

COMPREHENSIVE REPORT

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ISSUE STATEMENT

“Standby pay” is not considered basic salary for LEOFF 2 members, while it is for PERS and PSERS members.

OVERVIEW

“Standby pay” is not considered basic salary in LEOFF 2 because it is not specifically identified as earnable compensation in law and because the Department of Retirement Systems (DRS) has determined that it does not fall under the general definition of “compensation for services rendered”.

BACKGROUND AND POLICY ISSUES

Some LEOFF Plan 2 members receive standby pay while off-duty in exchange for being prepared to report to work on short notice. This payment is not considered compensation for services rendered and is not reportable compensation for LEOFF Plan 2.

The Board considered this issue during the 2016 and 2018 interims. The Board did not endorse legislation in either of those years.

Standby pay is reportable compensation for pension purposes in two state retirement systems: the Public Employees Retirement System (PERS) and the Public Safety Employees Retirement system (PSERS). It is considered reportable compensation because the legislature has specifically identified it as being so for those systems.

In 1994, legislation was enacted¹ that allowed the inclusion of standby pay in compensation earnable for the Public Employees’ Retirement System (PERS) when: (1) the member is required to be present at, or in the immediate vicinity of, a specified location; and (2) the employer requires the member to be prepared to report immediately for work if the need arises. In 1995,

¹ C 177 L94 (ESHB 2644)

the requirement that the member must be present at or in the immediate vicinity of a specified location was removed.² Standby pay was included as compensation earnable for the Public Safety Employees Retirement System when it was created in 2003³.

Reportable Compensation/Basic Salary

"Reportable compensation" is used in determining a state retirement system member's pension. It is generally defined as salaries and wages payable for services rendered to the employer. DRS determines reportable compensation based upon the nature of the payment made to an employee, not the name given to it. A LEOFF member's salary or wages must meet the definition of "basic salary" in LEOFF retirement law⁴ to be subject to retirement system contributions and included in the calculation of his or her retirement benefit.

In LEOFF Plan 2 "reportable compensation" is termed "basic salary". In order for compensation to be reportable to DRS for LEOFF, it must be basic salary. Basic salary for LEOFF Plan 2 is a payment that is a salary or wage earned during a calendar month for personal services rendered by a member to an employer.

Certain payments that are not for personal services rendered by a member also qualify if there are specific provisions in the laws identifying them as basic salary. Payments not specifically identified in the rules qualify as basic salary only if the payments are for services rendered.⁵

Standby pay is one such payment that does not qualify as basic salary for LEOFF as it is not considered pay for services rendered and is not included by law as basic salary.

Standby Pay is Not Basic Salary in LEOFF

Standby pay is a nominal rate of pay provided in exchange for the employee being available to come to work quickly if called, though he or she might not be called. While on standby an employee is usually confined to a specified geographic area and prohibited from consuming alcohol or other intoxicants. If the employee is called in, they usually earn overtime for periods actually worked.

DRS excludes standby pay from LEOFF basic salary. DRS does not consider standby pay compensation for services rendered⁶. While ready to work if called, an employee on standby is engaged in personal activities, not performing work for their employer.

DRS has identified what is and is not considered Basic Salary with the following chart in WAC 415-104-299:

² C 244 L 95 (SSB 5118)

³ PSERS was removed as a membership subset from PERS in 2003 when it was created.

⁴ see RCW 41.26.030 and WAC 415-104-298

⁵ WAC 415-104-299 Basic Salary Table

⁶ see RCW 41.26.030(4)(b) and WAC 415-104-393

Type of Payment	LEOFF 2 Basic Salary?
Additional Duty Pay	Yes - WAC 415-104-360
Allowances (i.e. uniform)	No - WAC 415-104-390
Basic Monthly Rate	Yes - WAC 415-104-360
Cafeteria Plans	Yes - WAC 415-104-367
Deferred Wages Attached to Position	Yes - WAC 415-104-363 (1)
Deferred Wages not attached to a Position	No - WAC 415-104-363 (2)
Disability Payments	No - WAC 415-104-380
Education Attainment Pay	Yes - WAC 415-104-375
Employer taxes/contributions	No - WAC 415-104-383
Fringe Benefits, including insurance	No - WAC 415-104-385
Illegal Payments	No - WAC 415-104-387
Leave Cash Outs/Severance	No - WAC 415-104-401
Longevity	Yes - WAC 415-104-375
Overtime	Yes - WAC 415-104-370
Paid Leave	Yes - WAC 415-104-373
Payments in Lieu of Excluded Items	No - WAC 415-104-405
Performance Bonuses	Yes - WAC 415-104-377
Retroactive Salary Increase	Yes - WAC 415-104-365
Reimbursements	No - WAC 415-104-390
Retirement or Termination Bonuses	No - WAC 415-104-395
Shift Differential	Yes - WAC 415-104-379
Special Salary or Wages	Yes - WAC 415-104-375
Standby Pay	No - WAC 415-104-393
Tuition/Fee Reimbursement	No - WAC 415-104-390
Workers' Compensation	No - WAC 415-104-380

