Service Credit Purchase Due to Injury

Background

Members of the PERS, SERS, PSERS, LEOFF 2 may purchase service credit for periods where they have suffered an on-the-job injury and are unable to work; also known as a periods of Temporary Duty Disability (TDD). To qualify to receive service credit for these periods, members have to be receiving, or have received, Workers' Compensation Time-Loss benefits. Such a member may purchase the service credit for the disability period by paying the member contributions plus interest; their employer will then be billed for the employer contributions plus interest. Contributions will be based on the salary the member would have been making had they not been injured. PERS members may receive up to twenty-four months of such service for each TDD period. SERS and PSERS members may purchase up to twelve months of service for each TDD period. LEOFF 2 members may purchase up to six months of service for each TDD period. TRS members have no such statutory provision.

This is one of three issues in which the LEOFF 2 Retirement Board sought to coordinate with the SCPP.

Committee Activity

Presentations:

- June 20, 2006 - Full Committee
- September 19, 2006 - Full Committee

Proposal:

- November 21, 2006 - Full Committee

Recommendation to Legislature

Allow members of PSERS, SERS, LEOFF 2, and TRS to purchase up to twenty-four consecutive months of service credit for each period of temporary duty disability.

Staff Contact

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In Brief

PROPOSAL

The Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2) Board is seeking to improve the provisions that allow members to purchase service credit for injury recovery periods. The Board recognizes that this issue crosses most public employee retirement systems and, because similar provisions were recently improved in the Public Employees' Retirement system (PERS), would likely be an issue before the SCPP this interim. As a result, the Board wishes to coordinate with the SCPP on this issue (see correspondence).

MEMBER IMPACT

Improvement in the provisions allowing the purchase of service credit for injury recovery periods could impact all members of PERS, SERS, PSERS, TRS, and LEOFF 2.

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Service Credit Purchase Due to Injury

Current Situation

Provisions in the Public Employees' Retirement System (PERS) governing the purchase of service credit for injury recovery periods – also known as periods of temporary duty disability (TDD) – were improved under 2005 legislation. PERS members may now purchase up to twenty-four consecutive months of service credit for each period they are on TDD and receiving Workers' Compensation time-loss payments; they were formerly limited to purchasing twelve consecutive months of service credit for each TDD period. These improvements were exclusive to PERS; TDD provisions in the other retirement systems remained unchanged.

Earned Service Credit

In general, members of the retirement plans can acquire service credit by either earning it or purchasing it. PERS members earn service credit for each creditable month they are actively employed by a PERS employer or on paid leave of absence. Members earn service credit in increments based on how many hours they work in a month (Figure 1). This service credit is used in the formula for determining a member's retirement benefit.

Figure 1

PERS Service Credit Provisions	
Plan 1	70+ hours of work per month = 1 service credit month 1-69 hours of work per month = ¼ service credit month
Plan 2/3	90+ hours of work per month = 1 service credit month 70-89 hours of work per month = ½ service credit month 1-69 hours of work per month = ¼ month service credit

Identical Plan 2 service credit provisions are found in the Public Safety Employees' Retirement System (PSERS) and LEOFF.

A service credit month is earned after 70 hours of work in the LEOFF 1 and Washington State Patrol (WSPRS) retirement systems. These plans do not award partial service credit because members are required to be in full-time fully compensated positions.

Members of the School Employees' Retirement System (SERS) and Teachers' Retirement System (TRS) earn service credit based on school-year activity. A TRS 1 member who works 144 days in a school year earns a full service credit year. SERS 2/3 or TRS 2/3 members earn twelve service credit months if they work nine months during the school year and are compensated for at least 810 hours during that period.

Purchased Service Credit

TRS has no provisions allowing the purchase of service credit for temporary duty disability recovery periods.

Members of State administered retirement plans may also purchase service credit. At retirement, a member may purchase up to five years of service credit to enhance their retirement annuity. Because the purchase of this service credit is not tied to a particular period of actual service it is commonly known as purchasing "air time." Members must pay the full actuarial cost to purchase such service credit.

Retirement system members may also purchase up to five years of service credit for interruptive military service. Interruptive military service occurs after a member establishes plan membership – which is distinct from military service that occurred prior to establishing plan membership. A member may purchase service credit for the period of interruptive military service by paying the member contributions; the employer will be billed for the employer contributions plus interest.

