$150,000 Death Benefit

Background

A $150,000 lump sum death benefit is provided for public employees who die from duty-related causes. The benefit is payable upon death from duty-related injury in all retirement systems. The benefit is also payable upon death from duty-related illness in LEOFF 2, and in the Volunteer Firefighters' Relief and Pension Fund. Eligibility for the benefit is determined by the Department of Labor and Industries. The amount of the benefit is not adjusted for inflation and has not changed since 1996.

A bill dealing with the $150,000 death benefit was introduced during the 2006 Legislative session. HB 2933 expanded the eligibility for the death benefit to include LEOFF 2 members who die from occupational diseases and indexed the death benefit for LEOFF 2 in the same manner as LEOFF 2 retirement benefits. The indexing provision was removed from the version of the bill that passed (Chapter 351, Laws of 2006). During the 2006 interim, the LEOFF 2 Retirement Board asked the Select Committee on Pension Policy to study adding an inflationary adjustment to the $150,000 death benefit for all plans.

Committee Activity

Presentations:
- June 20, 2006 – Full Committee
- September 19, 2006 – Full Committee

Proposal:
- November 21, 2006 – Full Committee

Recommendation to Legislature

Expand eligibility for the $150,000 death benefit to include death from duty-related illness in all plans where it is not already provided; and index the amount of the death benefit to cumulative changes in the *Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton*, with a maximum change of 3 percent per year.

Staff Contact

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In Brief

PROPOSAL

A $150,000 death benefit is provided to survivors of public employees who die as a result of a duty-related injury or illness. The benefit amount is not adjusted for inflation and has not changed since 1996.

The LEOFF 2 Board has proposed that the $150,000 death benefit be annually adjusted for inflation.

Secondary issues identified by the OSA include differences in the eligibility criteria between plans and a technical issue related to the Volunteer Fire Fighters' system.

MEMBER IMPACT

Fewer than 13 duty-deaths are expected each year from a group of over 465,000 current and former public employees.

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$150,000 Death Benefit

Current Situation

Survivors of public employees who die as a result of injuries sustained or, in some cases, illnesses contracted in the course of employment are eligible to receive a lump sum death benefit of $150,000. Determination of eligibility is made by the Department of Labor and Industries (L&I). The benefit amount is set in statute, is not adjusted for inflation, and has not changed since the benefit was first established in 1996. Some differences exist in the eligibility criteria between plans. Benefits are provided by the state retirement systems and, in some cases, the state general fund. The benefits are not subject to federal income tax.

Survivors of members of the following retirement systems receive a $150,000 lump sum benefit for death due to duty-related injury:[1]

- Public Employees' Retirement System (PERS);
- Teachers' Retirement System (TRS);
- School Employees' Retirement System (SERS);
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF);
- Washington State Patrol Retirement System (WSP);
- Public Safety Employees' Retirement System (PSERS);
- Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFF);[2]
- Judicial Retirement System (JRS);[3] and
- Higher Education Retirement Plans (HIED).[3]

1. *In VFF and LEOFF Plan 2 the death benefit is also provided for deaths resulting from a duty-related illness.*
2. *VFF provides an additional $2,000 duty death benefit.*
3. *Benefits paid from the state general fund.*

Also, survivors of state, school district, and higher education employees who are not members of a state retirement system receive a $150,000 lump sum benefit for death due to duty-related injury paid from the state general fund.

In addition to the $150,000 death benefit, survivors of public employees who die from duty-related causes may be eligible to receive other death benefits from federal and state sources. These benefits are discussed in greater detail under the section "Death Benefits for Public Employees."

Figure 1

Number of $150,000 Death Benefits Paid *	
Plan	**Benefits Paid**
LEOFF 2	20
PERS 2	7
LEOFF 1	2
VFF	2
PERS 1	1
TRS 3	1
WSP	1
Unknown *(paid from general fund)*	3
Total	**37**

**Length of reporting period varies among systems.*

Members Impacted

Any of the more than 465,000 estimated active, retired, disabled, and terminated vested members of PERS, TRS, SERS, LEOFF, WSP, PSERS, JRS, HIED, and the VFF retirement systems who die from duty-related causes may be impacted. State, school district, and higher education employees who are not members of a state retirement system and who die from duty-related causes may also be impacted. Counts for HIED are estimated based on 2003 data; all other counts are based on data as of September 30, 2005.

It is expected that fewer than 13 duty-related deaths will occur each year. Figure 1 shows the history of duty-death benefits paid to date.

History

The $150,000 death benefit was first established in LEOFF and WSP in 1996 and subsequently extended to various other groups of public employees.

Since 1996, a total of eight bills dealing with the $150,000 death benefit have passed—the most recent in 2006.

