

INITIAL CONSIDERATION

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ISSUE STATEMENT

The current administrative practice for catastrophic disability survivors can result in survivors receiving LEOFF 2 pension payments that are significantly less than the LEOFF 2 pension payments the catastrophic disability retiree received.

OVERVIEW

When LEOFF 2 members qualify for a catastrophic disability retirement they have the option to leave a survivor benefit. Calculating the amount that a catastrophic disability retiree's benefit should be reduced is complicated by multiple factors, including whether the retiree is receiving the 70% minimum catastrophic disability benefit or the service retirement benefit; the changing amounts of LNI and social security offsets that may be applied to the catastrophic disability benefit; and whether when the member dies and their death is determined to be line of duty.

BACKGROUND AND POLICY ISSUES

Catastrophic Disability Benefit

LEOFF 2 members who are totally disabled in the line of duty qualify for a catastrophic disability benefit. The catastrophic disability benefit is the higher of 70% of the member's Final Average Salary (FAS) or the member's service retirement.¹ Members receiving a benefit based on 70% of their FAS cannot receive combined benefits from LEOFF 2, Social Security disability, and Workers Compensation that exceed 100% of the member's FAS.² Any amount that exceeds 100% will be offset by decreasing the LEOFF 2 benefit.³

¹ RCW [41.26.470](#)

² Id.

³ Id.

Survivor Benefit

When a member retires, they have the option to choose a survivor beneficiary.⁴ The survivor receives lifetime monthly payments upon the death of the member. Selecting a survivor is optional and will reduce a member's monthly payments. This reduction is an actuarial reduction and is based on the difference in age between the member and their survivor. The policy intent of the reduction a member takes is for the benefit to be "actuarially equivalent", meaning that the amount paid to the member and their survivor should be equal to the amount that would have been paid to the member without a survivor benefit. To meet this policy goal the Office of the State Actuary (OSA) provides the Department of Retirement Systems (DRS) with administrative factors to calculate the reduction. These administrative factors are used for all LEOFF 2 members, not just catastrophic disability retirees.

DRS Administrative Practice

Initially, when the catastrophic disability benefit was created DRS' administrative practice was for survivors of catastrophic disability retirees to receive whichever benefit was greater: a benefit based on their service or based on their catastrophic disability benefit.

When the first catastrophic disability retirees died DRS began looking at whether this was the correct policy or not. They wrote a decision paper (see Appendix A) identifying the pros and cons of the options for administering this benefit and changed their administrative practice to always pay survivors a benefit based on the service retirement benefit. For many catastrophic disability retirees, the service retirement benefit is substantially lower than the 70% minimum benefit.

DRS identified the following concerns with providing a survivor benefit based on the minimum 70% benefit:

1. Survivors could end up receiving a larger on-going benefit than the retiree (if the retiree selected a survivor option and their benefit was actuarially reduced).
2. Members who are killed in the line of duty will be treated differently than those who are catastrophically disabled and later die as a result of their injuries.

DRS identified the following benefits of changing their administrative practice to always pay survivors a benefit based on the service retirement benefit:

1. Members who are either killed in the line of duty or are catastrophically disabled and later die as a result of their injuries are treated the same.

⁴ RCW [41.26.460](#)

2. For future catastrophic disability retirees, survivor benefits will be calculated based on the member's service, rather than the catastrophic disability benefit, because the survivor no longer needs to care for the catastrophically disabled retiree.

DRS' change in practice was in part based on concerns about differences between line of duty death benefits and catastrophic disability benefits. Line of duty death survivors receive a survivor benefit based on the service credit and final average salary of the member, without reductions for early retirement or for a survivor option. There is a minimum benefit of 10% of the member's FAS.

DRS expressed concern in their decision paper (see Appendix A) that a survivor of a member with a catastrophic disability retirement could receive a larger survivor benefit than a survivor of a line of duty death. The legislature has created benefits for those killed in the line of duty that reflect a policy goal of recognizing the sacrifice made by these LEOFF members and an obligation to provide for families in recognition of this sacrifice.

While the policy goals for catastrophic disability retirees are similar, they are not the same and this appears to recognize practical differences between the two situations. For example, members who are killed in the line of duty do not have an opportunity to take a reduction in their retirement to leave their survivor an actuarial equivalent ongoing survivor benefit. Instead, the benefit for members killed in the line of duty is fully subsidized by LEOFF Plan 2. Also, line of duty death survivors receives a combination of a lump sum benefit (with a policy goal that appears to recognize the sudden loss of income, as well as the trauma of that loss, may create a more immediate need for financial support) while still providing a survivor benefit (albeit a potentially smaller benefit than catastrophic disability) for ongoing financial support.