Members may also purchase service credit for periods where they have suffered an on-the-job injury and are unable to work; also known as a TDD. In order to qualify to receive service credit for these periods, members have to be receiving or have received Workers' Compensation Time Loss benefits. Such a member may purchase the service credit for the disability period by paying the member contributions (plus interest if necessary); their employer will then be billed for the employer contributions (plus interest if necessary). Contributions will be based on the salary the member would have been making had they not been injured. PERS members may receive up to twenty-four months of such service for each TDD period.

Those on TDD may avoid the interest charges if their contribution payments are made during their disability period – this must be arranged with their employer. If a member on TDD waits until after returning to employment before making what would then be retroactive retirement contributions, they will be charged interest.

Currently, TRS has no statutory provisions allowing the purchase of service credit for on-the-job injury recovery periods. Current school district human resource practices, and contract provisions related to temporary duty disability situations, appear to have this issue covered for many TRS members. It is unknown whether all TRS members receive similar service credit coverage for TDD periods.

Example

Plan 3 members are charged their individual contribution rates without interest.

The process for receiving service credit for periods of injury – TDD – is as follows:

- After returning to work following a TDD period, the member will contact the Department of Retirement Systems (DRS).
- DRS will then contact the member's employer.
- The employer will confirm the member's TDD status and dates.
- The employer will provide DRS with the regular wage/salary the member would have received had they not been injured.

- DRS will bill the member for the appropriate contributions, plus interest (Plan 3 members are charged their individual contribution rates without interest).
- After the member has paid the contributions, DRS will bill the employer for the appropriate contributions, plus interest.
- After the employer has paid the contributions, DRS will credit the member's service.

Figure 2

Average TDD Billed Amounts by System and Plan Source: DRS		
System / Plan	**Member**	**Employer**
SERS 2	$517.80	$866.40
SERS 3	$609.84	$1,101.46
LEOFF 2	$668.06	$430.75
PERS 1	$1,062.79	$1,150.03
PERS 2	$532.57	$847.29
PERS 3	$819.47	$970.12
WSPRS 1	$2,767.28	$1,725.49
Total	$730.84	$838.86

Following all these steps can be a lengthy process. A member may be billed an amount they cannot pay all at once. The longer the member takes to pay, the more interest they are charged. Because the employer is billed after the member payments are completed, they will be billed more because of the longer interest period, administrative rate, and possible Unfunded Actuarial Accrued Liability (UAAL) rate. The DRS billing data in Figure 2 are the most recent figures for paid bills; other data are available for pending and cancelled bills.

History

SB 5522 and HB 1521 were introduced in the 2005 session. SB 5522 passed the legislature and was signed into law as Chapter 363, Laws of 2005. The legislation increased from twelve months to twenty-four months the allowable service credit PERS members could purchase for each period in which they were on TDD and were receiving workers' compensation payments. There was a cost to increasing the period members may purchase under this provision, but it was insufficient to increase the member or employer contribution rates.

This issue was not studied by the SCPP.

Policy Analysis

Provisional Differences in Washington Systems

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

The recent legislative change in the PERS provisions that govern the awarding of service credit for periods of on-the-job injury highlights the inconsistencies among the retirement systems administered by Washington State (Figure 3, below). The provisions related to the time that can be awarded vary from none in TRS to an unlimited amount in the WSPRS and LEOFF 1. The costs borne by members receiving such service credit range from *contributions plus interest* in PERS to a fully subsidized benefit in LEOFF 1.

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

Figure 3

Service Credit for Temporary Duty Disability in Washington Systems and Plans		
System	**Time Limit**	**Cost to Member**
PERS	24 consecutive months	Member contributions (plus interest if applicable)
SERS	12 consecutive months	Member contributions (plus interest if applicable)
TRS	No provision	No provision
PSERS	12 consecutive months	Member contributions (plus interest if applicable)
WSPRS	No limit	Member contributions
LEOFF 1	No limit	None
LEOFF 2	6 months per incident, 24 month total	Member contributions

Comparative Systems

There appears to be no particular consensus among the comparative systems on whether such a benefit should be available or what it should cost the member. The comparative systems show a range of provisions similar to that found in Washington systems (Figure 4). There are systems that do not allow members to purchase service credit for periods they were injured and not working (Colorado and Wisconsin), while others offer service credit for periods of injury (or leaves of absence) at no cost to the member (Missouri and Oregon).

