreciation has slowed the past couple of years
- ❑ Annualized returns since the beginning of the market's recovery (second quarter of 2010) have been 13.5 percent for the real estate portfolio

Real Estate benchmark is 8% Return Over Rolling 10 Years and for comparison purposes, the NCREIF (Lagged One Quarter)

Peer Comparison – Performance and Cost



Investment Performance vs. Pension Plan Peers*

	WSIB	Peer Median	U.S. Public Pension Median
5-year net return	9.50%	9.00%	9.00%
20-year net return	8.50%	7.60%	7.60%

Total Investment Costs*

WSIB costs	Peer group costs	Total savings
55.4 basis points	70.8 basis points	15.5 basis points (\$142 million/year)

- ❑ WSIB's expenses are funded from investment earnings
- ❑ WSIB ranked as low-cost, high-performing institutional investor by CEM Benchmarking
- ❑ WSIB's excellent investment performance dramatically contributes to the state's bottom line by earning the lion's share of money needed to cover state pension benefits

*CEM Investment Benchmarking Analysis for WSIB, September 5, 2018

Performance data are for periods ending December 31, 2017

Peer Group includes 19 U.S. public pensions ranging in asset size from \$24 billion to \$218 billion

Conclusion – Staying focused on the long term, for our beneficiaries



- ❑ Retain focus on mission while investing in the face of economic transition
- ❑ Maintain strict investment discipline while integrating ESG risks and opportunities in each asset class
- ❑ Withstand the test of market decline when (not if) it arrives
- ❑ Rely on high-integrity, long-standing relationships in the investment community
- ❑ Represent the best interest of all beneficiaries, in every decision, always

EDUCATIONAL BRIEFING

By Ryan Frost

Senior Research & Policy Manager

360-586-2325

ryan.frost@leoff.wa.gov

OVERVIEW

When the great recession hit, many departments had to take drastic measures, including a recruitment freeze as well as the layoffs of younger employees. Both of these measures contributed to the public safety workforce experiencing a naturally aging staff and employers with smaller budgets. Consequently, the average age of a LEOFF Plan 2 member has increased by almost one and a half years since the great recession in 2008.

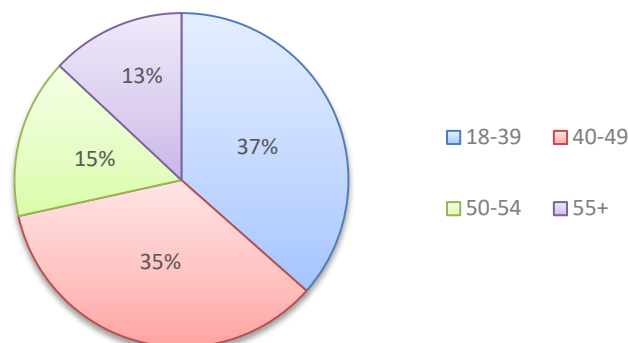
More recently, with the increasing amounts of baby boomers being eligible to retire, we're seeing the supply of the workforce unable to keep up with the future demand of open positions. This has led to the disappearance of the common practice of using retirement bonuses to incentivize older workers to retire. Instead, workers are seeing the benefit of continuing their employment for a few more years after normal retirement age.

This report will discuss some trends specific to LEOFF Plan 2, as well as provide a few reasons why workers are seeing the benefit of working longer vs. retiring early.

RETIREMENT TRENDS

There are 17,694 active members in LEOFF Plan 2. Approximately 36.5% of the LEOFF Plan 2 workforce is under the age of 40. In addition, according to the most recent LEOFF Plan 2 valuation provided by the Office of the State Actuary, 28% of the LEOFF Plan 2 workforce is currently eligible to retire.

Membership
Age
Demographics

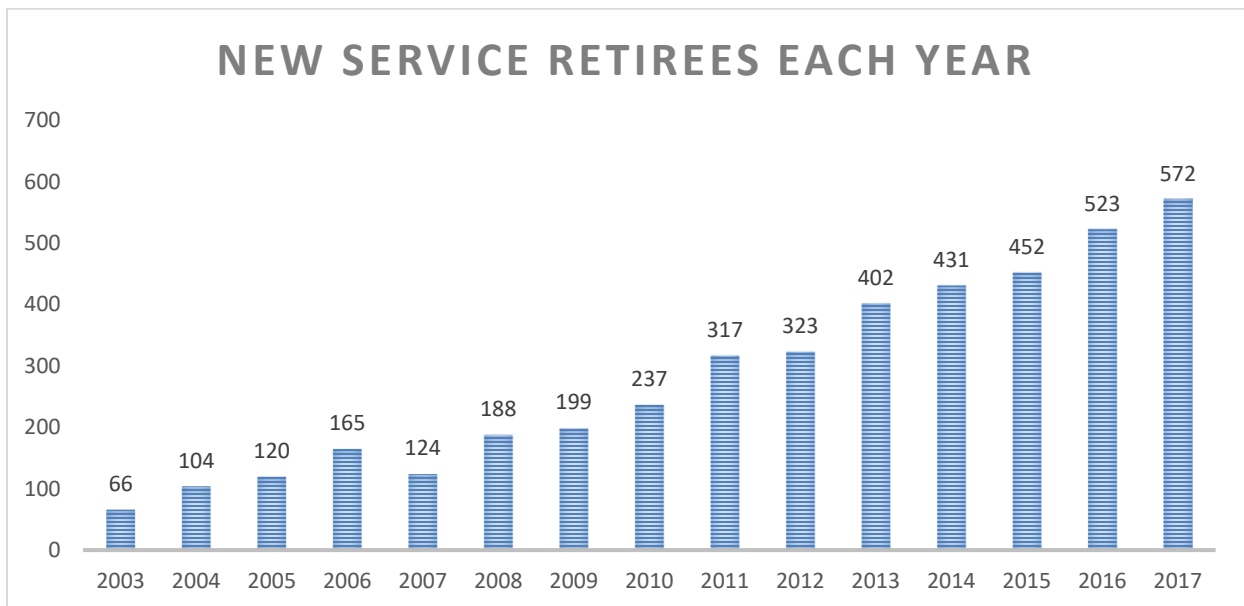


What these age distributions and upcoming retirements signify, is a pending shift away from an employee population of seasoned veterans. When these retirements happen, most firehouses and police stations across Washington State will be staffed with a higher number of younger fire fighters and law enforcement officers for the first time in many years.

Many employers have also predicted a spike in workforce injuries triggered by the aging workforce, which could inflate the costs of workers' compensation claims stemming from wages and medical benefits for injured law enforcement officers and fire fighters. An aging workforce means that employers are going to have to begin the expensive process of hiring and training law enforcement officers and fire fighters to fill these open positions at a significant and unprecedented rate.

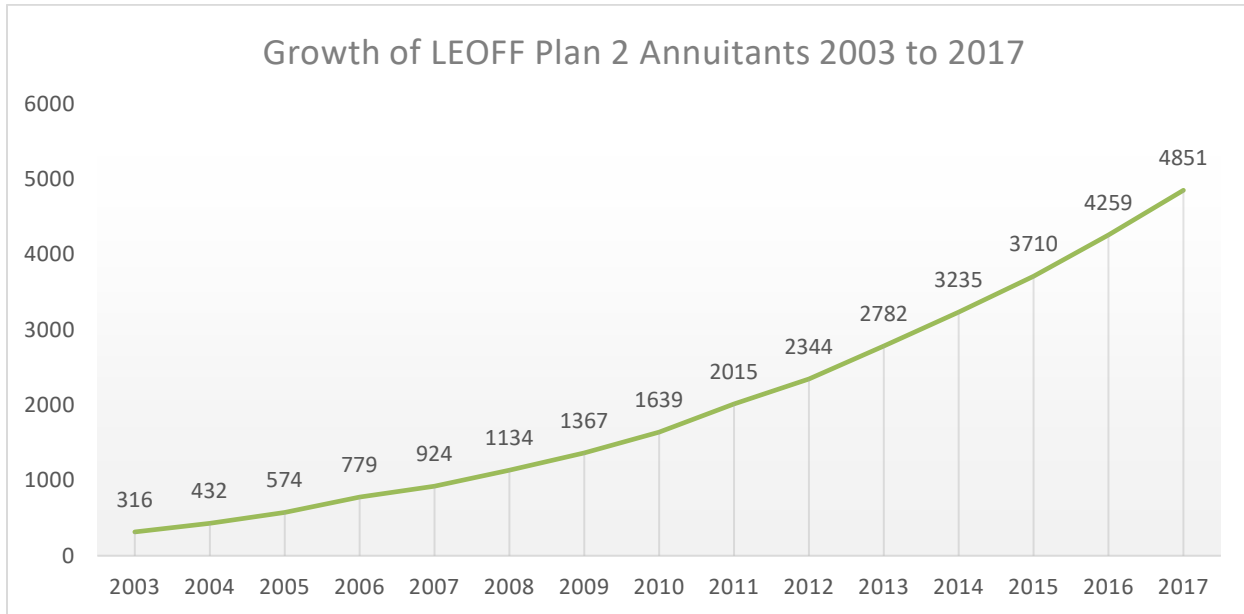
RETIREMENT STATISTICS

There has been significant growth in the number of service retirees during the last 14 years as plan members started reaching 20-24 years of service under LEOFF Plan 2. The number of new service retirees has been increasing each year as shown below.



The increase in service retirements each year is expected to continue growing as members reach desired milestones in age, years of service, or salary level necessary to meet retirement income needs.

The next chart shows the upward growth in the total number of all LEOFF Plan 2 annuitants¹ from 2003 to 2017. In total, there are currently 4,851 annuitants in LEOFF Plan 2. This represents a 1535% increase in the annuitant population just during the period the LEOFF Plan 2 Retirement Board has been in existence.



Despite the significant increase in retirements, the number of retirements could be even higher given the number of members who have reached retirement eligibility but have not retired. Even though normal retirement age in LEOFF Plan 2 is 53, law enforcement members on average are continuing to work up to average age of 55.5, while fire fighters are working to an average age of 56.8.

There are two main reasons members are working past the plans normal retirement age:

1. To extend their years of service to have a higher income replacement amount

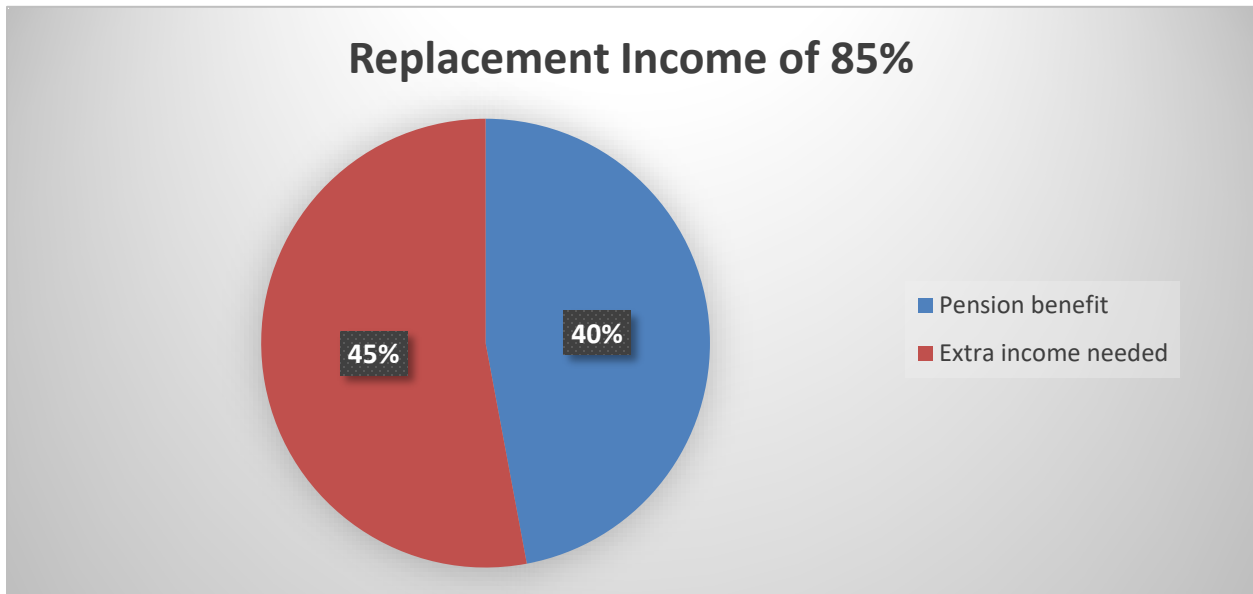
The average LEOFF Plan 2 member is hired at age 33. For both groups, this means they will have only 20 years of service by the time they reach normal retirement age. This calculates to receiving a yearly benefit in retirement of only 40% of their final average salary (FAS).

Research done by the National Institute on Retirement Security (NIRS) indicates that people who *do not* plan to receive a Social Security check, which applies to the majority of the

¹ Includes service and disability retirement

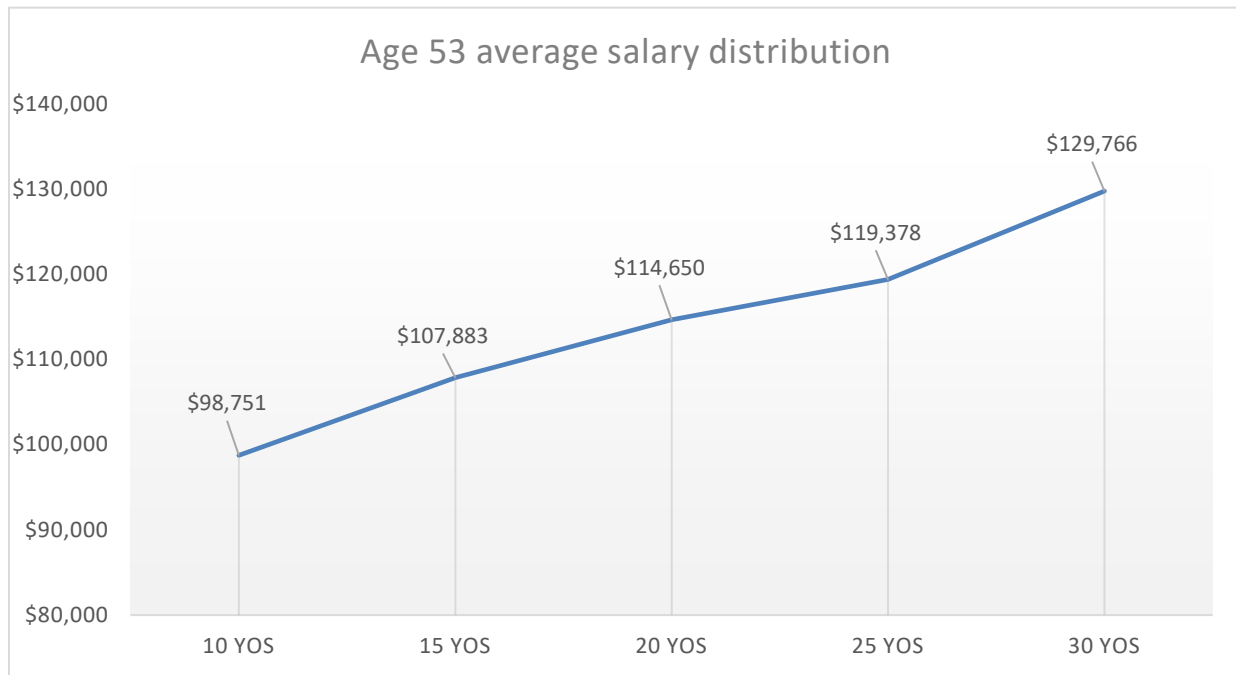
LEOFF Plan 2 membership, need to have an 85% income replacement ratio in retirement to maintain their pre-retirement standard of living.

This leaves a 45% gap for LEOFF Plan 2 members that would have to be supplemented with savings and alternative retirement accounts. Using the average salary of \$106,169² for LEOFF Plan 2, a member would need to accrue savings or another form of retirement plan that will provide an additional \$47,776 *per year* in retirement income, if they retired at age 53.



Alongside gaining more years of service to affect their retirement calculation, many members simply aren't at a final average salary level that they are satisfied with. The majority of members will receive a raise with each successive year of work through their 50's, all of which goes to boosting their final average salary. The following chart shows a member at age 53 and what each successive block of 5 years of service does to his/her salary:

² 2017 Actuarial Valuation, Section 3 Participant Data, https://leoff.wa.gov/wp-content/uploads/2017.LAVR_.pdf



2. To get closer to Medicare eligibility age

It is widely documented that the highest costs all retirees will face during retirement will come from healthcare. Healthcare costs in retirement are even greater for public safety employees due to their earlier retirement age and physical demands during their careers. Due to limited availability of employer provided³ health insurance access for LEOFF Plan 2 retirees, a member retiring at age 53 must purchase healthcare insurance on the market without the added benefit of qualifying for Medicare.

In Washington, that means either continuing healthcare coverage through COBRA for up to 18 months after retiring, or going out onto the exchange. Members who continue to work after 53 cut down the distance between their retirement age and Medicare eligibility age, potentially saving thousands of dollars in future healthcare costs.

³ In the wake of recent and upcoming health care reforms, the employer-sponsored retiree health care market is steadily shifting toward tax-effective individual market defined contribution strategies for both Medicare-eligible and pre-Medicare retirees.



Plan Demographics

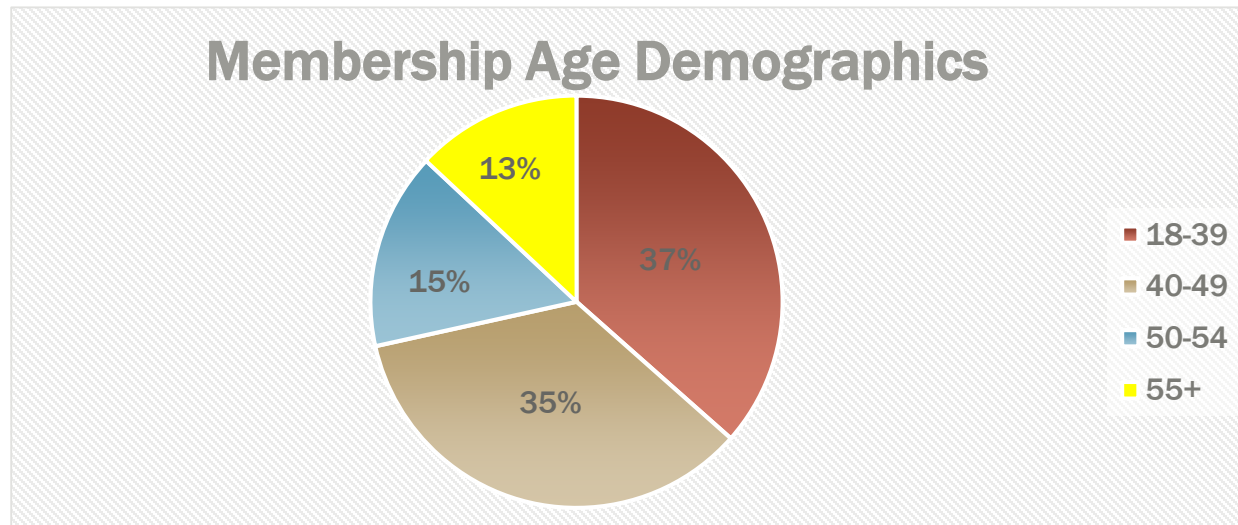
Educational Briefing
December 19, 2018

Overview

- Recruitment/hiring freeze during 2008
- Average age of member has gone up by 1.5 years
- Baby boomers eligible to retire
 - Seeing the benefit of continuing employment
- Number of retirements increasing

Background

- 17,694 active members
- 36.5% of workforce under age 40
- 28% of workforce eligible to retire



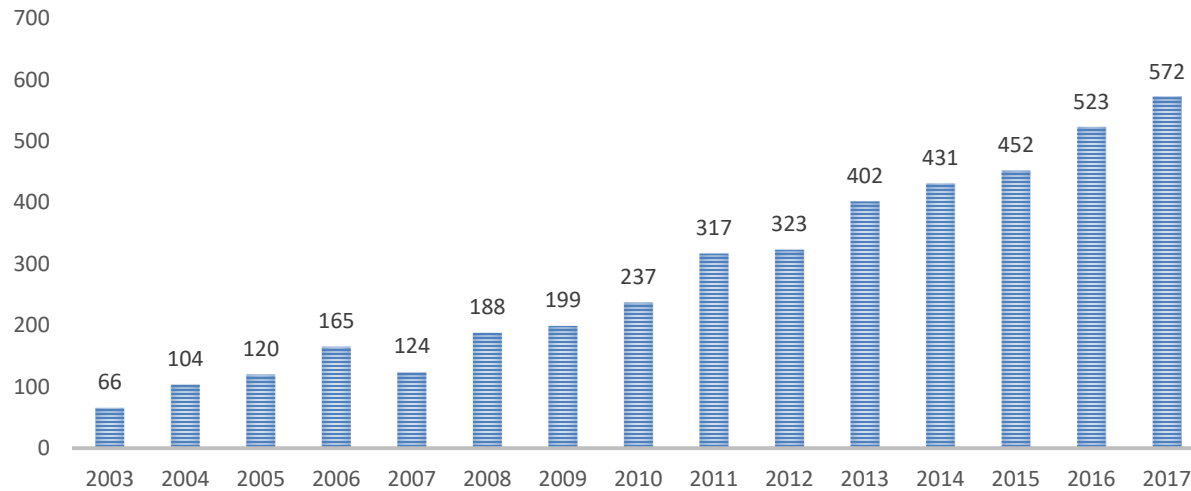
Background

- **Costs of an aging membership**
- **Younger Fire Fighters and Law Enforcement Officers will be occupying more positions**

Background

- Number of retirees increasing each year

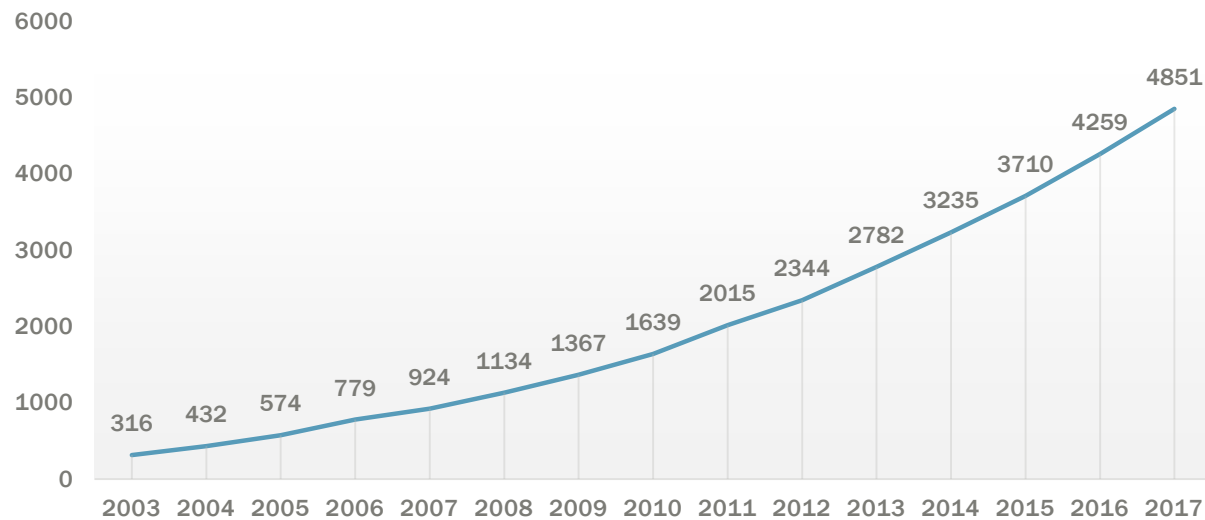
NEW SERVICE RETIREES EACH YEAR



Background

- Retiree and annuitant population growing significantly
- Numbers could have been larger if members retired at age of eligibility