The issue of whether to treat catastrophic disability survivors different than line of duty death survivors is further complicated by the fact that when a catastrophic disability retiree dies their death may be ruled a line of duty death. If the death is found to be in the line of duty the survivor would receive those corresponding benefits, including the fully subsidized survivor benefit. Therefore, under DRS's current administrative practice the survivor of a catastrophic disability member whose death has been determined to be line of duty may need to be refunded any reduction in benefit payments the member made to leave a survivor benefit that is equal to the fully subsidized survivor benefit they are owed.

SUPPORTING INFORMATION

Appendix A: Department of Retirement System Decision Paper, 9/25/13.

Issue Summary

Issue	Survivor Benefits for LEOFF Catastrophic Disability Retirees
Decision Objective	Determine how to transition the account of a LEOFF retiree receiving catastrophic disability benefits when the retiree dies, whether as a result of their duty-related disability or not.
Decision Authority	Leadership Team
Status	Final

Background

Background Statistics	There are currently 29 LEOFF Plan 2 Catastrophic Disability retirees. Of these 29, 2 did not select a survivor option at the time of retirement.
Analysis	As part of our analysis, we evaluated statutes and rules related to death benefits. We also reviewed the Duty-Related Death and Disability Issue/Decision Log from 2010-2011.
Issue Significance	In the past 18 months, two retirees receiving catastrophic benefits died as a result of their duty-related disability. There was uncertainty around how to transition their benefits to their survivor. We know that this will become an increasing issue and we need to clearly communicate to members and retirees the benefit their survivor will be entitled to so they can make informed decisions at the time they apply for disability benefits. When the existing catastrophic disability retirees applied for retirement, they were told that the survivor benefits would be based on their catastrophic disability benefit, as opposed to a benefit based on their service.
Historical Context	For the two catastrophic disability retirees that have died as a result of their duty-related disability, their survivors received whichever benefit was greater: a benefit based on their service or based on their catastrophic disability benefit. This was an interim decision until we could make a formal decision and communicate it to members and retirees.

Business Area(s) Impacted

Internal Stakeholders	RSD's Death and Disability Unit and Contact Center
External Stakeholders	Members of LEOFF Plan 2 applying for disability benefits, current retirees receiving catastrophic disability benefits and LEOFF 2 Board.

Key Business Requirements

Key business needs	List the key business needs that must be addressed and/or the required deliverables
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Required Deliverables

Alternatives

There are multiple issues that impact this issue:

- Whether or not the retiree died as a result of their duty-related disability.
- Whether or not the retiree selected a survivor option.
- Whether or not the retiree is married or has eligible dependents at the time of death.

1. For retirees already receiving a catastrophic disability benefit, their survivor will receive whichever benefit is greater: a benefit based on their service or based on their catastrophic disability benefit.

For new catastrophic disability retirees, the member will be advised on their options at the time of retirement. If they choose a survivor option, their benefit will be reduced based on the underlying service benefit they would be entitled to, not based on the catastrophic benefit (in most cases this reduction would be lower).

If they later die as a result of their duty-related disability, we would treat it like a line of duty death. The on-going benefit would be based on the underlying service retirement, not on the catastrophic disability benefit. The survivor's benefit would not be reduced based on the survivor option selected at time of retirement.

If they later die from something unrelated to their duty-related disability, their survivor benefit (if they selected a survivor option) would be based on the underlying service retirement, not on the catastrophic disability benefit. The survivor's benefit would be reduced based on the survivor option selected at the time of retirement. If the member did not select a survivor option, there is no on-going benefit.

The programming and BSA estimate for this alternative is 330 hours.

Pros

- Survivors of current catastrophic disability retirees will receive the benefit the member was advised of at the time of retirement.
- In the future, members who are either killed in the line of duty or are catastrophically disabled and later die as a result of their injuries are treated the same.
- For future catastrophic disability retirees, survivor benefits will be calculated based on the member's service, rather than the catastrophic disability benefit, because the survivor no longer needs to care for the catastrophically disabled retiree.

Cons

- Not all catastrophic disability retirees will be treated the same. There will be a group that is "grandfathered" into an option that could provide a benefit based on the catastrophic disability benefit, while another group will have survivor benefits based only on service.
- If the retiree selects a survivor option at the time of retirement, their benefit is actuarially reduced. However, if they die as a result of their duty-related disability the survivor benefits always go to a spouse or eligible dependents. The named survivor, if different from the spouse or eligible dependents, will not receive an on-going benefit even though a survivor option was selected.
- Explaining these scenarios to future members could be challenging and will be critical to ensuring members make informed decisions at retirement.

2. At the time of retirement, the member will be advised on their options. If they choose a survivor option, their benefit will be reduced based on the underlying service benefit they would be entitled to, not based on the catastrophic benefit (in most cases this reduction would be lower).

If they later die as a result of their duty-related disability, we would treat it like a line of duty death. The on-going benefit would be based on the underlying service retirement, not on the catastrophic disability benefit. The survivor's benefit would not be reduced based on the survivor option selected at time of retirement.

If they later die from something unrelated to their duty-related disability, their survivor benefit (if they selected a survivor option) would be based on the underlying service retirement, not on the catastrophic disability benefit. The survivor's benefit would be reduced based on the survivor option selected at the time of retirement. If the member did not select a survivor option, there is no on-going benefit.

See Attachment A – LEOFF Catastrophic Disability Matrix for details on this alternative.

The programming and BSA estimate for this alternative is 200 hours.

Pros

- Members who are either killed in the line of duty or are catastrophically disabled and later die as a result of their injuries are treated the same.
- Survivor benefits are calculated based on the member's service, rather than the catastrophic disability benefit, because the survivor no longer needs to care for the catastrophically disabled retiree.

Cons

- If the retiree selects a survivor option at the time of retirement, their benefit is actuarially reduced. However, if they die as a result of their duty-related disability the survivor benefits always go to a spouse or eligible dependents. The named survivor, if different from the spouse or eligible dependents, will not receive an on-going benefit even though a survivor option was selected.
- Explaining these scenarios to members could be challenging and will be critical to ensuring members make informed decisions at retirement.

3. If a retiree receiving catastrophic disability benefits dies, give the survivor whichever benefit is greater: a benefit based on their service or based on their catastrophic disability benefit.

The programming and BSA estimate for this alternative is 390 hours.

Pros

- Explaining these scenarios to members could be easier.
- The survivor will always get the best benefit possible.

Cons

- Survivors could end up receiving a larger on-going benefit than the retiree (if the retiree selected a survivor option and their benefit was actuarially reduced).
- Members who are killed in the line of duty will be treated differently than those who are catastrophically disabled and later die as a result of their injuries.

Recommendations

Recommended Alternative

We recommend Alternative 1.

Supporting Reasons

Current catastrophic disability retirees may not have been counseled correctly about how their survivor benefit would be calculated. Since those who selected a survivor

Decision Statement

option had their benefit was reduced based on the catastrophic benefit, not the underlying service-based benefit, it makes sense to provide their survivor with the benefit they "paid for."

Team Members

Who:

Signature:

Date:

Jennifer Dahl

Dave Nelsen

Alex Kasuske

Jennifer Dahl
Dave Nelsen
Alex Kasuske

5/30/14
5/30/14
5-30-2014

Follow-up Required for Implementation: If implementation of the approved alternative will require follow up of some kind such as communication to staff or members, or writing a policy or WAC, place a check mark by what is required and indicate who is responsible for ensuring that the task gets completed. Due dates and completion dates can be tracked using an action log or other method.

Type of follow-up required	Person responsible
<input type="checkbox"/> Policy/Procedure	
X WAC	
<input type="checkbox"/> RCW revision	
X Update Business Requirements	
X Update Technical Requirements	
X Communication	
<input type="checkbox"/> Other (List)	

Decision

Selected Alternative

Alternative 1.

Decision Support

Decision Statement

Approval

Who:

Signature:

Date:

Marcie Frost

Marcie Frost

5/30/14

Wilma Eby

Wilma Eby

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Mark Feldhausen

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LEOFF 2 Catastrophic Disability Matrix

Member Receiving a Catastrophic Disability		Member Dies From Something Unrelated to Their Duty-Related Disability		Member Dies as a Result of Their Duty-Related Disability (Treated as "Line of Duty Death")							
				Member Married at Time of Death			Member Unmarried at Time of Death				
		No Survivor Option	Survivor Option				No Survivor Option	Survivor Option – Spouse	Survivor Option – Other	No Survivor Option	Survivor Option – Eligible Dependent
1	Is there an ongoing benefit?	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	N
2	Who is entitled to the ongoing benefit?		Named Survivor	Spouse	Spouse	Spouse	Eligible Dependent	Eligible Dependent	Eligible Dependent		
3	What is the benefit based on?		Service	Service	Service	Service	Service	Service	Service		
4	Is the benefit reduced based on the survivor option selected?		Yes	No	No	No	No	No	No		
5	If retiree dies before all contributions are used, who gets remaining contributions?	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene
If a member dies as a result of their duty-related disability:											
6	Do we "refund" the reduction the member paid due to the survivor option selected?				No	No		No	No		
7	Who is entitled to one-time death benefit?			Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene	Named Bene
8	If member named a non-spouse as their survivor, will the named survivor receive an ongoing benefit when the spouse dies?					No					
9	If the member named a non-dependent as their survivor, will the named survivor receive a benefit when the eligible dependent turns 18?								No		
10	If the member named an eligible dependent as their survivor, will the eligible dependent that was the named survivor continue to receive an ongoing benefit after age 18?							No			

Updated 6/25/13



Catastrophic Disability Survivor Benefit

Initial Consideration
July 23, 2025

Issue

- The current administrative practice for catastrophic disability survivors can result in survivors receiving LEOFF 2 pension payments that are significantly less than the LEOFF 2 pension payments the catastrophic disability retiree received.

Catastrophic Disability Benefit

Higher benefit of:

- **Minimum Benefit - 70% FAS**
 - Offsets for Worker's Compensation, Social Security Disability so total benefits are not more than 100% FAS
- **Service Retirement**

Survivor Benefits

- Member takes a reduction in their benefit so that they can leave an ongoing benefit for their survivor
- Reduction is based on the difference in age between the member and survivor
- Policy intent is for the reduction to be cost neutral to the plan

DRS Decision Paper - Original Practice

- Survivor benefit was based on the catastrophic benefit (either 70% FAS or service benefit)
- DRS list of cons :
 1. Survivors could end up receiving a larger on-going benefit than the retiree (if the retiree selected a survivor option and their benefit was actuarially reduced).
 2. Members who are killed in the line of duty will be treated differently than those who are catastrophically disabled and later die as a result of their injuries.

DRS Decision Paper – Current Practice

- Survivor benefit should be based on the underlying service benefit member would be entitled to, not based on the catastrophic benefit they are receiving.
- DRS list of pros:
 1. Members who are either killed in the line of duty or are catastrophically disabled and later die as a result of their injuries are treated the same.
 2. For future catastrophic disability retirees, survivor benefits will be calculated based on the member's service, rather than the catastrophic disability benefit, because the survivor no longer needs to care for the catastrophically disabled retiree.

Line of Duty Death Survivor Benefit

- Survivor receives a survivor benefit based on the service credit and final average salary of the member, without reductions for early retirement or for a survivor option.
- Minimum Benefit – 10% of the member's FAS

Policy Goals

- While the policy goals for catastrophic disability and killed in the line of duty benefits are similar, the situations have practical differences, and the benefits reflect this.
- Catastrophic disability retirees have time to take reductions in their benefit to leave cost-neutral survivor benefit.

Current Process Example

Member qualifies for catastrophic disability. He is 35 years old with 10 years of service credit and a FAS of \$10,000/month.

- Member receives 70% Minimum Benefit - \$7,000/month
 - Service retirement: $\$2,000 \times .3573$ (early retirement) = \$714.60
- Survivor benefit options are based on unreduced service retirement amount \$2,000
 - Wife is 2 years younger, and member chooses 100% benefit (administrative factor .848)
 - Survivor benefit will be \$1,696
 - DRS reduces member's \$7,000 by \$304 a month

Catastrophic Disability Death

- **Death not determined to be line of duty**
 - Survivor receives the survivor benefit that the retiree has been taking a reduction to provide
- **Death determined to be line of duty**
 - The survivor now qualifies for the fully subsidized line of duty survivor benefit
 - Retiree has been taking reductions to provide a survivor benefit

Next Steps

1. Recommendation to DRS for rule making
2. Motion for a Comprehensive Report



Thank You

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