Figure 4

Service Credit for Temporary Duty Disability In the Comparative Systems

System	Time Limit	Cost to Member
California CalPERS	No limit	Member contributions plus interest
Colorado PERA	No provision	No provision
Florida FRS	No limit	Member contributions plus interest
Idaho PERSI	No limit	Full actuarial cost
Iowa IPERS	No limit	Full actuarial cost
Missouri MOSERS	12 month limit	None
Minnesota MSRS	No Limit	Member contributions plus interest if purchased at the conclusion of the leave period – full actuarial cost if paid later.
Ohio OPERS	3 year limit	None
Oregon OPSRS	No limit	None if member received workers' comp.
Seattle SCERS	No limit	20% of member contributions plus interest
Wisconsin WRS	No provision	No provision

Of the systems that do require member contributions, the Seattle City Employees' Retirement System (SCERS) requires the least expensive buy-in for the member. The City will cover 80 percent of normal contributions for a member on TDD. Upon returning to employment, employees have the option of accepting the prorated service credit or paying the remaining 20 percent of contributions to make it whole. If they choose to pay within five years of resuming employment, they are charged 5.75 percent interest. If they choose to pay after five years of resuming employment, they are charged 7.75 percent interest.

Risk of Injury

A major factor driving a service credit purchase policy for TDD periods is the risk of becoming injured on-the-job and being unable to work. No job is free from the risk of injury, though some jobs are considerably less risky than others. Data from the Department of Labor and Industries in Figure 5 compares time-loss claims by select employers.

Figure 5

Workers Compensation Claims in Fiscal Year 2004
For Employers With Over 50 Employees
Source: Labor and Industries

Industry description	Claims per 200,000 Hours
Software Publishers	0.64
Elementary & Secondary Schools	6.51
Junior Colleges	3.27
Colleges, Universities, & Professional Schools	4.36
Executive Offices	6.09
Legislative Bodies	6.89
Public Finance Activities	1.38
Executive & Legislative Offices, Combined	9.69
Other General Government Support	9.39
Courts	1.15
Police Protection	13.32
Correctional Institutions	10.77
Fire Protection	12.42
Administration Of Education Programs	1.62
Administration Of Public Health Programs	5.18
Administration Of Human Resource Programs	5.03
Administration Of Veteran's Affairs	3.31
Administration Of Air & Water Resource & Solid Waste	4.82
Administration Of Conservation Programs	11.55
Administration Of Housing Programs	9.36
Administration Of Urban Planning & Community & Rural Programs	1.95
Regulation And Administration Of Transportation Programs	8.34
Regulation Of Agricultural Marketing And Commodities	6.21
Regulation, Licensing, And Inspection Of Miscellaneous Commodities	3.48

It is apparent that the frequency of claims is greater for public safety employees than for typical PERS, SERS, or TRS members, though there are some atypically high claims within the Administration of Conservation Programs because of the physical nature of many of those jobs.

The key difference between public safety employees and other public employees is the degree to which an injury can impede their job performance. A broken leg may be a painful inconvenience for a PERS member working in an office environment, but it would not necessarily stop that member from performing their job. In comparison, a broken leg would easily side-line a fire fighter. This sensitivity to injury requires a greater emphasis on physical fitness and safety procedures among members engaged in the public safety systems (PSERS, LEOFF, and WSPRS) than among members of other systems in general.

Figure 6

Temporary Duty Disability Bills Compared to Total Membership By System and Plan
Source: DRS

System / Plan	Total Bills	Total Membership	TDD Rate
SERS 2	49	20,424	0.24%
SERS 3	33	29,430	0.11%
LEOFF 2	589	14,754	3.99%
PERS 1	658	17,829	3.69%
PERS 2	906	118572	0.76%
PERS 3	73	19,855	0.37%
WSPRS 1	4	997	0.40%
Total	2,312	221,861	1.04%

Based on the most recent information, there were a total of 2,312 total TDD bills administered by DRS (Figure 6). Comparing the TDD bills to total plan membership provides a reasonable "rate" of TDD injury (except for WSPRS). While injured State Patrol members are eligible for workers' compensation time-loss benefits, they are also eligible for WSPRS disability benefits administered by the Chief of the State Patrol. Because WSPRS disability benefits are off-set by L&I benefits, the great majority of WSPRS members who experience an injury do not apply for L&I.

The TDD rates vary considerably between the systems and plans. The highest rate is found in LEOFF 2 at almost 4 percent. Close behind is PERS 1 with a rate of almost 3.7 percent; PERS 1 is a closed plan whose membership is rapidly aging and more susceptible to injury. Other plans tend to have TDD rates well below 1 percent.

Injury Period

A tertiary policy issue related to service credit purchases for TDD periods is how much TDD time members should be allowed to purchase. Were injuries commonplace, or

Figure 7

Average Service Credit Purchase for Temporary Duty Disability by System and Plan Source: DRS	
System/Plan	**Average Months Purchased**
SERS 2	7.1
SERS 3	7.2
LEOFF 2	2.2
PERS 1	4.4
PERS 2	4.4
PERS 3	4.5
WSPRS 1	10.3
Total	4.0

typically so severe as to require lengthy rehabilitation, then policy-makers may think it appropriate to allow members to purchase similar periods of service credit. Based on the TDD optional bill data from DRS, the average TDD period being purchased is 4.0 months (Figure 7). This average varies by system, but not much by plan. PERS members purchased between 4.4 and 4.5 months of service. SERS members purchase 7.1 to 7.2 months of service. LEOFF 2 members purchase an average of 2.2 months; this shorter period is likely due to the fact that lesser injuries may impede a LEOFF member's duties.

The question then becomes what are the extremes experienced by workers on TDD? While the average TDD recuperation period may be four months, there may be individuals with considerably longer recovery periods. Instances of members purchasing the maximum service credit may indicate that they were injured for a longer period and are limited by the maximum service credit purchase period. Based on the most recent records from the Department, 144 service credit purchase bills for injury periods were for the maximum allowed (Figure 8). Members of SERS have a relatively low number of total billings, but a significant share of those billings was for the maximum period allowed (twelve months).

Figure 8

Temporary Duty Disability Bills Compared to Maximum Service Bills By System and Plan Source: DRS			
System / Plan	**Total Bills**	**Maximum Service Bills**	**% Max Bills**
SERS 2	49	12	24.5%
SERS 3	33	5	15.2%
LEOFF 2	589	44	7.5%
PERS 1	658	37	5.6%
PERS 2	906	44	4.9%
PERS 3	73	2	2.7%
Total	2,308	144	6.2%

Service and Service Credit

Any provision related to purchasing service credit is likely to raise policy maker's concerns about possible conflicts with Internal Revenue Service (IRS) regulations. However, unlike the purchasing of "air time" where the service credit in question is not tied to any particular period of employment (actual service), members who are injured and receiving TDD benefits are still considered "employed." Under the current permissibility standards, the linkage between TDD periods and actual service is reasonably firm. As a result, purchasing service credit for TDD periods – limited periods where the member is still considered officially employed – is unlikely to draw the ire of the IRS.

Cost Sharing

Another policy issue related to service credit purchases for TDD periods revolves around how much of the cost of such a purchase should be borne by the member, and how much by the employer. In PERS, SERS, PSERS, and LEOFF 2 plans there is a common cost-sharing method. For the period of disability, the member and the employer each pay whatever the contributions would have been were the member active; interest is also charged, if necessary. The actual amounts billed the member and employer will not necessarily be equal because of the differing interest periods and the differences in member and employer contribution rates (employers pay an additional Plan 1 UAAL rate and an administrative expense rate).

While considering improving the provisions allowing service credit purchases for TDD periods, policy-makers may also want to ask whether the current cost sharing policy is appropriate in all on-the-job injury situations. Are there instances when more of the cost should be borne by the employer or by the member?

Plan Consistency

A broad policy concern is that of plan consistency. It is a statutory policy within the Retirement Systems chapter that the systems and plans provide similar benefits wherever possible (RCW 41.50.005[1]). This issue illustrates what occurs when one system is awarded a benefit improvement exclusive from the other systems and creates dissimilarity where none existed before. Members of other systems excluded from such legislation will inevitably request equal treatment, particularly if there is no discernable reason for the difference. This could be called the elastic band effect – one system stretches out a benefit "lead" and the other systems scramble to catch up.

There are always cost concerns in such a benefit situation. The cost of expanding the service credit purchase for injury provision in PERS was not sufficient to increase contribution rates. Recent pricing calculations for the other systems show similarly small fiscal impacts.

Policy Questions

To help the committee decide on a course of action, members may want to deliberate via the following questions:

- ❖ Are the service credit purchase provisions for injury periods in Washington's retirement systems adequate?
  - ◆ Is the period of coverage adequate, should there be a limit?
  - ◆ Is the cost-sharing appropriate?
- ❖ Are the differences in the service credit purchase for injury provisions in Washington's retirement systems significant enough to warrant a statutory remedy?
- ❖ If the committee wants to pursue a legislative remedy, would they want to include TRS in that remedy?

Possible Options

Option 1
Allow members of PSERS and SERS to purchase up to two years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods temporary duty disability in PSERS, and SERS would provide these members benefits equal to those in the Public Employee's Retirement System (PERS), thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: Because of the small number of members who would be eligible for this benefit, the impact on the retirement funds would be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 2

Allow members of SERS to purchase up to two years of service credit for periods of temporary duty disability, and allow members of PSERS to purchase up to four years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods of temporary duty disability in SERS would provide these members benefits equal to those in PERS, thus maintaining system and plan consistency as is a goal within statutory retirement policy. Expanding the service credit purchase provisions for periods temporary duty disability in PSERS to four years would acknowledge the greater inherent risk in public safety occupations.

Fiscal Impact: The increase in number of members who would experience extended TDD periods is minimal. The share of members purchasing the maximum time currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. The share purchasing service credit for longer periods would be a subset of that group. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 3

Allow members of PERS, SERS, and PSERS to purchase service credit for all periods of temporary duty disability.

Policy Impact: Allowing service credit to be purchased for all periods of temporary duty disability would provide members benefits equal to the injury risk inherent in each system, thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: The increase in members eligible to purchase the additional TDD time is minimal. The number of members purchasing the maximum time currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 4
Include members of TRS in any proposal.

Policy Impact: Including TRS members in any service credit purchase proposal would be in keeping with maintaining system and plan consistency as is a goal with statutory retirement policy.

Fiscal Impact: Giving TRS members the statutory authority to purchase service credit for TDD periods would, in many instances, codify existing human resource and contractual practices. As there is no significant difference in injury frequency among school employees compared to other non-public safety employees, the cost to the retirement system would be similarly negligible and insufficient to increase contribution rates, be it for a two year statutory period or for an unlimited statutory period. As with the other systems, there would be budgetary impacts, as employers would continue to be responsible for contribution and interest payments for those employees making such a purchase.

Executive Committee Recommendation

At the September 19, 2006 meeting, the Executive Committee of the SCPP recommended that a bill and fiscal note be prepared for Option 1 including LEOFF 2 and TRS – allowing members of PSERS, SERS, LEOFF 2 and TRS to purchase up to twenty-four consecutive months of service credit for each period of temporary duty disability. The bill and fiscal note were forwarded to the full committee for possible executive action.

Committee Recommendation

At the November 21st meeting of the SCPP, the full committee recommended that a bill be forwarded to the 2007 legislature that would allow members of PSERS, SERS, LEOFF 2, and TRS to purchase up to twenty-four consecutive months of service credit for each period of temporary duty disability.

Bill Draft

Attached.

Fiscal Note (Draft)

Attached.

Stakeholder Correspondence

Kelly Fox, Chair, LEOFF Plan 2 Board

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0244.4/07 4th draft
ATTY/TYPIST:	LL:bat
BRIEF DESCRIPTION:	Purchasing service credit for periods of temporary duty disability in the law enforcement officers' and fire fighters' retirement system plan 2, the teachers' retirement system, the school employees' retirement system, and the public safety employees' retirement system.

AN ACT Relating to purchasing service credit for periods of temporary duty disability in the law enforcement officers' and fire fighters' retirement system plan 2, the teachers' retirement system, the school employees' retirement system, and the public safety employees' retirement system; amending RCW 41.35.070 and 41.37.060; adding a new section to chapter 41.26 RCW; adding a new section to chapter 41.32 RCW; providing an effective date; and declaring an emergency.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW under the subchapter heading "plan 2" to read as follows:

Those members subject to this chapter who became disabled in the line of duty on or after July 1, 2002, and who received or are receiving benefits under Title 51 RCW or a similar federal workers' compensation program shall receive or continue to receive service credit subject to the following:

(1) No member may receive more than one month's service credit in a calendar month.

(2) No service credit under this section may be allowed after a member separates or is separated without leave of absence.

(3) Employer contributions shall be paid by the employer at the rate in effect for the period of the service credited.

(4) Employee contributions shall be collected by the employer and paid to the department at the rate in effect for the period of service credited.

(5) State contribution shall be as provided in RCW 41.45.060 and 41.45.067.

(6) Contributions shall be based on the regular compensation which the member would have received had the disability not occurred. If contribution payments are made retroactively, interest shall be charged at the rate set by the director on both employee and employer contributions. Service credit shall not be granted until the employee contribution has been paid.

(7) The service and compensation credit shall not be granted for a period to exceed twenty-four consecutive months.

(8) This section does not abridge service credit rights granted in RCW 41.26.470(3). However, members receiving service credit under RCW 41.26.470(3) may not receive service credit under this section.

(9) Should the legislature revoke the service credit authorized under this section or repeal this section, no affected employee is entitled to receive the credit as a matter of contractual right.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "provisions applicable to plan 1, plan 2, and plan 3" to read as follows:

Those members subject to this chapter who became disabled in the line of duty and who received or are receiving benefits under Title 51 RCW or a similar federal workers' compensation program shall receive or continue to receive service credit subject to the following:

(1) No member may receive more than one month's service credit in a calendar month.

(2) No service credit under this section may be allowed after a member separates or is separated without leave of absence.

(3) Employer contributions shall be paid by the employer at the rate in effect for the period of the service credited.

(4) Employee contributions shall be collected by the employer and paid to the department at the rate in effect for the period of service credited.

(5) Contributions shall be based on the regular compensation which the member would have received had the disability not occurred. If contribution payments are made retroactively, interest shall be charged at the rate set by the director on both employee and employer contributions. Service credit shall not be granted until the employee contribution has been paid.

(6) The service and compensation credit shall not be granted for a period to exceed twenty-four consecutive months.

(7) Should the legislature revoke the service credit authorized under this section or repeal this section, no affected employee is entitled to receive the credit as a matter of contractual right.

Sec. 3. RCW 41.35.070 and 1998 c 341 s 8 are each amended to read as follows:

Those members subject to this chapter who became disabled in the line of duty and who received or are receiving benefits under Title 51 RCW or a similar federal workers' compensation program shall receive or continue to receive service credit subject to the following:

(1) No member may receive more than one month's service credit in a calendar month.

(2) No service credit under this section may be allowed after a member separates or is separated without leave of absence.

(3) Employer contributions shall be paid by the employer at the rate in effect for the period of the service credited.

(4) Employee contributions shall be collected by the employer and paid to the department at the rate in effect for the period of service credited.

(5) Contributions shall be based on the regular compensation which the member would have received had the disability not occurred. If contribution payments are made retroactively, interest shall be charged at the rate set by the director on both employee and employer contributions. No service credit shall be granted until the employee contribution has been paid.

(6) The service and compensation credit shall not be granted for a period to exceed ((~~twelve~~)) <u>twenty-four</u> consecutive months.

(7) Should the legislature revoke the service credit authorized under this section or repeal this section, no affected employee is entitled to receive the credit as a matter of contractual right.

Sec. 4. RCW 41.37.060 and 2004 c 242 s 9 are each amended to read as follows:

Those members subject to this chapter who became disabled in the line of duty and who received or are receiving benefits under Title 51 RCW or a similar federal workers' compensation program shall receive or continue to receive service credit subject to the following:

(1) No member may receive more than one month's service credit in a calendar month.

(2) No service credit under this section may be allowed after a member separates or is separated without leave of absence.

(3) Employer contributions shall be paid by the employer at the rate in effect for the period of the service credited.

(4) Employee contributions shall be collected by the employer and paid to the department at the rate in effect for the period of service credited.

(5) Contributions shall be based on the regular compensation which the member would have received had the disability not occurred. If contribution payments are made retroactively, interest shall be charged at the rate set by the director on both employee and employer contributions. Service credit shall not be granted until the employee contribution has been paid.

(6) The service and compensation credit shall not be granted for a period to exceed ((~~twelve~~)) <u>twenty-four</u> consecutive months.

(7) Should the legislature revoke the service credit authorized under this section or repeal this section, no affected employee is entitled to receive the credit as a matter of contractual right.

<u>NEW SECTION.</u> **Sec. 5.** 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	11/6/06	Z-0244.4

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2), the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), and the Public Safety Employees' Retirement System (PSERS) by allowing members who were injured in the course of employment to receive up to twenty-four consecutive months of service credit for each injury recovery period. These periods are also known as temporary duty disability (TDD) periods. To receive this service credit, a member must have received benefits for the injury period under Title 51 (Industrial Insurance). The member must pay the required employee contributions for the TDD period; if the payments are retroactive, interest will be charged at a rate set by the Director of the Department of Retirement Systems. After the member contributions are made, the employer will then be billed for the employer contributions for the TDD period; if the payments are retroactive, interest will also be charged; in LEOFF 2, the State is also billed for contributions.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, members of LEOFF 2 may receive up to six consecutive months of service credit for each TDD period. To be eligible, members must have received the employer-provided "leave supplement" amount. Members may purchase the service credit for each TDD period by paying the member contributions for the period. The employer and State are also required to pay the appropriate contributions. Neither the member, employer, nor State are charged recovery interest. Members who are injured longer than six consecutive months may purchase the service credit for the period beyond six months by paying the member and employer contributions plus interest under the "leave of absence" provisions. If the employer is a city or town with a population of less than twenty-five hundred, or a county with a population of less than ten thousand, they are not required to pay the "leave supplement" amount; a member of such an employer may purchase service credit for a TDD period by paying the member and employer contributions plus interest under the "leave of absence" provisions.

Currently, members of SERS and PSERS may receive up to twelve consecutive months of service credit for each TDD period. Members must have received time-loss benefits under Title 51, and they must pay the member contributions plus interest for the TDD period. After the member pays their contributions plus interest, the member's employer is billed for the employer contributions plus interest.

Currently, members of TRS have no statutory provision allowing for the purchase of service credit for on-the-job injury periods.

MEMBERS IMPACTED:

We estimate that each year two members out of the 67,270 active TRS membership would become disabled by duty-related injuries (2.97 per 100,000 members).

We estimate that for a typical TRS member impacted by this bill, the increase in benefits would be $172 per month if an extra assumed two years of service is purchased (service above the 0 months available for purchase under current law).

We estimate that each year less than one member out of an estimated 2,000 active PSERS membership would become disabled by duty-related injuries (10.6 per 100,000 members).

We estimate that for a typical PSERS member impacted by this bill, the increase in benefits would be $49 per month if an extra assumed one year of service is purchased (service above the 12 months available for purchase under current law).

We estimate that each year five members out of the 50,350 active SERS membership would become disabled by duty-related injuries (9.9 per 100,000 members).

We estimate that for a typical SERS member impacted by this bill, the increase in benefits would be $18 per month if an extra assumed one year of service is purchased (service above the 12 months available for purchase under current law).

We estimate that each year two members out of the 15,168 active LEOFF 2 membership would become disabled by duty-related injuries (13.2 per 100,000 members).

We estimate that for a typical LEOFF 2 member impacted by this bill, the increase in benefits would be $159 per month if an extra assumed 1.5 years of service is purchased (service above the six months available for purchase under current law). See next section for assumptions.

Of the members assumed to have duty disabilities, not all are expected to return to work. It is further assumed that of those who do return to work, not all will elect to purchase and restore service credit.

ASSUMPTIONS:

We assume that all affected members will purchase their first full year of service and 25% will purchase their full second year of service. This assumption is in conjunction with a staff presentation to the SCPP at their June 20, 2006 meeting that showed the percentages of members that bought the maximum service under current law. We used the highest number to show a worst case scenario. We further assume that each affected member will remain employed and retire at his or her plan's average projected retirement age.

To estimate the number of members impacted each year, we applied the disability rates (includes duty and non-duty) in the 2005 Actuarial Valuation Report to our projections. We further assume that 10% of all disabilities are duty-related.

FISCAL IMPACT:

None.

While the bill would increase the liability in the affected systems, the cost of this bill is insufficient to increase the member or employer contribution rates in any of the affected systems.

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.

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:

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
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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