The most recent activity around this benefit occurred with HB 2933 during the 2006 legislative session. HB 2933 was request legislation of the LEOFF Plan 2 Retirement Board. The original bill expanded eligibility for the $150,000 death benefit to include death resulting from a duty-related illness and added an annual increase to the lump sum benefit amount. The annual increase was tied to changes in the

Consumer Price Index for Wage Earners and Clerical Workers [CPI-W] for Seattle-Tacoma-Bremerton [STB], up to a maximum of 3 percent per year—the same increase provided for LEOFF Plan 2 retirement benefits. The proposed annual increase was not included in the version of the bill that passed (Chapter 351, Laws of 2006). Since 1996, a total of eight bills dealing with the $150,000 death benefit have passed the Legislature (see Figure 2).

Figure 2

History of Legislative Changes to the $150,000 Death Benefit		
Year	**Bill**	**Effect**
1996	E2SSB 5322	$150,000 death benefit established for LEOFF and WSP.
1998	SB 5217 ESB 6305	$150,000 death benefit established in VFF. $150,000 death benefit is established for survivors of PERS 1 port and university police officers.
1999	ESSB 5180 (Budget)	$150,000 death benefit provided to teachers and paid as sundry claim from general fund. Expired 6/30/2001.
2000	EHB 2487 (Budget)	$150,000 death benefit provided to school district employees and paid as sundry claim from general fund. Expired 6/30/2001.
2001	ESSB 6153 (Budget)	$150,000 death benefit provided to state, school district, and higher education employees and paid as sundry claim from general fund. Expired 6/30/2003.
2003	HB 1207	$150,000 death benefit established in PERS, TRS, and SRS. Benefit also provided as a sundry claim to the general fund for state, school district, and higher education employees who are not eligible to receive the benefit from a state retirement system.
2006	SHB 2933	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for LEOFF 2.

Policy Analysis

Several elements may be considered when examining the policy implications of adjusting the $150,000 death benefit for inflation. This paper will specifically look at:

- State policy on inflation protection;
- The effects of inflation;
- Indexing benefits to protect against inflation;
- Death benefits for public employees;
- Lump sum death benefits in comparative systems;
- Plan differences in the benefit provisions;

- Administration of death from duty-related illness claims; and,
- A technical issue related to VFF.

State Policy on Inflation Protection

State policy on protecting retirement benefits from inflation can be found in existing policy statements and further inferred from plan design. The SCPP has adopted as a stated goal ". . . to increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS. . . ." The Plans 2/3 of the state's retirement systems, the most recently created tiers, provide an annual Cost-of-Living Adjustment (COLA) on retirement pensions. The Plan 2/3 COLA is based on inflation as measured by changes in a Consumer Price Index (CPI). The inclusion of this COLA in the Plan 2/3 design indicates a clear desire to protect retirement pensions from the effects of inflation.

Effect of Inflation on the $150,000 Death Benefit

The value of the death benefit has declined 21 percent since 1996.

Inflation erodes the relative value of a fixed dollar amount over time. The $150,000 death benefit was first established in 1996. The cumulative effect of inflation since then has eroded 21 percent* of the relative value of the benefit. If inflation were to continue at a rate of 3.5 percent a year for the next ten years, the total value of the benefit lost since 1996 would amount to 44 percent*.

**Based on CPI-W STB, all Items. Actual CPI data used through 2005, projected at 3.5 percent from 2006-2015.*

Indexing

Indexing is a common way to protect benefits against inflation. Indexing may be full, partial, or level.

A frequently used method of protecting the value of a benefit against inflation is indexing. Indexing involves making annual adjustments to the benefit amount based on changes in an underlying measure of inflation.

One of the most commonly used measures of inflation is the CPI, which records changes in the price of a set "market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation.

A key issue in indexing benefits is the amount of inflation protection to provide. The value of a benefit may be:

- *Fully* protected from inflation (full indexing);
- Protected up to a *maximum* amount of inflation (partial indexing);
- Protected against a *set* amount of inflation (level indexing).

A *fully indexed* benefit increases at the same percentage change as inflation each year. This method ensures the full purchasing power of the benefit is always maintained, but can lead to greater than expected costs if actual inflation exceeds the amount assumed for funding the benefit. Examples of fully indexed retirement benefits include Social Security, which is indexed to the CPI-W, All U.S. Cities; and the LEOFF Plan 1 pension, which is indexed to the CPI-W STB.

A *partially indexed* benefit increases with the percentage change in inflation each year up to a maximum percentage. In years where inflation exceeds the maximum, the benefit will lose some purchasing power. The index can be designed to allow the benefit to recover lost purchasing power during periods when actual inflation is lower than the maximum. This method can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Examples of partially indexed retirement benefits are Plan 2/3 pensions, which are indexed to the CPI-W STB, to a maximum of 3 percent.