Growth of LEOFF Plan 2 Annuitants 2003 to 2017



Background

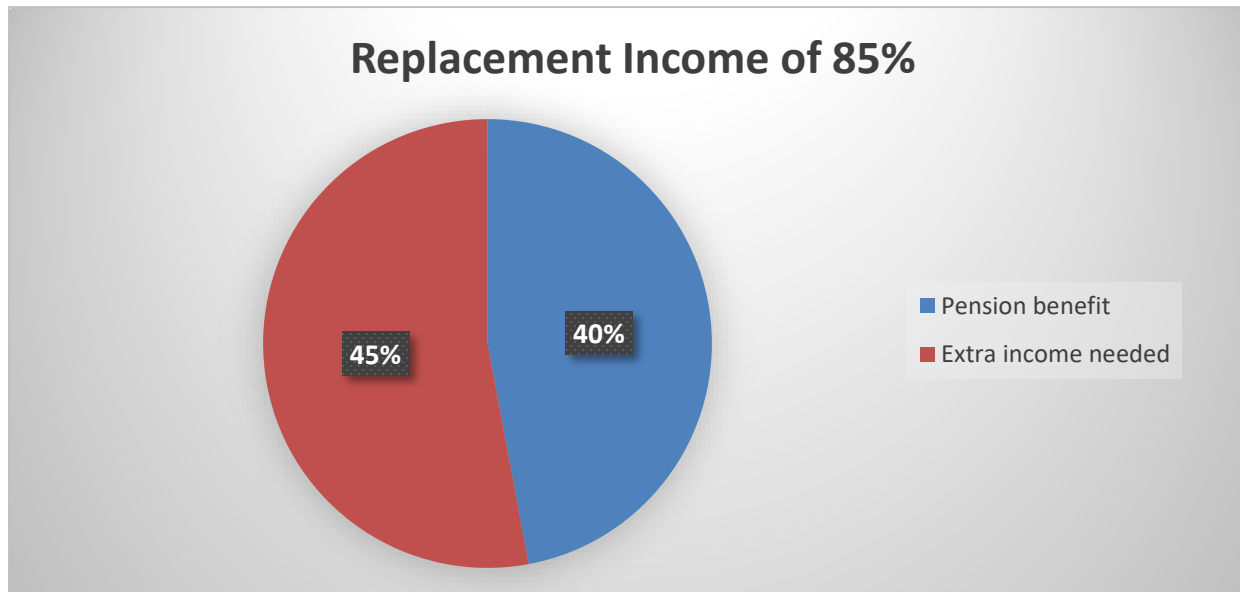
- Why are members continuing to work past normal retirement age?
 - Normal retirement age is 53
 - Average retirement age for law enforcement is 55.5
 - Average retirement age for fire fighters is 56.8

Background

1. To extend their years of service to have a higher income replacement amount
 - Average member hired at 33
 - If member was to retire at 53, they would only have 20 years of service
 - Only 40% of final average salary (FAS)

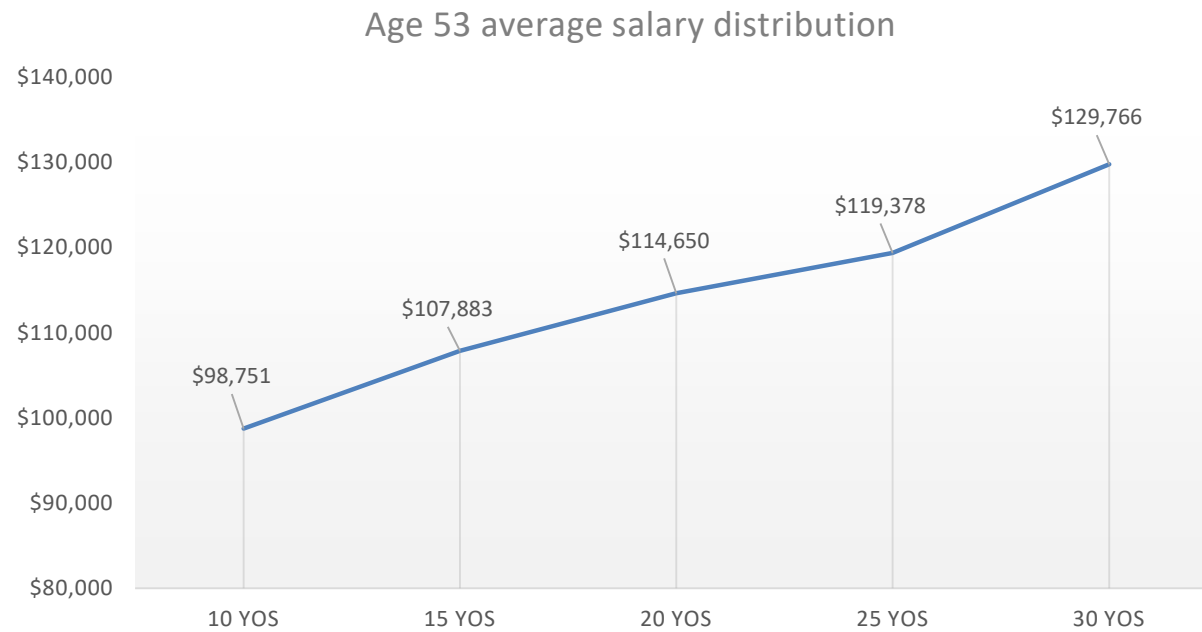
Background

- NIRS study
 - Need 85% income replacement ratio in retirement
 - Member would have to find a way to make up the other 45%



Background

- **Members want a higher FAS**
 - **Members receive higher salaries later in career**



Background

2. To get closer to Medicare eligibility age

- Healthcare is the highest cost in retirement
 - Greater cost for public safety employees due to earlier retirement age
- Few options
 - Apply for COBRA insurance for up to 18 months after retiring
 - Purchase insurance on the exchange
- Could save thousands on future healthcare costs by working an extra few years



Thank You

Ryan Frost

Senior Research and Policy Manager

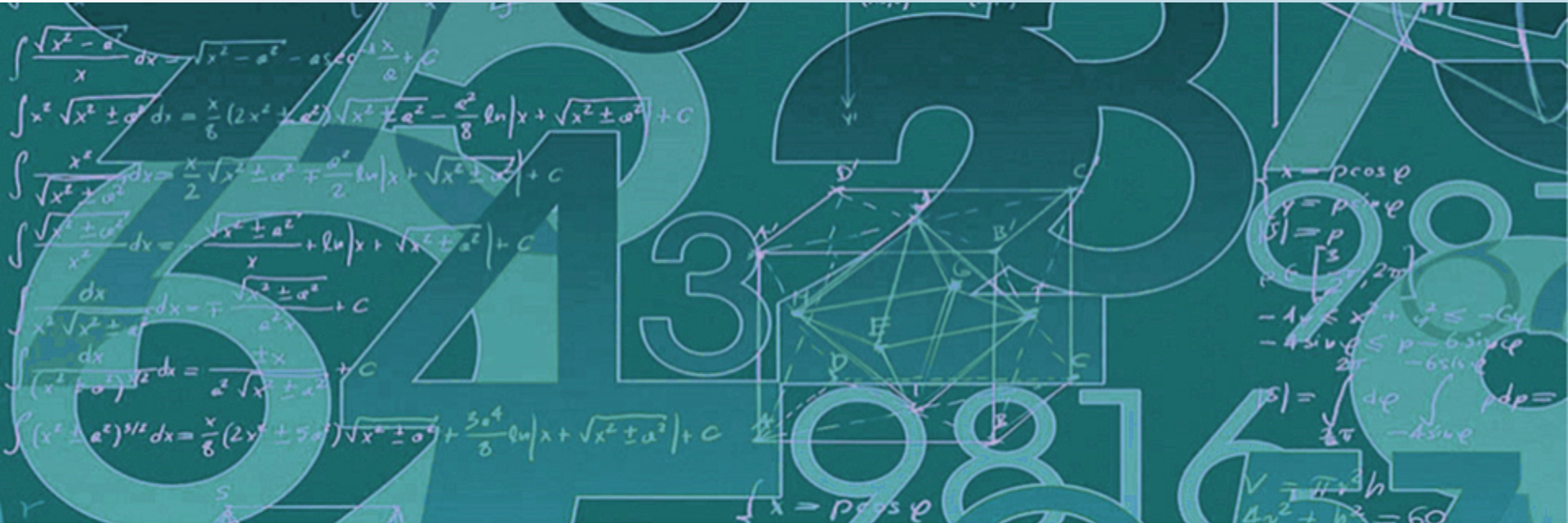
ryan.frost@leoff.wa.gov

(360) 586-2325

Preliminary Demographic Experience Study Results

Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

Presentation to: LEOFF Plan 2 Retirement Board



Today's Presentation

- Preview of preliminary results from our current demographic experience study
- No action required at today's meeting



What Is An Experience Study?

- Review of current assumptions
 - How do they compare with actual experience?
 - Do they need to change?
- Assumptions help us estimate
 - When benefits are paid
 - How much is paid
 - How long they're paid
- Those estimates inform contribution rate and funded status calculations

How Often Do We Perform Them?

- Economic experience studies
 - Performed every two years
 - Last performed in 2017
- Demographic experience studies
 - Performed at least once every six years
 - Last performed in 2014



Why Do We Perform Them?

- Things change
- Ensure assumptions remain reasonable
 - Reasonable assumptions contribute to reasonable funding
- Important part of systematic actuarial funding
- Risk management

How Do We Perform Them?

- They're data driven
 - Over 20 years of experience in some cases
- They also involve professional judgment
 - Past not always the best predictor of future
- Because they involve professional judgment and expertise
 - You hire an actuary to perform studies and certify work
 - You hire an outside actuary to review reasonableness



Why Are The Results Preliminary?

- The study is still in progress
- We don't expect to complete the work until 2019
- The work will be reviewed by an outside actuary hired by the PFC and the results may change

When Will The New Assumptions Impact Contribution Rates?

- The new assumptions will first impact contribution rates calculated and adopted in 2020
- Rates adopted in 2020 will be collected during 2021-23



What Have We Studied Thus Far?

Mortality

Retirement

Termination

Disability

Definitions

Mortality

- ❖ Estimate how long members will live and receive pension

Retirement

- ❖ Estimate when members will retire and begin receiving pension

Termination

- ❖ Estimate when members exit the system (i.e., quit, get fired, change systems, etc.) and either withdraw from the system or collect a deferred pension when eligible

Disability

- ❖ Estimate when members experience a disability and elect to receive a disability pension benefit

A Quick Technical Note

- We model the payment of a member's Defined Benefit (DB)
- A Plan 3 member that retires or experiences a disability may elect to retire from the Defined Contribution portion of Plan 3 and defer commencement of their DB pension
- If they decide to defer commencement of their DB, they are considered to terminate under our valuation model

What Have We Observed Thus Far?

- Members are continuing to live longer, but at a slightly lower annual rate of improvement than expected
- Members are continuing to defer retirement
 - Especially at ages prior to normal retirement for PERS/TRS/SERS
- We continue to see lower rates of disability than expected
- Differences in plan design are beginning to drive different behavior
 - Later retirement and higher termination rates in Plan 3 than Plan 2
 - Higher rates of disability in Plan 2 than Plan 3
- Material percentage of PERS/TRS/SERS Plan 2 and Plan 3 members that are eligible to retire leave employment (terminate) and defer commencement of their pension

Planned Assumption Updates

- Lower the annual rate of projected mortality improvement by about 0.2%/0.5% at most post-retirement ages for females/males
- Move rates of retirement, termination and disability closer to observed experience
- Establish separate rates of retirement, termination and disability for Plan 2 and Plan 3
- Establish new rates of termination for members eligible to retire in PERS/TRS/SERS/PSERS



What's The Expected Impact Of These Updates?

- Not yet determined
- Work still in progress, subject to future audit and change
- However, we expect the impacts to be much smaller than the last demographic experience study

Next Steps For The Study

Study new national public plan mortality tables when finalized

Study service-based salary increase assumptions

Complete the study of other miscellaneous demographic assumptions

Work with outside actuary to complete audit of our work

Finalize study, contribution rate and budget impacts

Questions?





December 19, 2018
Spousal Consent

FINAL PROPOSAL

By Jacob White

Senior Research & Policy Manager

360-586-2327

jacob.white@leoff.wa.gov

ISSUE STATEMENT

Under current law, a member who is retiring under LEOFF Plan 2 must provide written consent from their spouse for any survivorship option the member selects – except in the case of a joint 50% survivorship option. This means that a spouse must provide written consent even when their survivor benefit would be greater than 50%.

OVERVIEW

This report provides information on written spousal consent for the election of a survivor benefit, including the current policy, legislative history, policy considerations and data regarding who is impacted by the policy.

The Department of Retirement Systems (DRS) requested the LEOFF 2 Board consider endorsing legislative action to remove spousal consent requirements for certain survivorship selections (See Appendix A). DRS provided an initial presentation on their proposal to the LEOFF 2 Board at the June 20, 2018. The LEOFF 2 Board voted at the July 25, 2018 meeting to receive a Comprehensive Report on the issue.

BACKGROUND AND POLICY ISSUES

Survivor Benefits Overview

LEOFF 2 members may elect to take a reduction in their monthly benefit in order to leave an ongoing benefit to a survivor. The survivor will receive the ongoing benefit for their lifetime. This feature of LEOFF 2 is referred to as a survivor benefit option. The member must make this election when they apply for retirement. There are four options for a survivor benefit:

1. Single Life – This option pays the highest monthly amount of the four choices, but it is for the member's lifetime only. No one will receive an ongoing benefit after the retiree dies. If the retiree dies before the benefit they have received equals their contributions plus interest (as of the date of their retirement), the difference will be paid in a lump sum to the retiree's designated beneficiary.
2. Joint and 100% Survivor – The retiree's monthly benefit under this option is less than the Single Life Option. But after the retiree's death, the retiree's survivor will receive the same benefit the retiree was receiving for his or her lifetime.
3. Joint and 50% Survivor – This option applies a smaller reduction to the retiree's monthly benefit than Option 2. After the retiree's death, the retiree's survivor will receive half the benefit the retiree was receiving for his or her lifetime.

4. Joint and 66.67% Survivor – This option applies a smaller reduction to the retiree’s benefit than Option 2 and a larger reduction than Option 3. After the retiree’s death, the retiree’s survivor will receive 66.67% of the benefit the retiree was receiving for his or her lifetime.

Current Policy

Written spousal consent is required under current law for all survivor options except for Option 3, Joint and 50% Survivor. This includes not only Option 1, Single Life, which would leave the survivor no ongoing retirement benefit after the retiree’s death, but Option 2, Joint and 100% Survivor and Option 4, Joint and 66.67% Survivor, which would leave the survivor a larger ongoing benefit than Option 3. Written spousal consent includes having the signature notarized to ensure it meets the legal requirement of being a “written designation duly executed”.

Department of Retirement System Proposed Policy

DRS requested the LEOFF 2 Board consider requesting legislation that would only require written consent where a member selects a benefit less than the 50% option or names someone other than their spouse as their beneficiary. Any benefit that is a 50% joint-life option or higher would no longer require written consent from the member’s spouse. DRS has requested that the Select Committee on Pension Policy (SCPP) consider requesting similar legislation for the other state retirement systems.

Survivor Option	Current Law	DRS Proposal
Single Life	Written Consent	Written Consent
50%	No	No
66.67%	Written Consent	No
100%	Written Consent	No

Fiscal Impacts

DRS stated the one-time administrative costs associated with making this change in policy would be minimal. The Office of the State Actuary (OSA) stated there is no expected fiscal impact because of this change in policy.

Plan Costs

The OSA completed a draft fiscal note on this proposal for the SCPP. The fiscal note stated this proposal is not expected to impact the pension systems.

Members Impacted

29% of retirees, from all DRS covered plans, select a survivorship option greater than the 50% option, and would therefore no longer be required to get spousal consent for selecting a survivor option.

Survivor Option	Count	%
Single Life	6,487	60%
50%	1,207	11%
66.67%	711	6%
100%	2,531	23%

Under the current requirements of the spousal consent law, approximately 89% of retirees, must complete a spousal consent form. Under the proposed change in policy this would lower to 60% of retirees.

In the last year, 348 (51%) LEOFF 2 retirees completed their retirement application online. The percentage of online applications continues to rise each year; however, it has slowed to 1% growth in the last year. If the member is applying for retirement online they must complete the spousal consent form on paper and mail that form in separately from the rest of their retirement application. Removing the spousal consent requirement will allow more members to apply for retirement completely online.

Legislative History

RCW 41.26.460 was amended in 1990 to require DRS to adopt rules to allow LEOFF 2 Members to elect an actuarially equivalent survivor benefit. The 1990 law, SHB 2643, required the survivor be nominated by “written designation duly executed and filed with [DRS]” and if the member was married that the spouse “must provide written consent [...]to the option selected [...]”. If the member does not provide written consent the law defaults the retiree to a joint and 50% survivor benefit. The requirement for spousal consent has not been modified since it was originally enacted in 1990.

The legislative materials from SHB 2643 did not contain any discussion regarding why the requirement for written spousal consent was required or why a joint and 50% survivor benefit was set as the default benefit. However, the reasoning behind the default survivor benefit being a joint and 50% survivor benefit may be due to Washington State being a community property state. In a community property state, the spouses are deemed to equally own all income and assets earned or acquired during the marriage. Typically, the division of community property results in each spouse receiving 50% of assets. Therefore, it is possible that the legislature sought to align the default survivor benefit with existing community property laws.

It is also possible that the current policy was driven by an attempt to align the State’s pension plans with federal requirements of Employee Retirement Income Security Act (ERISA). Public pension plans are not subject to ERISA; however, many public pension plans choose to adhere to many of the requirements of ERISA as best practices. ERISA requires spousal consent for Joint and Survivor Annuity elections.

As of 2013, the majority of state public pension plans required spousal consent or at least spousal notification if a retiree selects a single life annuity.¹ However, nineteen states do not require spousal consent or notification for a married member selecting a single-life annuity.²

Policy Considerations

DRS believes this change would simplify the process for many members when applying for retirement, by allowing a greater number of members to retire completely online by forgoing the added steps of getting the spousal consent notarized. In addition to the customer service benefit, this policy change also makes logical sense if the policy concern driving spousal consent is to protect the financial interest

¹ <http://www.pensionrights.org/publications/fact-sheet/state-plans-and-survivor-rights-information>

² <http://www.pensionrights.org/publications/fact-sheet/state-retirement-system-rules-%E2%80%9Cspousal-consent%E2%80%9D>

of the spouse. Since current law does not require spousal consent for leaving a 50% survivor benefit, it is logical to not require spousal consent for a retiree who chooses to leave his spouse a larger benefit.

Not requiring written spousal consent may lessen spousal participation in the retirement process. This may occur because members would not necessarily need to consult spouses for most of the survivorship benefit options. As a result, some beneficiaries may feel this change removes their role in the decision-making process.

POLICY OPTIONS

Option 1: Endorse DRS Proposal

No longer require written spousal consent for survivor options which leave the surviving spouse a benefit greater than 50%.

Option 2: No Change in Policy

Continue to require written spousal consent for all survivor options, except for 50%.

SUPPORTING INFORMATION

Appendix A: May 17, 2018 DRS Letter to LEOFF 2 Board

Appendix B: June 20, 2018 DRS Presentation to LEOFF 2 Board, “Written Spousal Consent Overview”

Appendix C: OSA Draft Fiscal Note

Appendix D: Bill Draft



STATE OF WASHINGTON

DEPARTMENT OF RETIREMENT SYSTEMS

P.O. Box 48380 • Olympia, WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

May 17, 2018

Dennis Lawson, Chair
Law Enforcement Officers' and Fire Fighters'
Plan 2 Retirement Board
PO Box 40918
Olympia, WA 98504

Dear Chair Lawson and Members of the LEOFF Plan 2 Retirement Board:

The Department of Retirement Systems respectfully requests that the LEOFF Plan 2 Retirement Board study and consider endorsing legislative action on the following issues this interim:

1. Remove Spousal Consent Requirements for Certain Survivorship Selections

Under current law, a member who is retiring must provide written consent from his or her spouse for any retirement survivorship option he or she selects – except in the case of a joint 50% survivorship option. This means that even when a member is providing a 100% or 66.67% survivorship option, the spouse must provide written consent, even though these options are greater than the default option of joint 50%. (The default option is in place because of Washington state's community property laws.) DRS would like the LEOFF Board to consider endorsing the Department's suggestion that written spousal consent be required only when the member chooses to have no survivor benefit go to the spouse.

2. Eliminate Pro Ration of Month of Death Benefit Payment

When a retiree or survivor passes away, the last monthly benefit payment must be pro-rated based on the number of days the person was alive in the month. For example, an individual who passes away on the 10th of the month will have accrued 1/3 of his or her monthly payment. In most cases, however, DRS isn't aware of a death until after the full monthly payment has been processed. In these instances, DRS bills the family or the estate to recover the pro-rated overpayment. This comes at a time when survivors are already navigating through paperwork and other difficult issues related to the member's death. Additionally, pro-rating the last payment can cause hardships for health insurance payments. DRS requests that the LEOFF Board consider endorsing the Department's suggestion that the pro ration of month of death benefit payments be discontinued.



Dennis Lawson

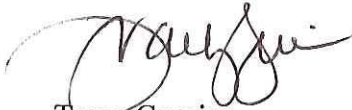
May 17, 2018

Page 2

Please let us know how we can assist the board in reviewing these issues. We are available to answer questions and provide additional background and data as needed.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tracy Guerin', with a large, stylized initial 'T'.

Tracy Guerin

Director

cc: Steve Nelsen, Executive Director

Written Spousal Consent Overview

LEOFF 2 Board
June 20, 2018

Seth Miller
Department of Retirement Systems



Introduction

- Under current law, written spousal consent is required for the selection of all but one of the survivorship options available to retirees.
- Written consent complicates the retirement application process, especially online.
- DRS suggests that written spousal consent be required only when the member chooses to have no survivor benefit go to the spouse.

Survivorship Options

- In most DRS plans, members select one of four survivorship options at the time of retirement.
 1. Single Life (no survivorship)
 2. 100% Survivorship
 3. 50% Survivorship
 4. 67% Survivorship
- Selection of a survivorship benefit means the retiree's lifetime monthly benefit will be actuarially reduced.

Survivorship Options

Example: LEOFF 2 retiree, pension benefit of \$5000, spouse of the same age as the retiree

Option	Retiree Benefit	Survivor Benefit	Current Law	Proposed Law
Single Life	\$5000	\$0	Written Consent	Written Consent
100%	\$4355	\$4355	Written Consent	No
50%	\$4655	\$2328	No	No
67%	\$4550	\$3033	Written Consent	No

Current Law

- If a member is married, the spouse must provide written consent to the selected survivorship option unless a 50% option is chosen (or a dissolution order is provided).
- This means a spouse must provide written consent even when he or she would be receiving a two-thirds or full survivor benefit.

Proposed change

Only require spousal consent in cases where a married member is providing a benefit less than 50% to the spouse.

Benefits of change

- The change would simplify the process for many members when applying for retirement.
 - Currently more than 50% of members complete their retirement application online.
 - More than 25% of retirees select a survivorship option greater than the 50% option.
- One-time administrative costs associated with streamlining consent requirements would be minimal.

Questions?



Actuary's Draft Fiscal Note For DRS Proposal: Spousal Consent**SUMMARY OF RESULTS**

BRIEF SUMMARY OF PROPOSAL: Written consent for a survivorship benefit would only be required when a member selects the Single Life Option, or names someone other than their spouse or domestic partner as the survivor beneficiary.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

Under this proposal, there is no expected fiscal impact to the retirement systems because behavior is not expected to change. In other words, we do not anticipate members will select different Survivor Benefit Options as a result of this proposal.

If behavior were to change, a fiscal impact would still not be expected because the survivorship payment forms use administrative factors that are intended to be actuarially equivalent. Regardless of the benefit payment form chosen, whether paid over a member's lifetime, or over the member's lifetime and a survivor beneficiary's lifetime, the actuarial liability at retirement is expected to be the same.

As a result, there is no expected impact to the pension systems.

See the remainder of this draft fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This proposal impacts the following systems:

- ❖ 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) Plan 2.
- ❖ Washington State Patrol Retirement System (WSPRS) Plan 2.

For survivorship benefits, written consent from a spouse or domestic partner would only be required where a member selects a benefit less than the Joint and 50 Percent Survivor Option (i.e., the Single Life Option) or names someone other than their spouse or domestic partner as their survivor beneficiary. Any benefit that is a Joint and 50 Percent Option or higher would no longer require written consent from the member's spouse or domestic partner.