Compensation for Standby Pay

The rate of standby pay varies. Below are some examples:

- Firefighter examples:
 - Reduced rate of pay – some jurisdictions pay an hourly standby wage at a reduced rate of pay such as 10% of regular pay.
 - Reduced hours – some jurisdictions pay a full overtime wage for a reduced number of hours. For instance, one employer pays one hour of overtime for a 12-hour standby shift.

- Law enforcement examples:
 - 4 hours pay for being on standby, additional pay if called in for more than 4 hours.
 - No standby pay but guaranteed 4 hour pay minimum if called in.

Data

There isn't a single source of data for how many LEOFF employers pay standby pay and how much those employers have paid in standby pay to LEOFF 2 members. Therefore, LEOFF 2 Board staff made a sampling of public records requests throughout the state to gather data for analysis. As of the time of this report, the Board had only received the following data:

Fiscal Year 2023 Standby Pay Data			
Department	Number	Total Standby Pay	Average Standby Pay
Tacoma Police	361	\$303,870	\$842
Spokane Police	368	\$486,891	\$1,323
Wenatchee Police	40	\$0	\$0
Tacoma Fire	543	\$109,913	\$202
Yakima Fire	107	\$0	\$0
Bellevue Fire	217	\$0	\$0
Spokane Fire	365	\$24,252	\$66
Total	2,001	\$924,925	\$462

Note: Totals may not agree due to rounding.

There are additional active public records requests which Board staff is waiting to. The City of Seattle also provided data; however, there were inconsistencies with the data provided which prevented it from being used in this report.

Pricing from Office of State Actuary

OSA did not receive enough data (only about 10% of member data) to be able to provide a full pricing. Instead, they calculated a high and low estimate given the limited amount of data and large variance in standby pay amounts by department. Based on the data above the Office of the State Actuary (OSA) provided the following preliminary pricing for adding standby pay as basic salary for LEOFF 2:

Preliminary Pricing Results		
(Dollars in Millions)	Low Estimate	High Estimate
Change in Present Value of Benefits	\$5	\$45
Change in Present Value of Salaries	12	109
Rounded Employee Rate Impact*	0.00%	0.04%

**We use the rounded Aggregate contribution rate impact when calculating a supplemental rate. Employers and the state pay 60 and 40 percent of this rate, respectively.*

POLICY OPTIONS

Option 1: Add standby pay to definition of basic salary

- Pros – Aligns LEOFF 2 with other state pension plans
- Cons – Increases cost of the plan; data used to identify costs is a small sampling and may not be enough to identify the costs accurately

Option 2: Direct staff to gather additional data and report to Board next interim

- Pros – More accurate pricing analysis
- Cons – LEOFF 2 members continue to not have standby pay considered basic salary

SUPPORTING INFORMATION

Appendix A: Bill Draft

Appendix B: Email from OSA, “LEOFF 2 Standby Pay Pricing Request”, December 10, 2024.

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An act relating to including standby pay as basic salary in the law enforcement officers' and firefighters' retirement system plan 2; amending RCW [41.26.030](#).

As used in this chapter, unless a different meaning is plainly required by the context:

(1) "Accumulated contributions" means the employee's contributions made by a member, including any amount paid under RCW [41.50.165](#)(2), plus accrued interest credited thereon.

(2) "Actuarial reserve" means a method of financing a pension or retirement plan wherein reserves are accumulated as the liabilities for benefit payments are incurred in order that sufficient funds will be available on the date of retirement of each member to pay the member's future benefits during the period of retirement.

(3) "Actuarial valuation" means a mathematical determination of the financial condition of a retirement plan. It includes the computation of the present monetary value of benefits payable to present members, and the present monetary value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal from service, salary and interest earned on investments.

(4)(a) "Basic salary" for plan 1 members, means the basic monthly rate of salary or wages, including longevity pay but not including overtime earnings or special salary or wages, upon which pension or retirement benefits will be computed and upon which employer contributions and salary deductions will be based.

(b) "Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and

1. shall include:

- a. wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code; and,
- b. compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

2. shall exclude:

- a. lump sum payments for deferred annual sick leave,
- b. unused accumulated vacation,
- c. unused accumulated annual leave, or,
- d. any form of severance pay.

3. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

(i) The basic salary the member would have received had such member not served in the legislature; or

(ii) Such member's actual basic salary received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because basic salary under (b)(i) of this subsection is greater than basic salary under (b)(ii) of this

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subsection shall be paid by the member for both member and employer contributions.(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance, disability allowance, death benefit, or any other benefit described herein.

(b) "Beneficiary" for plan 2 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6)(a) "Child" or "children" means an unmarried person who is under the age of eighteen or mentally or physically disabled as determined by the department, except a person who is disabled and in the full time care of a state institution, who is:

(i) A natural born child;

(ii) A stepchild where that relationship was in existence prior to the date benefits are payable under this chapter;

(iii) A posthumous child;

(iv) A child legally adopted or made a legal ward of a member prior to the date benefits are payable under this chapter; or

(v) An illegitimate child legitimized prior to the date any benefits are payable under this chapter.

(b) A person shall also be deemed to be a child up to and including the age of twenty years and eleven months while attending any high school, college, or vocational or other educational institution accredited, licensed, or approved by the state, in which it is located, including the summer vacation months and all other normal and regular vacation periods at the particular educational institution after which the child returns to school.

(7) "Department" means the department of retirement systems created in chapter [41.50](#) RCW.

(8) "Director" means the director of the department.

(9) "Disability board" for plan 1 members means either the county disability board or the city disability board established in RCW [41.26.110](#).

(10) "Disability leave" means the period of six months or any portion thereof during which a member is on leave at an allowance equal to the member's full salary prior to the commencement of disability retirement. The definition contained in this subsection shall apply only to plan 1 members.

(11) "Disability retirement" for plan 1 members, means the period following termination of a member's disability leave, during which the member is in receipt of a disability retirement allowance.

(12) "Domestic partners" means two adults who have registered as domestic partners under RCW [26.60.020](#).

(13) "Employee" means any law enforcement officer or firefighter as defined in subsections (17) and (19) of this section.

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(14)(a) "Employer" for plan 1 members, means the legislative authority of any city, town, county, district, or regional fire protection service authority or the elected officials of any municipal corporation that employs any law enforcement officer and/or firefighter, any authorized association of such municipalities, and, except for the purposes of RCW [41.26.150](#), any labor guild, association, or organization, which represents the firefighters or law enforcement officers of at least seven cities of over 20,000 population and the membership of each local lodge or division of which is composed of at least sixty percent law enforcement officers or firefighters as defined in this chapter.

(b) "Employer" for plan 2 members, means the following entities to the extent that the entity employs any law enforcement officer and/or firefighter:

(i) The legislative authority of any city, town, county, district, public corporation, or regional fire protection service authority established under RCW [35.21.730](#) to provide emergency medical services as defined in RCW [18.73.030](#);

(ii) The elected officials of any municipal corporation;

(iii) The governing body of any other general authority law enforcement agency;

(iv) A four-year institution of higher education having a fully operational fire department as of January 1, 1996; or

(v) The department of social and health services or the department of corrections when employing firefighters serving at a prison or civil commitment center on an island.

(c) Except as otherwise specifically provided in this chapter, "employer" does not include a government contractor. For purposes of this subsection, a "government contractor" is any entity, including a partnership, limited liability company, for-profit or nonprofit corporation, or person, that provides services pursuant to a contract with an "employer." The determination whether an employer-employee relationship has been established is not based on the relationship between a government contractor and an "employer," but is based solely on the relationship between a government contractor's employee and an "employer" under this chapter.

(15)(a) "Final average salary" for plan 1 members, means (i) for a member holding the same position or rank for a minimum of twelve months preceding the date of retirement, the basic salary attached to such same position or rank at time of retirement; (ii) for any other member, including a civil service member who has not served a minimum of twelve months in the same position or rank preceding the date of retirement, the average of the greatest basic salaries payable to such member during any consecutive twenty-four month period within such member's last ten years of service for which service credit is allowed, computed by dividing the total basic salaries payable to such member during the selected twenty-four month period by twenty-four; (iii) in the case of disability of any member, the basic salary payable to such member at the time of disability retirement; (iv) in the case of a member who hereafter vests pursuant to RCW [41.26.090](#), the basic salary payable to such member at the time of vesting.

(b) "Final average salary" for plan 2 members, means the monthly average of the member's basic salary for the highest consecutive sixty service credit months of service prior to such member's

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retirement, termination, or death. Periods constituting authorized unpaid leaves of absence may not be used in the calculation of final average salary.

(c) In calculating final average salary under (a) or (b) of this subsection, the department of retirement systems shall include:

(i) Any compensation forgone by a member employed by a state agency or institution during the 2009-2011 fiscal biennium as a result of reduced work hours, mandatory or voluntary leave without pay, temporary reduction in pay implemented prior to December 11, 2010, or temporary layoffs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer;

(ii) Any compensation forgone by a member employed by the state or a local government employer during the 2011-2013 fiscal biennium as a result of reduced work hours, mandatory leave without pay, temporary layoffs, or reductions to current pay if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer. Reductions to current pay shall not include elimination of previously agreed upon future salary increases; and

(iii) Any compensation forgone by a member employed by the state or a local government employer during the 2019-2021 and 2021-2023 fiscal biennia as a result of reduced work hours, mandatory leave without pay, temporary layoffs, furloughs, reductions to current pay, or other similar measures resulting from the COVID-19 budgetary crisis, if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer. Reductions to current pay shall not include elimination of previously agreed upon future salary increases.

(16) "Fire department" includes a fire station operated by the department of social and health services or the department of corrections when employing firefighters serving a prison or civil commitment center on an island.

(17) "Firefighter" means:

(a) Any person who is serving on a full time, fully compensated basis as a member of a fire department of an employer and who is serving in a position which requires passing a civil service examination for firefighter, and who is actively employed as such;

(b) Anyone who is actively employed as a full time firefighter where the fire department does not have a civil service examination;

(c) Supervisory firefighter personnel;

(d) Any full time executive secretary of an association of fire protection districts authorized under RCW [52.12.031](#). The provisions of this subsection (17)(d) shall not apply to plan 2 members;

(e) The executive secretary of a labor guild, association or organization (which is an employer under subsection (14) of this section), if such individual has five years previous membership in a retirement system established in chapter [41.16](#) or [41.18](#) RCW. The provisions of this subsection (17)(e) shall not apply to plan 2 members;

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(f) Any person who is serving on a full time, fully compensated basis for an employer, as a fire dispatcher, in a department in which, on March 1, 1970, a dispatcher was required to have passed a civil service examination for firefighter;

(g) Any person who on March 1, 1970, was employed on a full time, fully compensated basis by an employer, and who on May 21, 1971, was making retirement contributions under the provisions of chapter [41.16](#) or [41.18](#) RCW;

(h) Any person who is employed on a full-time, fully compensated basis by an employer as an emergency medical technician that meets the requirements of RCW [18.71.200](#) or [18.73.030](#)(13), and whose duties include providing emergency medical services as defined in RCW [18.73.030](#); and

(i) Personnel serving on a full-time, fully compensated basis as an employee of a fire department in positions that necessitate experience as a firefighter to perform the essential functions of those position.

(18) "General authority law enforcement agency" means any agency, department, or division of a municipal corporation, political subdivision, or other unit of local government of this state, the government of a federally recognized tribe, and any agency, department, or division of state government, having as its primary function the detection and apprehension of persons committing infractions or violating the traffic or criminal laws in general, but not including the Washington state patrol. Such an agency, department, or division is distinguished from a limited authority law enforcement agency having as one of its functions the apprehension or detection of persons committing infractions or violating the traffic or criminal laws relating to limited subject areas, including but not limited to, the state departments of natural resources and social and health services, the state gambling commission, the state lottery commission, the state parks and recreation commission, the state utilities and transportation commission, the state liquor and cannabis board, and the state department of corrections. A general authority law enforcement agency under this chapter does not include a government contractor.

(19) "Law enforcement officer" beginning January 1, 1994, means any person who is commissioned and employed by an employer on a full time, fully compensated basis to enforce the criminal laws of the state of Washington generally, with the following qualifications:

(a) No person who is serving in a position that is basically clerical or secretarial in nature, and who is not commissioned shall be considered a law enforcement officer;

(b) Only those deputy sheriffs, including those serving under a different title pursuant to county charter, who have successfully completed a civil service examination for deputy sheriff or the equivalent position, where a different title is used, and those persons serving in unclassified positions authorized by RCW [41.14.070](#) except a private secretary will be considered law enforcement officers;

(c) Only such full time commissioned law enforcement personnel as have been appointed to offices, positions, or ranks in the police department which have been specifically created or otherwise expressly provided for and designated by city charter provision or by ordinance enacted by the legislative body of the city shall be considered city police officers;

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(d) The term "law enforcement officer" also includes the executive secretary of a labor guild, association or organization (which is an employer under subsection (14) of this section) if that individual has five years previous membership in the retirement system established in chapter [41.20](#) RCW. The provisions of this subsection (19)(d) shall not apply to plan 2 members;

(e) The term "law enforcement officer" also includes a person employed on or after January 1, 1993, as a public safety officer or director of public safety, so long as the job duties substantially involve only either police or fire duties, or both, and no other duties in a city or town with a population of less than ten thousand. The provisions of this subsection (19)(e) shall not apply to any public safety officer or director of public safety who is receiving a retirement allowance under this chapter as of May 12, 1993;

(f) The term "law enforcement officer" also includes a person who is employed on or after January 1, 2024, on a full-time basis by the government of a federally recognized tribe within the state of Washington that meets the terms and conditions of RCW [41.26.565](#), is employed in a police department maintained by that tribe, and who is currently certified as a general authority peace officer under chapter [43.101](#) RCW; and

(g) Beginning July 1, 2024, the term "law enforcement officer" also includes any person who is commissioned and employed by an employer on a fully compensated basis to enforce the criminal laws of the state of Washington generally, on a less than full-time basis, with the qualifications in (a) through (e) of this subsection.

(20) "Medical services" for plan 1 members, shall include the following as minimum services to be provided. Reasonable charges for these services shall be paid in accordance with RCW [41.26.150](#).

(a) Hospital expenses: These are the charges made by a hospital, in its own behalf, for

(i) Board and room not to exceed semiprivate room rate unless private room is required by the attending physician due to the condition of the patient.

(ii) Necessary hospital services, other than board and room, furnished by the hospital.

(b) Other medical expenses: The following charges are considered "other medical expenses," provided that they have not been considered as "hospital expenses."

(i) The fees of the following:

(A) A physician or surgeon licensed under the provisions of chapter [18.71](#) RCW;

(B) An osteopathic physician and surgeon licensed under the provisions of chapter [18.57](#) RCW;

(C) A chiropractor licensed under the provisions of chapter [18.25](#) RCW.

(ii) The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.

(iii) The charges for the following medical services and supplies:

(A) Drugs and medicines upon a physician's prescription;

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- (B) Diagnostic X-ray and laboratory examinations;
 - (C) X-ray, radium, and radioactive isotopes therapy;
 - (D) Anesthesia and oxygen;
 - (E) Rental of iron lung and other durable medical and surgical equipment;
 - (F) Artificial limbs and eyes, and casts, splints, and trusses;
 - (G) Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;
 - (H) Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;
 - (I) Nursing home confinement or hospital extended care facility;
 - (J) Physical therapy by a registered physical therapist;
 - (K) Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;
 - (L) An optometrist licensed under the provisions of chapter [18.53](#) RCW.
- (21) "Member" means any firefighter, law enforcement officer, or other person as would apply under subsection (17) or (19) of this section whose membership is transferred to the Washington law enforcement officers' and firefighters' retirement system on or after March 1, 1970, and every law enforcement officer and firefighter who is employed in that capacity on or after such date.
- (22) "Plan 1" means the law enforcement officers' and firefighters' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.
- (23) "Plan 2" means the law enforcement officers' and firefighters' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977.
- (24) "Position" means the employment held at any particular time, which may or may not be the same as civil service rank.
- (25) "Regular interest" means such rate as the director may determine.
- (26) "Retiree" for persons who establish membership in the retirement system on or after October 1, 1977, means any member in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by such member.
- (27) "Retirement fund" means the "Washington law enforcement officers' and firefighters' retirement system fund" as provided for herein.
- (28) "Retirement system" means the "Washington law enforcement officers' and firefighters' retirement system" provided herein.

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(29)(a) "Service" for plan 1 members, means all periods of employment for an employer as a firefighter or law enforcement officer, for which compensation is paid, together with periods of suspension not exceeding thirty days in duration. For the purposes of this chapter service shall also include service in the armed forces of the United States as provided in RCW [41.26.190](#). Credit shall be allowed for all service credit months of service rendered by a member from and after the member's initial commencement of employment as a firefighter or law enforcement officer, during which the member worked for seventy or more hours, or was on disability leave or disability retirement. Only service credit months of service shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter.

(i) For members retiring after May 21, 1971, who were employed under the coverage of a prior pension act before March 1, 1970, "service" shall also include (A) such military service not exceeding five years as was creditable to the member as of March 1, 1970, under the member's particular prior pension act, and (B) such other periods of service as were then creditable to a particular member under the provisions of RCW [41.18.165](#), [41.20.160](#), or [41.20.170](#). However, in no event shall credit be allowed for any service rendered prior to March 1, 1970, where the member at the time of rendition of such service was employed in a position covered by a prior pension act, unless such service, at the time credit is claimed therefor, is also creditable under the provisions of such prior act.

(ii) A member who is employed by two employers at the same time shall only be credited with service to one such employer for any month during which the member rendered such dual service.

(iii) Reduction efforts such as furloughs, reduced work hours, mandatory leave without pay, temporary layoffs, or other similar situations as contemplated by subsection (15)(c)(iii) of this section do not result in a reduction in service credit that otherwise would have been earned for that month of work, and the member shall receive the full service credit for the hours that were scheduled to be worked before the reduction.

(b)(i) "Service" for plan 2 members, means periods of employment by a member for one or more employers for which basic salary is earned for ninety or more hours per calendar month which shall constitute a service credit month. Periods of employment by a member for one or more employers for which basic salary is earned for at least seventy hours but less than ninety hours per calendar month shall constitute one-half service credit month. Periods of employment by a member for one or more employers for which basic salary is earned for less than seventy hours shall constitute a one-quarter service credit month.

(ii) Members of the retirement system who are elected or appointed to a state elective position may elect to continue to be members of this retirement system.

(iii) Service credit years of service shall be determined by dividing the total number of service credit months of service by twelve. Any fraction of a service credit year of service as so determined shall be taken into account in the computation of such retirement allowance or benefits.

(iv) If a member receives basic salary from two or more employers during any calendar month, the individual shall receive one service credit month's service credit during any calendar month in which multiple service for ninety or more hours is rendered; or one-half service credit month's

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service credit during any calendar month in which multiple service for at least seventy hours but less than ninety hours is rendered; or one-quarter service credit month during any calendar month in which multiple service for less than seventy hours is rendered.

(v) Reduction efforts such as furloughs, reduced work hours, mandatory leave without pay, temporary layoffs, or other similar situations as contemplated by subsection (15)(c)(iii) of this section do not result in a reduction in service credit that otherwise would have been earned for that month of work, and the member shall receive the full service credit for the hours that were scheduled to be worked before the reduction.

(30) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(31) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(32) "State actuary" or "actuary" means the person appointed pursuant to RCW [44.44.010\(2\)](#).

(33) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(34) "Surviving spouse" means the surviving widow or widower of a member. "Surviving spouse" shall not include the divorced spouse of a member except as provided in RCW [41.26.162](#).

Appendix B

From: [DeCamp, Mitch](#)
To: [White, Jacob \(LEOFF\)](#)
Cc: [Nelsen, Steve \(LEOFF\)](#); [Won, Lisa](#); [Harbour, Michael](#)
Subject: LEOFF 2 Standby Pay Pricing Request
Date: Tuesday, December 10, 2024 10:21:16 AM
Attachments: [Standby Pay bill draft.docx](#)

External Email

Jacob,

As requested, please see below the preliminary pricing results for the Standby Pay proposal under consideration by the Board.

Pricing Request

We priced the attached draft bill language provided to OSA on November 26, 2024. The draft bill modifies RCWs [41.26.030](#) related to the definition of basic salary for LEOFF 2 to include standby pay as pensionable compensation. We prepared this preliminary analysis to assist the LEOFF 2 Retirement Board in evaluating this proposal at their December 2024 meeting.

Summary and Highlights

Basic salary determines the compensation used for the calculation of pension contributions and benefits. Current law identifies only salary, overtime payments, and certain deferred wages as part of basic salary. This proposal adds standby pay to the definition of basic salary for LEOFF 2 members, effectively increasing the amount of pay for pension benefit calculations and funding.

Members earn standby pay when remaining available for duty under certain requirements but not actually working. See the [2024 September Standby Pay](#) presentation by LEOFF 2 Board staff for details and examples. Given the limitations of the available data, we provided a range of possible costs for this proposal as follows.

Preliminary Pricing Results		
(Dollars in Millions)	Low Estimate	High Estimate
Change in Present Value of Benefits	\$5	\$45
Change in Present Value of Salaries	12	109
Rounded Employee Rate Impact*	0.00%	0.04%

**We use the rounded Aggregate contribution rate impact when calculating a supplemental rate. Employers and the state pay 60 and 40 percent of this rate, respectively.*

Highlights of Actuarial Analysis

- This proposal has a cost because including standby pay in basic salary increases the compensation over which future pension benefits are determined. The additional contributions

Appendix B

collected over standby pay will only partially offset these costs because this proposal increases the value of past service.

- We received standby pay data for approximately 10 percent of the LEOFF 2 active population for this pricing. Due to the amount of data and variance in the standby pay amounts by department, we provide an estimated range of results.
 - **High Estimate** – Assumed every LEOFF 2 active member will receive the average standby pay amount of \$462 annually.
 - **Low Estimate** – Assumed only members of departments with standby pay in the pricing data will receive the associated standby pay.
- It's our understanding data was primarily collected from departments that were expected to have standby pay. As such, the actual average standby pay could be less than what we assumed for the high estimate when applied to all active LEOFF 2 members. Similarly, the actual average standby pay could be more than what we assumed for the low estimate if other departments also provide standby pay.
 - Future pricing results may fall outside this range with additional data or if standby pay practices change. We are happy to update this analysis on request if new data becomes available.

Assumptions, Methods, and Data

Unless otherwise noted below, we relied on the same assumptions, methods, and data as the [2023 Actuarial Valuation Report \(AVR\)](#).

- LEOFF 2 staff provided standby pay data summarized in the table below. We relied on this information as complete and accurate but understand it is a limited sampling of the overall LEOFF 2 population. We reviewed the data for reasonableness and excluded Seattle fire fighter information based on our analysis that data inconsistencies exist. Otherwise, we believe the files are accurate for purposes of this preliminary estimate.
- We calculated a high and low estimate given the limited amount of data and large variance in standby pay amounts by department. We adjusted the first year General Salary Growth assumption for the respective amount of standby pay assumed for each estimate noted above and applied that assumption to all LEOFF 2 active members. No changes were made to the current law General Salary Growth assumption thereafter.
- We assumed no demographic or economic assumptions would change under this proposal. For example, we assume standby pay would grow at the current plan assumptions for General Salary Growth and Service-Based Salary Increases. In other words, we assume a one-time increase in pay to reflect the additional pensionable compensation and then we assume that new level of pensionable compensation will increase thereafter based on the current salary growth assumptions. Please see [this webpage](#) for a complete list of assumptions.
- We assumed all police and fire departments are not including standby pay as basic salary in our 2023 AVR data. If some departments are inadvertently reporting this compensation as pensionable, then some of the costs of this proposal may already be included in the current liability and contribution rate measures.
- We assumed all stand-by pay is uniformly distributed among all impacted members. If stand-by pay is skewed towards higher or lower paid members, the results could be higher or lower

Appendi

than presented here.

Fiscal Year 2023 Standby Pay Data			
Department	Number	Total Standby Pay	Average Standby Pay
Tacoma Police	361	\$303,870	\$842
Spokane Police	368	\$486,891	\$1,323
Wenatchee Police	40	\$0	\$0
Tacoma Fire	543	\$109,913	\$202
Yakima Fire	107	\$0	\$0
Bellevue Fire	217	\$0	\$0
Spokane Fire	365	\$24,252	\$66
Total	2,001	\$924,925	\$462

Note: Totals may not agree due to rounding.

Actuarial Disclosures

We prepared this analysis based on the draft bill language provided to our office by LEOFF 2 staff. Any changes to the draft bill language or data relied on for this analysis may result in a materially different pricing estimate than provided here.

We believe the actuarial assumptions, methods, and data are reasonable for the purposes of this pricing exercise. We checked the data for reasonableness and found it appropriate for this analysis. If this bill were to advance during session, we would create an Actuarial Fiscal Note (AFN). The results of that AFN may change from what we have shown above.

The actual costs under this proposal could fall outside of the range identified in this analysis. This analysis does not assume any other proposed changes to the retirement plan. The combined effect of several changes could exceed the sum of the individual components.

We prepared this analysis to assist the LEOFF Plan 2 Retirement Board in evaluating the potential costs of this proposal at their December 2024 meeting. Do not use these results for other purposes. Please replace this analysis if a 2025 Session fiscal note becomes available.

Lisa Won, ASA, FCA, MAAA served as the reviewing and certifying actuary for this pricing and is available to answer any questions regarding the analysis presented.

Please let us know if you have questions or need additional information.

Mitch DeCamp, ASA, MAAA | *Actuary*

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Standby Pay

Comprehensive Report
December 18, 2024

Issue

- “Standby pay” is not considered basic salary for LEOFF 2 members, while it is for PERS and PSERS members.

Legislative History

- **1994 – Standby pay included for PERS**
 - Vicinity requirement
 - Prepared to report if needed
- **1995 – Vicinity requirement dropped**
- **2003 – Standby pay included for PSERS (created in 2003)**
- **2016 – LEOFF 2 Board studied, no action**
- **2018 – LEOFF 2 Board studied, no action**

Who Typically Earns Standby Pay?

- **Fire Fighters:**
 - Employees working 8-hour shifts required to muster for fire events
 - Fire fighters called in to supervise volunteers
 - Lieutenant backfilling for absent chief
 - Employees mobilized for fire camps
- **Law Enforcement Officers:**
 - Special squad members, such as detectives

“Basic Salary” – Reportable Compensation

- Used in determining a state retirement system member’s pension
 - Final Average Salary (FAS)
- Generally defined as salaries and wages payable for services rendered
- Certain payments not for personal services rendered may qualify if specifically identified in law

Standby Pay Conditions

- **Typical Standby Pay Conditions**
 - Present at a specified location/timeframe or is immediately available to be contacted
 - Prepared to report immediately for work if the need arises
 - Must not be impaired
 - Less than full pay

How is Standby Paid?

- Depends on the employer, typically negotiated under CBA
- Reduced rate of pay
 - Example: 10% of regular pay
- Full overtime rate for reduced number of hours
 - Example: 1 hour overtime pay for 12 hours of standby
- Regular rate for reduced number of hours
 - Example: 4 hours regular pay for 16 hours standby

Data

Fiscal Year 2023 Standby Pay Data			
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Total	2,001	\$924,925	\$462

Note: Totals may not agree due to rounding.

Pricing

Preliminary Pricing Results		
<i>(Dollars in Millions)</i>	Low Estimate	High Estimate
Change in Present Value of Benefits	\$5	\$45
Change in Present Value of Salaries	12	109
Rounded Employee Rate Impact*	0.00%	0.04%

**We use the rounded Aggregate contribution rate impact when calculating a supplemental rate. Employers and the state pay 60 and 40 percent of this rate, respectively.*

DRS Administrative Review

- Board staff provided a bill draft to DRS
- No administrative concerns were identified

Policy Options

1. Add standby pay to definition of basic salary
 - Pros – Aligns LEOFF 2 with other state pension plans
 - Cons – Increases cost of the plan; data used to identify costs is a small sampling and may not be indicative of the true cost
2. Direct staff to gather additional data and report to Board next interim
 - Pros – More accurate pricing analysis
 - Cons – LEOFF 2 members continue to not have standby pay considered basic salary

Possible Board Action

1. Motion to endorse a bill adding standby pay to basic salary
2. Motion to direct staff to continue to work on gathering data to better identify the cost and provide an updated presentation next interim
3. No action



Thank You

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