A *level indexed* benefit increases by a fixed percentage every year. Purchasing power is lost in years when inflation exceeds the fixed percentage and is gained in years when inflation is less than the fixed percentage. This method is simple to administer and can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Under this method, if actual inflation is consistently less than the fixed amount, the purchasing power of the benefit will increase. An example of a level indexed retirement benefit is the PERS and TRS Plan 1 Uniform COLA, which increases by 3 percent each year.

A key policy consideration is the intended purpose of the benefit.

One of the key considerations in using indexing to protect the value of a benefit from inflation is the intended purpose of the benefit. Is the benefit intended to become part of the ongoing income stream of an individual and support a standard of living, or, is the benefit intended to provide one-time relief for specific situations? The answer to this question will have significant policy implications.

Indexing a lump sum does not provide inflation protection to an individual.

Indexing a pension or other annuity-type benefit provides inflation protection to the recipient by maintaining the relative value of the annuity payments over time. In contrast, increasing the amount of a lump sum benefit through indexing does not provide inflation protection to an individual recipient since the payment is not received “over time” — it is received only once. From the perspective of policy makers, there may be less need to automatically adjust a lump sum benefit for inflation because the benefit does not become part of an individual’s ongoing income stream. One reason policy makers may wish to automatically adjust the amount of a lump sum benefit for inflation is to maintain equity in the value of the benefit among successive generations of recipients.

Death Benefits for Public Employees

Survivors may receive a variety of death benefits.

In addition to the $150,000 death benefit, survivors of public employees who die from duty-related causes may be eligible to receive a variety of other benefits including:

- Survivor, funeral, and death benefits from the retirement plan;
- L&I death benefits;
- Social Security survivor benefits;
- Federal public safety officers death benefits; and,
- Reimbursement of premiums paid to the Health Care Authority.

Employer provided life insurance is beyond the scope of this paper and is not considered among the benefits provided.

Figure 3 shows counts for the different types of survivor benefits provided. The "Total" column shows the total number of types, the "Indexed" column shows how many are annually adjusted using an index, and the "Duty" column shows how many are paid for duty-related deaths only. Survivor benefits from state retirement systems that are of essentially the same form are considered a single type. As seen from Figure 3, benefits paid in the form of a monthly annuity are much more likely to have some form of annual adjustment than benefits paid in a lump sum. A detailed list of the different types of survivor benefits is provided in Appendix A.

Figure 3

Types of Survivor Benefits			
Type	**Total**	**Indexed**	**Duty**
Annuity	9	7	3
Lump Sum	7	3	5

The table below summarizes the lump sum death benefits provided for public employees (Figure 4). The most significant other lump sum death benefit provided is the federal Public Safety Officers' Benefits Death Benefit. This benefit ($283,385 in 2005) is payable to survivors of law enforcement officers, fire fighters, and other public safety personnel who die in the line of duty. The benefit is fully indexed to inflation.

Figure 4

Lump Sum Death Benefits Provided for Public Employees[1]		
Benefit	**Amount**	**Annual Adjustment**
$150,000 Death Benefit	$150,000 (+$2,000 in VFF)	None
VFF Funeral Benefit	$2,000	None
<u>TRS 1 Death Benefit</u>	$400 or $600	None
L&I Death Lump Sum	100% state average monthly wage ($3,253)[2]	Indexed to state average wage
L&I Burial Benefit	Up to 200% state average monthly wage ($3,253)[2]	Indexed to state average wage
<u>Social Security Burial Benefit</u>	$255	None
Federal Public Safety Officers' Death Benefit	$283,385 as of 10/01/2005	Indexed to CPI

1. Eligibility includes duty and non-duty deaths and varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. <u>Underlined</u> benefits are payable whether or not the death is duty-related. Excludes employer provided life insurance.

2. As of 7/01/2005.

Death Benefits in Comparative Systems

Most of the comparative systems provide survivor annuities similar to those in Washington systems. The annuities are generally based on the member's earned benefit or some percentage of the member's salary. Five of the comparative systems also provide some type of lump sum death benefit — none of which are indexed (see Figure 5). Three of the systems (Colorado, Idaho, and Wisconsin) provide a lump sum based on the member's contributions. Since contributions are based on salaries, and salaries grow with inflation, contribution-based lump sums effectively have built-in inflation adjustments. One system (California) provides a lump sum that is "periodically adjusted".

Figure 5

Lump Sum Death Benefits in Comparative Systems

System	Benefit Amount	Annual Adjustment
California CALSTRS	$6,136	Periodically adjusted
Colorado PERA	200% return of contributions, plus interest	None
Idaho PERSI	200% return of contributions plus interest	None
Iowa IPERS	$100,000 for line of duty-death	None
Wisconsin WRS	200% return of contributions, plus interest	None

Plan Differences in the $150,000 Death Benefit

The Legislature has set forth a policy that retirement systems should provide similar benefits wherever possible (RCW 41.50.005[1]). One area of concern is that differences in benefits may create a perception of inequity and lead to calls for legislative remedy. This often creates a ripple effect as benefit changes are adopted for one plan and incrementally extended to other plans.

Eligibility for benefits upon death from duty-related illness differs between plans.

There is one area in which the provisions of the $150,000 death benefit differ between plans: eligibility for benefits upon death resulting from a duty-related illness. In 2006, the Legislature passed SHB 2933, which added death from a duty-related illness to the eligibility criteria for the

$150,000 death benefit in LEOFF Plan 2. Duty-death benefits are also provided for VFF members who die as a result of a duty-related illness. (Duty-related illness may be more of an issue for fire fighters than other employees.) With this most recent legislative change, the eligibility provisions for $150,000 death benefit differ both between the retirement systems and within the plans of the LEOFF system.

Administration of Death from Duty-Related Illness Claims

Payment of the $150,000 death benefit for duty-related illness in LEOFF Plan 2 is contingent upon a determination by L&I that the death occurred as a result of an occupational disease. An occupational disease arises from the distinctive workplace conditions and duties of a given job. An occupational disease is one that could only be contracted from a particular occupation or has a greater risk of being contracted from the particular occupation. Diseases that are common to all employment, such as most communicable diseases, will generally not qualify as an occupational disease — even if contracted on the job or from a coworker. To substantiate a claim of occupational disease, medical documentation must be provided. This documentation must show that the workplace condition or job process is the most likely cause of the disease.

An occupational disease arises from distinctive workplace conditions.

There is a statutory presumption that certain respiratory diseases, cancers, and infectious diseases are occupational diseases for fire fighters (RCW 51.32.185). Fire fighters who contract one of the listed occupational diseases are not required to substantiate the link between fire-fighting employment and the disease.

Claims of occupational disease may be disallowed when evidence supports that other factors may be significant contributors to the contraction of the disease. Such factors may include a workers' lifestyle, fitness, heredity, exposure from activities unrelated to work, or personal choice in performing work.

It is estimated that very few additional $150,000 death benefits would be paid out each year if the eligibility criteria were expanded to include death from duty-related illness in all plans where it is not currently provided: LEOFF 1, PERS, TRS, SRS, PSERS, WSP, JRS, and HIED.

Technical Issue in VFF

The amount of the death benefit is codified as $152,000 in VFF.

When the $150,000 death benefit was first extended to VFF in 1998, it was combined with a previously existing $2,000 duty-death lump sum benefit and the amount codified as $152,000 (RCW 41.24.160[1][a][i]). Combining the two benefits was a deliberate policy decision at that time of the Joint Committee on Pension Policy. This decision was likely influenced by the fact that the majority of VFF members are not covered by L&I and are consequently not eligible for the L&I duty-death lump sum benefits. Providing an annual adjustment to the duty-death lump sum benefit in VFF will require consideration of whether the adjustment should apply to the entire $152,000 combined benefit or only the $150,000 portion of the combined benefit.

Conclusions

Indexing is an effective method to protect the value of a benefit against inflation. Indexing can be tailored to achieve a variety of policy goals. While indexing both annuity and lump sum benefits is common practice, the reasons for, and ramifications of, indexing these distinct types of benefits differ. Policy makers may wish to consider the intended purpose of a benefit when developing specific policies on indexing benefits.

Claims for duty-related diseases are determined by L&I according to very narrowly defined criteria. Very few public employees are expected to die from a duty-related disease as currently defined. As a group, fire fighters have a greater risk of contracting certain duty-related diseases than other public employees.

Policy Questions

To help the committee decide whether to move forward with this issue, members may want to deliberate via the following issues:

- Does the $150,000 death benefit need to be annually adjusted for inflation?
- Will providing an annual inflation adjustment to the $150,000 death benefit lead to calls to provide similar adjustments to other fixed-dollar benefits in statute such as the TRS Plan 1 death benefit or the VFF funeral benefit?
- Does the committee wish to address the plan differences in eligibility provisions for death from duty-related illnesses?
- Should any annual adjustment provided for VFF be made to the entire combined duty-death benefit or just the $150,000 portion of the benefit?

Options for Indexing $150,000 Death Benefit

1. **Fully index to changes in the CPI-W STB.** This option will preserve the value of the benefit at its current level but may lead to greater than expected costs if actual inflation exceeds the assumed rate. This is the most expensive option; however, the resulting increase in liabilities is insufficient to affect contribution rates in any plan.
2. **Index to cumulative changes in the CPI-W STB with a 3 percent a year maximum change.** This option would index the death benefit in the same manner as Plan 2/3 pensions. This option will maintain the value of the benefit if long term inflation averages 3 percent or less. If actual inflation exceeds a 3 percent average over the long term, the value of the benefit will decline. Establishing a floor ensures the amount of the death benefit will never be less than the original amount during periods of deflation. The cap on

the annual change serves to control costs and promote stable funding. This is the least expensive option. The resulting increase in liabilities is insufficient to affect contribution rates in any plan. This is also the option recommended by the LEOFF 2 Board.