LEOFF and WSPRS Plans 1 have a free Joint and 100 Percent Option, so this proposal has no applicability to those plans.

Effective Date: 90 days after session.

What Is The Current Situation?

Under current law, members of most plans administered by the Department of Retirement Systems (DRS) have the option of selecting a survivorship benefit as part of their pension benefit upon retirement. Please see the **Appendix** for a list of the statutes that contain the written consent requirement.

Currently, members have four survivorship benefit options to choose from:

- ❖ Single Life, where there is no survivorship benefit;
- ❖ Joint and 100 Percent, a full survivorship benefit;
- ❖ Joint and 66.67 Percent, a two-thirds survivorship benefit;
- and,
- ❖ Joint and 50 Percent, a half survivorship benefit.

Of the options listed above, written consent for the Joint and 50 Percent Survivor Option is not required. All other options under current law require written consent from the member's spouse or domestic partner. In addition, DRS currently requires members to notarize the written consent.

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 in the footer. We intend this draft fiscal note to be used by the Select Committee on Pension Policy during the 2018 Interim only.

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.

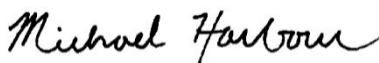
ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. We prepared this draft fiscal note for the Select Committee on Pension Policy during the 2018 Interim.
2. We prepared this draft fiscal note and provided opinions in accordance with Washington State law and accepted Actuarial Standards of Practice as of the date shown in the footer.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Michael T. Harbour, ASA, MAAA
Actuary

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Actuary's Draft Fiscal Note For DRS Proposal: Spousal Consent

APPENDIX

The written consent requirement is contained in the following statutes:

- ❖ PERS 1: [41.40.188 \(2\)\(a\)](#)
- ❖ PERS 2: [41.40.660 \(2\)\(a\)](#)
- ❖ PERS 3: [41.40.845 \(2\)\(a\)](#)
- ❖ TRS 1: [41.32.530 \(2\)\(a\)](#)
- ❖ TRS 2: [41.32.785 \(2\)\(a\)](#)
- ❖ TRS 3: [41.32.851 \(2\)\(a\)](#)
- ❖ SERS 2/3: [41.35.220 \(2\)\(a\)](#)
- ❖ PSERS 2: [41.37.170 \(2\)\(a\)](#)
- ❖ LEOFF 2: [41.26.460 \(2\)\(a\)](#)
- ❖ WSPRS 2: [43.43.271 \(2\)\(a\)](#)

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0104.1/19

ATTY/TYPIST: KB:akl

BRIEF DESCRIPTION: Clarifying the written consent requirement for survivorship benefit options.

1 AN ACT Relating to clarifying the written consent requirement for
2 survivorship benefit options; and amending RCW 41.26.460, 41.32.530,
3 41.32.785, 41.32.851, 41.35.220, 41.37.170, 41.40.188, 41.40.660,
4 41.40.845, and 43.43.271.

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

6 **Sec. 1.** RCW 41.26.460 and 2009 c 523 s 5 are each amended to
7 read as follows:

8 (1) Upon retirement for service as prescribed in RCW 41.26.430 or
9 disability retirement under RCW 41.26.470, a member shall elect to
10 have the retirement allowance paid pursuant to the following options,
11 calculated so as to be actuarially equivalent to each other.

12 (a) Standard allowance. A member electing this option shall
13 receive a retirement allowance payable throughout such member's life.
14 However, if the retiree dies before the total of the retirement
15 allowance paid to such retiree equals the amount of such retiree's
16 accumulated contributions at the time of retirement, then the balance
17 shall be paid to the member's estate, or such person or persons,
18 trust, or organization as the retiree shall have nominated by written
19 designation duly executed and filed with the department; or if there
20 be no such designated person or persons still living at the time of
21 the retiree's death, then to the surviving spouse or domestic

1 partner; or if there be neither such designated person or persons
2 still living at the time of death nor a surviving spouse or domestic
3 partner, then to the retiree's legal representative.

4 (b) The department shall adopt rules that allow a member to
5 select a retirement option that pays the member a reduced retirement
6 allowance and upon death, such portion of the member's reduced
7 retirement allowance as the department by rule designates shall be
8 continued throughout the life of and paid to a designated person.
9 Such person shall be nominated by the member by written designation
10 duly executed and filed with the department at the time of
11 retirement. The options adopted by the department shall include, but
12 are not limited to, a joint and one hundred percent survivor option
13 and a joint and fifty percent survivor option.

14 (2)(a) A member, if married or a domestic partner, must provide
15 the written consent of his or her spouse or domestic partner to the
16 option selected under this section, except as provided in (b) and (c)
17 of this subsection. If a member is married or a domestic partner and
18 both the member and member's spouse or domestic partner do not give
19 written consent to an option under this section, the department will
20 pay the member a joint and fifty percent survivor benefit and record
21 the member's spouse or domestic partner as the beneficiary. Such
22 benefit shall be calculated to be actuarially equivalent to the
23 benefit options available under subsection (1) of this section unless
24 spousal or domestic partner consent is not required as provided in
25 (b) and (c) of this subsection.

26 (b) Written consent from a spouse or domestic partner is not
27 required if a member who is married or a domestic partner selects a
28 joint and survivor option under subsection (1)(b) of this section and
29 names the member's spouse or domestic partner as the survivor
30 beneficiary.

31 (c) If a copy of a dissolution order designating a survivor
32 beneficiary under RCW 41.50.790 has been filed with the department at
33 least thirty days prior to a member's retirement:

34 (i) The department shall honor the designation as if made by the
35 member under subsection (1) of this section; and

36 (ii) The spousal or domestic partner consent provisions of (a) of
37 this subsection do not apply.

38 (3)(a) Any member who retired before January 1, 1996, and who
39 elected to receive a reduced retirement allowance under subsection
40 (1)(b) or (2) of this section is entitled to receive a retirement

1 allowance adjusted in accordance with (b) of this subsection, if they
2 meet the following conditions:

3 (i) The retiree's designated beneficiary predeceases or has
4 predeceased the retiree; and

5 (ii) The retiree provides to the department proper proof of the
6 designated beneficiary's death.

7 (b) The retirement allowance payable to the retiree, as of July
8 1, 1998, or the date of the designated beneficiary's death, whichever
9 comes last, shall be increased by the percentage derived in (c) of
10 this subsection.

11 (c) The percentage increase shall be derived by the following:

12 (i) One hundred percent multiplied by the result of (c)(ii) of
13 this subsection converted to a percent;

14 (ii) Subtract one from the reciprocal of the appropriate joint
15 and survivor option factor;

16 (iii) The joint and survivor option factor shall be from the
17 table in effect as of July 1, 1998.

18 (d) The adjustment under (b) of this subsection shall accrue from
19 the beginning of the month following the date of the designated
20 beneficiary's death or from July 1, 1998, whichever comes last.

21 (4) No later than July 1, 2001, the department shall adopt rules
22 that allow a member additional actuarially equivalent survivor
23 benefit options, and shall include, but are not limited to:

24 (a)(i) A retired member who retired without designating a
25 survivor beneficiary shall have the opportunity to designate their
26 spouse or domestic partner from a postretirement marriage or domestic
27 partnership as a survivor during a one-year period beginning one year
28 after the date of the postretirement marriage or domestic partnership
29 provided the retirement allowance payable to the retiree is not
30 subject to periodic payments pursuant to a property division
31 obligation as provided for in RCW 41.50.670.

32 (ii) A member who entered into a postretirement marriage or
33 domestic partnership prior to the effective date of the rules adopted
34 pursuant to this subsection and satisfies the conditions of (a)(i) of
35 this subsection shall have one year to designate their spouse or
36 domestic partner as a survivor beneficiary following the adoption of
37 the rules.

38 (b) A retired member who elected to receive a reduced retirement
39 allowance under this section and designated a nonspouse or a person
40 not their domestic partner as survivor beneficiary shall have the

1 opportunity to remove the survivor designation and have their future
2 benefit adjusted.

3 (c) The department may make an additional charge, if necessary,
4 to ensure that the benefits provided under this subsection remain
5 actuarially equivalent.

6 (5) No later than July 1, 2003, the department shall adopt rules
7 to permit:

8 (a) A court-approved property settlement incident to a court
9 decree of dissolution made before retirement to provide that benefits
10 payable to a member who meets the length of service requirements of
11 RCW 41.26.530(1) and the member's divorcing spouse or domestic
12 partner be divided into two separate benefits payable over the life
13 of each spouse or domestic partner.

14 The member shall have available the benefit options of subsection
15 (1) of this section upon retirement, and if remarried or in a
16 domestic partnership at the time of retirement remains subject to the
17 spousal or domestic partner consent requirements of subsection (2) of
18 this section. Any reductions of the member's benefit subsequent to
19 the division into two separate benefits shall be made solely to the
20 separate benefit of the member.

21 The nonmember ex spouse or former domestic partner shall be
22 eligible to commence receiving their separate benefit upon reaching
23 the ages provided in RCW 41.26.430(1) and after filing a written
24 application with the department.

25 (b) A court-approved property settlement incident to a court
26 decree of dissolution made after retirement may only divide the
27 benefit into two separate benefits payable over the life of each
28 spouse or domestic partner if the nonmember ex spouse or former
29 domestic partner was selected as a survivor beneficiary at
30 retirement.

31 The retired member may later choose the survivor benefit options
32 available in subsection (4) of this section. Any actuarial reductions
33 subsequent to the division into two separate benefits shall be made
34 solely to the separate benefit of the member.

35 Both the retired member and the nonmember divorced spouse or
36 domestic partner shall be eligible to commence receiving their
37 separate benefits upon filing a copy of the dissolution order with
38 the department in accordance with RCW 41.50.670.

39 (c) The department may make an additional charge or adjustment if
40 necessary to ensure that the separate benefits provided under this

1 subsection are actuarially equivalent to the benefits payable prior
2 to the decree of dissolution.

3 **Sec. 2.** RCW 41.32.530 and 2002 c 158 s 8 are each amended to
4 read as follows:

5 (1) Upon an application for retirement for service under RCW
6 41.32.480 or retirement for disability under RCW 41.32.550, approved
7 by the department, every member shall receive the maximum retirement
8 allowance available to him or her throughout life unless prior to the
9 time the first installment thereof becomes due he or she has elected,
10 by executing the proper application therefor, to receive the
11 actuarial equivalent of his or her retirement allowance in reduced
12 payments throughout his or her life with the following options:

13 (a) Standard allowance. If he or she dies before he or she has
14 received the present value of his or her accumulated contributions at
15 the time of his or her retirement in annuity payments, the unpaid
16 balance shall be paid to his or her estate or to such person, trust,
17 or organization as he or she shall have nominated by written
18 designation executed and filed with the department.

19 (b) The department shall adopt rules that allow a member to
20 select a retirement option that pays the member a reduced retirement
21 allowance and upon death, such portion of the member's reduced
22 retirement allowance as the department by rule designates shall be
23 continued throughout the life of and paid to a person who has an
24 insurable interest in the member's life. Such person shall be
25 nominated by the member by written designation duly executed and
26 filed with the department at the time of retirement. The options
27 adopted by the department shall include, but are not limited to, a
28 joint and one hundred percent survivor option and a joint and fifty
29 percent survivor option.

30 (c) Such other benefits shall be paid to a member receiving a
31 retirement allowance under RCW 41.32.497 as the member may designate
32 for himself, herself, or others equal to the actuarial value of his
33 or her retirement annuity at the time of his retirement: PROVIDED,
34 That the board of trustees shall limit withdrawals of accumulated
35 contributions to such sums as will not reduce the member's retirement
36 allowance below one hundred and twenty dollars per month.

37 (d) A member whose retirement allowance is calculated under RCW
38 41.32.498 may also elect to receive a retirement allowance based on
39 options available under this subsection that includes the benefit

1 provided under RCW 41.32.770. This retirement allowance option shall
2 also be calculated so as to be actuarially equivalent to the maximum
3 retirement allowance and to the options available under this
4 subsection.

5 (2)(a) A member, if married, must provide the written consent of
6 his or her spouse to the option selected under this section, except
7 as provided in (b) and (c) of this subsection. If a member is married
8 and both the member and the member's spouse do not give written
9 consent to an option under this section, the department will pay the
10 member a joint and fifty percent survivor benefit and record the
11 member's spouse as the beneficiary. Such benefit shall be calculated
12 to be actuarially equivalent to the benefit options available under
13 subsection (1) of this section unless spousal consent is not required
14 as provided in (b) and (c) of this subsection.

15 (b) Written consent from a spouse or domestic partner is not
16 required if a member who is married or a domestic partner selects a
17 joint and survivor option under subsection (1)(b) of this section and
18 names the member's spouse or domestic partner as the survivor
19 beneficiary.

20 (c) If a copy of a dissolution order designating a survivor
21 beneficiary under RCW 41.50.790 has been filed with the department at
22 least thirty days prior to a member's retirement:

23 (i) The department shall honor the designation as if made by the
24 member under subsection (1) of this section; and

25 (ii) The spousal consent provisions of (a) of this subsection do
26 not apply.

27 (3)(a) Any member who retired before January 1, 1996, and who
28 elected to receive a reduced retirement allowance under subsection
29 (1)(b) or (2) of this section is entitled to receive a retirement
30 allowance adjusted in accordance with (b) of this subsection, if they
31 meet the following conditions:

32 (i) The retiree's designated beneficiary predeceases or has
33 predeceased the retiree; and

34 (ii) The retiree provides to the department proper proof of the
35 designated beneficiary's death.

36 (b) The retirement allowance payable to the retiree, as of July
37 1, 1998, or the date of the designated beneficiary's death, whichever
38 comes last, shall be increased by the percentage derived in (c) of
39 this subsection.

40 (c) The percentage increase shall be derived by the following:

1 (i) One hundred percent multiplied by the result of (c)(ii) of
2 this subsection converted to a percent;

3 (ii) Subtract one from the reciprocal of the appropriate joint
4 and survivor option factor;

5 (iii) The joint and survivor option factor shall be from the
6 table in effect as of July 1, 1998.

7 (d) The adjustment under (b) of this subsection shall accrue from
8 the beginning of the month following the date of the designated
9 beneficiary's death or from July 1, 1998, whichever comes last.

10 (4) No later than July 1, 2001, the department shall adopt rules
11 that allow a member additional actuarially equivalent survivor
12 benefit options, and shall include, but are not limited to:

13 (a)(i) A retired member who retired without designating a
14 survivor beneficiary shall have the opportunity to designate their
15 spouse from a postretirement marriage as a survivor during a one-year
16 period beginning one year after the date of the postretirement
17 marriage provided the retirement allowance payable to the retiree is
18 not subject to periodic payments pursuant to a property division
19 obligation as provided for in RCW 41.50.670.

20 (ii) A member who entered into a postretirement marriage prior to
21 the effective date of the rules adopted pursuant to this subsection
22 and satisfies the conditions of (a)(i) of this subsection shall have
23 one year to designate their spouse as a survivor beneficiary
24 following the adoption of the rules.

25 (b) A retired member who elected to receive a reduced retirement
26 allowance under this section and designated a nonspouse as survivor
27 beneficiary shall have the opportunity to remove the survivor
28 designation and have their future benefit adjusted.

29 (c) The department may make an additional charge, if necessary,
30 to ensure that the benefits provided under this subsection remain
31 actuarially equivalent.

32 (5) No later than July 1, 2003, the department shall adopt rules
33 to permit:

34 (a) A court-approved property settlement incident to a court
35 decree of dissolution made before retirement to provide that benefits
36 payable to a member who meets the length of service requirements of
37 RCW 41.32.470 and the member's divorcing spouse be divided into two
38 separate benefits payable over the life of each spouse.

39 The member shall have available the benefit options of subsection
40 (1) of this section upon retirement, and if remarried at the time of

1 retirement remains subject to the spousal consent requirements of
2 subsection (2) of this section. Any reductions of the member's
3 benefit subsequent to the division into two separate benefits shall
4 be made solely to the separate benefit of the member.

5 The nonmember ex spouse shall be eligible to commence receiving
6 their separate benefit upon reaching the age provided in RCW
7 41.32.480(2) and after filing a written application with the
8 department.

9 (b) A court-approved property settlement incident to a court
10 decree of dissolution made after retirement may only divide the
11 benefit into two separate benefits payable over the life of each
12 spouse if the nonmember ex spouse was selected as a survivor
13 beneficiary at retirement.

14 The retired member may later choose the survivor benefit options
15 available in subsection (4) of this section. Any actuarial reductions
16 subsequent to the division into two separate benefits shall be made
17 solely to the separate benefit of the member.

18 Both the retired member and the nonmember divorced spouse shall
19 be eligible to commence receiving their separate benefits upon filing
20 a copy of the dissolution order with the department in accordance
21 with RCW 41.50.670.

22 (c) The separate single life benefits of the member and the
23 nonmember ex spouse are not (i) subject to the minimum benefit
24 provisions of RCW 41.32.4851, or (ii) the minimum benefit annual
25 increase amount eligibility provisions of RCW 41.32.489 (2)(b) and
26 (3)(a).

27 (d) The department may make an additional charge or adjustment if
28 necessary to ensure that the separate benefits provided under this
29 subsection are actuarially equivalent to the benefits payable prior
30 to the decree of dissolution.

31 **Sec. 3.** RCW 41.32.785 and 2002 c 158 s 9 are each amended to
32 read as follows:

33 (1) Upon retirement for service as prescribed in RCW 41.32.765 or
34 retirement for disability under RCW 41.32.790, a member shall elect
35 to have the retirement allowance paid pursuant to the following
36 options, calculated so as to be actuarially equivalent to each other.

37 (a) Standard allowance. A member electing this option shall
38 receive a retirement allowance payable throughout such member's life.
39 However, if the retiree dies before the total of the retirement

1 allowance paid to such retiree equals the amount of such retiree's
2 accumulated contributions at the time of retirement, then the balance
3 shall be paid to the member's estate, or such person or persons,
4 trust, or organization as the retiree shall have nominated by written
5 designation duly executed and filed with the department; or if there
6 be no such designated person or persons still living at the time of
7 the retiree's death, then to the surviving spouse; or if there be
8 neither such designated person or persons still living at the time of
9 death nor a surviving spouse, then to the retiree's legal
10 representative.

11 (b) The department shall adopt rules that allow a member to
12 select a retirement option that pays the member a reduced retirement
13 allowance and upon death, such portion of the member's reduced
14 retirement allowance as the department by rule designates shall be
15 continued throughout the life of and paid to a designated person.
16 Such person shall be nominated by the member by written designation
17 duly executed and filed with the department at the time of
18 retirement. The options adopted by the department shall include, but
19 are not limited to, a joint and one hundred percent survivor option
20 and a joint and fifty percent survivor option.

21 (2)(a) A member, if married, must provide the written consent of
22 his or her spouse to the option selected under this section, except
23 as provided in (b) and (c) of this subsection. If a member is married
24 and both the member and member's spouse do not give written consent
25 to an option under this section, the department will pay the member a
26 joint and fifty percent survivor benefit and record the member's
27 spouse as the beneficiary. Such benefit shall be calculated to be
28 actuarially equivalent to the benefit options available under
29 subsection (1) of this section unless spousal consent is not required
30 as provided in (b) and (c) of this subsection.

31 (b) Written consent from a spouse or domestic partner is not
32 required if a member who is married or a domestic partner selects a
33 joint and survivor option under subsection (1)(b) of this section and
34 names the member's spouse or domestic partner as the survivor
35 beneficiary.

36 (c) If a copy of a dissolution order designating a survivor
37 beneficiary under RCW 41.50.790 has been filed with the department at
38 least thirty days prior to a member's retirement:

39 (i) The department shall honor the designation as if made by the
40 member under subsection (1) of this section; and

1 (ii) The spousal consent provisions of (a) of this subsection do
2 not apply.

3 (3)(a) Any member who retired before January 1, 1996, and who
4 elected to receive a reduced retirement allowance under subsection
5 (1)(b) or (2) of this section is entitled to receive a retirement
6 allowance adjusted in accordance with (b) of this subsection, if they
7 meet the following conditions:

8 (i) The retiree's designated beneficiary predeceases or has
9 predeceased the retiree; and

10 (ii) The retiree provides to the department proper proof of the
11 designated beneficiary's death.

12 (b) The retirement allowance payable to the retiree, as of July
13 1, 1998, or the date of the designated beneficiary's death, whichever
14 comes last, shall be increased by the percentage derived in (c) of
15 this subsection.

16 (c) The percentage increase shall be derived by the following:

17 (i) One hundred percent multiplied by the result of (c)(ii) of
18 this subsection converted to a percent;

19 (ii) Subtract one from the reciprocal of the appropriate joint
20 and survivor option factor;

21 (iii) The joint and survivor option factor shall be from the
22 table in effect as of July 1, 1998.

23 (d) The adjustment under (b) of this subsection shall accrue from
24 the beginning of the month following the date of the designated
25 beneficiary's death or from July 1, 1998, whichever comes last.

26 (4) No later than July 1, 2001, the department shall adopt rules
27 that allow a member additional actuarially equivalent survivor
28 benefit options, and shall include, but are not limited to:

29 (a)(i) A retired member who retired without designating a
30 survivor beneficiary shall have the opportunity to designate their
31 spouse from a postretirement marriage as a survivor during a one-year
32 period beginning one year after the date of the postretirement
33 marriage provided the retirement allowance payable to the retiree is
34 not subject to periodic payments pursuant to a property division
35 obligation as provided for in RCW 41.50.670.

36 (ii) A member who entered into a postretirement marriage prior to
37 the effective date of the rules adopted pursuant to this subsection
38 and satisfies the conditions of (a)(i) of this subsection shall have
39 one year to designate their spouse as a survivor beneficiary
40 following the adoption of the rules.

1 (b) A retired member who elected to receive a reduced retirement
2 allowance under this section and designated a nonspouse as survivor
3 beneficiary shall have the opportunity to remove the survivor
4 designation and have their future benefit adjusted.

5 (c) The department may make an additional charge, if necessary,
6 to ensure that the benefits provided under this subsection remain
7 actuarially equivalent.

8 (5) No later than July 1, 2003, the department shall adopt rules
9 to permit:

10 (a) A court-approved property settlement incident to a court
11 decree of dissolution made before retirement to provide that benefits
12 payable to a member who meets the length of service requirements of
13 RCW 41.32.815 and the member's divorcing spouse be divided into two
14 separate benefits payable over the life of each spouse.

15 The member shall have available the benefit options of subsection
16 (1) of this section upon retirement, and if remarried at the time of
17 retirement remains subject to the spousal consent requirements of
18 subsection (2) of this section. Any reductions of the member's
19 benefit subsequent to the division into two separate benefits shall
20 be made solely to the separate benefit of the member.

21 The nonmember ex spouse shall be eligible to commence receiving
22 their separate benefit upon reaching the age provided in RCW
23 41.32.765(1) and after filing a written application with the
24 department.

25 (b) A court-approved property settlement incident to a court
26 decree of dissolution made after retirement may only divide the
27 benefit into two separate benefits payable over the life of each
28 spouse if the nonmember ex spouse was selected as a survivor
29 beneficiary at retirement.

30 The retired member may later choose the survivor benefit options
31 available in subsection (4) of this section. Any actuarial reductions
32 subsequent to the division into two separate benefits shall be made
33 solely to the separate benefit of the member.

34 Both the retired member and the nonmember divorced spouse shall
35 be eligible to commence receiving their separate benefits upon filing
36 a copy of the dissolution order with the department in accordance
37 with RCW 41.50.670.

38 (c) The department may make an additional charge or adjustment if
39 necessary to ensure that the separate benefits provided under this

1 subsection are actuarially equivalent to the benefits payable prior
2 to the decree of dissolution.

3 **Sec. 4.** RCW 41.32.851 and 2002 c 158 s 10 are each amended to
4 read as follows:

5 (1) Upon retirement for service as prescribed in RCW 41.32.875 or
6 retirement for disability under RCW 41.32.880, a member shall elect
7 to have the retirement allowance paid pursuant to one of the
8 following options, calculated so as to be actuarially equivalent to
9 each other.

10 (a) Standard allowance. A member electing this option shall
11 receive a retirement allowance payable throughout such member's life.
12 Upon the death of the retired member, all benefits shall cease.

13 (b) The department shall adopt rules that allow a member to
14 select a retirement option that pays the member a reduced retirement
15 allowance and upon death, such portion of the member's reduced
16 retirement allowance as the department by rule designates shall be
17 continued throughout the life of and paid to such person or persons
18 as the retiree shall have nominated by written designation duly
19 executed and filed with the department at the time of retirement. The
20 options adopted by the department shall include, but are not limited
21 to, a joint and one hundred percent survivor option and joint and
22 fifty percent survivor option.

23 (2)(a) A member, if married, must provide the written consent of
24 his or her spouse to the option selected under this section, except
25 as provided in (b) and (c) of this subsection. If a member is married
26 and both the member and the member's spouse do not give written
27 consent to an option under this section, the department shall pay a
28 joint and fifty-percent survivor benefit calculated to be actuarially
29 equivalent to the benefit options available under subsection (1) of
30 this section unless spousal consent is not required as provided in
31 (b) and (c) of this subsection.

32 (b) Written consent from a spouse or domestic partner is not
33 required if a member who is married or a domestic partner selects a
34 joint and survivor option under subsection (1)(b) of this section and
35 names the member's spouse or domestic partner as the survivor
36 beneficiary.

37 (c) If a copy of a dissolution order designating a survivor
38 beneficiary under RCW 41.50.790 has been filed with the department at
39 least thirty days prior to a member's retirement:

1 (i) The department shall honor the designation as if made by the
2 member under subsection (1) of this section; and

3 (ii) The spousal consent provisions of (a) of this subsection do
4 not apply.

5 (3) No later than July 1, 2001, the department shall adopt rules
6 that allow a member additional actuarially equivalent survivor
7 benefit options, and shall include, but are not limited to:

8 (a)(i) A retired member who retired without designating a
9 survivor beneficiary shall have the opportunity to designate their
10 spouse from a postretirement marriage as a survivor during a one-year
11 period beginning one year after the date of the postretirement
12 marriage provided the retirement allowance payable to the retiree is
13 not subject to periodic payments pursuant to a property division
14 obligation as provided for in RCW 41.50.670.

15 (ii) A member who entered into a postretirement marriage prior to
16 the effective date of the rules adopted pursuant to this subsection
17 and satisfies the conditions of (a)(i) of this subsection shall have
18 one year to designate their spouse as a survivor beneficiary
19 following the adoption of the rules.

20 (b) A retired member who elected to receive a reduced retirement
21 allowance under this section and designated a nonspouse as survivor
22 beneficiary shall have the opportunity to remove the survivor
23 designation and have their future benefit adjusted.

24 (c) The department may make an additional charge, if necessary,
25 to ensure that the benefits provided under this subsection remain
26 actuarially equivalent.

27 (4) No later than July 1, 2003, the department shall adopt rules
28 to permit:

29 (a) A court-approved property settlement incident to a court
30 decree of dissolution made before retirement to provide that benefits
31 payable to a member who meets the length of service requirements of
32 RCW 41.32.875(1) and the member's divorcing spouse be divided into
33 two separate benefits payable over the life of each spouse.

34 The member shall have available the benefit options of subsection
35 (1) of this section upon retirement, and if remarried at the time of
36 retirement remains subject to the spousal consent requirements of
37 subsection (2) of this section. Any reductions of the member's
38 benefit subsequent to the division into two separate benefits shall
39 be made solely to the separate benefit of the member.

1 The nonmember ex spouse shall be eligible to commence receiving
2 their separate benefit upon reaching the age provided in RCW
3 41.32.875(1) and after filing a written application with the
4 department.

5 (b) A court-approved property settlement incident to a court
6 decree of dissolution made after retirement may only divide the
7 benefit into two separate benefits payable over the life of each
8 spouse if the nonmember ex spouse was selected as a survivor
9 beneficiary at retirement.

10 The retired member may later choose the survivor benefit options
11 available in subsection (3) of this section. Any actuarial reductions
12 subsequent to the division into two separate benefits shall be made
13 solely to the separate benefit of the member.

14 Both the retired member and the nonmember divorced spouse shall
15 be eligible to commence receiving their separate benefits upon filing
16 a copy of the dissolution order with the department in accordance
17 with RCW 41.50.670.

18 ~~(c) ((Any benefit distributed pursuant to chapter 41.31A RCW
19 after the date of the dissolution order creating separate benefits
20 for a member and nonmember ex spouse shall be paid solely to the
21 member.~~

22 ~~(d))~~ The department may make an additional charge or adjustment
23 if necessary to ensure that the separate benefits provided under this
24 subsection are actuarially equivalent to the benefits payable prior
25 to the decree of dissolution.

26 **Sec. 5.** RCW 41.35.220 and 2002 c 158 s 11 are each amended to
27 read as follows:

28 (1) Upon retirement for service as prescribed in RCW 41.35.420 or
29 41.35.680 or retirement for disability under RCW 41.35.440 or
30 41.35.690, a member shall elect to have the retirement allowance paid
31 pursuant to one of the following options, calculated so as to be
32 actuarially equivalent to each other.

33 (a) Standard allowance. A member electing this option shall
34 receive a retirement allowance payable throughout such member's life.

35 (i) For members of plan 2, if the retiree dies before the total
36 of the retirement allowance paid to such retiree equals the amount of
37 such retiree's accumulated contributions at the time of retirement,
38 then the balance shall be paid to the member's estate, or such person
39 or persons, trust, or organization as the retiree shall have

1 nominated by written designation duly executed and filed with the
2 department; or if there be no such designated person or persons still
3 living at the time of the retiree's death, then to the surviving
4 spouse; or if there be neither such designated person or persons
5 still living at the time of death nor a surviving spouse, then to the
6 retiree's legal representative.

7 (ii) For members of plan 3, upon the death of the retired member,
8 the member's benefits shall cease.

9 (b) The department shall adopt rules that allow a member to
10 select a retirement option that pays the member a reduced retirement
11 allowance and upon death, such portion of the member's reduced
12 retirement allowance as the department by rule designates shall be
13 continued throughout the life of and paid to a person nominated by
14 the member by written designation duly executed and filed with the
15 department at the time of retirement. The options adopted by the
16 department shall include, but are not limited to, a joint and one
17 hundred percent survivor option and a joint and fifty percent
18 survivor option.

19 (2)(a) A member, if married, must provide the written consent of
20 his or her spouse to the option selected under this section, except
21 as provided in (b) and (c) of this subsection. If a member is married
22 and both the member and the member's spouse do not give written
23 consent to an option under this section, the department shall pay a
24 joint and fifty percent survivor benefit calculated to be actuarially
25 equivalent to the benefit options available under subsection (1) of
26 this section unless spousal consent is not required as provided in
27 (b) and (c) of this subsection.

28 (b) Written consent from a spouse or domestic partner is not
29 required if a member who is married or a domestic partner selects a
30 joint and survivor option under subsection (1)(b) of this section and
31 names the member's spouse or domestic partner as the survivor
32 beneficiary.

33 (c) If a copy of a dissolution order designating a survivor
34 beneficiary under RCW 41.50.790 has been filed with the department at
35 least thirty days prior to a member's retirement:

36 (i) The department shall honor the designation as if made by the
37 member under subsection (1) of this section; and

38 (ii) The spousal consent provisions of (a) of this subsection do
39 not apply.

1 (3) No later than July 1, 2001, the department shall adopt rules
2 that allow a member additional actuarially equivalent survivor
3 benefit options, and shall include, but are not limited to:

4 (a)(i) A retired member who retired without designating a
5 survivor beneficiary shall have the opportunity to designate their
6 spouse from a postretirement marriage as a survivor during a one-year
7 period beginning one year after the date of the postretirement
8 marriage provided the retirement allowance payable to the retiree is
9 not subject to periodic payments pursuant to a property division
10 obligation as provided for in RCW 41.50.670.

11 (ii) A member who entered into a postretirement marriage prior to
12 the effective date of the rules adopted pursuant to this subsection
13 and satisfies the conditions of (a)(i) of this subsection shall have
14 one year to designate their spouse as a survivor beneficiary
15 following the adoption of the rules.

16 (b) A retired member who elected to receive a reduced retirement
17 allowance under this section and designated a nonspouse as survivor
18 beneficiary shall have the opportunity to remove the survivor
19 designation and have their future benefit adjusted.

20 (c) The department may make an additional charge, if necessary,
21 to ensure that the benefits provided under this subsection remain
22 actuarially equivalent.

23 (4) No later than July 1, 2003, the department shall adopt rules
24 to permit:

25 (a) A court-approved property settlement incident to a court
26 decree of dissolution made before retirement to provide that benefits
27 payable to a member of plan 2 who meets the length of service
28 requirements of RCW 41.35.420, or a member of plan 3 who meets the
29 length of service requirements of RCW 41.35.680(1), and the member's
30 divorcing spouse be divided into two separate benefits payable over
31 the life of each spouse.

32 The member shall have available the benefit options of subsection
33 (1) of this section upon retirement, and if remarried at the time of
34 retirement remains subject to the spousal consent requirements of
35 subsection (2) of this section. Any reductions of the member's
36 benefit subsequent to the division into two separate benefits shall
37 be made solely to the separate benefit of the member.

38 The nonmember ex spouse shall be eligible to commence receiving
39 their separate benefit upon reaching the ages provided in RCW
40 41.35.420(1) for members of plan 2, or RCW 41.35.680(1) for members

1 of plan 3, and after filing a written application with the
2 department.

3 (b) A court-approved property settlement incident to a court
4 decree of dissolution made after retirement may only divide the
5 benefit into two separate benefits payable over the life of each
6 spouse if the nonmember ex spouse was selected as a survivor
7 beneficiary at retirement.

8 The retired member may later choose the survivor benefit options
9 available in subsection (3) of this section. Any actuarial reductions
10 subsequent to the division into two separate benefits shall be made
11 solely to the separate benefit of the member.

12 Both the retired member and the nonmember divorced spouse shall
13 be eligible to commence receiving their separate benefits upon filing
14 a copy of the dissolution order with the department in accordance
15 with RCW 41.50.670.

16 ~~(c) ((Any benefit distributed pursuant to chapter 41.31A RCW
17 after the date of the dissolution order creating separate benefits
18 for a member and nonmember ex spouse shall be paid solely to the
19 member.~~

20 ~~(d))~~ The department may make an additional charge or adjustment
21 if necessary to ensure that the separate benefits provided under this
22 subsection are actuarially equivalent to the benefits payable prior
23 to the decree of dissolution.

24 **Sec. 6.** RCW 41.37.170 and 2004 c 242 s 23 are each amended to
25 read as follows:

26 (1) Upon retirement for service as prescribed in RCW 41.37.210 or
27 retirement for disability under RCW 41.37.230, a member shall elect
28 to have the retirement allowance paid pursuant to one of the
29 following options, calculated so as to be actuarially equivalent to
30 each other.

31 (a) Standard allowance. A member electing this option shall
32 receive a retirement allowance payable throughout the member's life.
33 If the retiree dies before the total of the retirement allowance paid
34 to the retiree equals the amount of the retiree's accumulated
35 contributions at the time of retirement, then the balance shall be
36 paid to the member's estate, or the person or persons, trust, or
37 organization the retiree nominated by written designation duly
38 executed and filed with the department; or if there is no designated
39 person or persons still living at the time of the retiree's death,

1 then to the surviving spouse; or if there is neither a designated
2 person or persons still living at the time of death nor a surviving
3 spouse, then to the retiree's legal representative.

4 (b) The department shall adopt rules that allow a member to
5 select a retirement option that pays the member a reduced retirement
6 allowance and upon death, the portion of the member's reduced
7 retirement allowance as the department by rule designates shall be
8 continued throughout the life of and paid to a person nominated by
9 the member by written designation duly executed and filed with the
10 department at the time of retirement. The options adopted by the
11 department shall include, but are not limited to, a joint and one
12 hundred percent survivor option and a joint and fifty percent
13 survivor option.

14 (2)(a) A member, if married, must provide the written consent of
15 his or her spouse to the option selected under this section, except
16 as provided in (b) and (c) of this subsection. If a member is married
17 and both the member and the member's spouse do not give written
18 consent to an option under this section, the department shall pay a
19 joint and fifty percent survivor benefit calculated to be actuarially
20 equivalent to the benefit options available under subsection (1) of
21 this section unless spousal consent is not required as provided in
22 (b) and (c) of this subsection.

23 (b) Written consent from a spouse or domestic partner is not
24 required if a member who is married or a domestic partner selects a
25 joint and survivor option under subsection (1)(b) of this section and
26 names the member's spouse or domestic partner as the survivor
27 beneficiary.

28 (c) If a copy of a dissolution order designating a survivor
29 beneficiary under RCW 41.50.790 has been filed with the department at
30 least thirty days prior to a member's retirement:

31 (i) The department shall honor the designation as if made by the
32 member under subsection (1) of this section; and

33 (ii) The spousal consent provisions of (a) of this subsection do
34 not apply.

35 (3) The department shall adopt rules that allow a member
36 additional actuarially equivalent survivor benefit options, and shall
37 include, but are not limited to:

38 (a)(i) A retired member who retired without designating a
39 survivor beneficiary shall have the opportunity to designate their
40 spouse from a postretirement marriage as a survivor during a one-year

1 period beginning one year after the date of the postretirement
2 marriage provided the retirement allowance payable to the retiree is
3 not subject to periodic payments pursuant to a property division
4 obligation as provided for in RCW 41.50.670.

5 (ii) A member who entered into a postretirement marriage prior to
6 the effective date of the rules adopted pursuant to this subsection
7 and satisfies the conditions of (a)(i) of this subsection shall have
8 one year to designate their spouse as a survivor beneficiary
9 following the adoption of the rules.

10 (b) A retired member who elected to receive a reduced retirement
11 allowance under this section and designated a nonspouse as survivor
12 beneficiary shall have the opportunity to remove the survivor
13 designation and have their future benefit adjusted.

14 (c) The department may make an additional charge, if necessary,
15 to ensure that the benefits provided under this subsection remain
16 actuarially equivalent.

17 (4) The department shall adopt rules to permit:

18 (a) A court-approved property settlement incident to a court
19 decree of dissolution made before retirement to provide that benefits
20 payable to a member who meets the length of service requirements of
21 RCW 41.37.210 and the member's divorcing spouse be divided into two
22 separate benefits payable over the life of each spouse.

23 The member shall have available the benefit options of subsection
24 (1) of this section upon retirement, and if remarried at the time of
25 retirement remains subject to the spousal consent requirements of
26 subsection (2) of this section. Any reductions of the member's
27 benefit subsequent to the division into two separate benefits shall
28 be made solely to the separate benefit of the member.

29 The nonmember ex spouse shall be eligible to commence receiving
30 their separate benefit upon reaching the age provided in RCW
31 41.37.210(1) and after filing a written application with the
32 department.

33 (b) A court-approved property settlement incident to a court
34 decree of dissolution made after retirement may only divide the
35 benefit into two separate benefits payable over the life of each
36 spouse if the nonmember ex spouse was selected as a survivor
37 beneficiary at retirement.

38 The retired member may later choose the survivor benefit options
39 available in subsection (3) of this section. Any actuarial reductions

1 subsequent to the division into two separate benefits shall be made
2 solely to the separate benefit of the member.

3 Both the retired member and the nonmember divorced spouse shall
4 be eligible to commence receiving their separate benefits upon filing
5 a copy of the dissolution order with the department in accordance
6 with RCW 41.50.670.

7 (c) The department may make an additional charge or adjustment if
8 necessary to ensure that the separate benefits provided under this
9 subsection are actuarially equivalent to the benefits payable prior
10 to the decree of dissolution.

11 **Sec. 7.** RCW 41.40.188 and 2002 c 158 s 12 are each amended to
12 read as follows:

13 (1) Upon retirement for service as prescribed in RCW 41.40.180 or
14 retirement for disability under RCW 41.40.210 or 41.40.230, a member
15 shall elect to have the retirement allowance paid pursuant to one of
16 the following options calculated so as to be actuarially equivalent
17 to each other.

18 (a) Standard allowance. A member electing this option shall
19 receive a retirement allowance payable throughout such member's life.
20 However, if the retiree dies before the total of the retirement
21 allowance paid to such retiree equals the amount of such retiree's
22 accumulated contributions at the time of retirement, then the balance
23 shall be paid to the member's estate, or such person or persons,
24 trust, or organization as the retiree shall have nominated by written
25 designation duly executed and filed with the department; or if there
26 be no such designated person or persons still living at the time of
27 the retiree's death, then to the surviving spouse; or if there be
28 neither such designated person or persons still living at the time of
29 death nor a surviving spouse, then to the retiree's legal
30 representative.

31 (b) The department shall adopt rules that allow a member to
32 select a retirement option that pays the member a reduced retirement
33 allowance and upon death, such portion of the member's reduced
34 retirement allowance as the department by rule designates shall be
35 continued throughout the life of and paid to a person nominated by
36 the member by written designation duly executed and filed with the
37 department at the time of retirement. The options adopted by the
38 department shall include, but are not limited to, a joint and one

1 hundred percent survivor option and a joint and fifty percent
2 survivor option.

3 (c) A member may elect to include the benefit provided under RCW
4 41.40.640 along with the retirement options available under this
5 section. This retirement allowance option shall be calculated so as
6 to be actuarially equivalent to the options offered under this
7 subsection.

8 (2)(a) A member, if married, must provide the written consent of
9 his or her spouse to the option selected under this section, except
10 as provided in (b) and (c) of this subsection. If a member is married
11 and both the member and the member's spouse do not give written
12 consent to an option under this section, the department shall pay a
13 joint and fifty percent survivor benefit calculated to be actuarially
14 equivalent to the benefit options available under subsection (1) of
15 this section unless spousal consent is not required as provided in
16 (b) and (c) of this subsection.

17 (b) Written consent from a spouse or domestic partner is not
18 required if a member who is married or a domestic partner selects a
19 joint and survivor option under subsection (1)(b) of this section and
20 names the member's spouse or domestic partner as the survivor
21 beneficiary.

22 (c) If a copy of a dissolution order designating a survivor
23 beneficiary under RCW 41.50.790 has been filed with the department at
24 least thirty days prior to a member's retirement:

25 (i) The department shall honor the designation as if made by the
26 member under subsection (1) of this section; and

27 (ii) The spousal consent provisions of (a) of this subsection do
28 not apply.

29 (3)(a) Any member who retired before January 1, 1996, and who
30 elected to receive a reduced retirement allowance under subsection
31 (1)(b) or (2) of this section is entitled to receive a retirement
32 allowance adjusted in accordance with (b) of this subsection, if they
33 meet the following conditions:

34 (i) The retiree's designated beneficiary predeceases or has
35 predeceased the retiree; and

36 (ii) The retiree provides to the department proper proof of the
37 designated beneficiary's death.

38 (b) The retirement allowance payable to the retiree, as of July
39 1, 1998, or the date of the designated beneficiary's death, whichever

1 comes last, shall be increased by the percentage derived in (c) of
2 this subsection.

3 (c) The percentage increase shall be derived by the following:

4 (i) One hundred percent multiplied by the result of (c)(ii) of
5 this subsection converted to a percent;

6 (ii) Subtract one from the reciprocal of the appropriate joint
7 and survivor option factor;

8 (iii) The joint and survivor option factor shall be from the
9 table in effect as of July 1, 1998.

10 (d) The adjustment under (b) of this subsection shall accrue from
11 the beginning of the month following the date of the designated
12 beneficiary's death or from July 1, 1998, whichever comes last.

13 (4) No later than July 1, 2001, the department shall adopt rules
14 that allow a member additional actuarially equivalent survivor
15 benefit options, and shall include, but are not limited to:

16 (a)(i) A retired member who retired without designating a
17 survivor beneficiary shall have the opportunity to designate their
18 spouse from a postretirement marriage as a survivor during a one-year
19 period beginning one year after the date of the postretirement
20 marriage provided the retirement allowance payable to the retiree is
21 not subject to periodic payments pursuant to a property division
22 obligation as provided for in RCW 41.50.670.

23 (ii) A member who entered into a postretirement marriage prior to
24 the effective date of the rules adopted pursuant to this subsection
25 and satisfies the conditions of (a)(i) of this subsection shall have
26 one year to designate their spouse as a survivor beneficiary
27 following the adoption of the rules.

28 (b) A retired member who elected to receive a reduced retirement
29 allowance under this section and designated a nonspouse as survivor
30 beneficiary shall have the opportunity to remove the survivor
31 designation and have their future benefit adjusted.

32 (c) The department may make an additional charge, if necessary,
33 to ensure that the benefits provided under this subsection remain
34 actuarially equivalent.

35 (5) No later than July 1, 2003, the department shall adopt rules
36 to permit:

37 (a) A court-approved property settlement incident to a court
38 decree of dissolution made before retirement to provide that benefits
39 payable to a member who meets the length of service requirements of

1 RCW 41.40.180(1) and the member's divorcing spouse be divided into
2 two separate benefits payable over the life of each spouse.

3 The member shall have available the benefit options of subsection
4 (1) of this section upon retirement, and if remarried at the time of
5 retirement remains subject to the spousal consent requirements of
6 subsection (2) of this section. Any reductions of the member's
7 benefit subsequent to the division into two separate benefits shall
8 be made solely to the separate benefit of the member.

9 The nonmember ex spouse shall be eligible to commence receiving
10 their separate benefit upon reaching the age provided in RCW
11 41.40.180(1) and after filing a written application with the
12 department.

13 (b) A court-approved property settlement incident to a court
14 decree of dissolution made after retirement may only divide the
15 benefit into two separate benefits payable over the life of each
16 spouse if the nonmember ex spouse was selected as a survivor
17 beneficiary at retirement.

18 The retired member may later choose the survivor benefit options
19 available in subsection (4) of this section. Any actuarial reductions
20 subsequent to the division into two separate benefits shall be made
21 solely to the separate benefit of the member.

22 Both the retired member and the nonmember divorced spouse shall
23 be eligible to commence receiving their separate benefits upon filing
24 a copy of the dissolution order with the department in accordance
25 with RCW 41.50.670.

26 (c) The separate single life benefits of the member and the
27 nonmember ex spouse are not (i) subject to the minimum benefit
28 provisions of RCW 41.40.1984, or (ii) the minimum benefit annual
29 increase amount eligibility provisions of RCW 41.40.197 (2)(b) (~~and~~
30 ~~(3)(a)~~)).

31 (d) The department may make an additional charge or adjustment if
32 necessary to ensure that the separate benefits provided under this
33 subsection are actuarially equivalent to the benefits payable prior
34 to the decree of dissolution.

35 **Sec. 8.** RCW 41.40.660 and 2003 c 294 s 6 are each amended to
36 read as follows:

37 (1) Upon retirement for service as prescribed in RCW 41.40.630 or
38 retirement for disability under RCW 41.40.670, a member shall elect
39 to have the retirement allowance paid pursuant to one of the

1 following options, calculated so as to be actuarially equivalent to
2 each other.

3 (a) Standard allowance. A member electing this option shall
4 receive a retirement allowance payable throughout such member's life.
5 However, if the retiree dies before the total of the retirement
6 allowance paid to such retiree equals the amount of such retiree's
7 accumulated contributions at the time of retirement, then the balance
8 shall be paid to the member's estate, or such person or persons,
9 trust, or organization as the retiree shall have nominated by written
10 designation duly executed and filed with the department; or if there
11 be no such designated person or persons still living at the time of
12 the retiree's death, then to the surviving spouse; or if there be
13 neither such designated person or persons still living at the time of
14 death nor a surviving spouse, then to the retiree's legal
15 representative.

16 (b) The department shall adopt rules that allow a member to
17 select a retirement option that pays the member a reduced retirement
18 allowance and upon death, such portion of the member's reduced
19 retirement allowance as the department by rule designates shall be
20 continued throughout the life of and paid to a person nominated by
21 the member by written designation duly executed and filed with the
22 department at the time of retirement. The options adopted by the
23 department shall include, but are not limited to, a joint and one
24 hundred percent survivor option and a joint and fifty percent
25 survivor option.

26 (2)(a) A member, if married, must provide the written consent of
27 his or her spouse to the option selected under this section, except
28 as provided in (b) and (c) of this subsection. If a member is married
29 and both the member and the member's spouse do not give written
30 consent to an option under this section, the department shall pay a
31 joint and fifty percent survivor benefit calculated to be actuarially
32 equivalent to the benefit options available under subsection (1) of
33 this section unless spousal consent is not required as provided in
34 (b) and (c) of this subsection.

35 (b) Written consent from a spouse or domestic partner is not
36 required if a member who is married or a domestic partner selects a
37 joint and survivor option under subsection (1)(b) of this section and
38 names the member's spouse or domestic partner as the survivor
39 beneficiary.

1 (c) If a copy of a dissolution order designating a survivor
2 beneficiary under RCW 41.50.790 has been filed with the department at
3 least thirty days prior to a member's retirement:

4 (i) The department shall honor the designation as if made by the
5 member under subsection (1) of this section; and

6 (ii) The spousal consent provisions of (a) of this subsection do
7 not apply.

8 (3)(a) Any member who retired before January 1, 1996, and who
9 elected to receive a reduced retirement allowance under subsection
10 (1)(b) or (2) of this section is entitled to receive a retirement
11 allowance adjusted in accordance with (b) of this subsection, if they
12 meet the following conditions:

13 (i) The retiree's designated beneficiary predeceases or has
14 predeceased the retiree; and

15 (ii) The retiree provides to the department proper proof of the
16 designated beneficiary's death.

17 (b) The retirement allowance payable to the retiree, as of July
18 1, 1998, or the date of the designated beneficiary's death, whichever
19 comes last, shall be increased by the percentage derived in (c) of
20 this subsection.

21 (c) The percentage increase shall be derived by the following:

22 (i) One hundred percent multiplied by the result of (c)(ii) of
23 this subsection converted to a percent;

24 (ii) Subtract one from the reciprocal of the appropriate joint
25 and survivor option factor;

26 (iii) The joint and survivor option factor shall be from the
27 table in effect as of July 1, 1998.

28 (d) The adjustment under (b) of this subsection shall accrue from
29 the beginning of the month following the date of the designated
30 beneficiary's death or from July 1, 1998, whichever comes last.

31 (4) No later than July 1, 2001, the department shall adopt rules
32 that allow a member additional actuarially equivalent survivor
33 benefit options, and shall include, but are not limited to:

34 (a)(i) A retired member who retired without designating a
35 survivor beneficiary shall have the opportunity to designate their
36 spouse from a postretirement marriage as a survivor during a one-year
37 period beginning one year after the date of the postretirement
38 marriage provided the retirement allowance payable to the retiree is
39 not subject to periodic payments pursuant to a property division
40 obligation as provided for in RCW 41.50.670.

1 (ii) A member who entered into a postretirement marriage prior to
2 the effective date of the rules adopted pursuant to this subsection
3 and satisfies the conditions of (a)(i) of this subsection shall have
4 one year to designate their spouse as a survivor beneficiary
5 following the adoption of the rules.

6 (b) A retired member who elected to receive a reduced retirement
7 allowance under this section and designated a nonspouse as survivor
8 beneficiary shall have the opportunity to remove the survivor
9 designation and have their future benefit adjusted.

10 (c) The department may make an additional charge, if necessary,
11 to ensure that the benefits provided under this subsection remain
12 actuarially equivalent.

13 (5) No later than July 1, 2003, the department shall adopt rules
14 to permit:

15 (a) A court-approved property settlement incident to a court
16 decree of dissolution made before retirement to provide that benefits
17 payable to a member who meets the length of service requirements of
18 RCW 41.40.720 and the member's divorcing spouse be divided into two
19 separate benefits payable over the life of each spouse.

20 The member shall have available the benefit options of subsection
21 (1) of this section upon retirement, and if remarried at the time of
22 retirement remains subject to the spousal consent requirements of
23 subsection (2) of this section. Any reductions of the member's
24 benefit subsequent to the division into two separate benefits shall
25 be made solely to the separate benefit of the member.

26 The nonmember ex spouse shall be eligible to commence receiving
27 their separate benefit upon reaching the age provided in RCW
28 41.40.630(1) and after filing a written application with the
29 department.

30 (b) A court-approved property settlement incident to a court
31 decree of dissolution made after retirement may only divide the
32 benefit into two separate benefits payable over the life of each
33 spouse if the nonmember ex spouse was selected as a survivor
34 beneficiary at retirement.

35 The retired member may later choose the survivor benefit options
36 available in subsection (4) of this section. Any actuarial reductions
37 subsequent to the division into two separate benefits shall be made
38 solely to the separate benefit of the member.

39 Both the retired member and the nonmember divorced spouse shall
40 be eligible to commence receiving their separate benefits upon filing

1 a copy of the dissolution order with the department in accordance
2 with RCW 41.50.670.

3 (c) The department may make an additional charge or adjustment if
4 necessary to ensure that the separate benefits provided under this
5 subsection are actuarially equivalent to the benefits payable prior
6 to the decree of dissolution.

7 **Sec. 9.** RCW 41.40.845 and 2003 c 294 s 9 are each amended to
8 read as follows:

9 (1) Upon retirement for service as prescribed in RCW 41.40.820 or
10 retirement for disability under RCW 41.40.825, a member shall elect
11 to have the retirement allowance paid pursuant to one of the
12 following options, calculated so as to be actuarially equivalent to
13 each other.

14 (a) Standard allowance. A member electing this option shall
15 receive a retirement allowance payable throughout such member's life.
16 Upon the death of the member, the member's benefits shall cease.

17 (b) The department shall adopt rules that allow a member to
18 select a retirement option that pays the member a reduced retirement
19 allowance and upon death, such portion of the member's reduced
20 retirement allowance as the department by rule designates shall be
21 continued throughout the life of and paid to a person nominated by
22 the member by written designation duly executed and filed with the
23 department at the time of retirement. The options adopted by the
24 department shall include, but are not limited to, a joint and one
25 hundred percent survivor option and a joint and fifty percent
26 survivor option.

27 (2)(a) A member, if married, must provide the written consent of
28 his or her spouse to the option selected under this section, except
29 as provided in (b) and (c) of this subsection. If a member is married
30 and both the member and the member's spouse do not give written
31 consent to an option under this section, the department shall pay a
32 joint and fifty percent survivor benefit calculated to be actuarially
33 equivalent to the benefit options available under subsection (1) of
34 this section unless spousal consent is not required as provided in
35 (b) and (c) of this subsection.

36 (b) Written consent from a spouse or domestic partner is not
37 required if a member who is married or a domestic partner selects a
38 joint and survivor option under subsection (1)(b) of this section and

1 names the member's spouse or domestic partner as the survivor
2 beneficiary.

3 (c) If a copy of a dissolution order designating a survivor
4 beneficiary under RCW 41.50.790 has been filed with the department at
5 least thirty days prior to a member's retirement:

6 (i) The department shall honor the designation as if made by the
7 member under subsection (1) of this section; and

8 (ii) The spousal consent provisions of (a) of this subsection do
9 not apply.

10 (3) No later than July 1, 2002, the department shall adopt rules
11 that allow a member additional actuarially equivalent survivor
12 benefit options, and shall include, but are not limited to:

13 (a)(i) A retired member who retired without designating a
14 survivor beneficiary shall have the opportunity to designate their
15 spouse from a postretirement marriage as a survivor during a one-year
16 period beginning one year after the date of the postretirement
17 marriage provided the retirement allowance payable to the retiree is
18 not subject to periodic payments pursuant to a property division
19 obligation as provided for in RCW 41.50.670.

20 (ii) A member who entered into a postretirement marriage prior to
21 the effective date of the rules adopted under this section and
22 satisfies the conditions of (a)(i) of this subsection shall have one
23 year to designate their spouse as a survivor beneficiary following
24 the adoption of the rules.

25 (b) A retired member who elected to receive a reduced retirement
26 allowance under this section and designated a nonspouse as survivor
27 beneficiary shall have the opportunity to remove the survivor
28 designation and have their future benefit adjusted.

29 (c) The department may make an additional charge, if necessary,
30 to ensure that the benefits provided under this subsection remain
31 actuarially equivalent.

32 (4) No later than July 1, 2003, the department shall adopt rules
33 to permit:

34 (a) A court-approved property settlement incident to a court
35 decree of dissolution made before retirement to provide that benefits
36 payable to a member who meets the length of service requirements of
37 RCW 41.40.820(1) and the member's divorcing spouse be divided into
38 two separate benefits payable over the life of each spouse.

39 The member shall have available the benefit options of subsection
40 (1) of this section upon retirement, and if remarried at the time of

1 retirement remains subject to the spousal consent requirements of
2 subsection (2) of this section. Any reductions of the member's
3 benefit subsequent to the division into two separate benefits shall
4 be made solely to the separate benefit of the member.

5 The nonmember ex spouse shall be eligible to commence receiving
6 their separate benefit upon reaching the age provided in RCW
7 41.40.820(1) and after filing a written application with the
8 department.

9 (b) A court-approved property settlement incident to a court
10 decree of dissolution made after retirement may only divide the
11 benefit into two separate benefits payable over the life of each
12 spouse if the nonmember ex spouse was selected as a survivor
13 beneficiary at retirement.

14 The retired member may later choose the survivor benefit options
15 available in subsection (3) of this section. Any actuarial reductions
16 subsequent to the division into two separate benefits shall be made
17 solely to the separate benefit of the member.

18 Both the retired member and the nonmember divorced spouse shall
19 be eligible to commence receiving their separate benefits upon filing
20 a copy of the dissolution order with the department in accordance
21 with RCW 41.50.670.

22 ~~(c) ((Any benefit distributed under chapter 41.31A RCW after the~~
23 ~~date of the dissolution order creating separate benefits for a member~~
24 ~~and nonmember ex spouse shall be paid solely to the member.~~

25 ~~(d))~~ The department may make an additional charge or adjustment
26 if necessary to ensure that the separate benefits provided under this
27 subsection are actuarially equivalent to the benefits payable prior
28 to the decree of dissolution.

29 **Sec. 10.** RCW 43.43.271 and 2009 c 522 s 4 are each amended to
30 read as follows:

31 (1) A member commissioned on or after January 1, 2003, upon
32 retirement for service as prescribed in RCW 43.43.250 shall elect to
33 have the retirement allowance paid pursuant to the following options,
34 calculated so as to be actuarially equivalent to each other.

35 (a) Standard allowance. A member electing this option shall
36 receive a retirement allowance payable throughout the member's life.
37 However, if the retiree dies before the total of the retirement
38 allowance paid to the retiree equals the amount of the retiree's
39 accumulated contributions at the time of retirement, then the balance

1 shall be paid to the member's estate, or such person or persons,
2 trust, or organization as the retiree shall have nominated by written
3 designation duly executed and filed with the department; or if there
4 be no such designated person or persons still living at the time of
5 the retiree's death, then to the surviving spouse or domestic
6 partner; or if there be neither such designated person or persons
7 still living at the time of death nor a surviving spouse or domestic
8 partner, then to the retiree's legal representative.

9 (b) The department shall adopt rules that allow a member to
10 select a retirement option that pays the member a reduced retirement
11 allowance and upon death, such portion of the member's reduced
12 retirement allowance as the department by rule designates shall be
13 continued throughout the life of and paid to a designated person.
14 Such person shall be nominated by the member by written designation
15 duly executed and filed with the department at the time of
16 retirement. The options adopted by the department shall include, but
17 are not limited to, a joint and one hundred percent survivor option
18 and a joint and fifty percent survivor option.

19 (2)(a) A member, if married or in a domestic partnership, must
20 provide the written consent of his or her spouse or domestic partner
21 to the option selected under this section, except as provided in (b)
22 and (c) of this subsection. If a member is married or in a domestic
23 partnership and both the member and member's spouse or domestic
24 partner do not give written consent to an option under this section,
25 the department will pay the member a joint and fifty percent survivor
26 benefit and record the member's spouse or domestic partner as the
27 beneficiary. This benefit shall be calculated to be actuarially
28 equivalent to the benefit options available under subsection (1) of
29 this section unless consent by the spouse or domestic partner is not
30 required as provided in (b) and (c) of this subsection.

31 (b) Written consent from a spouse or domestic partner is not
32 required if a member who is married or a domestic partner selects a
33 joint and survivor option under subsection (1)(b) of this section and
34 names the member's spouse or domestic partner as the survivor
35 beneficiary.

36 (c) If a copy of a dissolution order designating a survivor
37 beneficiary under RCW 41.50.790 has been filed with the department at
38 least thirty days prior to a member's retirement:

39 (i) The department shall honor the designation as if made by the
40 member under subsection (1) of this section; and

1 (ii) The spouse or domestic partner consent provisions of (a) of
2 this subsection do not apply.

3 (3) No later than January 1, 2003, the department shall adopt
4 rules that allow a member additional actuarially equivalent survivor
5 benefit options, and shall include, but are not limited to:

6 (a)(i) A retired member who retired without designating a
7 survivor beneficiary shall have the opportunity to designate their
8 spouse or domestic partner from a postretirement marriage or domestic
9 partnership as a survivor during a one-year period beginning one year
10 after the date of the postretirement marriage or domestic partnership
11 provided the retirement allowance payable to the retiree is not
12 subject to periodic payments pursuant to a property division
13 obligation as provided for in RCW 41.50.670.

14 (ii) A member who entered into a postretirement marriage or
15 domestic partnership prior to the effective date of the rules adopted
16 pursuant to this subsection and satisfies the conditions of (a)(i) of
17 this subsection shall have one year to designate their spouse or
18 domestic partner as a survivor beneficiary following the adoption of
19 the rules.

20 (b) A retired member who elected to receive a reduced retirement
21 allowance under this section and designated a nonspouse or a
22 nondomestic partner as survivor beneficiary shall have the
23 opportunity to remove the survivor designation and have their future
24 benefit adjusted.

25 (c) The department may make an additional charge, if necessary,
26 to ensure that the benefits provided under this subsection remain
27 actuarially equivalent.

28 (4) No later than July 1, 2003, the department shall adopt rules
29 to permit:

30 (a) A court-approved property settlement incident to a court
31 decree of dissolution made before retirement to provide that benefits
32 payable to a member who has completed at least five years of service
33 and the member's divorcing spouse or former domestic partner be
34 divided into two separate benefits payable over the life of each
35 spouse or domestic partner.

36 The member shall have available the benefit options of subsection
37 (1) of this section upon retirement, and if remarried or in a
38 domestic partnership at the time of retirement remains subject to the
39 spouse or domestic partner consent requirements of subsection (2) of
40 this section. Any reductions of the member's benefit subsequent to

1 the division into two separate benefits shall be made solely to the
2 separate benefit of the member.

3 The nonmember ex spouse or former domestic partner shall be
4 eligible to commence receiving their separate benefit upon reaching
5 the ages provided in RCW 43.43.250(2) and after filing a written
6 application with the department.

7 (b) A court-approved property settlement incident to a court
8 decree of dissolution made after retirement may only divide the
9 benefit into two separate benefits payable over the life of each
10 spouse or domestic partner if the nonmember ex spouse or former
11 domestic partner was selected as a survivor beneficiary at
12 retirement.

13 The retired member may later choose the survivor benefit options
14 available in subsection (3) of this section. Any actuarial reductions
15 subsequent to the division into two separate benefits shall be made
16 solely to the separate benefit of the member.

17 Both the retired member and the nonmember divorced spouse or
18 former domestic partner shall be eligible to commence receiving their
19 separate benefits upon filing a copy of the dissolution order with
20 the department in accordance with RCW 41.50.670.

21 (c) The department may make an additional charge or adjustment if
22 necessary to ensure that the separate benefits provided under this
23 subsection are actuarially equivalent to the benefits payable prior
24 to the decree of dissolution.

--- END ---



Spousal Consent

Final Report
December 19, 2018

Issue

- Under current law, a member who is retiring under LEOFF Plan 2 must provide written consent from their spouse for any survivorship option the member selects – except in the case of a joint 50% survivorship option.
- This means that a spouse must provide written consent even when their survivor benefit would be greater than 50%.

Survivor Benefits

- LEOFF 2 members may elect to take a reduction in their monthly benefit in order to leave an ongoing benefit to a survivor. The survivor will receive the ongoing benefit for their lifetime.
- There are 4 survivor options:
 1. Single Life - No one will receive an ongoing benefit after the retiree dies
 2. Joint and 100% Survivor - The survivor receives the same benefit the retiree was receiving
 3. Joint and 50% Survivor – The survivor receives half the benefit the retiree was receiving
 4. Joint and 66.67% Survivor - The survivor receives $\frac{2}{3}$ of the benefit the retiree was receiving

Current Policy

- Written spousal consent is required under current law for all survivor options except for Option 3, Joint and 50% Survivor
- If no spousal consent is obtained the benefit defaults to Option 3
- Written spousal consent includes having the signature notarized to ensure it meets the legal requirement of being a “written designation duly executed”

DRS Proposal

- Only require written consent where a member selects a benefit less than the 50 Percent Option or names someone other than their spouse as their beneficiary.

Survivor Option	Current Law	DRS Proposal
Single Life	Written Consent	Written Consent
50%	No	No
66.67%	Written Consent	No
100%	Written Consent	No

Policy Considerations

- **Potential Improvements**
 - Better Customer Experience
 - Logical Sense
- **Potential Concerns**
 - Lessen Spousal Participation

Plan Costs

- **The Office of the State Actuary draft fiscal note stated this proposal is not expected to impact the pension systems.**

SCPP Status

- The SCPP moved to endorse this bill in their September meeting.

Policy Options

- **Option 1: Endorse DRS Proposal - No longer require written spousal consent for survivor options which leave the surviving spouse a benefit greater than 50%.**
- **Option 2: No Change in Policy.**



Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov



December 19, 2018
LEOFF/PERS Eligibility Gap

PRELIMINARY REPORT

By Jacob White
Senior Research & Policy Manager
360-586-2327
jacob.white@leoff.wa.gov

ISSUE STATEMENT

Gaps in eligibility in Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1), Public Employees Retirement System (PERS), and Law Enforcement Officers and Fire Fighters Plan 2 (LEOFF 2) may have resulted in some career law enforcement officers and fire fighters not receiving a pension.

OVERVIEW

This report will provide historical information on LEOFF 1, PERS, and LEOFF 2 eligibility and how some full-time career law enforcement officers and fire fighters may have not received a pension benefit.

BACKGROUND AND POLICY ISSUES

LEOFF 1 Minimum Medical and Health Standards for Eligibility

LEOFF 1 required law enforcement officers and fire fighters to meet minimum medical requirements to be eligible for membership in the plan.¹ Minimum medical and health standards were adopted into rule by the Department of Retirement Systems (DRS).² These standards included requirements for, but not limited to, weight, height, hearing, and vision. Failing to meet the minimum medical requirements did not prevent people from being hired as law enforcement officers or fire fighters, instead it only prevented them from being members in LEOFF 1. An Attorney General's Office (AGO) memo stated the policy reason for excluding these employees from the pension system was a belief that they would result in increased costs to LEOFF 1 (See Appendix A).

If a law enforcement officer or fire fighter was not eligible for LEOFF 1 because of failing to meet the minimum medical and health standards, they were typically eligible for PERS. However, there was an exception to this general rule. Prior to 1994, the AGO advised DRS and employers that "in cities or towns having more than two law enforcement officers and/or two

¹ RCW 41.26.045

² WAC 415-104-500 through 415-104-755

fire fighters, those persons who do not meet the minimum medical and health standards for LEOFF may not join any other pension system the city has available for its employees” (see Appendix A). This exception created a class of law enforcement officers and fire fighters who were not in a pension system. This issue was further exacerbated by the fact that most law enforcement officer and fire fighter positions were not enrolled in Social Security. Therefore, this class of law enforcement officers and fire fighters were left without a pension and without Social Security.

LEOFF 2 Created

Law enforcement officers and fire fighters who began service in October 1, 1977 forward were enrolled in LEOFF 2. LEOFF 2 did not impose any minimum medical and health standards for membership into the plan. Instead, employers had their own minimum medical and health standards to hire law enforcement officers and fire fighters. If an employer believes an applicant is physically and mentally qualified to be a law enforcement officer or fire fighter, the legislature did not impose additional minimum medical and health standards for membership in LEOFF 2.

LEOFF 2 Eligibility Window

In 1981, the legislature passed SB 3244 to create a window for law enforcement officers and fire fighters who were not eligible for LEOFF 1 due to failing to meet the minimum medical and health standards to opt-in to LEOFF 2. The bill did not specify who was responsible for notifying, or define a process for identifying the employees eligible for this window. Instead, DRS sent a notice to all LEOFF employers regarding this window (see Appendix B).

Some law enforcement officers and fire fighters who would have been eligible for this window have stated that they never received notification from their employer or DRS and therefore, missed the window.

PERS Eligibility Clarified by Legislature

In 1994, the legislature passed ESHB 2643 which clarified that the AGO’s interpretation of RCW 41.26.045 (See Appendix A) was not what the legislature intended. This bill was retroactive, making those law enforcement officers and fire fighters who were not eligible for LEOFF 1 due to failing to meet the minimum medical and health standards and who had not opted into LEOFF 2 during the 1981 window, eligible for membership in PERS back to the date they entered an eligible position.

Again, the bill did not specify who was responsible for notifying, or define a process for identifying the employees eligible for this window. The data DRS typically receives from employers does not identify the position of employees. Therefore, DRS would not have had a

list of law enforcement officers and fire fighters in PERS. Furthermore, for law enforcement officers and fire fighters who were not in LEOFF 1 or PERS, DRS would not have had any data from employers regarding these employees, since employers do not report ineligible employees. Consequently, DRS was reliant on each employer to identify employees impacted by this bill and report them to DRS, or for the employees to be aware of this law and to reach out to DRS for membership in PERS.

If a law enforcement officer or fire fighter qualified for PERS membership under this bill, their membership was mandatory. The employer was required to provide DRS with salary and service credit history and pay employer contributions. Members were required to pay their member contributions, and were given payment plan options by DRS.

If the employer failed to notify DRS of a law enforcement officer or fire fighter eligible for membership under ESHB 2643, DRS has confirmed to the LEOFF 2 Board that if a law enforcement officer or fire fighter came forward DRS would “work to verify their eligibility, bill the employer if [DRS] found they should have been in a plan, and give the member a chance to get their retirement allowance reduced by their cost of past contributions.”

If a vested member separates before paying their past contributions, DRS’s past practice is to give the member two benefit options: 1) withdraw contributions foregoing a pension, or 2) receive a reduced pension benefit once the member is eligible to retire. Typically, DRS would have a record in the member’s retirement file of having given the member this option prior to the member deciding to withdraw their contributions.

Policy Options

Allow law enforcement officers or fire fighters to receive a pension if they:

- were not eligible for LEOFF 1 due to not meeting minimum medical and health standards;
- did not join LEOFF 2 in the 1984 window; and,
- were enrolled into PERS after the 1994 law, but separated from employment prior to paying back their past contributions owed and there is no record of DRS giving the member an option to receive a PERS pension with a reduction to pay back remaining contributions owed.

Option 1 – Eligible for a LEOFF 2 pension

- Member Contributions: Members must pay contributions owed, including contributions withdrawn, through taking an actuarial reduction in their ongoing benefit.
- Employer Contributions:

- a) PERS contributions are transferred to LEOFF 2, and LEOFF 2 subsidizes difference between PERS contributions and LEOFF 2 contributions
- b) PERS contributions are transferred to LEOFF 2, and employer pays the difference between PERS contributions and LEOFF 2 contributions

Option 2 – Eligible for a PERS pension

- Member Contributions: Members must pay contributions owed, including contributions withdrawn, through taking an actuarial reduction in their ongoing benefit.
- Employer has already paid PERS contributions.

SUPPORTING INFORMATION

Appendix A: AGO 1971 No. 30

Appendix B: DRS Employer Notice No. 80-10



APPENDIX A

Published on *Washington State* (<https://www.atg.wa.gov>)

[Home](#) > OFFICES AND OFFICERS -- COUNTY -- DEPUTY SHERIFF -- PARTICIPATION IN RETIREMENT SYSTEM -- ELIGIBILITY

Attorney General Slade Gorton

OFFICES AND OFFICERS -- COUNTY -- DEPUTY SHERIFF -- PARTICIPATION IN RETIREMENT SYSTEM -- ELIGIBILITY

(1) Section 3, chapter 257, Laws of 1971, 1st Ex. Sess., does not prohibit a person who cannot meet the minimum medical and health standards necessary for membership in the Washington law enforcement officers' and fire fighters' retirement system from serving as a county deputy sheriff or from retaining his civil service position or rank under chapter 41.14 RCW.

(2) A county deputy sheriff who cannot meet the minimum medical and health standards necessary for membership in the Washington law enforcement officers' and fire fighters' retirement system is, if otherwise eligible under RCW 41.40.120, thereby required to participate in the Washington public employees' retirement system if the county by which he is employed is an employer under that system.

October 5, 1971

Honorable Herbert H. Davis
Benton County Prosecuting Attorney
P. O. Box 510
Prosser, Washington 99350

Cite as: AGO 1971 No. 30

Dear Sir:

By recent letter you have requested an opinion of this office relative to the construction and effect of § 3, chapter 257, Laws of 1971, 1st Ex. Sess. We paraphrase your questions as follows:

(1) Does § 3, chapter 257, Laws of 1971, 1st Ex. Sess., prohibit a person who cannot meet the minimum medical and health standards necessary for membership in the Washington law enforcement officers' and fire fighters' retirement system from serving as a county deputy sheriff or from retaining his civil service position or rank under chapter 41.14 RCW?

[[Orig. Op. Page 2]]

(2) If question (1) is answered in the negative, is the deputy sheriff envisioned by this question, if otherwise eligible under RCW 41.40.120, thereby required to participate in the Washington public employees' retirement system where the county by which he is employed is an employer under that system?

We answer question (1) in the negative and question (2) in the affirmative, for the reasons set forth below.

ANALYSIS

Prior to the enactment of chapter 257, Laws of 1971, 1st Ex. Sess., chapter 41.26 RCW clearly required that all "law enforcement officers" and "fire fighters" be members of the law enforcement officers' and fire fighters' retirement system (LEFF) provided for in that chapter. See, RCW 41.26.040 (1), which reads as follows:

". . .

"(1) All fire fighters and law enforcement officers employed as such on or after March 1, 1970, on a full time fully compensated basis in this state shall be members of the retirement system established by this chapter with respect to all periods of service as such, to the exclusion of any pension system existing under any prior act except as provided in subsection (2) of this section.

". . ."

In addition, the language of various definitional phrases contained in RCW 41.26.030, also clearly reflected this intent:

". . .

"(2) 'Employer' means the legislative authority of any city, town, county or district or the elected officials of any municipal corporation that employs any law enforcement officer and/or fire fighter . . .

"(3) 'Law enforcement officer' means any person who is serving on a full time, fully compensated basis as a county sheriff or deputy sheriff, . . .

[[Orig. Op. Page 3]]

"(4) 'Fire fighter' means any person who is serving on a full time, fully compensated basis as a member of a fire department by an employer . . .

". . .

"(14) 'Service' means all periods of employment for an employer as a fire fighter or law enforcement officer, for which compensation is paid, . . ." (Emphasis supplied.)

It is easy to see from the foregoing that the law enforcement officers' and fire fighters' act as it was originally passed by the legislature¹/ contemplated that all persons employed by an "employer" as "fire fighters" or "law enforcement officers" would be subject to mandatory coverage under the retirement system. However, by its recent enactment of § 3, chapter 257, Laws of 1971, 1st Ex. Sess., the legislature has created an exception to this general rule with the following language:

"After the effective date of this act no law enforcement officer or fire fighter, including sheriff, may become eligible for coverage in the pension system established by this chapter, until he has met and has been certified as having met minimum medical and health standards: PROVIDED, That in cities and towns having not more than two law enforcement officers and/or not more than two fire fighters and if one or more of such persons do not meet the minimum medical and health standards as required by the provisions of this 1971 act, then such person or persons may join any other pension system that the city has available for its other employees."

By virtue of this enactment it is to be seen that now, the only newly employed law enforcement officers or fire fighters who are to become members of the LEFF system are those who meet and [[Orig. Op. Page 4]] have been certified as having met minimum medical and health standards adopted by the state retirement board.²/

Question (1):

Your first question asks whether, in view of this new statute, a person who cannot meet these minimum medical and health standards is prohibited from being employed as a county deputy sheriff or from retaining his civil service position or rank. As noted above, § 3, chapter 257, Laws of 1971, 1st Ex. Sess., merely creates an exception to the previous mandatory coverage under the LEFF system for those new employees who have not met or have not been certified as having met those standards. The relevant language is as follows:

"... no law enforcement officer or fire fighter ... may become eligible for coverage in the pension system ... until he has met and has been certified as having met minimum medical and health standards: ..."

It is important to note the use of the phrases "law enforcement officer" and "fire fighter." RCW 41.26.030 (3) and (4), supra, define these terms as meaning a person "who is serving" as a law enforcement officer or fire fighter. Both terms obviously relate to a person who is presently employed. Therefore, the new statute in question provides no restriction on employment, but merely upon coverage in the law enforcement officers' and fire fighters' retirement system. For this reason, a person's failure to meet the minimum medical and health standards for membership in the LEFF system does not preclude his continued employment; nor does it affect his civil service position or rating. Your first question, therefore, is answered in the negative.

Question (2):

Your county, as we understand it, is and for many years has been an "employer" participating in the Washington public employees' retirement system (PERS). Your second question asks whether, in view of the inability of the deputy sheriff described in question (1) to qualify for membership in the LEFF system, this individual is now to be covered by PERS [[Orig. Op. Page 5]] instead.

We begin our response by noting the material provisions of RCW 41.40.120, relating to membership in PERS as follows:

"Membership in the retirement system shall consist of all regularly compensated employees and appointive and elective officials of employers as defined in this chapter who have served at least six months without interruption or who are employed, appointed or elected on or after July 1, 1965, with the following exceptions:

"...

"(4) Employees holding membership in, or receiving pension benefits under, any retirement plan operated wholly or in part by an agency of the state or political subdivision thereof, ..."

It is, of course, partially because of subsection (4) of this statute that a county deputy sheriff who is a member of the LEFF system is not also to be covered by PERS where his county is an employer under both. 3/ Conversely, if the deputy sheriff is not a member of the LEFF system, he falls within the mandatory coverage of PERS unless (a) one of the other exclusions in RCW 41.40.120 is applicable (and we have paraphrased your question to exclude this possibility) or (b) he is to be regarded as being barred from such coverage by virtue of the proviso to § 3, chapter 257, Laws of 1971, 1st Ex. Sess., supra, which (repeated for ease of reference) says:

"... PROVIDED, That in cities and towns having not more than two law enforcement officers and/or not more than two fire fighters and if one or more of such persons do not meet the minimum medical and health standards as required by the provisions of this 1971 act, then such person or persons may join any other pension system that the city has available [[Orig. Op. Page 6]] for its other employees."

This proviso expressly permits a physically disqualified (for LEFF membership) law enforcement officer or fire fighter employed by a city or town to be covered by another pension system only if such city or town does not have more than two law enforcement officers or fire fighters (as the case may be) in its police or fire department. By implication, in cities or towns having more than two law enforcement officers and/or two fire fighters, those persons who do not meet the minimum medical and health standards for LEFF may not join any other pension system the city has available for its employees. The issue raised by your second question is

whether this negative implication should be extended to those physically disqualified law enforcement officers or fire fighters who are employed by some other category of employer; e.g., a county (as here) or a fire protection district. We think not.

At the present time, this state has by statute provided retirement security for almost every type of employee of state and local government.^{4/} It is hardly consistent with this manifested state policy and legislative purpose to exclude certain employees of political subdivisions from membership in all pension systems. Any such revolutionary change would have to be clearly expressed or implied (as above).

Of course, it is a rule of statutory construction that provisos should be strictly construed and not be held to include any instance not clearly within the purpose or express terms of the proviso. 50 Am. Jur., Statutes, § 437. In this instance, application of the rule limits the proviso's affect, both affirmative and negative, to "cities and towns."

It is also a rule of statutory construction that:

". . . in cases involving pensions when there is statutory ambiguity, doubt should [[Orig. Op. Page 7]] be resolved in favor of the party for whose benefit the pension statute was intended. . . ." Bowen v. Statewide Retirement System, 72 Wn.2d 397, 402, 433 P.2d 150 (1967).

Here, the statute in question was obviously intended to protect the fiscal integrity of the LEFF retirement system by excluding those members whose questionable health might lead them to seek retirement benefits (either for service or for disability) earlier than those whose health was clearly established. Of course, this end is served by the exclusion of persons who cannot meet the minimum medical and health standards necessary for membership in the system. Nothing is added by excluding those same persons from any other pension systems - particularly a pension system such as PERS which does not require, as a prerequisite for membership, that an employee have met minimum medical and health standards.

For these reasons, we conclude that a county deputy sheriff who is unable to meet the minimum medical and health standards required for membership in the LEFF retirement system, if otherwise eligible for membership in PERS under RCW 41.40.120 (4), is required to participate therein. Your second question is, therefore, answered in the affirmative.

We trust the foregoing information will be of assistance to you.

Very truly yours,

SLADE GORTON
Attorney General

WAYNE L. WILLIAMS
Assistant Attorney General

***** FOOTNOTES *****

^{1/}Chapter 209, Laws of 1969, 1st Ex. Sess., as amended by chapter 6, Laws of 1970, 1st Ex. Sess.

^{2/}See, RCW 41.26.050 and § 4, chapter 257, Laws of 1971, 1st Ex. Sess.

^{3/}In addition, see RCW 41.26.040 (1), supra, which provides for exclusive LEFF coverage for the members of that system.

^{4/}See, chapter 41.24 RCW (volunteer firemen's relief and pensions); chapter 41.26 RCW (law enforcement officers' and fire fighters' retirement system); chapter 41.28 RCW (retirement of personnel in certain first class

cities); chapter 41.32 RCW (teachers' retirement); chapter 41.40 RCW (Washington public employees' retirement system); and chapter 41.44 RCW (state-wide [[statewide]]city employees' retirement system).

APPENDIX B



STATE OF
WASHINGTON

Dixy Lee Ray
Governor

DEPARTMENT OF RETIREMENT SYSTEMS

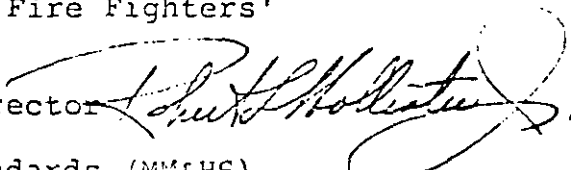
1925 E. Union, Olympia, Washington 98504 (360) 755-5283
Dr. Robert L. Hollister, Jr., Director

M E M O R A N D U M

August 15, 1980

DRS Notice No. 80-010

To: Personnel/Payroll Officers
Law Enforcement Officers and Fire Fighters'
Retirement System

From: Robert L. Hollister, Jr., Director 

Subject: Minimum Medical & Health Standards (MM&HS)

My memorandum of July 30, 1979 (see DRS Notice No. 79-015) included instructions on the application of MM&HS to seven classes of employees. All seven classes are repeated here and classes 1, 3, 5 and 7 have been modified to reflect legislative enactment of chapter 130, Laws of 1980 (SB 3244), which adds a new section to chapter 41.26 RCW. The new provision allows a "law enforcement officer" or "fire fighter" previously excluded from membership or the right to reenter membership in this System due to failure to meet the MM&HS an opportunity to elect to become a member under LEOFF Plan II.

Persons employed as "law enforcement officers" or "fire fighters" on June 12, 1980, must make the election on or before December 31, 1981. Persons reemployed as "law enforcement officers" or "fire fighters" after June 12, 1980, shall have one year from the date of reemployment or until December 31, 1981, whichever is later, to make the election.

All persons initially employed by an employer, as defined in RCW 41.26.030(2)(b) as "law enforcement officers" or "fire fighters" on or after June 12, 1980, are required to enter LEOFF Plan II and MM&HS do not apply.

The seven classes of employees mentioned in the first paragraph are:

1. Individuals who were ever Plan I members and who reenter employment after a break in service of more than six months must again meet the requirements of the MM&HS and be certified as again meeting them by their employer. Note that individuals in this category who cannot meet this requirement cannot be reinstated in Plan I; however, they may elect to be enrolled in Plan II.

EXHIBIT 32-1

2. An individual who was first employed prior to October 1, 1977, but did not successfully pass the MM&HS until after that date will be enrolled as a Plan I member retroactive to the first day of employment.
3. An individual who was first employed after October 1, 1977, and failed to pass the MM&HS may elect to be enrolled in Plan II.
4. An individual who was first employed after October 1, 1977, and prior to July 1, 1979, and passes the MM&HS will be enrolled as a Plan II member effective on the date of employment. Certification is required.
5. An individual who was first employed after October 1, 1977, and prior to July 1, 1979, and failed to pass the MM&HS may elect to be enrolled in Plan II.
6. An individual who was first employed on or after July 17, 1979, is not required to take the MM&HS examination as a precondition for entry into the LEOFF retirement system, nor is any certification required. Note that this change relates only to membership in the retirement system. Retirement laws neither require nor preclude employers requiring a physical examination prior to employment.
7. Individuals who were first employed in a LEOFF position prior to July 1, 1979, and failed to successfully meet the MM&HS or terminated prior to completing the MM&HS examination and who were employed again (same or different employer) on or after July 1, 1979, must complete and pass the MM&HS examination. If their first employment was prior to October 1, 1977, they will become members of Plan I; if it was on or after October 1, 1977, they will become members of Plan II. If the individuals fail to pass the examination, they may elect to be enrolled in Plan II.

All exceptions to the MM&HS previously authorized by law are still in effect.

EXHIBIT 32-2



LEOFF/PERS Eligibility Gap

Preliminary Consideration
December 19, 2018

Issue

- **Gaps in eligibility in LEOFF 1, PERS, and LEOFF 2 may have resulted in some career law enforcement officers and fire fighters not receiving a pension**

Overview

- **This presentation will provide historical information on LEOFF 1, PERS, and LEOFF 2 eligibility and how some full-time career law enforcement officers and fire fighters may have not received a pension benefit.**

LEOFF 1 Eligibility

- Full-time and fully-compensated fire fighters and law enforcement officers hired before October 1, 1977 were eligible for LEOFF 1
- Exception: They didn't meet minimum medical and health standards

PERS Eligibility

- Law enforcement officers and fire fighters not eligible for LEOFF 1 due to minimum medical and health standards were eligible for PERS
- Exception: They were employed in a city or town with more than two law enforcement officers or fire fighters

1977 - LEOFF 2 Created

- Full-time and fully-compensated fire fighters and law enforcement officers first employed after October 1, 1977 are LEOFF 2 members
 - No minimum medical and health standards
- Did not include those employed prior to October 1, 1977 who were ineligible for LEOFF 1

1981 - LEOFF 2 Eligibility Window

- Allowed law enforcement officers and fire fighters not in LEOFF 1, due to failing to meet minimum medical and health standards, a window to join LEOFF 2
- DRS relied on employers to identify and notify employees of window

1994 - PERS Eligibility Clarified by Legislature

- Corrected AGO's interpretation of employer eligibility for PERS law enforcement officers and fire fighters
 - Applied retroactively
 - DRS relied on employers to notify eligible employees
 - Employees and employers had to pay back past contributions owed

Vested Member Withdrawal

- If a vested member separates before paying their past contributions DRS's past practice is to give the member two benefit options:
 1. withdraw contributions foregoing a pension, or
 2. receive a reduced pension benefit once the member is eligible to retire

Unreported Employees

- **What if employers didn't notify DRS of employees eligible for PERS under the 1994 law?**
 - **DRS has confirmed to the LEOFF 2 Board that DRS would “work to verify their eligibility, bill the employer if [DRS] found they should have been in a plan, and give the member a chance to get their retirement allowance reduced by their cost of past contributions.”**

Policy Options

- **Allow law enforcement officers or fire fighters to receive a pension if they:**
 - were not eligible for LEOFF 1 due to not meeting minimum medical and health standards;
 - did not join LEOFF 2 in the 1984 window; and,
 - were enrolled into PERS after the 1994 law, but separated from employment prior to paying back their past contributions owed and there is no record of DRS giving the member an option to receive a PERS pension with a reduction to pay back remaining contributions owed.

Policy Options

Option 1 – Eligible for a LEOFF 2 pension

- **Member Contributions:** Members must pay contributions owed, including contributions withdrawn, through taking an actuarial reduction in their ongoing benefit.
- **Employer Contributions:**
 - a) PERS contributions are transferred to LEOFF 2, and LEOFF 2 subsidizes difference between PERS contributions and LEOFF 2 contributions
 - b) PERS contributions are transferred to LEOFF 2, and employer pays the difference between PERS contributions and LEOFF 2 contributions

Option 2 – Eligible for a PERS pension

- **Member Contributions:** Members must pay contributions owed, including contributions withdrawn, through taking an actuarial reduction in their ongoing benefit.
- **Employer has already paid PERS contributions.**



Thank You

Jacob White

Senior Research and Policy Manager

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Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
state.actuary@leg.wa.gov

Regular Committee Meeting

December 11, 2018
10:00 a.m. – 11:50 a.m.*
House Hearing Room B
Olympia

REVISED AGENDA

Added PSERS Unreduced Retirement Age to Work Session with Public Testimony and Possible Executive Action.

10:00 a.m. **1. Approval of November Minutes**

Public Hearing with Possible Executive Action

10:05 a.m. **2. Managing Future *Dolan*-Type Unfunded Liabilities – Aaron Gutierrez, Senior Policy Analyst**

10:40 a.m. **3. Retire-Rehire Proposal – Aaron Gutierrez**

Work Session with Public Testimony and Possible Executive Action

11:05 a.m. **4. LEOFF 1 and Prior Act Disability Boards – Corban Nemeth, Associate Policy and Data Analyst**

11:30 a.m. **5. PSERS Unreduced Retirement Age – Aaron Gutierrez**

11:50 a.m. **6. Adjourn**

**These times are estimates and are subject to change depending on the needs of the Committee.*

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Senator Barbara Bailey

John Boesenberg
PERS/Higher Ed Employers

***Senator Steve Conway, Chair**

***Annette Creekpaum**
PERS Employers

Randy Davis
TRS Actives

Representative Joe Fitzgibbon

Beverly Freeman
PERS Employers

***Tracy Guerin, Director**
Department of Retirement Systems

***Bev Hermanson**
PERS Retirees

Senator Steve Hobbs

Leanne Kunze
PERS Actives

***Representative Matt Manweller, Vice Chair**

Byron Olson
PERS Employers

Representative Timm Ormsby

Senator Mark Schoesler

David Schumacher, Director
Office of Financial Management

***J. Pat Thompson**
PERS Actives

Vacant
Retirees

Representative Mike Volz

Vacant
Actives

**Executive Committee*

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leg.wa.gov/SCPP.htm



December 19, 2018

FAS Benefit Improvement Pricing

EDUCATIONAL BRIEFING

By Ryan Frost

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ISSUE STATEMENT

One of the goals of the LEOFF 2 Board's strategic plan is to keep the stakeholders informed. One of the ways of meeting that goal is for the Board to be briefed on the price of certain benefit improvements.

OVERVIEW

The Board has been presented with numerous benefit improvement pricings over the past two years. For the final benefit pricing of the 2018 interim, staff asked the Office of the State Actuary to estimate the cost of a proposal which would lower the final average salary (FAS) period in the LEOFF 2 benefit calculation from five years to two years. This proposal improves benefits for future annuitants because retirement benefits would be calculated using a shorter FAS period. A shorter FAS period typically leads to a higher benefit because it is based on more recent and larger salaries.

For more information on previous pricings, please refer to Appendix A.

BACKGROUND

A member's current benefit is calculated using the following formula:

$$2\% \times \text{Years of Service} \times \text{Final Average Salary}$$

Final average salary is defined as the monthly average of the member's basic salary for the highest consecutive sixty service credit months of service prior to such member's retirement, termination, or death. Periods constituting authorized unpaid leaves of absence may not be used in the calculation of final average salary. Reviews of other states' plans reveal there are a number of different periods used to calculate final average salary. Some systems use a period of one year, while others, like LEOFF Plan 2, use five years. Generally, if a shorter period is used

for the years of service, the FAS calculation will be higher. This is especially true as wages rise over time.

TECHNICAL DETAILS

In communications to Board staff, OSA passed along the following details of their methodology for this pricing:

“To price this proposal, we assumed the current active members will retire with a 2-year AFC period. We then made an assumption on the impact of unexpected late career salary increases with a load. We considered two sources of data to develop our load assumption.

1. We considered our load assumptions for other Washington State retirement plans with two-year AFC periods. The plan-specific AFC Load assumptions range from 0.75% (TRS 1) to 7.0% (WSPRS 1). We developed these assumptions as part of the [2007-12 Demographic Experience Study \(AFC Load\)](#). In general, we feel this range gives us an idea for a reasonable LEOFF 2 load assumption. More specifically, we think the 4.5% (LEOFF 1) load assumption may best model LEOFF 2 because of similar job-duties and overtime opportunities between the two plans.
2. The LEOFF 2 Board did not have data on voluntary overtime or salary increases during a member’s AFC period but did provide our office with the 2012 WSIPP Report on Overtime and Excess Compensation [attached]. We found Exhibit E6 Average Monthly Earnings Before and During AFC Period informative because it summarized the percent increase between 5-year AFC period plans.
 - a. LEOFF 2 displayed an approximate 24 percent increase before and after AFC periods while PERS 2/3 and TRS 2/3 displayed an approximate 19 percent increase.
 - b. LEOFF 2 allows voluntary overtime in its AFC while PERS 2/3 and TRS 2/3 do not.
 - c. Given the information from this table; approximately five percent of LEOFF 2’s change in AFC could be attributed to voluntary overtime. This information gave us additional comfort with relying on the LEOFF 1 load assumption.
3. Given the two data sources above, we selected a 4.5% load assumption for this proposal; however, a different load assumption could also be reasonable and would materially impact results. As an example, assuming no load or a load consistent with WSPRS 1 (7.0%) would halve or increase contribution rate impacts by 25 percent, respectively.

We assumed no change in retirement behavior for this proposal. Recent experience shows that LEOFF 2 members generally retire after age 53 (Normal Retirement Age) and we do not believe

the higher benefits provided in this proposal would lead to earlier retirements. However, we may revisit this assumption if we were to price a similar proposal during the 2019 Legislative Session.

The cost analysis does not include the impact of members who have terminated with vested benefits or current annuitants. Inclusion of these inactive members in the pricing would materially increase the cost of the proposal.

These costs were developed using assumptions, assets, data, and methods consistent with the June 30, 2017 Actuarial Valuation Report (AVR). Please see our website for additional information about the [AVR](#).”

RESULTS

Overall, OSA estimated the employee and total employer contribution rates would each increase by approximately 240 basis points under this proposal. Over a 25-year period, they expect a total employer cost of this proposal to be approximately \$1.4 billion. As a result of the increase in liabilities, the funded status would decline by approximately 7 percent.

Expected Contribution Rate Increase

Impact on Contribution Rates: 2-Year AFC Future Retirements Only*		Rates with Benefit Improvement
	Best Estimate	
Total Rate Increase	4.84%	Employee – 11.01%
Employee	2.42%	Employer – 6.60%
Employer	1.45%	State – 4.41%
State	0.97%	

Expected Budget Impact

Budget Impacts: 2-Year AFC Future Retirements Only			
(Dollars in Millions)	2019-2021	2021-2023	25-Year
General Fund-State	\$38.9	\$41.0	\$541.7
Local Government	\$58.2	\$61.5	\$812.3
Total Employer	\$97.1	\$102.6	\$1,354.0

SUPPLEMENTAL INFORMATION

Appendix A – Previous Pricings

APPENDIX A – PREVIOUS PRICINGS

Multiplier Increase

Board staff requested the state actuary’s office to price two specific multiplier increases:

- 2.50% multiplier on all service
- 2.50% multiplier on prospective service only

Impact on Contribution Rates	
2.50% Multiplier - All Service	
Total Rate Increase	12.34%
Employee	6.17%
Employer	3.70%
State	2.47%

Contribution rates if this benefit was approved¹:

- **Employee: 14.92%**
- **Employer: 8.95%**
- **State: 5.97%**

Impact on Contribution Rates	
2.50% Multiplier - Prospective Service Only	
Total Rate Increase	4.88%
Employee	2.44%
Employer	1.46%
State	0.98%

Contribution rates if this benefit was approved:

- **Employee: 11.19%**
- **Employer: 6.71%**
- **State: 4.48%**

Budget Impacts - 2.50% Multiplier - All Service			
<i>(Dollars in Millions)</i>	2018-2019	2019-2021	25-Year
General Fund-State	\$42.6	\$97.0	\$1,278.6
Local Government	\$63.7	\$145.5	\$1,917.9
Total Employer	\$106.3	\$242.5	\$3,196.5

Budget Impacts - 2.50% Multiplier - Prospective Service Only			
<i>(Dollars in Millions)</i>	2018-2019	2019-2021	25-Year
General Fund-State	\$16.9	\$41.8	\$777.8
Local Government	\$25.2	\$62.6	\$1,166.5
Total Employer	\$42.0	\$104.4	\$1,944.3

2015 Funded Status	
2015 Valuation Report	105%
2.5% Benefit Multiplier	90%

¹ Current contribution rates: Employee – 8.75%; Employer – 5.25%; State – 3.50%

2.5% Benefit Multiplier Prospective Service Only	100%
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Tiered Multiplier

The following charts showcase the following options for a tiered multiplier:

1. Increased benefit multiplier from 2.0% to 3.0% for all earned and future service over 16 years (all service). Service earned from years 0 to 16 remains at a 2.0% multiplier.
2. Increased benefit multiplier from 2.0% to 3.0% for all service earned over 16 years after the valuation date (prospective service only). Service earned from years 0 to 16 remains at a 2.0% multiplier.

Impact on Contribution Rates	
Tiered Multiplier - All Service	
Total Rate Increase	11.06%
Employee	5.53%
Employer	3.32%
State	2.21%

Contribution rates if this benefit was approved²:

- **Employee: 14.28%**
- **Employer: 8.57%**
- **State: 5.71%**

Impact on Contribution Rates	
Tiered Multiplier - Prospective Service Only	
Total Rate Increase	7.31%
Employee	3.66%
Employer	2.19%
State	1.46%

Contribution rates if this benefit was approved:

- **Employee: 12.41%**
- **Employer: 7.44%**
- **State: 4.96%**

Budget Impacts - Tiered Multiplier - All Service			
<i>(Dollars in Millions)</i>	2018-2019	2019-2021	25-Year
General Fund-State	\$38.1	\$86.3	\$1,103.5
Local Government	\$57.2	\$129.5	\$1,655.4
Total Employer	\$95.3	\$215.9	\$2,758.9

Budget Impacts - Tiered Multiplier - Prospective Service Only			
<i>(Dollars in Millions)</i>	2018-2019	2019-2021	25-Year
General Fund-State	\$25.2	\$58.7	\$852.6
Local Government	\$37.9	\$88.0	\$1,279.1
Total Employer	\$63.1	\$146.7	\$2,131.8

2015 Funded Status	
2015 Valuation Report	105%
Tiered Benefit Multiplier	91%

² Current contribution rates: Employee – 8.75%; Employer – 5.25%; State – 3.50%

Tiered Benefit Multiplier Prospective Service Only	96%
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Free 100% J&S for Active Members Only

Impact on Contribution Rates: No Cost 100% J&S Benefit*	
	Best Estimate
Total Rate Increase	5.18%
Employee	2.59%
Employer	1.56%
State	1.03%

Rates with Benefit Improvement

Employee – 11.18%
 Employer – 6.71%
 State – 4.47%

Budget Impacts: No Cost 100% J&S Benefit			
<i>(Dollars in Millions)</i>	2019-2021	2021-2023	25-Year
General Fund-State	\$40.7	\$41.6	\$536.1
Local Government	\$61.6	\$62.4	\$804.7
Total Employer	\$102.3	\$104.0	\$1,340.8

Free 100% J&S for Active Members and Annuitants

Impact on Contribution Rates: No Cost 100% J&S Benefit*	
	Best Estimate
Total Rate Increase	6.56%
Employee	3.28%
Employer	1.97%
State	1.31%

Rates with Benefit Improvement

Employee – 11.87%
 Employer – 7.12%
 State – 4.75%

Budget Impacts: No Cost 100% J&S Benefit			
<i>(Dollars in Millions)</i>	2019-2021	2021-2023	25-Year
General Fund-State	\$51.8	\$51.9	\$630.5
Local Government	\$77.8	\$77.8	\$946.0
Total Employer	\$129.6	\$129.7	\$1,576.5



FAS Benefit Improvement Pricing

Educational Briefing – December 19, 2018

Issue

- One of the goals of the LEOFF 2 Board's strategic plan is to keep the stakeholders informed. One of the ways of meeting that goal, is for the Board to be briefed on the price of certain benefit improvements.

Overview

- **Final benefit pricing of the 2018 interim**
 - Lower the final average salary (FAS) period in the LEOFF 2 benefit calculation from five years to two years.
 - This proposal improves benefits for future annuitants because retirement benefits would be calculated using a shorter FAS period.
 - A shorter FAS period typically leads to a higher benefit because it is based on more recent and larger salaries.

Background

- A member's current benefit is calculated using the following formula:
 - $2\% \times \text{Years of Service} \times \text{Final Average Salary}$
- **FAS**
 - The monthly average of the member's basic salary for the highest consecutive sixty service credit months of service prior to such member's retirement, termination, or death.
 - Generally, if a shorter period is used for the years of service, the FAS calculation will be higher.
 - This is especially true as wages rise over time.

Pricing Results

Overall, OSA estimated the employee and total employer contribution rates would each increase by approximately 240 basis points under this proposal.

- Over a 25-year period, they expect a total employer cost of this proposal to be approximately \$1.4 billion.
- As a result of the increase in liabilities, the funded status would decline by approximately 7 percent.

Results cont.

Expected Contribution Rate Increase	
Impact on Contribution Rates: 2-Year AFC Future Retirements Only*	
	Best Estimate
Total Rate Increase	4.84%
Employee	2.42%
Employer	1.45%
State	0.97%

Rates w/ Benefit Improvement

Employee – 11.01%

Employer – 6.60%

State – 4.41%

Expected Budget Impact			
Budget Impacts: 2-Year AFC Future Retirements Only			
(Dollars in Millions)	2019-2021	2021-2023	25-Year
General Fund-State	\$38.9	\$41.0	\$541.7
Local Government	\$58.2	\$61.5	\$812.3
Total Employer	\$97.1	\$102.6	\$1,354.0



Thank You

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December 19, 2018
Survivor Option Election

COMPREHENSIVE REPORT FOLLOW-UP

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ISSUE STATEMENT

It may be considered unfair to have a member make their irrevocable retirement election for a survivor option without all the information that is important to them.

OVERVIEW

This report will provide information on the irrevocable election of a member's survivor option. It will also explain how a member receives an estimate of their benefit prior to retirement, the accuracy of those estimates; policy reasons for why the decision to leave a survivor benefit is irrevocable; and information on how other state retirement plans treat survivor options.

BACKGROUND AND POLICY ISSUES

What is a survivor option?

LEOFF 2 members may elect to take a reduction in their monthly benefit in order to leave an ongoing benefit to a survivor. The survivor will receive the ongoing benefit for their lifetime. This feature of LEOFF 2 is referred to as a survivor benefit option. The member must make this election when they apply for retirement. There are four options for a survivor benefit:

1. **Single Life** - This option pays the highest monthly amount of the four choices, but it is for the member's lifetime only. No one will receive an ongoing benefit after the retiree dies. If the retiree dies before the benefit they have received equals their contributions plus interest (as of the date of their retirement), the difference will be paid in a lump sum to the retiree's designated beneficiary.
2. **Joint and 100% Survivor** – The retiree's monthly benefit under this option is less than the Single Life Option. But after the retiree's death, the retiree's survivor will receive the same benefit the retiree was receiving for his or her lifetime.
3. **Joint and 50% Survivor** – This option applies a smaller reduction to the retiree's monthly benefit than Option 2. After the retiree's death, the retiree's survivor will receive half the benefit the retiree was receiving for his or her lifetime.

4. **Joint and 66.67% Survivor** – This option applies a smaller reduction to the retiree’s benefit than Option 2 and a larger reduction than Option 3. After the retiree’s death, the retiree’s survivor will receive 66.67% of the benefit the retiree was receiving for his or her lifetime.

The survivor is typically a spouse, but can be someone else. If a member is married they are required to get spousal consent to choose an option other than option 3.

What are the survivor options for other retirement plans?

Plans 1, 2, and 3 in PERS, SERS, and TRS all have the same survivor benefit options as LEOFF 2. LEOFF 1 has an automatic Joint and 100% Survivor Benefit. In LEOFF 1 the member does not take a reduction in their benefit to leave this survivor benefit.

How much of a reduction in benefit will a member take to leave a survivor benefit?

The amount of the reduction in benefit a member takes when selecting a survivor option benefit is based on administrative factors. These factors are recommended by the Office of the State Actuary and adopted by the LEOFF 2 Board. The factors are based on various actuarial assumptions and assembled into a table categorized by the difference in age between the retiree and their survivor. If the survivor is younger than the retiree the reduction in benefit will be greater. If the survivor is older than the retiree there is still a reduction in benefit; however, the reduction will be less. The intent of these factors is to make the amount of pension funds paid over a single life (survivor option 1) equal to the amount of pension funds paid over two lives (survivor option 2, 3, or 4).

Can a member change their decision to leave, or not leave, a survivor benefit?

A retiree’s survivor option choice is irrevocable unless the following occur:

1. They designated someone other than their spouse to receive their survivor benefit. The non-spouse survivor can be removed (Option 1) only.
2. They marry or remarry after retirement. To qualify, they must request the change between their first and second years of marriage.
3. They chose a survivor option, and their survivor dies before they do. Their benefit is adjusted to Option 1.
4. They return to membership. If they go back to work for any period of time as a contributing retirement plan member, they can retire again and select a new benefit option and/or survivor.
 - a. PERS members must return to work for two years before they are able to re-retire and change their survivor option.

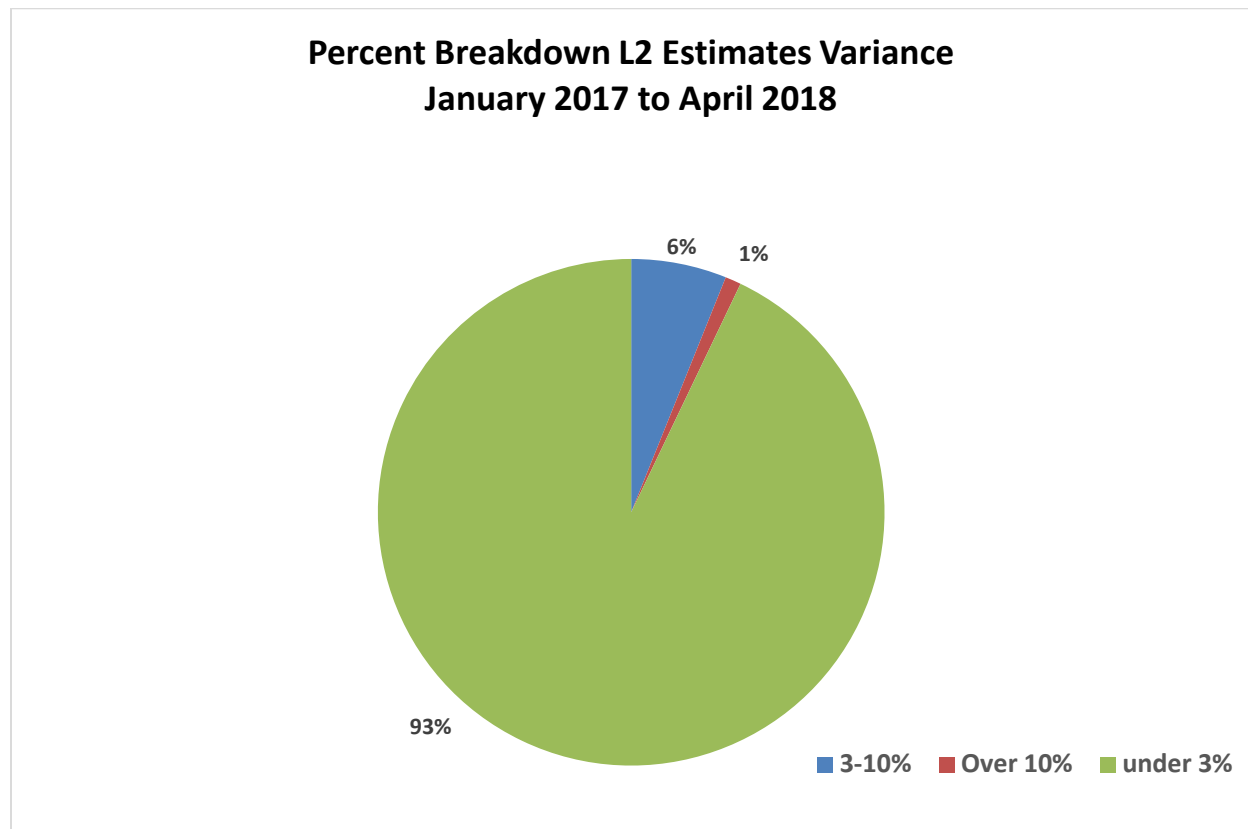
How does a member know what their benefit will be prior to retiring?

Members are encouraged by the Department of Retirement Systems (DRS) to request an estimate of their retirement benefit, within a year of when they plan to retire. If a member does not request an estimate, DRS still ensures they receive an estimate of their benefit before retiring. When members make their request they may select multiple estimates based on different survivor options. In addition to what survivor option the member selects, the estimate is calculated based on multiple assumptions, including how long the member will continue to work and what their Final Average Salary will be.

How accurate are benefit estimates?

DRS tracks the accuracy of estimates as part of their ongoing performance metrics. From January 2017 to April 2018 there were 591 LEOFF 2 retirements. Of those retirements:

- 549 (93%) estimates were within 3% of the member’s actual benefit;
- 36 (6%) estimates were between 3% to 10% of the member’s actual benefit; and,
- 6 (1%) were more than 10% different than the member’s actual benefit.



There are many reasons an estimate could be different than what a member’s actual benefit is. However, according to DRS the most common reasons for an estimate to be more than 10%

different than the actual benefit, is the member choosing a different retirement date or choosing a different survivor option than they requested for the estimate.

Can a member’s benefit change after retirement?

When DRS receives additional information about an employee’s Final Average Salary or Service Credit they are required under RCW 41.50.130 to recalculate the retiree’s retirement benefit. This is referred to as a “recalc”. Current law does not allow a member to change their survivor option after a recalc. A recalc may result in either an increase or a decrease to a member’s benefit. The recalc is both retrospective and prospective. Therefore, in addition to the change in retirement benefit moving forward, DRS must pay the retiree an additional payment or collect from the retiree the difference in the pension payments they have received and the recalculated benefit amount they should have received.

Last fiscal year DRS recalculated 256 LEOFF 2 retirees’ pension payments. 46 (18%) of those recalcs resulted in a decrease to a member’s benefit. Below is a table of the percentage of change to these retirees’ retirement benefit resulting from the recalc:

% Change in Benefit	# of Recalcs
.001 - .99%	158
1 – 4.99%	60
5%-9.99%	20
10% or more	18

The majority of recalcs occur shortly after a member retires; however, in some instances may occur years after retirement. The average turnaround time for LEOFF 2 recalcs from 1/2017 to 7/2018:

# of days after Retirement	% of Total Recalcs
Within 90 days	67%
90-180 days	13%
Over 180 days	20%

DRS prioritizes recalcs that are a result of an audit finding, as those are most likely to have the largest impacts on members.

Why is the decision to leave a survivor benefit irrevocable?

The decision to leave a survivor benefit is irrevocable because it helps mitigate the risk of anti-selection. Anti-selection is the tendency of a person to recognize his or her health status in selecting the option under a retirement system which is most favorable to him or herself. If anti-selection risks are not effectively mitigated it can increase the costs of the retirement system.

Since the survivor option administrative factors are based on average life expectancies, not individual life expectancies, the potential impact of anti-selection on LEOFF 2 would be members could “game the system” to their advantage and the detriment of LEOFF 2. For example if a member is aware they have a terminal disease they could choose to leave a larger survivor benefit than they would have selected if not for their knowledge of their terminal disease.

Anti-selection may impact members through either increased contribution rates and/or less favorable administrative factors for survivor options. Since contributions into LEOFF 2 are paid by both employers and members, the impact of anti-selection risks are paid for by both. If a change in policy increased anti-selection risks to the point of impacting contribution rates, this would likely result in intergenerational inequity because the benefit being utilized by recent retirees would be funded by active members.

How does LEOFF 2 mitigate the anti-selection risks of survivor benefits?

Currently, the impact of anti-selection on LEOFF 2 is minimized by requiring members to make an irrevocable survivor option election at the time of retirement. The more opportunity a member has to make or change that election, the more likely anti-selection risks to LEOFF 2 will increase.

The risk of anti-selection is minimized in the post-retirement marriage survivor option provision by requiring the member to make the election after they have been married for a year, but prior to the second year of marriage. This helps mitigate the risk that a retiree finds out they have a terminal disease and decides to marry for the purpose of leaving a survivor benefit.

The requirement that the retiree make this decision prior to the second year of marriage further mitigates anti-selection risk by ensuring they do not prolong the decision until they become aware of additional information, such as a terminal disease.

Do other state or federal pension systems allow retirees to change their survivor election?

A review of other public retirement plans showed that the vast majority of plans have irrevocable survivor elections that must be made at the time of retirement, with limited opportunities (typically tied to divorce or remarriage) to change that election. However, there are some plans which include a limited window for retirees to change their survivor option election.

The Oregon Public Employee Retirement System allows a retiree to change their survivor option selection within 60 days after the date of receiving their first benefit payment.¹ The change is retroactive to their effective retirement date, and overpaid benefits must be repaid to PERS. Oregon Public Employee Retirement System has approximately 50 to 60 retirees (approximately 0.7% of new retirees) per year change their survivor option selection.

The Federal Employee Retirement System has a window to change survivor election within 30 days of a member receiving their first regular annuity payment.² After the 30 day period has passed but less than 18 months from the beginning date of member's annuity, a member can change their election only to choose a survivor annuity or to increase a reduced survivor annuity amount.

The Minnesota Public Employees Retirement Association Police and Fire Plan allows a survivor option selection to be rescinded if both the member and designated survivor mutually agree to allow the benefit to be recomputed as a single-life pension.³

The United States Uniformed Services Retirement System allows retirees to terminate their survivor benefit in a one year window between second and third anniversary following first receipt of retired pay.⁴ None of the premiums the member paid for the survivor benefit are refunded and no annuity will be payable to a survivor upon the member's death. The covered spouse, or former spouse, must consent to the withdrawal. Termination is permanent and participation may not be resumed under any circumstance.

¹ <https://www.oregon.gov/PERS/MEM/Tier-One-Tier-Two/Documents/TierOne-TierTwo-Preretirement-Guide.pdf>

² <https://www.opm.gov/faq/retire/Can-I-change-my-survivor-benefit-election-after-retirement.ashx>

³ <https://www.mnpera.org/wp-content/uploads/2018/06/PF-Updated-1.pdf>

⁴ <https://militarypay.defense.gov/Benefits/Survivor-Benefit-Program/Stopping-SBP/>

POLICY OPTIONS

Option 1 – Window for all L2 Members: All LEOFF 2 retirees have a 90 day 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.

Option 2 – Qualifying Event Window: LEOFF 2 retirees may change their survivor election if a DRS recalculation of their benefit results in a change to the benefit amount of more than:

- a) Any change in benefit amount
- b) 5%
- c) 10%

The retiree has 90 days from receipt of the first recalculated pension payment to elect a new survivor benefit. The member will need to request a new estimate from DRS of their recalculated benefit with survivor options. 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.

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.

This option helps further limit retirees using the qualifying event window as an opportunity to change their survivor option election not because of the change in their benefit amount due to the recalculation but instead because of additional information about their life expectancy or their survivor's life expectancy.

Option 4 – Option 1 and either option 2 or 3



Survivor Option Election

Comprehensive Report Follow-up
December 19, 2018

Issue

- It may be considered unfair to have a member make their irrevocable retirement election for a survivor option without all the information that is important to them

What is a survivor option?

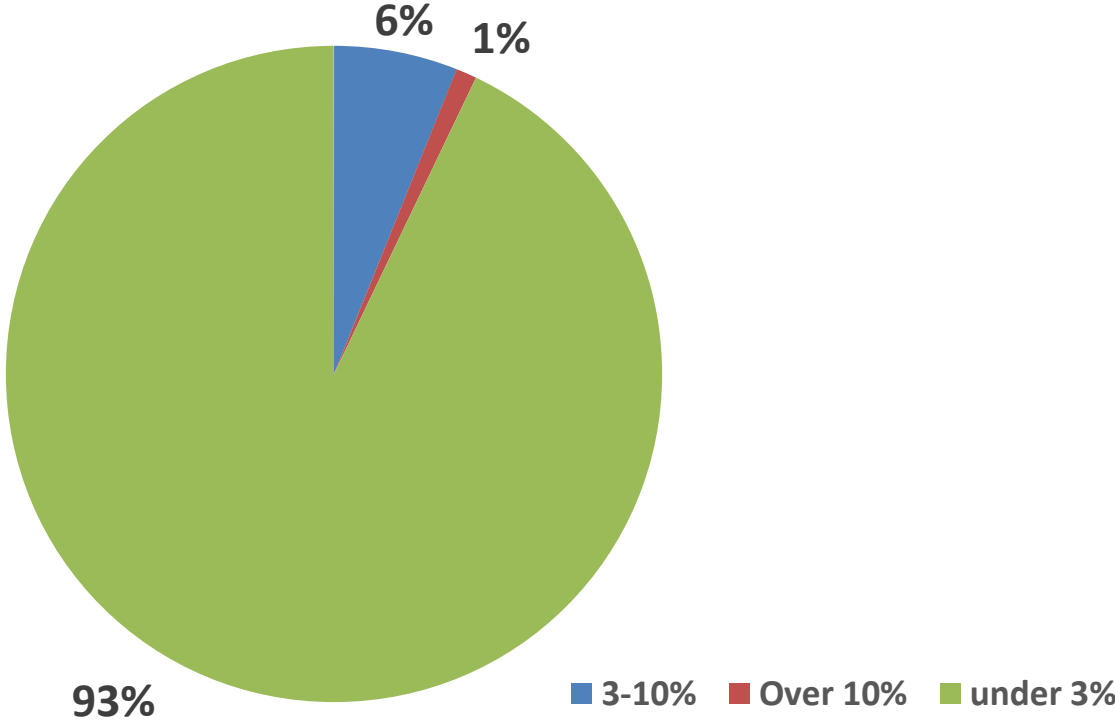
- LEOFF 2 members may elect to take a reduction in their monthly benefit in order to leave an ongoing benefit to a survivor.
- There are 4 survivor options:
 1. Single Life
 2. Joint and 100% Survivor
 3. Joint and 50% Survivor
 4. Joint and 66.67% Survivor

How does a member know what their benefit will be?

- DRS encourages members to request a benefit estimate within a year of retirement
- A member can receive multiple retirement estimates

How accurate are benefit estimates?

Percent Breakdown L2 Estimates Variance
January 2017 to April 2018



Can a member's benefit change after retirement?

- When DRS receives additional information about an employee's Final Average Salary or Service Credit they recalculate the retiree's retirement benefit
- Current law does not allow a member to change their survivor option after a recalc

Recalc Data

- Last fiscal year DRS recalculated 256 LEOFF 2 retirees' pension payments

% Change in Benefit	# of Recalcs
.001 - .99%	158
1 – 4.99%	60
5%-9.99%	20
10% or more	18

- 46 (18%) resulted in a decrease to a member's benefit

Recalc Data

- The average turnaround time for LEOFF 2 recalcs from 1/2017 to 7/2018:

# of days after Retirement	% of Total Recalcs
Within 90 days	67%
90-180 days	13%
Over 180 days	20%

Why can't a member change their survivor option?

- Increased risk of anti-selection
- Risks of anti-selection are currently mitigated through:
 - Survivor option election at the time of retirement
 - A window for post-retirement marriage survivor option election

How could anti-selection impact LEOFF 2?

- Increased anti-selection risks may impact LEOFF 2 through:
 - Increased contribution rates
 - Less favorable administrative factors for survivor options
 - Intergenerational inequity

Other Pensions Systems

- **Oregon Public Employee Retirement System**
 - 60 day window
 - 50 to 60 retirees (0.7% of new retirees) per year change their survivor option selection
- **Federal Employee Retirement System**
 - 18 month window to increase survivor benefit option
- **Minnesota Public Employees Retirement Association Police and Fire Plan**
 - Rescind survivor benefit option
- **United States Uniformed Services Retirement System**
 - Rescind survivor benefit option

Policy Options

- **Option 1 – Window for all Members:** All LEOFF 2 retirees have a 90 day 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

Policy Options

- **Option 2 – Qualifying Event Window:** LEOFF 2 retirees may change their survivor election if a DRS recalculation of their benefit results in a change to the benefit amount of more than:
 - a) Any change in benefit amount
 - b) 5%
 - c) 10%

The retiree has 90 days from receipt of the first recalculated pension payment to elect a new survivor benefit. 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

Policy Options

- **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
- **Option 4 – Option 1 and either option 2 or 3**



Thank You

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December 19, 2018

Benefit Improvement Account

EDUCATIONAL BRIEFING

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ISSUE STATEMENT

The \$25 million payment to the LEOFF Plan 2 Benefit Improvement Account (BIA) originally scheduled for September 30, 2017 has not been made. A payment in the amount of \$25 million may be due to the BIA by September 30, 2019.

OVERVIEW

This report will provide background on the history and purpose of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Benefit Improvement Account. It will also identify questions arising from the State's decision not to make scheduled payments to the BIA.

BACKGROUND

What is the LEOFF Plan 2 Benefit Improvement Account?

LEOFF Plan 2 historically had two sources of revenue to fund plan benefits; contributions and investment earnings. Any increase in costs to the plan, including benefit improvements, would be paid for by an increase in contributions from plan members, employers, and the State.

The Benefit Improvement Account is a subaccount of the LEOFF Plan 2 Retirement Fund that was created by legislation in 2008. Its purpose is to provide an additional means of funding benefit improvements in LEOFF Plan 2. The assets in this account are invested in the same way as other LEOFF 2 fund assets as part of the Comingled Trust Fund managed by the Washington State Investment Board (WSIB).

Alternate Revenue Legislation

The 2008 Legislature passed Engrossed Substitute Senate Bill 6573 providing local government public safety employers and the LEOFF Plan 2 pension system with additional revenues.

Legislative Intent

The intent of the legislation recognized the need for additional revenue to provide for public safety and protection. The legislature also recognized the physical and challenging demands of fire fighters and law enforcement officers, effect on the length of working careers, and impact on earning adequate pension benefits. Section 1 of the legislation reads, in part:

“The legislature finds that local governments need additional revenues to provide public safety resources in order to protect the citizens of Washington from fire and crime. The legislature finds that the current benefit formula and contributions for the law enforcement officers' and firefighters' plan 2 are inadequate to modify that formula in recognition of the shorter working careers for firefighters and police officers. The legislature recognizes that although some officers and firefighters are able to work comfortably beyond twenty-five years, the combat nature of fire suppression and law enforcement generally require earlier retirement ages. In recognition of the physical demands of the professions and the inherent risks faced by law enforcement officers and firefighters, eligibility for retirement in the law enforcement officers' and firefighters' plan 2 system has been set at age fifty-three. However, the benefit formula is designed for careers of thirty-five to forty years, making retirement at age fifty-three an unrealistic option for many.”

Alternate Revenue Trigger and Payment Schedule

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer is required to transfer, subject to appropriation, prescribed funds to the Local Public Safety Enhancement Account (LPSEA). The amounts that would be transferred to the LPSEA if the Alternate Revenue trigger is met are shown in the following schedule:

- \$5 million for 2011
- \$10 million in 2013
- \$20 million in 2015
- \$50 million in 2017

In subsequent fiscal biennia's after 2017, the amount eligible for transfer is the lesser of one-third of the general revenue increase amount or \$50 million. General state revenues mean total revenues to the General Fund-state less state revenues from property taxes.

Distribution of Funds

After a transfer to the LPSEA, one-half of the funds transferred into the LPSEA would then be transferred to the LEOFF 2 BIA. The remaining funds in the LPSEA are distributed to local governments for public safety purposes. Therefore, contributions to the BIA would be made according to the following schedule:

- \$2.5 million for 2011
- \$5 million in 2013
- \$10 million in 2015
- \$25 million in 2017 and beyond

Money transferred to the BIA can only be used to fund benefits adopted by the Legislature. Benefits may be funded from the BIA if the State Actuary determines that the actuarial present value of the proposed and existing benefit obligations is met or exceeded by the actuarial present value of the projected revenues to the account. WSIB is authorized to adopt investment policies and invest the money in the BIA.

The Board has the sole authority to authorize disbursements from the BIA, and to establish all other related policies, which must be administered in an actuarially sound manner. Funds in the BIA may not be considered assets of the plan and are not included in contribution rate calculations by the State Actuary until directed by the Board for purposes of financing benefits adopted by the Board. The LEOFF Plan 2 Board is required to include sufficient funds from the account in the LEOFF Plan 2 Fund to meet benefit obligations within 90 days of the fund's transfer into the account.

Contribution History

The 5% required revenue growth necessary to trigger the 2011 LPSEA contribution of \$5 million was not met.

The 5% revenue growth trigger was met for the 2013 LPSEA contribution. However, the \$10 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the BIA.

The 5% revenue growth trigger was met for the 2015 LPSEA contribution. However, the \$20 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the BIA. Instead, the legislature directed a \$15,776,000 transfer into the BIA from the LEOFF Plan 2 Trust. The amount was calculated to include the \$5 million scheduled for 2013 plus the \$10 million scheduled for 2015 plus lost earnings at the actuarially assumed rate.

The 5% revenue growth trigger was met for the 2017 LPSEA contribution. However, the \$50 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the BIA.

POLICY ISSUES

Present Value of BIA

Staff requested the Office of the State Actuary to determine the present value of future contributions to the LEOFF 2 BIA. OSA's full findings are attached as Appendix A. Under OSA's assumptions, they determined a present value of **\$117 million**.

As the Board is aware, the Legislature has historically contributed to the BIA by moving funds from the LEOFF 2 trust fund, rather than appropriating the money out of the general fund as current law stipulates. OSA calculated that if the Legislature were to transfer the entire \$117 million from the LEOFF 2 trust into the BIA, it would lower the plan's funded status from 108.6 to 107.3 percent.

Current Amount Due

The Legislature has amended the LPSEA statute 3 times since its inception in 2008. In the 2013 session, they removed the required September 2013 payment. In the 2015 session, they removed the required September 2015 payment. In the 2017 session, they removed the required September 2017 payment.

The 2013 and 2015 payments have been made whole by the transfer of the funds out of the LEOFF 2 trust, but the 2017 payment of \$25 million is still on the books. In addition, with the way revenues are looking, the 2019 trigger is most certainly going to be hit, which will require a \$25 million payment by September 2019. This will put the amount owed by the legislature to the BIA at \$50 million.

SUPPORTING INFORMATION

Appendix A: ACTUARIAL ANALYSIS ON LEOFF 2 BENEFIT IMPROVEMENT ACCOUNT



Office of the State Actuary

“Supporting financial security for generations.”

December 14, 2018

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

RE: ACTUARIAL ANALYSIS ON LEOFF 2 BENEFIT IMPROVEMENT ACCOUNT

Dear Steve,

At your request, we determined the present value of future contributions to the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) Benefit Improvement Account (BIA). Using the data, assumptions, and methods described in this letter, we determined a present value of future contributions to the BIA Of \$137 million, measured at September 30, 2019 (\$117 million measured at June 30, 2017).

We also reviewed how this present value would change if we changed our key assumptions or methods. Based on this analysis, we found the present value would range from \$53 million to \$183 million, measured at September 30, 2019. The actual present value of future contributions to the BIA could fall outside this range.

Historically, the Legislature has contributed to the BIA by moving funds from the LEOFF 2 trust fund instead of making an appropriation as contemplated under current state law. If the Legislature transferred \$117 million from the LEOFF 2 trust fund to the BIA, it would lower the plan's funded status from 108.6 to 107.3 percent, measured at June 30, 2017.

It's important to note that the plan's funded status depends on, among other assumptions, the long-term expected rate of return and changes at each point-in-time measurement. If we assume 6.4 percent for the expected long-term rate of return instead of our current best estimate assumption of 7.4 percent, the plans's funded status would decrease from 108.6 to 93.6 percent, measured at June 30, 2017.

Please see the remainder of this letter for further information.



Background

The BIA exists as a sub account within the LEOFF 2 trust fund. It represents a trust fund dedicated to offset the expected cost of future benefit improvements for LEOFF 2 members when enacted. Consistent with current law, the actuary retained by the Board does not include BIA funds in the actuarial valuation until directed by the LEOFF 2 Board after the enactment of an applicable benefit improvement. Prior to any transfer of funds from the BIA to the LEOFF 2 trust fund, the actuary retained by the Board must determine that the transfer from the BIA is sufficient to offset the full expected cost of the applicable benefit improvement.

Under current law, the Legislature makes biennial contributions to the BIA if the growth in general state revenue exceeds 5 percent (the “trigger”) over successive biennia. Starting on September 30, 2019, the contribution amount is the lesser of one-third the biennial increase in state revenue or \$50 million. Given the size of state revenues, the contribution amount will likely be \$50 million in all future years. The contribution amount is then split equally between the BIA and all local jurisdictions that employ LEOFF 2 members. This means the maximum contribution amount to the BIA will total \$25 million each future biennium when triggered.

Summary of Actuarial Analysis

To determine the present value of future contributions to the BIA, we needed to select a measurement date, measurement period, a contribution amount, the likelihood of the contribution (meeting the trigger), and a discount rate. For our best estimate analysis, and consistent with your request, we used a discount rate of 7.4 percent. That assumption matches our current best estimate assumption for plan funding.

We selected a measurement date of September 30, 2019, consistent with the assumed date of the next potential contribution. For your reference, we also measured the present value at June 30, 2017, consistent with the measurement date of our most recent actuarial valuation report and measurement of the plan’s funded status.

Current law calls for BIA contributions in perpetuity. For this analysis, we considered projecting contributions over 50, 65, and 100 years. We selected a measurement period of 50 years after we determined that additional years beyond 50 did not significantly impact results.

We assumed a \$25 million contribution amount to the BIA each biennium starting in 2019-21 and assumed this contribution would be triggered 75 percent of the time. For the purposes of this analysis, and consistent with your request, we assumed the Legislature would make the full contribution each future year when triggered under current law. The Legislature has not always made a contribution to the BIA when triggered. If this practice continues, the actual present value of future contributions to the BIA would be lower than our best estimate if all our other assumptions are realized.



Using the assumptions and methods described above, we determined a present value of future contributions to the BIA of \$137 million, measured at September 30, 2019, and \$117 million, measured at June 30, 2017.

Data

To set the assumption that a future contribution to the BIA would be triggered 75 percent of the time, we reviewed historical revenue growth from tax collection and simulated nominal state revenue growth from our latest risk assessment.

In the following table, we summarize the percentage of historical biennial revenue growth above 5 percent we relied on for setting the 75 percent trigger assumption.

Historical Biennial Revenue Growth Exceeding 5 Percent		
1971-2017	1991-2017	2001-2017
83%	69%	63%

Please see the **Appendix** for a full history of revenue growth for each biennium.

We considered different ranges of historical data when setting this assumption. Ultimately we selected an assumption of 75 percent based on revenue growth from 1991-2017 as our best estimate. The 1991-2017 range provides a large and recent history from which to base this assumption and includes both strong and poor business cycles. Throughout the entire history available (1971-2017), only growth from 1999-2003, 2007-2011 fell under the 5 percent trigger. The economic downturns of the early 2000's and Great Recession of 2008 contributed to the low revenue growth from these years. Economic recessions may be less significant or less prevalent in future decades. We set our best estimate of 75 percent by selecting the percentage observed from the 1991-2017 period and increased it consistent with our expectations of future economic business cycles from the selected measurement date. The use of a longer/shorter history would produce a higher/lower assumption than our best estimate.

Sensitivity Analysis

Assumptions

The present value of future contributions to the BIA changes when we modify the assumptions noted above. The most significant assumptions include the discount rate and the probability of revenue growth exceeding 5 percent ("trigger probability").

We performed sensitivity analysis by varying the discount rate by +/- 1.00 percent and the trigger probability by +/- 10.00 percent. We relied on historical revenue growth over different time periods to inform the selection of applicable assumptions. The table below summarizes the results of our sensitivity analysis in this area.



Present Value of Future Contributions to BIA (At 9/30/2019)			
<i>Dollars in Millions</i>			
Trigger Probability	Interest Rate		
	6.40%	7.40%	8.40%
65%	\$134	\$119	\$107
75%	\$154	\$137	\$124
85%	\$175	\$156	\$140

Methods

We also reviewed how the results of our analysis would change if we selected different methods.

We determined the present value of future contributions to the BIA on a deterministic basis. This means that our analysis does not account for randomness and we calculated the present value based on a set of assumptions that remains fixed (or “determined”) during the entire measurement period.

In reality, we know that revenue growth will vary each biennium. Given the nature of this present value calculation and the impact of interest discounting, low or high revenue growth early in the projection will significantly impact the results of the present value calculation. For example, if we assume no contribution to the BIA in the first two biennia of the projection period and use our best estimate assumptions thereafter, the present value of future contributions decreases to \$102 million, measured at September 30, 2019 (assuming no other changes to our best estimate assumptions).

To assess this impact of randomness in future state revenue growth, we relied on stochastic analysis from our risk assessment model. This model simulates 2,000 equally likely economic outlooks over the next 50 years including projected state revenue growth.

Using the 2,000 simulations of projected state revenue growth over the next 50 years, we determined how many of those simulations would trigger a contribution to the BIA, assumed a \$25 million contribution when triggered under the given simulation, and discounted the contribution to September 30, 2019, to determine the resulting present value. Consistent with our deterministic analysis, we assumed a discount rate of 7.4 percent to determine the present value.

We then sorted the results from highest to lowest value and summarize the results of this analysis in the table below.



Summary of Simulated Future BIA Contributions	
Percentiles	Present Value of Future Contributions
100	\$183
90	\$168
75	\$157
50	\$142
25	\$124
10	\$107
0	\$53

The 50th percentile of the simulated future BIA contributions and best estimate results of \$137 million from the deterministic analysis are similar. We observe this because the number of simulations with biennial revenue growth exceeding the 5 percent trigger is about 77 percent. This is close to our best estimate assumption of 75 percent in the deterministic analysis. In addition, the values from our sensitivity analysis where we increase and decrease the deterministically assumed trigger probability by 10 percent compare closely with the 75th and 25th percentiles, respectively.

Please see our [Risk Assessment Assumptions Study](#) for further information on how we simulate future state revenue growth and the assumptions we use.

Additional Information And Considerations

The results of this analysis will change each measurement date and would change when we update our assumptions in the future. Please do not rely on this analysis after the 2019 Legislative Session and replace this analysis with updated analysis when available.

The analysis summarized in this letter involves calculations that require assumptions about future economic and demographic events. In my opinion, all assumptions, methods, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter. However, the use of another set of assumptions and methods could also be reasonable and could produce materially different results. Actual results may vary from our expectations.

We prepared this analysis for the LEOFF 2 Board, but understand it may be shared with others. We advise readers of this analysis to seek professional guidance as to its content and interpretation, and not to rely on this communication without such guidance. Please read the analysis shown in the letter as a whole. Distribution of, or reliance on, only parts of this communication could result in its misuse and may mislead others.



Mr. Steve Nelsen
Page 6 of 7

The undersigned meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While the analysis provided in this communication is meant to be complete, the undersigned is available to offer extra advice and explanations as needed.

Sincerely,

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

cc: **Mitch DeCamp**
Actuarial Analyst
Graham Dyer
Senior Actuarial Analyst
Lisa Won, ASA, FCA, MAAA
Deputy State Actuary
Dennis Lawson
Chair, Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board
Ryan Frost
Senior Research and Policy Manager, Law Enforcement Officers' and Fire
Fighters' Plan 2 Retirement Board

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APPENDIX – HISTORICAL REVENUE AMOUNTS

The table below contains the historical revenue data from tax collection we reviewed to perform this analysis. The annual revenue figures are available at dor.wa.gov.

Biennial Revenue from Tax Collection		
Biennium	Revenue	Growth
1969-71	\$2,001	
1971-73	\$2,268	13%
1973-75	\$2,710	19%
1975-77	\$3,706	37%
1977-79	\$4,874	31%
1979-81	\$5,728	18%
1981-83	\$7,317	28%
1983-85	\$8,687	19%
1985-87	\$10,253	18%
1987-89	\$11,775	15%
1989-91	\$14,460	23%
1991-93	\$16,389	13%
1993-95	\$18,660	14%
1995-97	\$20,470	10%
1997-99	\$22,855	12%
1999-01	\$23,801	4%
2001-03	\$24,092	1%
2003-05	\$27,004	12%
2005-07	\$32,383	20%
2007-09	\$32,567	1%
2009-11	\$31,136	(4%)
2011-13	\$33,186	7%
2013-15	\$36,507	10%
2015-17	\$42,413	16%



Benefit Improvement Account

Educational Briefing
December 19, 2018

Issue

- **The payment to the LEOFF Plan 2 Benefit Improvement Account (BIA) originally scheduled for September, 2016 has not been made. The payment originally scheduled for September 2018 was not included in the State Operating Budget.**

Background

- **What is the LEOFF Plan 2 Benefit Improvement Account?**
 - The Benefit Improvement Account is a sub-account of the LEOFF Plan 2 Retirement Fund that was created by legislation in 2008
 - Its purpose is to provide an additional means of funding benefit improvements in LEOFF Plan 2
- **Alternate Revenue Legislation**
 - Local Public Safety Enhancement Account
 - Legislative Intent

Background

- **Alternate Revenue Trigger and Payment Schedule**
 - General state revenue collections increase by more than 5 percent from the prior fiscal biennium
 - \$5 million for 2011
 - \$10 million in 2013
 - \$20 million in 2015
 - \$50 million in 2017
 - Lesser of one-third of the general revenue increase amount, or \$50 million

Background

- **Distribution of Funds**
- **Contribution History – 5% trigger met?**
 - **2011: No**
 - **2013: Yes**
 - \$10 million transfer not appropriated by legislature
 - **2015: Yes**
 - \$20 million transfer not appropriated by legislature
 - Legislature directed a \$15,776,000 transfer into the BIA from the LEOFF 2 Trust
 - **2017: Yes**
 - \$50 million transfer not appropriated by legislature

Policy Issues

- **Present Value of BIA**
 - Staff requested the Office of the State Actuary to determine the present value of future contributions to the LEOFF 2 BIA.
 - Under OSA's assumptions, they determined a present value of **\$117 million**.
- **Legislature has historically contributed to the BIA by moving funds from the LEOFF 2 trust fund**
- **OSA calculated that if the Legislature were to transfer the entire \$117 million from the LEOFF 2 trust into the BIA, it would lower the plan's funded status from 108.6 to 107.3 percent.**

Policy Issues

- **Current Amount Due**
 - The 2013 and 2015 payments have been made whole by the transfer of the funds out of the LEOFF 2 trust
 - 2017 payment of \$25 million is still on the books.
 - 2019 trigger is most certainly going to be hit, which will require a \$25 million payment by September 2019.
 - This will put the amount owed by the legislature to the BIA at \$50 million.

Policy Issues

- **Current Amount Due**

- The Legislature has amended the LPSEA statute 3 times since its inception in 2008.
 - In the 2013 session, they removed the required September 2013 payment.
 - In the 2015 session, they removed the required September 2015 payment.
 - In the 2017 session, they removed the required September 2017 payment.



Thank You

Ryan Frost

Senior Research and Policy Manager

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Funding Policy

December 19, 2018

Funding Policy Review

- The Board has the responsibility and authority to adopt the actuarial cost method for funding LEOFF Plan 2 and all the associated funding policies.
- The Board's Strategic Plan includes the goal:
Maintain the Financial Integrity of the Plan
 1. Make sure that the liabilities of the plan are fully funded.
 2. Maintain stable contribution rates based on the expected long-term cost of the plan.

Current Funding Policy

- **The Board adopted the Aggregate Funding method with 100% floor in 2018. A funding method has two components:**
 1. **The normal cost or expected long-term cost of the plan.**
 2. **A method for managing the funded ratio.**
- **The Board is considering options for managing the current funded ratio of 109%.**
- **The Board has adopted contribution rates for both the 2019-21 and the 2021-23 biennia.**

Use of a funded ratio corridor

- One concept for managing the funded ratio is the use of a corridor with different levels of action or concern.
- For example, a funded ratio corridor of 95% - 110%
 - Less than 95% “Zone of Action” Increase contributions or reduce liabilities
 - 95 – 100% “Zone of Concern” Monitor trends, prepare response
 - 100 – 105% “Zone of Comfort” No concern or action necessary
 - 105 – 110% “Zone of Concern” Monitor trends, prepare response
 - Over 110% “Zone of Action” Decrease contributions or decrease liabilities

Is this the best time to adopt a new policy?

- There is perceived political risk that the healthy status of LEOFF 2 could prompt legislative intervention. Having a policy in place before session could help manage that risk.
- The ranges in the draft policy were not developed with actuarial analysis. A policy based on actuarial analysis would be more effective.
- The Society of Actuaries is working on a number of new risk measures for pension plans. These new measures might provide options for approaches other than the plan's funding ratio.

Questions?

- Possible Board action to the adopt funding ratio corridor as a method for managing the funded ratio.



Thank You

Steve Nelsen

Executive Director

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2017-2019 Budget Adoption

December 19, 2018

Proposed Budget: January 2019 – June 2019

Expense Category		Total	
Salary & Wages	\$	341,802	
Employee Benefits & Taxes	\$	112,394	
State Actuary Services	\$	55,110	
Rent	\$	23,312	
DES Services	\$	19,720	
Trustee/Staff Professional Development, Board Meetings & Outreach	\$	37,325	Estimate
Communication Costs	\$	13,820	
Contracts: FN Audit, Tax Counsel	\$	16,000	Estimate
All Other Operating Expenses	\$	32,844	
Total	\$	652,327	



Thank You

Tim Valencia

Deputy Director

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Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board

Proposed Operating Budget for January 2019 - June 2019

Expense Category	Note	JAN	FEB	MAR	APR	MAY	JUN	Total
Salary & Wages		\$ 56,967	\$ 56,967	\$ 56,967	\$ 56,967	\$ 56,967	\$ 56,967	\$ 341,802
Employee Benefits & Taxes		\$ 18,191	\$ 18,191	\$ 18,216	\$ 18,191	\$ 18,191	\$ 21,414	\$ 112,394
State Actuary Services		\$ 9,185	\$ 9,185	\$ 9,185	\$ 9,185	\$ 9,185	\$ 9,185	\$ 55,110
Rent		\$ 3,830	\$ 3,830	\$ 3,830	\$ 3,830	\$ 3,996	\$ 3,996	\$ 23,312
DES Services	#1	\$ 3,286	\$ 3,286	\$ 3,286	\$ 3,286	\$ 3,286	\$ 3,290	\$ 19,720
Trustee/Staff Professional Development Board Meetings & Outreach		\$ 1,000	\$ 1,300	\$ 15,500		\$ 6,300	\$ 13,225	\$ 37,325
Communication Costs	#2	\$ 720	\$ 10,220	\$ 720	\$ 720	\$ 720	\$ 720	\$ 13,820
Contracts: FN Audit, Tax Counsel						\$ 16,000		\$ 16,000
All Other Operating Expenses	#3	\$ 5,265	\$ 6,208	\$ 5,381	\$ 5,265	\$ 5,308	\$ 5,417	\$ 32,844
Total		\$ 98,444	\$ 109,187	\$ 113,085	\$ 97,444	\$ 119,953	\$ 114,214	\$ 652,327

Notes:	#1	DES Services include: Consolidated Mail Services, Real Estate Services, DES Parking Fees and Small Agency Financial Services
	#2	Communication Costs are primarily related to postaged. The increase in February is related to the bi-annual newsletter.
	#3	All other operating costs include Attorney General costs, office supplies, utilities, data processing services, software costs, and other Central Service Billing items.