



Benefit Improvement Account

Educational Follow-up, 3rd Briefing
July 28, 2021

Issue

Questions arose during discussions on SB 5453 regarding the Benefit Improvement Account (BIA) and the Board's position on various policy issues

SB 5453 – Proposed LEOFF 2 Benefit Improvement

Tiered Multiplier Benefit Improvement for Active Members

- 2% final average salary for the first 15 years of service
- 2.5% final average salary for the 10 years of service between 15 and up to 26
- 2% final average salary for years of service above 26

Lump Sum Benefit Improvement for Retirees/Survivors

- \$20,000 payment to all LEOFF 2 retirees, or survivor beneficiaries of members, with at least 15 years of service
- \$20,000 payment to all LEOFF 2 survivor beneficiaries of a member who died in the line of duty

Background – Policy Goals

Board's previous policy goal discussions regarding purchasing a benefit improvement with the Benefit Improvement Account identified two policy goals

1. Equity

- Retirees and active members should receive a benefit
 - Recognize that BIA was partially funded by retired member contributions
- All members should receive some benefit since all members are going to help pay for it

2. Retention

- Pension benefits should help recruit and retain employees

BIA Intent Language

- “The legislature finds that the current benefit formula and contributions for [LEOFF] 2 are inadequate to modify that formula in recognition of the shorter working careers for firefighters and police officers. [...] In recognition of the physical demands of the professions and the inherent risks faced by law enforcement officers and firefighters, eligibility for retirement in [LEOFF] 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.”

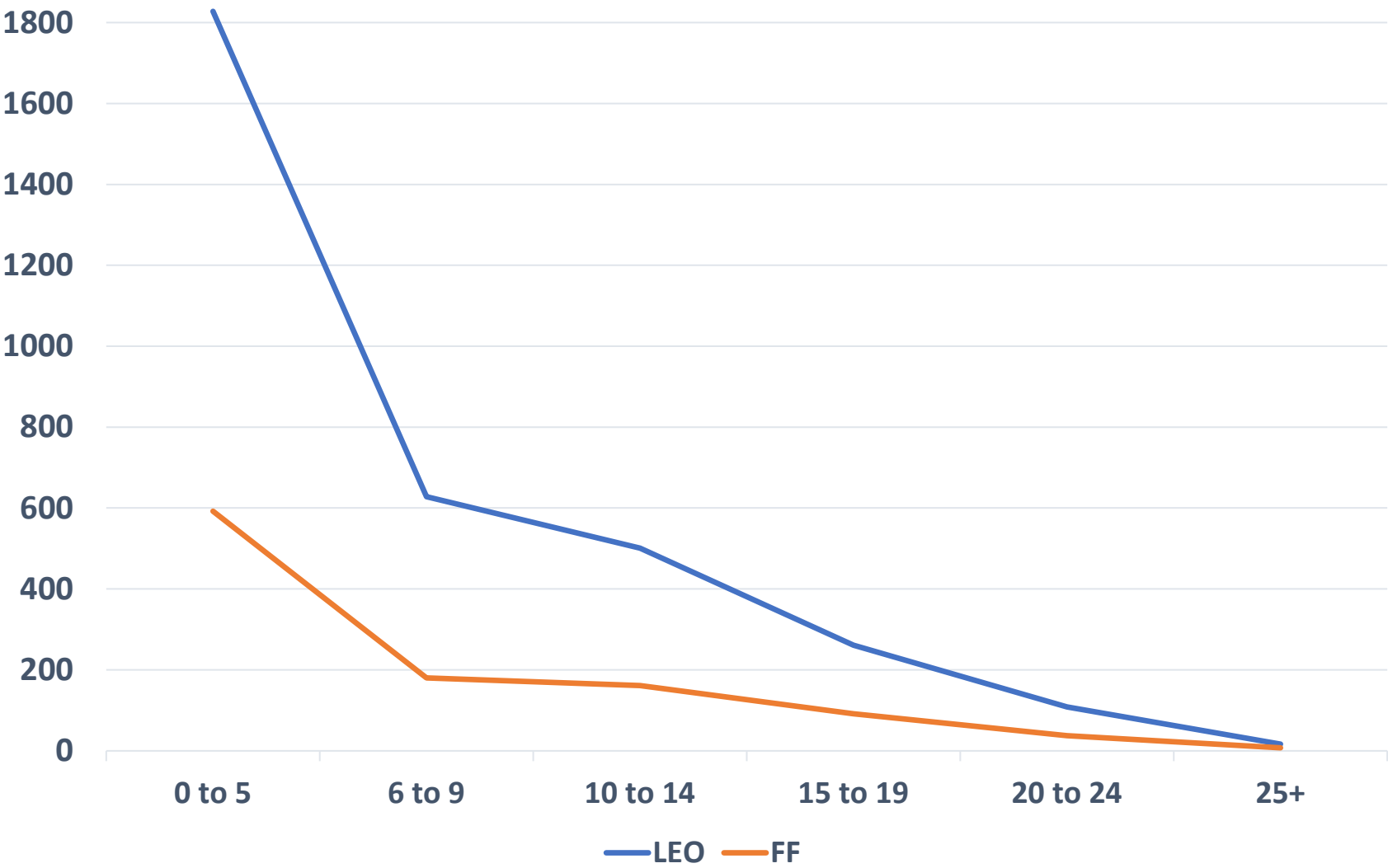
Income Replacement Goal: 70 - 80%

- Final Average Salary for average LEOFF 2 retiree is approximately \$10,000/month
 - Average LEOFF 2 member retirees at age 56 with 23.5 years of service
 - Replaces approximately 47% pre-retirement (\$4,700) income for average LEOFF 2 retiree
 - Social Security replaces about 30-40% of pre-retirement income
 - 58% of Law Enforcement Officers, 6% of Fire Fighters covered by Social Security
 - Approximately a 17% increase (\$1700/month) in replacement income for average LEOFF 2 retiree enrolled in Social Security, starting at age 62
 - Additional Savings Plans
 - Many LEOFF 2 employers offer 457 plans, including matching employer contributions, as social security replacement
 - DCP - 2020 median LEOFF 2 retiree account balance \$123k
 - Approximately a 6% increase (\$600/month) in replacement income for average LEOFF 2 retiree

Tiered Multiplier

- Since 2005, Board has discussed a tiered multiplier
 - Incentivizes retaining employees while trimming cost of a multiplier benefit improvement
- Focus has been on mid career multiplier
 - Prioritizes retention of employees
 - Employer has heavily invested time and money in these employees
 - Years where an employee is more likely to get recruited away or change careers
 - What year range should this be?
 - SB 5453 was years of service from 15 to 26

Terminations



Lump Sum Benefit

- **Policy Goals**
 - Equity - Retirees' contributions helped fund the Benefit Improvement Account
 - Retention – These members have already retired so the lump sum payment does not directly address the policy goal of retaining employees
- **Not all retirees qualify for lump sum payment**
 - Less than 15 years of service
 - Including disability retirees
- **Survivor beneficiaries of members with 15 years of service qualify for lump sum**
- **Is \$20,000 reasonable?**

Comparison of SB 5453 Benefits

- There have been questions regarding whether the benefit for retirees and the benefit for active members are equitable
- The average active member's benefit will increase by about 9 percent (or \$46k in present value)
- Active members will pay an increased contribution rate (an average of about \$8k in additional contributions)
- Both active members and retirees' contributions have helped fund the benefit improvement account

Impact of Effective Date in SB 5453

- Since there are different benefits for retirees versus active members, there must be a date identified in the bill which determines which benefit a person will qualify for
- SB 5453 had an emergency clause making the bill effective immediately
 - A member must retiree before the bill is effective to qualify for the lump sum payment
 - Members who retiree after the effective date would qualify for the increased multiplier

Funding Policy

- If the benefit improvement lowers the funding status of LEOFF 2 below 105% than it will trigger a rate increase under the Board's funding policy
 - Minimum Rate Funding Policy
 - Based on Normal Cost of Entry Age Normal Cost Method (expected long-term cost of the plan excluding the current level of assets)
 - 100% minimum rate if funded status equal to or less than 105% (floor)
 - 90% minimum rate if funded status exceeds 105% (ceiling)
- SB 5453 did not lower funding status below 105%
 - Lowers funded status from approximately 113% to 108%

Additional Questions

- Should the date for determining lump sum/multiplier be in the past or give members opportunity to retiree if they want lump sum benefit?
- Should retirees be allowed to purchase an annuity using lump sum payment?
- Should lump sum payment apply to more retirees than just those with fifteen years of service?
- Should the lump sum benefit include survivor beneficiaries or be limited to retirees?
- Should members/retirees get to choose between lump sum or increased multiplier?

Next Steps

Staff will present options to the Board based on the questions raised in this and the previous benefit improvement educational briefings



Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov