

BOARD MEETING AGENDA

JULY 28, 2021 • 9:30AM



LOCATION

Zoom Video Conference

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

AJ JOHNSON
Snohomish County Fire

SENATOR JEFF HOLY
Spokane Police Department (Ret)

TARINA ROSE-WATSON
Spokane Int'l Airport Police Dept

PAT MCELLIGOTT
City of Dupont

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

WOLF OPITZ
Pierce County

SENATOR ANN RIVERS
WA State Senator

STAFF

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

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

1. **Approval of Minutes** **9:30 AM**
2. **Benefit Improvement Account Educational Follow-Up** **9:35 AM**
Jacob White, Sr Research & Policy Manager
3. **2021-2023 Budget Adoption** **10:15 AM**
Karen Durant, Sr Research & Policy Manager
4. **Windfall Elimination Provision Government Pension Offset Educational Briefing** **11:15 AM**
Jacob White, Sr Research & Policy Manager
5. **Administrative Update** **11:45 AM**
 - Outreach Activities

**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.



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.”**

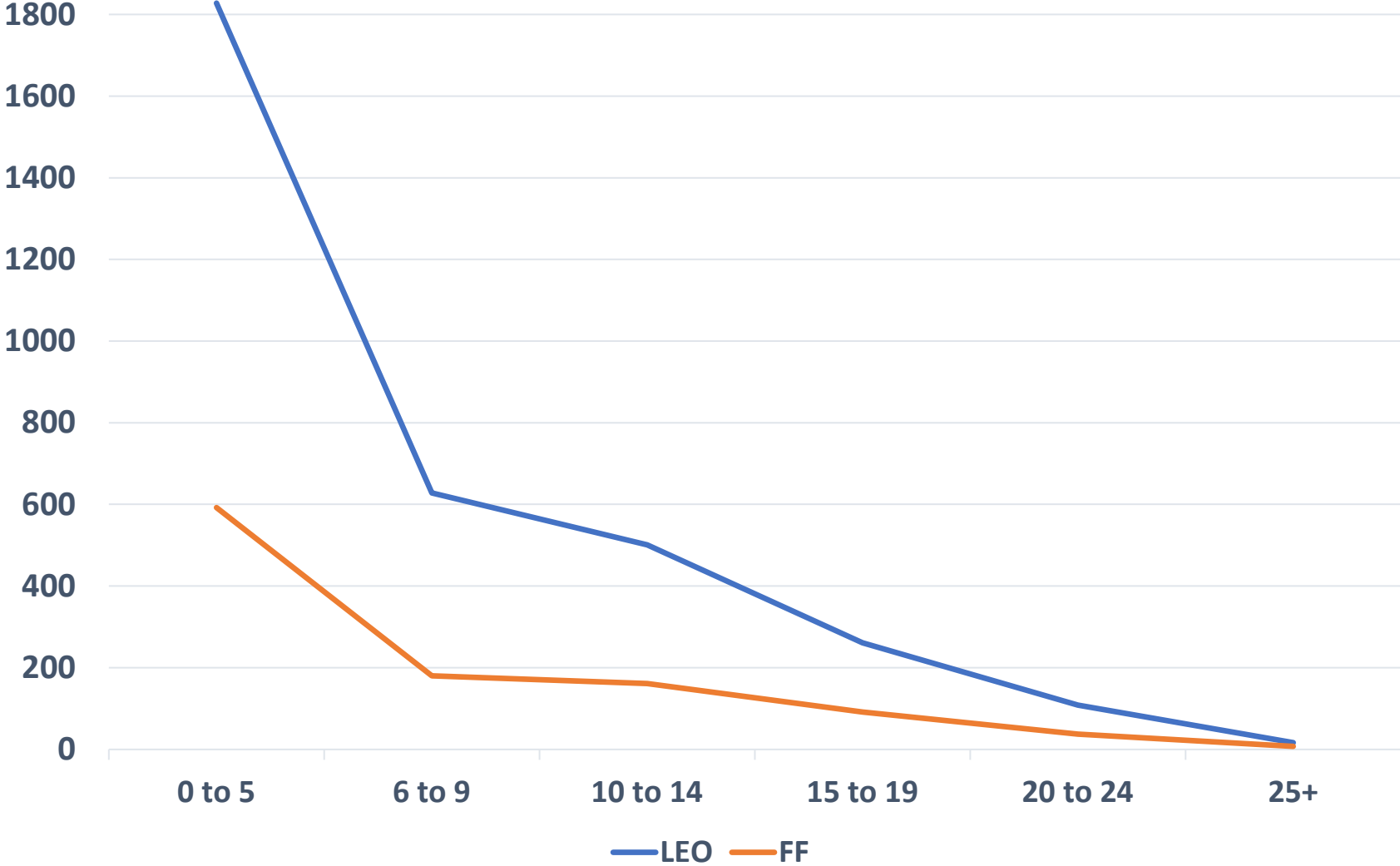
Income Replacement Goal: 70 - 80%

- **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



2021 - 2023 Operating Budget

July 28, 2021

2021 - 2023 Proposed Operating Budget

Law Enforcement Officers' & Fire Fighters' Plan 2 Retirement Board	
Expense Category	Amount
Salary & Wages	\$1,844,950
Employee Benefits & Taxes	\$539,109
State Actuary Services	\$239,720
Rent & Utilities	\$119,976
State Central Services	\$401,624
Staff & Trustee Development	\$194,751
Communication Costs	\$87,520
Contracts	\$93,800
Other Operating Expenses	\$47,550
TOTAL	\$3,569,000

Next Steps

- Adoption of 2021 – 2023 proposed operating budget



Thank You

Karen Durant

Senior Research & Policy Manager

(360) 586-2325

Karen.Durant@leoff.wa.gov



Windfall Elimination Protection Act and Government Pension Offset

Educational Briefing
July 28, 2021

Issue

LEOFF 2 members whose LEOFF employment is not covered by Social Security may have their Social Security benefit, earned from employment outside of their LEOFF employment, reduced because of the Windfall Elimination Protection Act

Also, these LEOFF 2 members may also have their Social Security spouses or widow/widower benefit reduced under the Government Pension Offset

Social Security History for LEO and FF

- Compulsory for most workers, 6% not covered
- Established in 1935; public employees excluded
- State and local government option to join (1950's);
 - Fire and police departments excluded until 1994
 - Fire and police departments must elect to participate

LEOFF 2 Social Security Participation

- **LEOFF 2 Social Security Participation (2005)**
 - **58% of Law Enforcement Officers**
 - **6% of Fire Fighters**
- **30-40% of Replacement Income**
- **Social Security Replacement Plans by some employers**
- **Likely subject to GPO/WEP reductions**

Windfall Elimination Protection Act

- Before 1983, people whose primary job wasn't covered by Social Security had their Social Security benefits calculated as if they were long-term, low-wage workers
- According to the IRS, these workers had the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a pension from a job for which they didn't pay Social Security taxes
- Congress passed the Windfall Elimination Provision (WEP) to remove that advantage

WEP Formula

- The “normal” Social Security benefit formula separates your average monthly earnings into three segments, and multiplies each by a different percentage
- WEP modifies the percentage by which the first segment is multiplied, resulting in a lower Social Security benefit
- The WEP formula includes a sliding scale based on the length of your Social Security-covered employment

Table 3. Maximum WEP Reduction for Workers Who Become Eligible in 2021, by Years of Substantial Coverage

	Years of Social Security Coverage										
	20 or fewer	21	22	23	24	25	26	27	28	29	30+
First factor in formula:	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%
Maximum dollar amount of monthly WEP reduction for workers who first become eligible for Social Security in 2021 ^a :	\$498	\$448	\$398	\$349	\$299	\$249	\$199	\$149	\$100	\$50	\$0

Source: CRS analysis.

Notes: The WEP reduction may be lower than the amount shown because the reduction is limited to one-half of the worker's pension from noncovered employment. In addition, because the WEP reduces the initial benefit amount *before* it is reduced or increased due to early retirement, delayed retirement credits (DRCs), cost-of-living adjustments (COLAs), or other factors, the difference between the final benefit with the WEP and the final benefit without the WEP may be less than or greater than the amounts shown.

WEP Example

Table 2. Hypothetical Scenario: PIA for a Worker with AIME of \$1,500 Who Becomes Eligible in 2021 and Has 20 Years of Substantial Coverage

Regular Formula		WEP Formula	
<u>90%</u> of first \$996	\$896.40	<u>40%</u> of first \$996	\$398.40
32% of earnings over \$996 and through \$6,002	161.28	32% of earnings over \$996 and through \$6,002	161.28
15% over \$6,002	0.00	15% over \$6,002	0.00
Total after rounding	\$1,057.60	Total after rounding	\$559.60

Source: CRS.

Note: PIA = Primary Insurance Amount. AIME = Average Indexed Monthly Earnings. By law, the PIA is rounded down to nearest 10 cents.

Government Pension Offset (GPO)

- **Spouses can apply for benefits based on their spouse's record**
 - **The maximum spousal benefit is equal to 50% of the other spouse's benefit**
- **If someone receives a pension from a federal, state, or local government based on work for which they didn't pay Social Security taxes, their Social Security spouse or widow/widower benefits may be reduced by 2/3 under the GPO**

Intent of the Government Pension Offset

- The intent of the Government Pension Offset is to have Social Security calculate the benefits of government employees who don't pay Social Security taxes the same as workers who pay Social Security taxes
- If a worker's employment was subject to Social Security taxes, Social Security would reduce any spouse or widow/widower benefit because of the member's Social Security retirement benefit

GPO Example

- If a LEOFF 2 member earns a monthly pension of \$4,000, two-thirds of that, or \$2,667, must be deducted from their Social Security spouse or widow/widower benefits
- For example, if they're eligible for a \$3,000 Social Security spouse or widow/widower benefit, they will get \$333 a month from Social Security ($\$3000 - \$2,667 = \$333$)
- If two-thirds of the member's LEOFF 2 pension is more than their Social Security spouse's benefit than their benefit would be reduced to zero

Federal Legislation

- **Public Servants Protection and Fairness Act - H.R. 2337 (2021)**
 - **Lead Sponsor:** Congressman Richard Neal of Massachusetts, Chairman of the House Committee on Ways and Means
 - **Endorsed by:** Fraternal Order of Police (FOP), International Association of Fire Fighters (IAFF), National Association of Police Organizations (NAPO), and National Sheriffs' Association (NSA)
 - **Current beneficiaries (and those turning 62 before 2023) who are affected by the WEP due to their own public service work will receive an extra \$150 a month, starting nine months after enactment and continuing for as long as the eligible individuals are receiving Social Security benefits**
 - **Future retirees (those turning 62 in 2022 and later) will be eligible for a new benefit formula, called the Public Servant Protection (PSP) formula. The PSP formula calculates benefit amounts based on the proportion of lifetime earnings covered by Social Security**



Thank You

Jacob White

Senior Research & Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov