

EDUCATIONAL BRIEFING

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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.

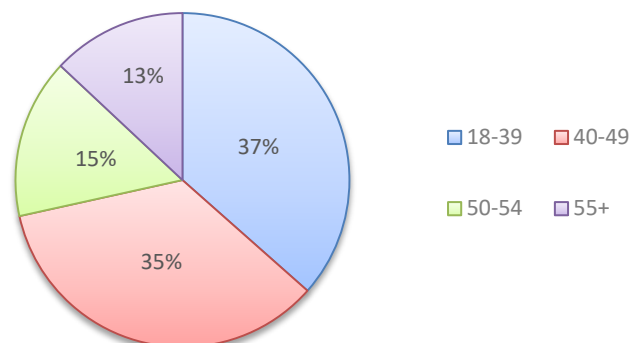
More recently, with the increasing amounts of baby boomers being eligible to retire, we're seeing the supply of the workforce unable to keep up with the future demand of open positions. This has led to the disappearance of the common practice of using retirement bonuses to incentivize older workers to 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

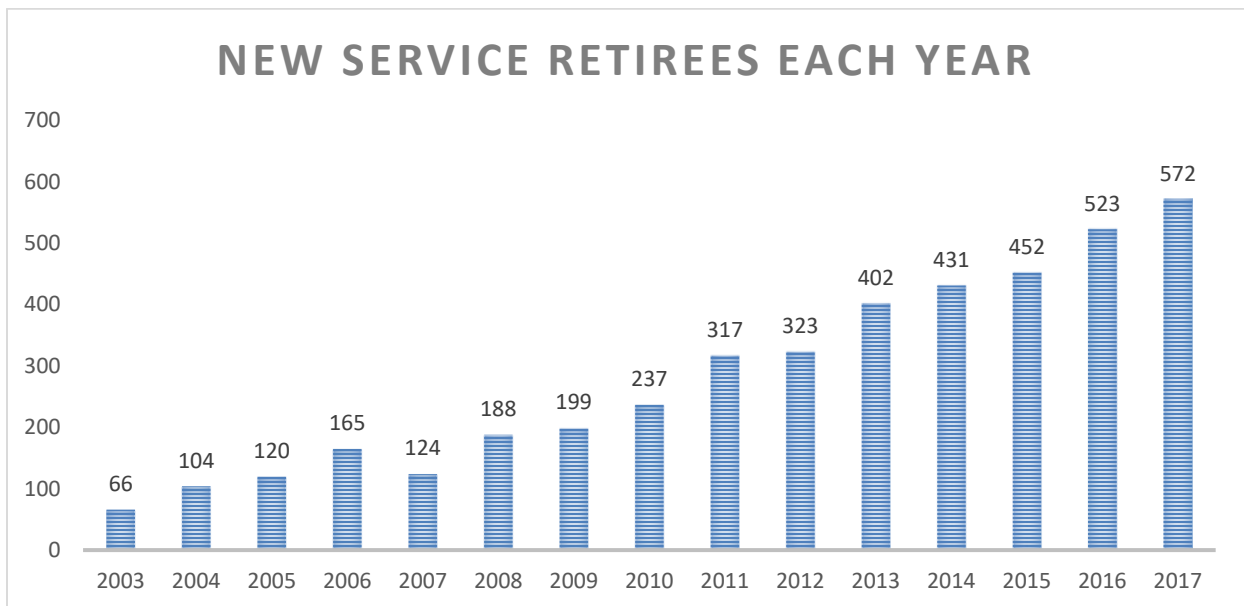


What these age distributions and upcoming retirements signify, is a pending shift away from an employee population of seasoned veterans. When these retirements happen, most firehouses and police stations across Washington State will be staffed with a higher number of younger fire fighters and law enforcement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

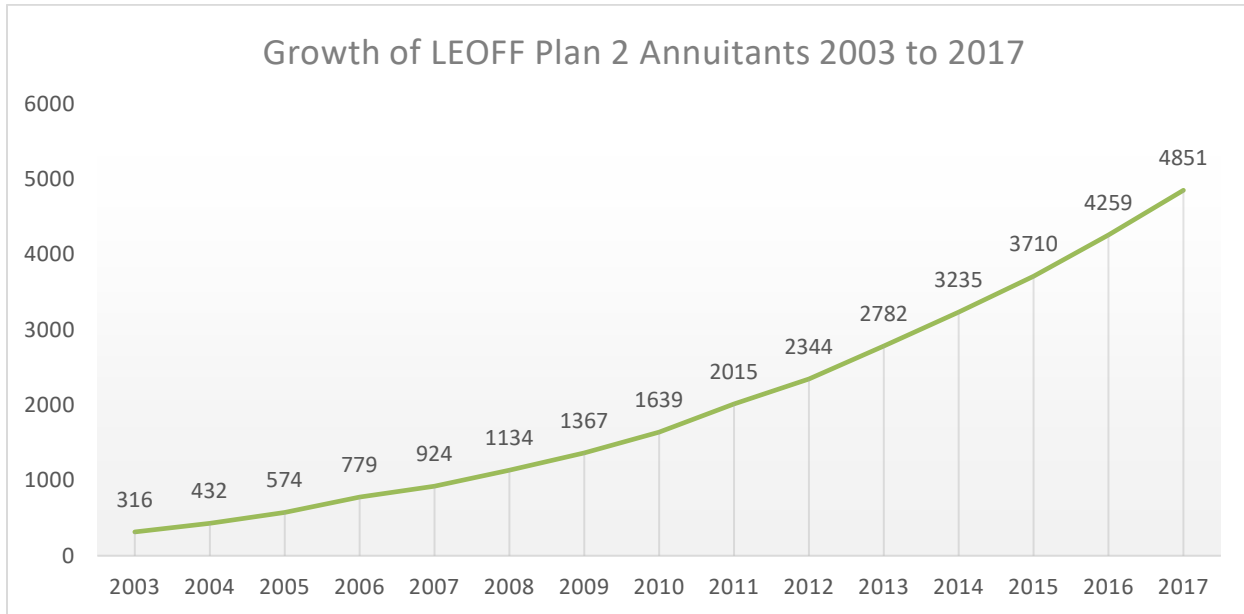
RETIREMENT STATISTICS

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

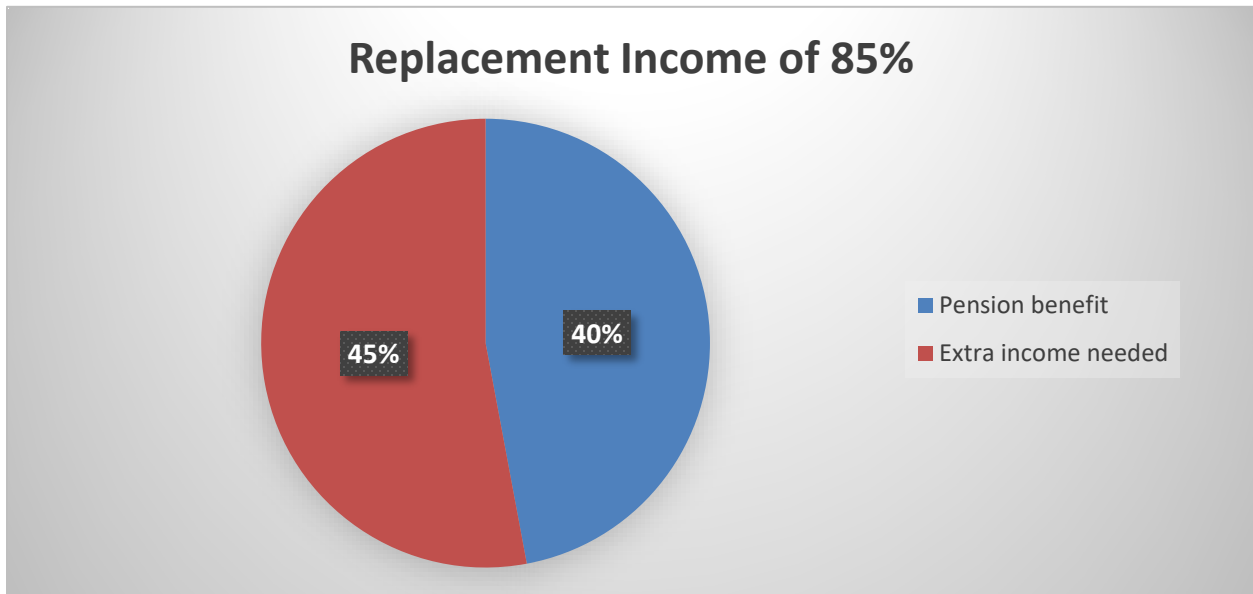
The average LEOFF Plan 2 member is hired at age 33. For both groups, this means they will have only 20 years of service by the time they reach normal retirement age. This calculates to receiving a yearly benefit in retirement of only 40% of their final average salary (FAS).

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

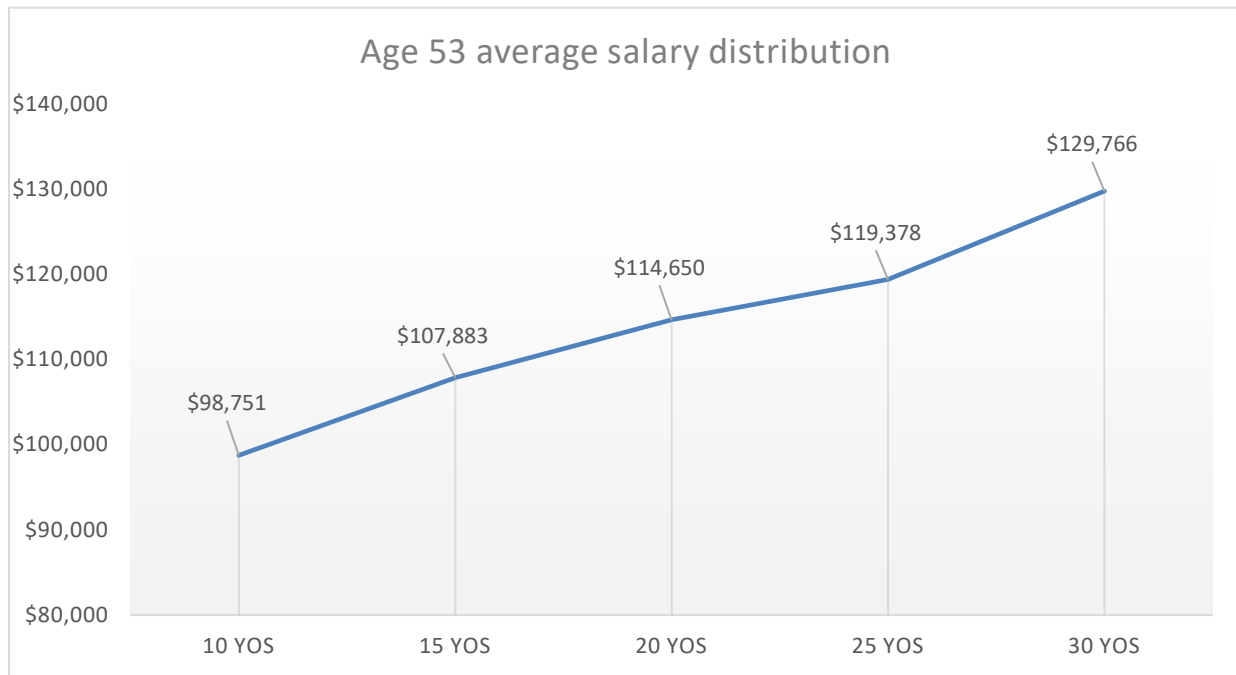
LEOFF Plan 2 membership, need to have an 85% income replacement ratio in retirement to maintain their pre-retirement standard of living.

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

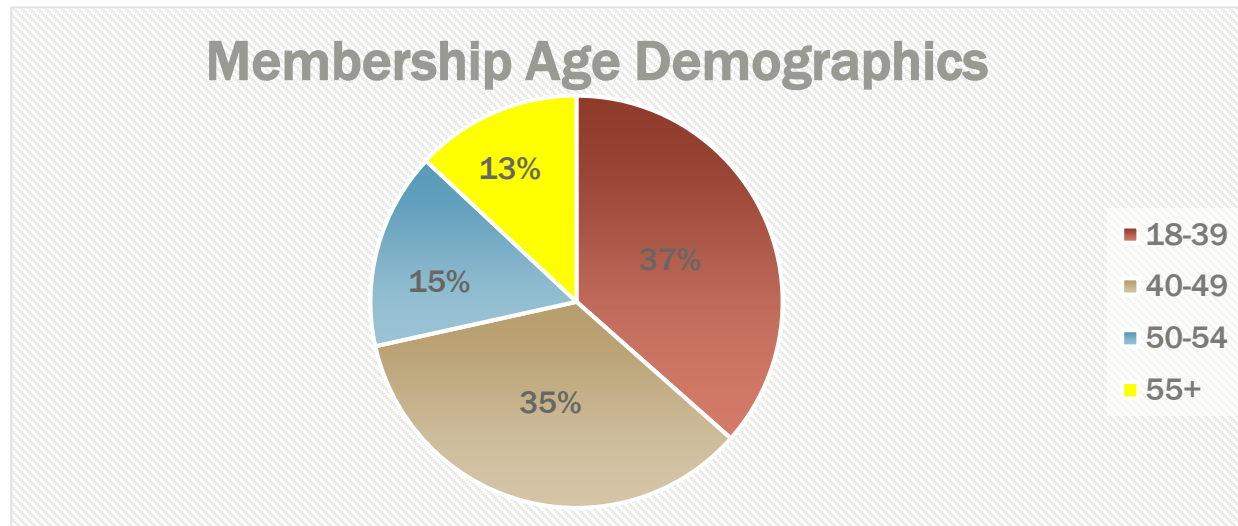
Educational Briefing
December 19, 2018

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



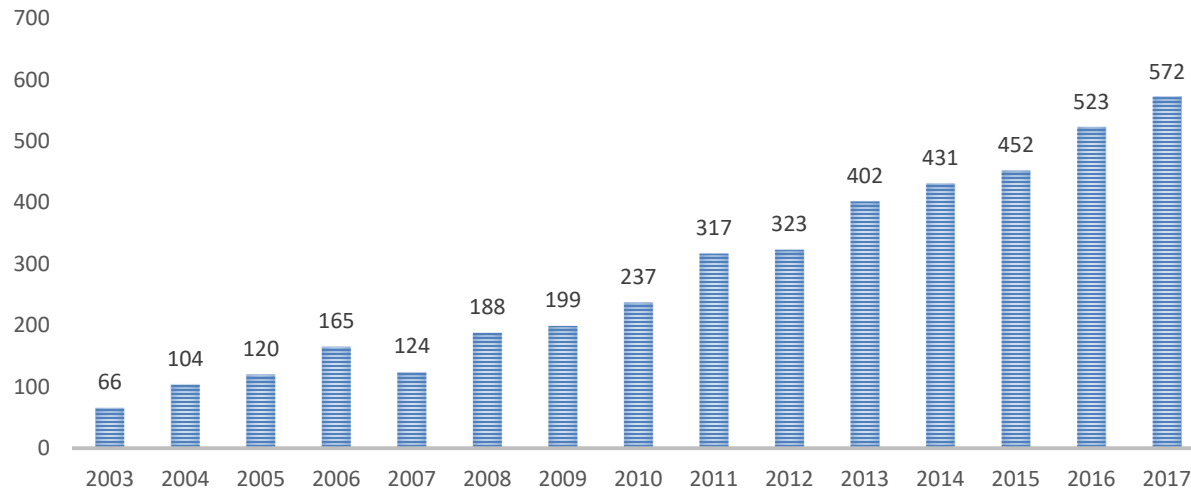
Background

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

Background

- Number of retirees increasing each year

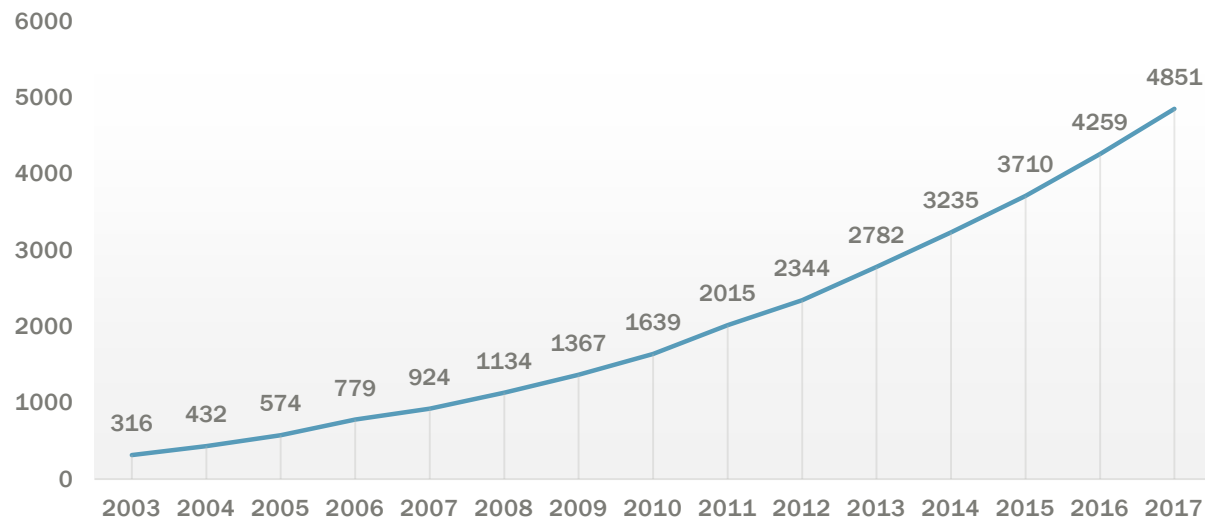
NEW SERVICE RETIREES EACH YEAR



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

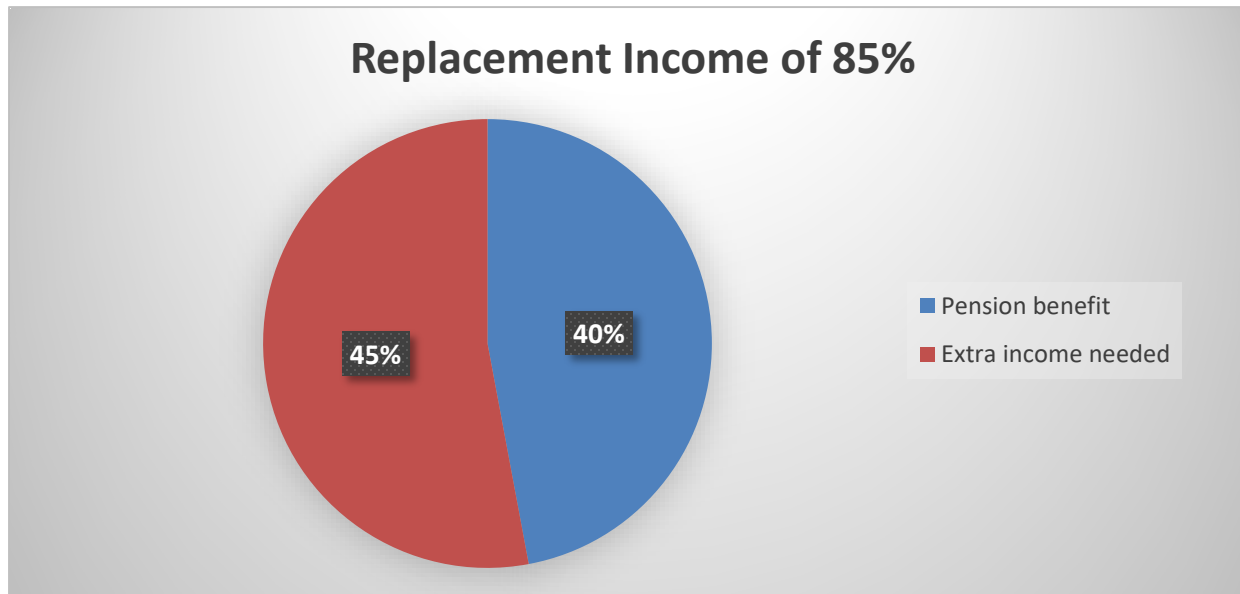
- Why are members continuing to work past normal retirement age?
 - Normal retirement age is 53
 - Average retirement age for law enforcement is 55.5
 - Average retirement age for fire fighters is 56.8

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)

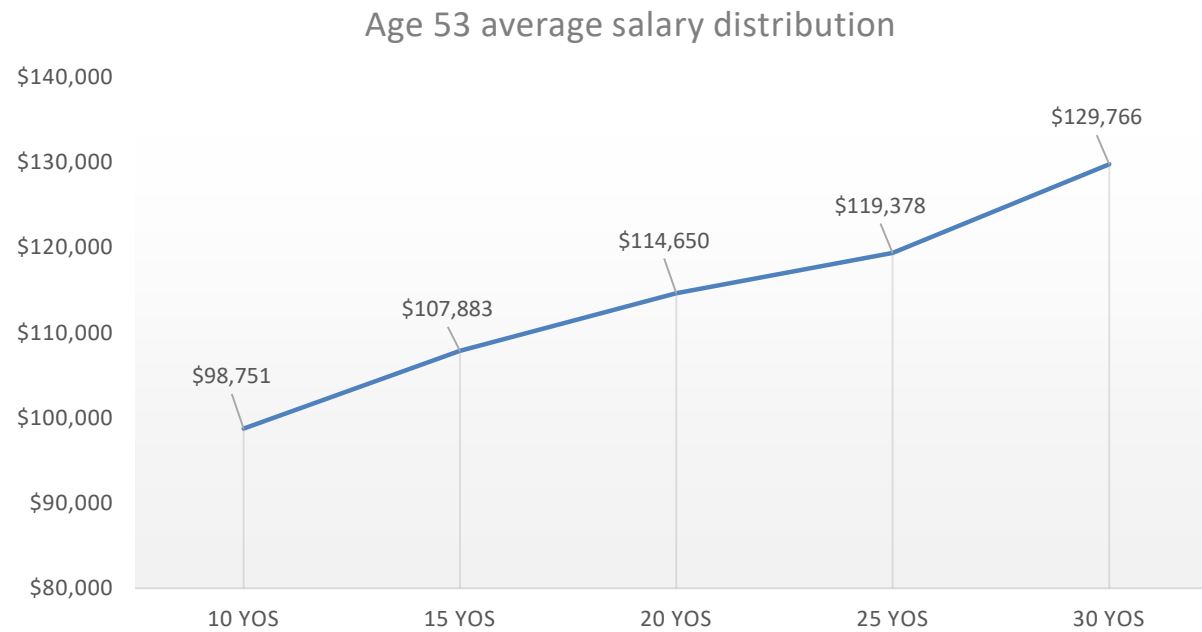
Background

- 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

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