3. **Increase the benefit by a level 3 percent each year.** This option is very similar to option 2 with the added advantages of being simpler to administer and providing a more predictable benefit. This option would recover some of the value of the benefit already lost to inflation if long term inflation averages less than 3 percent. The resulting increase in liabilities for this option is insufficient to affect contribution rates in any plan.
4. **Add eligibility for death from duty-related illness to Option 2.** This would index the benefit amount as in **Option 2** (*CPI-W STB with a 3 percent a year maximum change*) while expanding eligibility to include death from duty-related illness where not already provided. The expanded eligibility would apply to LEOFF 1, PERS, TRS, SERS, PSERS, WSP; and state, school district, and higher education employees who are not members of a state retirement system. This option would provide consistent eligibility criteria for all public employees covered by the death benefit and protect the value of the benefit as described under **Option 2**.

Fiscal Impact

This option would increase employer contribution rates by .01 percent in WSP. The increase in liabilities is insufficient to affect contributions rates in all other plans. The increased WSP contributions would not generate an appreciable increase in total employer costs for the 2007-2009 biennium, but would generate a 25 year total employer cost of $0.4 million.

Committee Recommendation

At the November meeting, the SCPP recommended that legislation on this issue be forwarded to the Legislature for their consideration during the 2007 legislative session. The proposed legislation would provide the $150,000 death benefit upon death from duty-related illness for all covered employees, and would index the death benefit to changes in a consumer price index (Option 4).

Bill Draft

Attached.

Fiscal Note (Draft)

Attached.

Stakeholder Correspondence

Kelly Fox, Chair, LEOFF 2 Board

Appendix A: Death Benefit Provided for Public Employees

Death Benefits Provided for Public Employees[1]				
Benefit	**Normal Form**	**Eligible Deaths**	**Amount**	**Annual Adjustment[2]**
LEOFF & WSP Plan 1 Survivor Pension	Annuity	Duty & Non-Duty	50%-60% of AFC	Indexed to CPI
PERS & TRS Plan 1 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or return of contributions with interest (ROC)[3]	Uniform COLA on annuity -- indexed by level 3%
Plans 2/3 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or ROC[3,4]	Annuity Indexed to CPI
VFF Survivor Benefit	Annuity	Duty & Non-Duty	Member's earned benefit	None -- Benefits periodically increased by Board
VFF Duty-Death Survivor Pension	Annuity	Duty	\$1,445-\$2,892 / month	Indexed to CPI
HIED Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Payout of member's account	None
LEOFF Plan 2 Survivor Health Care	Annuity	Duty	Reimbursement of premiums paid to Health Care Authority—up to \$946/month for 2006	Indexed to Health Care Authority medical and dental premiums
L&I Death Benefit	Annuity	Duty	60%-70% of gross wages up to 120% of state average wage[5]	Indexed to state average wage[5]
Social Security Survivor Benefit	Annuity	Duty & Non-Duty	75%-100% of employees earned Social Security benefit	Indexed to CPI
\$150,000 Death Benefit	Lump Sum	Duty	\$150,000 (+\$2,000 in VFF)	None
VFF Funeral Benefit	Lump Sum	Duty	\$2,000	None
TRS 1 Death Benefit	Lump Sum	Duty & Non-Duty	\$400 or \$600	None
L&I Death Lump Sum	Lump Sum	Duty	100% state average monthly wage[5]	Indexed to state average wage[5]
L&I Burial Benefit	Lump Sum	Duty	Up to 200% state average monthly wage[5]	Indexed to state average wage[5]
Social Security Burial Benefit	Lump Sum	Duty & Non-Duty	\$255	None
Federal Public Safety Officers' Death Benefit	Lump Sum	Duty	\$283,385 as of 10/01/2005	Indexed to CPI

1. *Eligibility varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Excludes employer provided life insurance.*
2. *Excludes optional COLAs purchased by recipient.*
3. *Actuarial reduction applied if death is not duty-related.*
4. *150% ROC for LEOFF Plan 2; payout of member's DC account for Plans 3.*
5. *\$3,253 as of 7/01/2005.*

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0267.2/07 2nd draft
ATTY/TYPIST:	LL:rmh
BRIEF DESCRIPTION:	Determining death benefits for public employees.

AN ACT Relating to death benefits for public employees; amending RCW 41.04.017, 41.24.160, 41.26.048, 41.32.053, 41.35.115, 41.37.110, 41.40.0931, 41.40.0932, and 43.43.285; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.04.017 and 2003 c 402 s 4 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee of any state agency, the common school system of the state, or institution of higher education who dies as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter, and is not otherwise provided a death benefit through coverage under their enrolled retirement system under chapter 402, Laws of 2003. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

(2)(a) Beginning July 1, 2007, and every year thereafter, the department of retirement systems shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 2. RCW 41.24.160 and 2001 c 134 s 2 are each amended to read as follows:

(1)(a) Whenever a participant dies as the result of injuries received, or sickness contracted in consequence or as the result of the performance of his or her duties, the board of trustees shall order and direct the payment from the principal fund of (i) the sum of one hundred fifty-two thousand dollars to his widow or her widower, or if there is no widow or widower, then to his or her dependent child or children, or if there is no dependent child or children, then to his or her dependent parents or either of them, or if there are no dependent parents or parent, then the death benefit shall be paid to the member's estate, and (ii)(A) the sum of one thousand two hundred seventy-five dollars per month to his widow or her widower during his or her life together with the additional monthly sum of one hundred ten dollars for each child of the member, unemancipated or under eighteen years of age, dependent upon the member for support at the time of his or her death,

(B) to a maximum total of two thousand five hundred fifty dollars per month.

(b) Beginning on July 1, 2001, and each July 1st thereafter, the compensation amount specified in (a)(ii)(B) of this subsection shall be readjusted to reflect the percentage change in the consumer price index, calculated as follows: The index for the calendar year preceding the year in which the July calculation is made, to be known as "calendar year A," is divided by the index for the calendar year preceding calendar year A, and the resulting ratio is multiplied by the compensation amount in effect on June 30th immediately preceding the July 1st on which the respective calculation is made. For the purposes of the calculation under this subsection (1)(b), "index" means the same as the definition in RCW 2.12.037(1).

(c)(i) Beginning July 1, 2007, and every year thereafter, the state board shall determine the following information:

(A) The index for the 2005 calendar year, to be known as "index A";

(B) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(C) The ratio obtained when index B is divided by index A.

(ii) The value of the ratio obtained shall be the annual adjustment to the original death benefit specified in (a)(i) of this subsection and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(A) Produce a benefit which is lower than one hundred fifty-two thousand dollars;

(B) Exceed three percent in the initial annual adjustment; or

(C) Differ from the previous year's annual adjustment by more than three percent.

(iii) For the purposes of the calculation specified in (c) of this subsection, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(2) If the widow or widower does not have legal custody of one or more dependent children of the deceased participant or if, after the death of the participant, legal custody of such child or children passes from the widow or widower to another person, any payment on account of such child or children not in the legal custody of the widow

or widower shall be made to the person or persons having legal custody of such child or children. Such payments on account of such child or children shall be subtracted from the amount to which such widow or widower would have been entitled had such widow or widower had legal custody of all the children and the widow or widower shall receive the remainder after such payments on account of such child or children have been subtracted. If there is no widow or widower, or the widow or widower dies while there are children, unemancipated or under eighteen years of age, then the amount of one thousand two hundred seventy-five dollars per month shall be paid for the youngest or only child together with an additional one hundred ten dollars per month for each additional of such children to a maximum of two thousand five hundred fifty dollars per month until they become emancipated or reach the age of eighteen years; and if there are no widow or widower, child, or children entitled thereto, then to his or her parents or either of them the sum of one thousand two hundred seventy-five dollars per month for life, if it is proved to the satisfaction of the board that the parents, or either of them, were dependent on the deceased for their support at the time of his or her death. In any instance in subsections (1) and (2) of this section, if the widow or widower, child or children, or the parents, or either of them, marries while receiving such pension the person so marrying shall thereafter receive no further pension from the fund.

(3) In the case provided for in this section, the monthly payment provided may be converted in whole or in part into a lump sum payment, not in any case to exceed twelve thousand dollars, equal or proportionate, as the case may be, to the actuarial equivalent of the monthly payment in which event the monthly payments shall cease in whole or in part accordingly or proportionately. Such conversion may be made either upon written application to the state board and shall rest in the discretion of the state board; or the state board is authorized to make, and authority is given it to make, on its own motion, lump sum payments, equal or proportionate, as the case may be, to the value of the annuity then remaining in full satisfaction of claims due to dependents. Within the rule under this subsection the amount and value of the lump sum payment may be agreed upon between the applicant and the state board.

Sec. 3. RCW 41.26.048 and 2006 c 351 s 1 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's death benefit shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) The benefit under this section shall be paid only when death occurs: (a) As a result of injuries sustained in the course of employment; or (b) ((~~to a member of plan 2~~)) as a result of an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2007, and every year thereafter, the department shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 4. RCW 41.32.053 and 2003 c 402 s 2 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2007, and every year thereafter, the department shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 5. RCW 41.35.115 and 2003 c 402 s 3 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2007, and every year thereafter, the department shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 6. RCW 41.37.110 and 2004 c 242 s 14 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or the person or persons, trust, or organization the member has nominated by written designation duly executed and filed with the department. If the designated person or persons are not still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2007, and every year thereafter, the department shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 7. RCW 41.40.0931 and 1998 c 157 s 1 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit for members who had the opportunity to transfer to the law enforcement officers' and fire fighters' retirement system pursuant to chapter 502, Laws of 1993, but elected to remain in the public employees' retirement system, shall be paid to the member's estate, or such person or persons, trust, or organization as the member has nominated by written designation duly executed and filed with the department. If there is no designated person or persons still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) Subject to subsection (3) of this section, the benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment as a general authority police officer; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3) The benefit under this section shall not be paid in the event the member was in the act of committing a felony when the fatal injuries were suffered.

(4)(a) Beginning July 1, 2007, and every year thereafter, the department shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 8. RCW 41.40.0932 and 2003 c 402 s 1 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2007, and every year thereafter, the department shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

Sec. 9. RCW 43.43.285 and 1996 c 226 s 2 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's death benefit shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2007, and every year thereafter, the department shall determine the following information:

(i) The index for the 2005 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

NEW SECTION. **Sec. 10.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/16/06	Z-0267.2

SUMMARY OF BILL:

This bill impacts the following retirement systems and public employees:

- Public Employees' Retirement System (PERS),
- Teachers' Retirement System (TRS),
- School Employees' Retirement System (SERS),
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF),
- Washington State Patrol Retirement System (WSP),
- Public Safety Employees' Retirement System (PSERS),
- Volunteer Fire Fighters' Relief and Pension Fund (VFF);
- members of the Judicial Retirement System (JRS),
- members of the Higher Education Retirement Plans (HIED);
- and state, school district, and higher education employees who are not members of a state retirement system.

This bill indexes the amount of the $150,000 duty-death lump sum benefit to changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton (CPI-W). The index is calculated based on cumulative changes in the CPI-W with a maximum annual change of no more than 3%. The amount of the death benefit is not allowed to decrease below the original amount in periods of deflation. This bill also expands eligibility for the death benefit to include death from occupational disease or duty-related illness for members of PERS, TRS, SERS, LEOFF Plan 1, WSP, PSERS, JRS, HIED; and state, school district and higher education employees who are not members of a state retirement system.

Effective Date: July 1, 2007

CURRENT SITUATION:

Survivors of public employees who die as a result of injuries sustained in the course of employment are eligible to receive a lump sum death benefit of $150,000. The benefit amount does not adjust for inflation. This benefit is provided for all members of PERS, TRS, SERS, LEOFF, WSP, PSERS, VFF, JRS, HIED; and to state, school district and higher education employees who are not members of a state retirement system. The benefit is also provided for members of LEOFF Plan 2 and VFF who die from an occupational disease or duty-related illness. The amount of the lump sum death benefit is $152,000 in VFF.

MEMBERS IMPACTED:

Any of the more than 465,000 estimated active, retired, disabled, and terminated vested members of PERS, TRS, SERS, LEOFF, WSP, PSERS, JRS, HIED, and the VFF retirement systems who die from duty-related causes may be impacted. State, school district, and higher education employees who are not members of a state retirement system and who die from duty-related causes may also be impacted.

It is expected that fewer than 13 duty-related deaths will occur each year. It is also expected that fewer than one additional death benefits will be paid each year due to the expansion of the eligibility criteria for death from duty-related illness.

The amount of the duty-death lump sum benefit may increase by up to 3% each year under this bill. On July 1, 2007, the amount of the duty-death lump sum benefit would increase to $154,500 ($156,560 for VFF) if inflation, as measured by the CPI-W, averages 3% or more between 2005 and 2006.

ASSUMPTIONS:

1. The rate of duty-related death will not change because the death benefit is indexed.
2. An index based on the CPI-W with a 3% yearly maximum is equivalent to a long term average increase of 2.96% a year. This assumption was developed using stochastic projections of expected inflation.
3. The inclusion of public employees who are not PERS, SERS, or TRS members does not increase the estimated number of eligible deaths.
4. The estimated increase in the duty death rate for duty-related illness is 10% for all systems except LEOFF 1. LEOFF 1 is 40%.
5. The liability for benefits paid to inactive members for death from duty-related illness will be proportionate to the number of benefits paid and will remain relatively constant as a percentage of the active liability for the benefit.
6. 20% of the currently inactive members (term vested, retired, and disabled) will be exposed to death from duty-related illness at 50% of the rate the active population is exposed.
7. Based on assumptions #5 and #6, the increase in liability for inactives as a percent of active liability is:

LEOFF 1	100%
LEOFF 2	0%
WSP	10%
PERS and TRS 1	40%
PERS 2/3, SERS 2/3, TRS 2/3, VFF, HIED	2%

8. The contribution rate increase calculated for PERS will apply to PSERS.
9. The current active VFF population will decrease by an average rate of 8% a year due to terminations, retirement, and deaths.
10. The rate of duty-related death for VFF is .000083 for all ages.

FISCAL IMPACT:

Description:

This bill would increase the dollar amount of the lump sum death benefit for future recipients and would likely increase the total number of lump sum death benefits paid.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below. This bill will increase the contribution rate for WSP, however, the liability increases in all other systems are insufficient to affect contribution rates. Liabilities for PSERS are included in the PERS totals.

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 1	$13,604.57	$0.06	$13,604.63
	PERS 2/3	$16,996.53	$1.19	$16,997.72
	TRS 1	$10,822.98	$0.01	$10,822.99
	TRS 2/3	$6,296.52	$0.20	$6,296.72
	SERS 2/3	$2,472.81	$0.36	$2,473.17
	LEOFF 1	$4,238.27	$0.05	$4,238.32
	LEOFF 2	$5,461.85	$0.72	$5,462.57
	WSP 1/2	$803.40	$0.08	$803.48
	VFF	$146.24	$0.42	$146.66
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	$3,566.71	$0.06	$3,566.77
	TRS 1	$2,146.89	$0.01	$2,146.90
	LEOFF 1	$(583.68)	$0.05	$(583.63)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 1	$3,439.44	$0.06	$3,439.50
	PERS 2/3	$(2,611.15)	$0.67	$(2,610.48)
	TRS 1	$2,100.31	$0.01	$2,100.32
	TRS 2/3	$(1,130.92)	$0.10	$(1,130.82)
	SERS 2/3	$(314.69)	$0.21	$(314.48)
	LEOFF 1	$(576.78)	$0.05	$(576.73)
	LEOFF 2	$(396.81)	$0.39	$(396.42)
	WSP 1/2	$(80.19)	$0.06	$(80.13)
	VFF	$6.97	$0.38	$7.35

Increase in Contribution Rates:
(Effective 09/01/2007)

	WSP
Current Members	
Employee	0.01%
Employer State	0.01%
New Entrants*	
Employee	0.01%
Employer State	0.01%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	WSP
2007-2009	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	0.0
Local Government	0.0
Total Employer	0.0
Total Employee	$0.0
2009-2011	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	0.0
Local Government	0.0
Total Employer	0.0
Total Employee	$0.0
2007-2032	
State:	
General Fund	$0.0
Non-General Fund	0.4
Total State	0.4
Local Government	0.0
Total Employer	0.4
Total Employee	$0.4

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, and the Volunteer Fire Fighters' Relief and Pension Fund. We used counts of HIED membership as of October 2003 in estimating the number of members impacted. We relied upon the 2006 Key Facts published by the Higher Ed Coordinating board to obtain the counts of HIED membership.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

   We relied on documentation of claims administration provided by the Department of Labor and Industries in setting our assumptions for increases in the rate of duty-related death.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2007 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

March 9, 2006

RECEIVED
MAR 10 2006
Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to congratulate you on another successful legislative session.

I want to bring three topics to your attention as you begin preparations for the 2006 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. Two of these topics, Dual Membership Corrections and Service Credit Purchase for Duty-Related Injury, came up in 2005 and were deferred by both the SCPP and the Board for full study in 2006. The third topic, Adding an Inflationary Adjustment to the $150,000 Death Benefit, arose as a result of Board legislation in the 2006 session.

I have provided a brief summary of each topic for your reference:

Dual Membership

The Board studied impacts of making changes to the current dual membership statutes last year. Under the current portability statutes (RCW 41.54), there are situations where a member's pension benefits would seem to be unnecessarily penalized, if the member changes careers. Changes to the dual membership statutes studied by the Board included:

- Easing restrictions on total service credit if a Plan 2 member has less than 15 years of Plan 1 service.
- Adding indexing to all plans that allow shared service to qualify for indexing.
- Redefining base salary so that payments defined as salary or compensation, in both dual member systems, would be included in base salary.

Service Credit Purchase for Duty-Related Injury

The Legislature passed a bill in the 2004 session, which increased the period of service credit that could be purchased by a PERS member, who is on a leave of absence for a duty-related injury. The Board would like to study extending this policy to other pension plans, including LEOFF Plan 2.

Inflationary Adjustment for $150,000 Death Benefit

As you may be aware, the Board recommended legislation on this topic in 2006 (SHB 2933 - Death Benefit for Occupational Illnesses), which was passed with an amendment removing the annual inflation increase. Since other retirement plans also provide a lump-sum death benefit, legislators expressed an interest in the Board working with the SCPP to study the effect of adding this inflationary adjustment to all the plans.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,

Kelly L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary