

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
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Regular Committee Meeting

June 20, 2006

10:00 AM - 12:00 PM
House Hearing Room A
Olympia

AGENDA

- 10:00 AM (1) **Approval of Minutes**
- 10:05 AM (2) **Dual Membership**, Laura Harper, Senior Research Analyst - Legal
Public Testimony
- 10:45 AM (3) **\$150,000 Death Benefit**, Darren Painter, Research Analyst
Public Testimony
- 11:20 AM (4) **Service Credit Purchase Due to Injury**, Robert Wm. Baker, Senior Research Analyst
Public Testimony
- NOON (5) **Adjourn**

*Elaine M. Banks
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

*Representative Bill Fromhold,
Vice-Chair

Leland A. Goeke
TRS and SERS Employers

Robert Keller
PERS Actives

*Sandra J. Matheson, Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

*Glenn Olson
PERS Employers

*Senator Craig Pridemore,
Chair

Diane Rae
TRS Actives

*J. Pat Thompson
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

* Executive Committee

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TDD: 1-800-635-9993

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Select Committee on Pension Policy

2006 Meeting Dates

Full - 10:00 am - 12:00 pm
Executive - 12:30 - 2:30 pm
 JLOB, Olympia, WA 98504

- January 17, 2006 - *meeting cancelled*
- February 21, 2006
- March 21, 2006
- April 18, 2006 - *meeting cancelled*
- May 16, 2006
- June 20, 2006
- July 18, 2006
- August 22, 2006 - *no meeting planned*
- September 19, 2006
- October 17, 2006
- November 21, 2006
- December 12, 2006

No Subgroups have been formed
Reserved Subgroup Dates
Location to be determined
 2:00 - 4:00 pm - Mondays

- April 17, 2006
- May 15, 2006
- June 19, 2006
- July 17, 2006
- August 21, 2006
- September 18, 2006
- October 17, 2006
- November 20, 2006
- December 11, 2006

Select Committee on Pension Policy

Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.
2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.
3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.
4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.
5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:
 - a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
 - b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
 - c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
 - d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
 - e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

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REGULAR COMMITTEE MEETING DRAFT MINUTES

May 16, 2006

The Select Committee on Pension Policy met in House Hearing Room A, Olympia, Washington on May 16, 2006.

Committee members attending:

Senator Pridemore, Chair	Sandra J. Matheson
Representative Fromhold, Vice-Chair	Corky Mattingly
Elaine Banks	Doug Miller
Representative Bailey	Senator Mulliken
Lois Clement	Glenn Olson
Representative Conway	J. Pat Thompson
Representative Crouse	Senator Schoesler
Robert Keller	

Senator Pridemore, Chair, called the meeting to order at 10:09 AM.

Senator Pridemore informed members that agendas would be distributed to members and the public via an electronic SCPP listserv beginning in June. Paper distribution of agendas will be discontinued. The Chair reviewed a brochure that was distributed to the members and the public entitled, "Agenda Matters," which describes how individuals may subscribe to the SCPP listserv service. The Chair also expressed his desire for staff to distribute future SCPP meeting materials electronically as well and asked members to contact staff if they wished to continue to receive paper copies.

(1) Approval of Minutes

It was moved to approve the March 21, 2006, Full Committee Draft Minutes. Seconded.

MOTION CARRIED

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

***Representative Bill Fromhold,**
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(2) Washington State Investment Board Update

Joe Dear, Executive Director of the WSIB, reported on the retirement system investments under WSIB management. Discussion followed.

(3) Update on Other States' Pensions

Laura Harper, Senior Research Analyst, Legal, reported on the "Other States' Pensions." Discussion followed.

(4) Pension Funding/Accounting Reforms

Matt Smith, State Actuary, reported on the "Pension Funding-Accounting Reforms." Discussion followed.

The meeting adjourned at 12:10 pm.

In Brief

PROPOSAL

"Dual membership," or "portability," is a voluntary program for retirement system members who once belonged to another participating system within the State of Washington. The LEOFF 2 Board is proposing several program changes to address situations, which, in its view, may unnecessarily penalize its members' pension benefits when they change public sector careers. These "penalties" involve issues around salary restrictions, benefit limitations and access to benefit indexing. Resolution of these issues could affect members in other retirement systems.

In OSA discussions with the Department of Retirement Systems (DRS), a fourth issue has been identified: disparate treatment of inactive members under portability. All four issues will be covered in this briefing paper.

Laura Harper
Senior Research Analyst,
Legal
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Dual Membership

Current Situation

Who's In?

Dual membership, also known as "portability," is a voluntary program available to persons who are active members in any of the retirement systems listed below, and who once belonged to another of these systems: Public Employees' Retirement System (PERS) Plans 1, 2, and 3; Teachers' Retirement System (TRS) Plans 1, 2, and 3; School Employees' Retirement System (SERS) Plans 2 and 3; Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2; Washington State Patrol Retirement System (WSPRS) Plans 1 and 2; City Retirement Systems for Seattle, Spokane, and Tacoma; and Statewide City Employees' Retirement System (SCERS). The Public Safety Employees' Retirement System (PSERS) will be added to this list effective July 1, 2006.

Who's out?

LEOFF 1 and the Judges' and Judicial Retirement Systems are not included in the portability statute. In order to qualify for dual membership, members cannot have retired from any Department of Retirement Systems (DRS) - administered system, nor can they be receiving a disability retirement or disability leave benefits from any DRS retirement system.

How does it work?

Generally, dual membership prevents members from being unduly advantaged or disadvantaged by moving from one public employee retirement system to another. Participation in the dual membership program is an optional, non-contractual right that allows the following:

1. Dual members may restore service credit withdrawn from another dual member system.

“Dual Membership” allows members to:

- ❖ *Restore service credit*
- ❖ *Combine service credit*
- ❖ *Use highest base salary to calculate benefits*

2. They may combine service credit earned in all participating systems to become eligible for benefits, e.g. retirement benefits; survivor benefits; disability benefits; and PERS, SERS, and TRS Plan 3 indexing.
3. They may use their highest "base salary" in a dual member system to calculate their retirement benefit.

Example

Lee is a 43-year-old PERS 2 member with ten years of service credit who joins PSERS and works for another ten years. Under the dual membership program, Lee can elect to combine service credit from the two retirement systems at age 53 and qualify for early retirement under PSERS. Lee can also use his highest base salary from either system to calculate his final benefit. Each retirement system will pay its share of the total benefit.

PERS 2 Benefit:

$2\% \times 10 \text{ years service credit} \times \text{average final compensation} \times \text{ERRF} \div 12 \text{ months} = \text{PERS benefit}$

PSERS Benefit:

$2\% \times 10 \text{ years service credit} \times \text{average final compensation} \times \text{ERRF} \div 12 \text{ months} = \text{PSERS benefit}$

Detailed examples of dual membership scenarios are provided in the attached copy of DRS website materials entitled, *What is Dual Membership and How Does It Affect Me?* As can be seen from the examples, there are many instances in which dual membership allows members to receive higher benefits than if they had received separate benefits from each system. However, there are some instances in which members would not be better off as dual members. For that reason, dual membership is voluntary.

PSERS may add another 6,000 dual members to the state retirement system.

Members Impacted

As of September 30, 2005, there were 9,897 active retirement system members with dual membership, and an additional 1,502 dual members who were not active in either system. With the addition of the new PSERS plan in July, it is estimated that there will be at least another 6,000 dual members added to the state retirement system.

DRS reports that last year there were approximately 180 calculations, 90 recalculations, and 800 estimates under portability. Currently, most portability cases involve members of both PERS and TRS, or PERS and First Class Cities.

History

The LEOFF 2 Board brought the issue of dual membership before the SCPP Executive Committee during the 2005 interim. At that time the Committee determined that it was too late in the interim to study the issue and deferred the matter to the 2006 interim.

Dual membership was established with the passage of ESSB 5150 in 1987, the year that the Joint Committee on Pension Policy (JCPP) was established. LEOFF 2 was added as a dual member system in 1993. The SCPP has not studied dual membership, although the proposed legislation was presented to the JCPP in 1987.

Policy Analysis

Neither the original portability statute nor the original session law provides an official record of the legislative intent of the dual membership statute. However, pension portability provisions that facilitate members to move more easily from one retirement system to another are common in public sector retirement systems. Many states provide portability of retirement benefits through purchases and transfers of service credit, or the ability to combine service credit.

When a member can transfer service credit from one retirement system to another within the same state, the

Approximately half of public sector systems allow members to transfer or combine service credit when moving from one retirement system to another within the same state.

practice is referred to as intrastate portability (or reciprocity). Some states do not have intrastate portability per se, but have laws that yield the same result by allowing the combining of service credit. Washington's portability statute is in the latter category. While it does not provide for routine service credit transfers when members join a new participating retirement system, it does allow for dual membership in the systems, which results in the ability to combine service credit.

According to Calhoun and Moore's, *The Governmental Plans Answer Book**, of 52 public sector systems surveyed, 52 percent allowed for transferring or combining service credit earned elsewhere, 46 percent did not, and another 2 percent did not respond to the question. Similarly, a 1999 portability survey conducted by the National Council on Teacher Retirement** found that of 45 systems surveyed, 58 percent provided the ability to transfer or combine service in systems within the state and 42 percent did not.

*Panel Publishers, New York, 2002, page 2-21.

**<http://www.nctr.org/resources/poranaly.htm>, accessed on May 22, 2006.

Within Washington's comparative systems there are several programs similar to this state's dual membership program. The **California** Public Employees' Retirement System (CalPERS) method for addressing the issue of members moving in and out of CalPERS and other public employee retirement systems is not to transfer service credit from one system to another; rather, service credit years are combined for the purpose of meeting vesting and benefit eligibility requirements. Each system then pays a retirement benefit based on the years of service in that respective system, subject to the membership, benefits, and rights of that system. California calls its system reciprocity and allows each member's highest eligible average earnings to be used when calculating the retirement benefit under any reciprocal system.

Florida uses a similar approach to California's. The average final compensation is the average of the five highest fiscal years of earnings. **Wisconsin's** approach is also consistent with California's, in that service credits are not transferred from one system to another, but are instead combined for benefit eligibility purposes. It differs, however, in that each retirement system calculates benefits using the benefit

formula in effect on the date the member terminates all employment within the participating systems. The final average earnings from each earlier system are increased by the “national salary index,” updated to the last day paid for the last employment covered under one of the participating systems.

Combining service credit and corresponding benefits for portability can be a relatively simple procedure when the underlying plans are very similar. However, when the benefit structures are very different, the process can be more of a challenge. One challenge in Washington’s portability program is integrating a partial benefit from a Plan 1 with a partial benefit from a Plan 2 or 3. Some of the Plan differences are highlighted below:

Plans 1	Plans 2/3
60% cap	No cap
24 month AFC	60 month AFC
Include annual leave cash outs	Do not include annual leave cash outs
Service based retirement	Age based retirement

These plans vary considerably in basic design. Where the underlying systems vary greatly in structure, there is more potential under portability for unintended negative consequences for individuals with unique circumstances. There is also more potential for windfalls resulting in unintended risks being imposed on the retirement system.

Washington’s portability statute utilizes several tools to address the complexity of its underlying systems. To avoid penalizing individuals, members get to use their highest base salary from either system to calculate the benefit from each system. They can use all the service credit from both systems in order to qualify for benefits. In those instances in which they are better off retiring from each system and not under dual membership, they can choose to do so and are not required to participate in the dual membership program.

To avoid penalizing the participating retirement systems, Washington’s portability statute uses a “base salary” definition that strips out elements of compensation that could be used to “spike” the final benefit such as overtime, sick leave cash outs, and other lump sum payments. It also requires that the total benefit be limited to the largest

amount the dual member would receive if all of the member's service had been rendered in one system – the “maximum benefit rule.”

The following issues raise questions as to whether Washington's portability statute achieves the appropriate balance between allowing members to move freely between public employee retirement systems without creating undue penalties for them or their retirement systems.

Issues Raised Under Washington's Portability Statute

The LEOFF 2 Board raised the first three of the following four issues. DRS identified the fourth issue.

1. Base salary definition

The portability statute's definition of base salary excludes the following components of compensation:

- ❖ Overtime
- ❖ Non-money maintenance compensation
- ❖ Lump sum payments for deferred annual sick leave
- ❖ Unused accumulated vacation
- ❖ Unused annual leave
- ❖ Any form of severance pay
- ❖ Any bonus for voluntary retirement
- ❖ Any other form of leave
- ❖ Any similar lump sum payment

See RCW 41.54.010(1). There is no legislative history indicating why Washington's portability statute excludes these elements of compensation from the definition of base salary. Thus, one can only speculate as to the policy reasons for the provision. The exclusion could be viewed as a means to limit costs associated with the dual membership program. It could also have the purpose of

Overtime and lump sum payments are excluded from “base salary.”

preventing members from using them to inflate their final pension benefits.

Generally speaking, leave cash-outs, leave payments, and other lump sum payments have been treated as compensation within the Plans 1 and not the Plans 2/3. In contrast, overtime is a part of compensation throughout the Plans 1, 2, and 3.

Since overtime is an element of compensation in most plans, its exclusion from the base salary definition is likely to cause the most consternation in members. For example, a member could earn overtime in two systems, pay pension contributions on the overtime, and yet never be allowed to include the overtime for pension purposes as a dual member. This has been a member complaint in LEOFF 2. With the advent of PSERS, this complaint could become more widespread.

The following DRS-administered plans specifically include overtime in the definition of "earnable compensation":

- ❖ LEOFF Plan 2
- ❖ PERS Plans 2 and 3
- ❖ SERS Plans 2 and 3
- ❖ TRS Plans 2 and 3
- ❖ WSPRS Plans 1 and 2

PERS and TRS Plans 1 do not specifically include overtime in the definition, but they also do not exclude it. This paper has not examined the practices of the First Class Cities with respect to overtime. However, most Washington State Retirement Systems have categories of members whose salary may include overtime as a component of compensation and who pay pension contributions on overtime amounts. In fact, covered employers do not even report overtime separately to DRS. It is included within total wages, and must be manually calculated and excluded for dual members. DRS reports that overtime is an issue in 10-20 percent of its portability cases, and these usually involve a LEOFF 2 member.

As a general matter, overtime plus leave cash-outs and other lump sum payments could result in end-of-career paychecks that are significantly higher than those ever

received during the member's career. However, this risk is somewhat mitigated by the use of compensation averaging. The various Washington State retirement plans provide for an average final compensation of 24 (Plans 1) to 60 (Plans 2, 3) of the highest paid service credit months. A longer averaging period will usually yield a lower final benefit. Salary averaging is part of the balance between giving the member a benefit based on relatively current salary and protecting retirement systems from having to pay for final benefits that were not funded over the working lifetimes of their members.

The LEOFF 2 Board is proposing that payments defined as salary or compensation in **both** dual member systems should be included in base salary for portability purposes. The requirement of commonality of compensation elements between the two systems is intended to prevent members from utilizing portability to "game" the system, while still allowing members to get the benefit of compensation elements that were part of benefit packages.

The several states within Washington's comparative systems that have portability provisions similar to those in this state do not have an over-arching exclusion of overtime or other elements from salary. They simply use the member's best average final compensation to calculate the final benefit. For example, **California** uses the highest final compensation from either system, as defined by that system. This assumes that each system has built-in safeguards against pension ballooning. Some California plans use 12-month highest compensation and some use 36-month highest compensation. Members may use either as long as they retire on the same date from both systems. (Arkansas, Illinois, and Kentucky also use the highest final compensation from either plan.) **Florida's** definition of average final compensation is standardized across the various systems and uses the five highest fiscal years of earnings.

Wisconsin's approach is unique. Wisconsin uses the actual final average earnings from each system. However, in order to avoid penalizing the dual member's proportionate benefit from the earlier system, the final average earnings from the earlier system is increased by the "national salary

index" in 42 USC 415 (b)(3)(A), updated to the last day of paid employment.

All of these systems have implemented a variation on the policy that members should receive proportionate benefits from each system without using an outdated salary amount for the final benefit. In other states, as in this state, selecting the appropriate salary amount for calculating benefits under a dual membership program is one of the keys to making the program work for both members and employers.

The LEOFF 2 Board's proposal raises the following policy questions for the SCPP:

- A. If the portability statute is changed to include elements previously excluded from the definition of base salary, which elements should they be? Is overtime distinguishable from other elements that are currently excluded?
- B. If overtime, leave cash-outs, and lump sum payments are included in base salary for portability purposes, will retirement systems be forced to pay for benefits that were not funded over the working lives of their members?
- C. Will the requirement that the specific elements of compensation be present in both of the dual member's systems in order to be included in the portability benefit protect against this funding concern?

Selecting the appropriate salary amount is one of the keys to making the dual membership program work.

2. Benefit Limitations

Several of Washington's retirement systems have a "cap" on the percentage of average earnings that can be used to determine a member's final retirement benefit. Participating retirement systems with capped benefits include the following:

- ❖ WSPRS Plans 1 and 2 (75 percent cap)
- ❖ The Plans 1 of and PERS and TRS (60 percent cap)
- ❖ The City of Seattle (60 percent cap)
- ❖ The City of Spokane (64.5 percent cap)

The portability statute also limits the total benefit that can be obtained under dual membership. The "maximum benefit rule" provides that the total retirement benefit under dual membership shall not exceed the largest amount the dual member would receive if all the service had been rendered in any one system. Thus, if one or both of a dual member's retirement systems has a benefit cap, DRS will:

- A. Determine the maximum benefit. DRS computes the benefit for each system as if all career service and earnings occurred in that system, and using the plan provisions of that system, including any benefit cap. The system with the highest benefit establishes the maximum benefit.
- B. Determine the individual benefit. DRS will determine the individual benefit under each system and add the individual benefits together.
- C. Compare the total of the individual benefits with the maximum. If the total exceeds the maximum benefit, the benefits from each system will be proportionately reduced until the total equals the maximum benefit.

Benefit "caps" and "the maximum benefit rule" are distinct concepts. Benefit caps apply to individual plans. The maximum benefit rule is part of the portability statute.

An **example** of the application of this rule to a member in capped retirement systems is provided in Example 5 on page 7 of the attached DRS materials entitled *What is Dual Membership and How Does it affect Me?* In analyzing dual membership, it is helpful to keep the distinction between "caps" and the "maximum benefit rule" in mind. "Caps" refer to limits on the final retirement benefit within the individual plans. For example, in PERS and TRS Plan 1, members' final retirement benefit cannot exceed 60 percent of average final compensation. The "maximum benefit rule" is a concept under portability that limits the total benefit a member can receive from two systems.

Some history of specific portability provisions may be of interest in considering how benefit caps relate to portability. The original 1987 version of the portability statute strictly limited the total retirement benefit that dual

members could receive. It included a so-called “minimum benefit rule,” which provided that:

*The total sum of the retirement allowances received under this chapter shall not exceed the **smallest** amount the dual member would receive if all the service had been rendered in any one system.*

The “minimum benefit rule” was changed to the “maximum benefit rule” in 1996.

At that time, most retirement system members were Plan 1 members and many of the dual members were in PERS 1 and TRS 1, both of which limited the ultimate retirement benefit to 60 percent of average final compensation. The minimum benefit rule prevented members from using dual membership as a means to avoid these Plan 1 caps.

Eventually, with new employees entering the Plans 2 and 3, there were more and more dual members in both capped and uncapped plans. Members were earning more service credit in uncapped systems, and dual membership was becoming less and less attractive for some members. The minimum benefit rule was changed in 1996 to a “maximum benefit rule,” which currently provides:

*The total sum of the retirement allowances received under this chapter shall not exceed the **larger** amount the dual member would receive if all the service had been rendered in any one system.*

For members of capped and uncapped plans, this more recent version of the portability statute moved closer toward the implicit policy of allowing dual members to receive proportionate benefits from each retirement system without using an outdated salary amount for the final benefit.

As of September 30, 2005, there were approximately 1,000 members that were active in one capped and one uncapped plan, and another 200 inactive members who were in one capped and one uncapped plan. DRS estimates that about 5 percent of portability cases involving a Plan 1 cap result in imposition of the maximum benefit rule, and this is usually because of a large discrepancy between the average final compensation in the two systems.

The LEOFF 2 Board proposes to “ease restrictions on total service credit” for a dual member:

- ❖ Who is in one capped plan and one uncapped plan
- ❖ Who has less than 15 years of service credit in a capped plan.

Why 15 years? Fifteen years is consistent with the estoppel rule, which generally prohibits members who have 15 or more years of service and are receiving or eligible to receive a benefit from one system from becoming a member of a second system. Fifteen years also represents one-half of a Plan 1 career. Accordingly, this suggested “threshold” might help reduce the ability of members to “game” the system by switching from a capped to an uncapped plan. Also, according to staff, the LEOFF 2 Board does not oppose retaining benefit restrictions for members who are in two capped plans.

There is potentially another means for “easing restrictions” for these dual members by creating an exception to the maximum benefit rule for the suggested group. Such “easing of restrictions” could be viewed consistent with the codified legislative policy that persons hired into eligible positions shall accrue service credit for all service rendered, and their benefits shall be calculated in a manner that prevents the arithmetic lowering of benefits. See RCW 41.50.005(2) and (3).

On the other hand, lifting the cap or suspending the maximum benefit rule for some members within a plan and not others could create pressure to do the same for other members. It may also be viewed as inconsistent with the policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). This latter policy is especially compelling where members are similarly situated.

The LEOFF 2 Board’s proposal raises the following policy questions for the SCPP:

- A. Would easing restrictions for certain dual members constitute a benefit improvement? Or is this more like the removal of a “penalty” under portability?
- B. Would easing restrictions for some dual members create pressures to do the same for others?

- C. Would easing restrictions for some dual members cause their retirement systems to take on obligations which were not funded over the working lifetimes of the affected members' careers?

3. Combining Service to Qualify for the Indexed Twenty-Year Term-Vested Benefit in LEOFF 2

PERS, SERS, and TRS "Plan 3 indexing," provides for a 3 percent per year increase in the defined benefit portion of Plan 3 for any member who has terminated and is vested with at least twenty years of service. Such members are referred to as "term-vested." How is this relevant to dual membership? The portability statute allows dual members to combine service for the purpose of qualifying for the indexed term-vested defined benefit in the Plans 3. PERS, SERS, and TRS 3 are all specifically mentioned in the portability statute. See RCW 41.54.030(1)(b).

LEOFF 2 also provides a 3 percent per year benefit increase for members who have terminated and are vested with twenty years of service. This benefit was established in Section 5 of Chapter 517, Laws of 1993 (before the Plans 3 were established). When this law was passed, the bill specified that LEOFF 2 would be included as a system under portability, but it did not specifically amend RCW 41.54.030 to include the ability to combine service credit for qualifying for the indexed term-vested benefit. This was most likely an oversight.

With the establishment of the Plans 3, the portability statute was specifically amended to allow members to combine service credit in order to qualify for the indexed term-vested benefit. Adding LEOFF 2 to the list in subsection (1)(b) would be consistent with the codified legislative policy to provide similar benefits wherever possible.

4. Active vs. Inactive Employees

The systems are not alike with respect to treating inactive employees as actives for portability purposes. In the PERS and the WSPRS Plans 1 there are different retirement eligibility rules for active and inactive members. If

members are active, they generally may retire earlier without a reduction in benefits than if they are inactive.

Current law allows PERS 1 inactive members (i.e., term-vested members who are no longer employed in that system) to be treated as actives for portability purposes. Portability does not allow such treatment for inactive members of the WSPRS. For example, an inactive member who is term-vested in WSPRS 1 and active in another system, and whose combined service would otherwise allow WSP retirement at age 55, would be required to wait to age 60 to retire. See RCW 43.43.280(2). This is an inconsistency in the application of the active vs. inactive rules within the portability statute itself.

DRS relies upon RCW 41.54.030(4), (which refers to the PERS 1 active eligibility standard in RCW 41.40.180), for the proposition that inactive members of PERS 1 are to be treated as active members under portability. Cases illustrating this inconsistency between PERS 1 and WSPRS 1 are relatively rare. However, resolving this discrepancy would be consistent with the codified legislative policy to provide similar benefits wherever possible. See RCW 41.50.005(1).

Stakeholder Input

The March 9, 2006, letter from the Chair of the LEOFF 2 Board to the members of the SCPP is attached. Also attached is the April 26, 2006 report to the LEOFF 2 Board entitled "Dual Membership, Preliminary Report."

General Policy Questions

What is the distinction between creating a benefit improvement, correcting an inconsistency, and lifting a penalty?

Is cost a factor in making these distinctions?

How can the dual membership program best achieve the goals of allowing members to move from one public employee retirement system to another without suffering a diminution of their total benefit?

How can the portability statute best protect the underlying retirement systems from unintended costs associated with dual membership?

Conclusion

Most programs that facilitate intrastate portability seek to achieve a balance that allows members to move smoothly and efficiently between public employee retirement systems. An ideal balance gives members full credit for service in each plan, while avoiding negative impacts on individuals and their retirement plans.

Next Steps

The Executive Committee will decide how to proceed on this issue as part of its responsibility to set future SCPP meeting agendas.

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The Select Committee on Pension Policy



Dual Membership

Laura Harper
Senior Research Analyst, Legal

June 20, 2006



Two Part Presentation

- Part 1: Introduce Dual Membership
 - Describe concepts with system-wide application
 - Provide context for evaluating proposals
- Part 2: Describe Proposals



Part 1: What is Dual Membership?

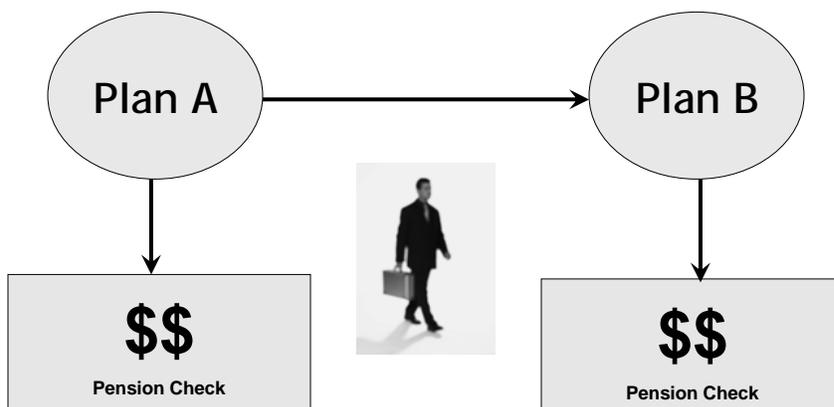
- Membership in two retirement systems
 - Start career in one retirement system
 - Finish in another
- A.K.A. “portability”
 - Special chapter in statutes
 - Addresses how a final benefit is provided to dual members



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Dual Membership



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How Does It Work?

- Combine service credit
- Use highest “base salary”



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Example: Combining Service Credit

- Lee is 43
- Has ten years in PERS 2
- Will work another ten years in PSERS
- Combine service and qualify for early retirement in PSERS at age 53
 - Lee needs at least 20 years of service credit to retire in PSERS at age 53
 - Can use the ten years from PERS 2 to qualify



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Example: Using Highest "Base Salary"

- Lee's AFC was \$45,000 when he left PERS 2
- Lee's AFC is \$60,000 after ten years in PSERS
- Portability uses higher base salary to calculate benefit from each system



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Lee's Portability Benefit

- $2\% \times 10 \text{ years} \times \text{AFC} \times \text{ERRF} \div 12 \text{ months} =$
PERS 2 monthly benefit
- $2\% \times 10 \text{ years} \times \text{AFC} \times \text{ERRF} \div 12 \text{ months} =$
PSERS monthly benefit



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Recap / Questions?

- What is dual membership?
- How does it work?
 - Combine service credit
 - Use highest base salary



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Two Things to Remember

- Portability is a benefit
- It has a cost



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Why is it a Benefit?

- Without it, member must seek a separate benefit from each system
- In most instances, benefits are greater under portability
- Think of Lee



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Benefit of Combining Service

- Lee would have to work to age 60 in PSERS
- Lee would have to wait until 65 to get PERS 2 benefit



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Benefit of Using Higher Salary

- Without portability, Lee's final PERS 2 benefit would have been based on lower salary amount
- $2\% \times \text{service credit years} \times \text{AFC}^* \times \text{ERRF}$

*\$45,000 or \$60,000



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Portability Has a Cost

- Without portability, Lee's PERS 2 benefit would be based on salary when he left PERS 2 (\$45,000)
- With portability, Lee's PERS 2 benefit is based on a higher salary than he ever earned while in PERS 2 (\$60,000)
- PERS 2 pays more for Lee's benefit (contributions were on actual salary)



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Recap / Questions

- What is dual membership?
- How does it work?
- Why is it a benefit?
- Why does it have a cost?



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Program Design - Portability

- Dual Members' Interests
 - Retire after one career's worth of service
 - Retire with an "end of career" salary
 - Change jobs without significant penalty
- Retirement Systems' Interests
 - Allow movement of public employees
 - Control costs to employers and other members



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Portability's Cost Control Tools

- “Base salary” definition
- “Maximum benefit rule”



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“Base Salary”

- Definition within portability statute
 - Differs from definition in underlying plans
- Strips out overtime
- Strips out “lump sums”
 - Unused leave
 - Severance pay
 - Bonus for voluntary retirement
 - Any similar payments
- Avoids “salary spiking”



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Maximum Benefit Rule

- A concept within the portability statute
- Limits the total benefit for dual members
- Benefit cannot exceed the largest amount the member would have received if all service had been in a single system



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Steps in DRS' Application of Rule

1. Calculate benefit in each system as if all career service and earnings had been in that system.
2. System with highest benefit establishes the maximum.
3. Compare to individual benefits under each system, added together. If total exceeds limit, benefits from each system are proportionately reduced.



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Why These Controls?

- Respect Plan 1 benefit caps
- Prevent “gaming” the system
- Protect system from inflated final pension benefits
- Control program costs



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Still Needed in Plan 2/3 World?

- No benefit caps in Plans 2/3
- No annual leave cash out in AFC in Plans 2/3
- Longer salary averaging period in Plans 2/3
 - 60 months instead of 24 months
- 1996 legislative change to portability limit reflects transition from Plans 1 to Plans 2/3



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Recap

- What is dual membership?
- How does it work?
- Why is it a benefit?
- Why does it have a cost?
- Two methods of controlling the cost
 - “Base salary” definition
 - Maximum benefit rule
- Questions?



Part 2: Proposals

- LEOFF 2 Board
 - Amend “Base Salary Definition”
 - Ease benefit limits
 - Combine service to receive indexing of term-vested benefit
- DRS
 - Provide consistency for active and inactive Plan 1 members



Proposal 1: "Base Salary"

- Current definition excludes overtime, leave cash-outs, and other lump sums
- Change definition
 - Allow any payments that are defined as salary in each of the dual member's systems
 - Commonality helps mitigate negative impact on retirement systems



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Proposal 2: Ease Benefit Limits

- "Capped plans" include:
 - PERS 1 and TRS 1 (60% cap)
 - WSPRS Plans 1, 2 (75% cap)
 - City of Seattle (60% cap)
 - City of Spokane (64.5% cap)
- Lift cap when:
 - Member is in one capped and one uncapped plan
 - Less than 15 years of service in capped plan



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Questions for Policy Makers

- Benefit improvement or removing a penalty under portability?
- Would this create pressure to lift caps for others?
- Could same ends be accomplished via the maximum benefit rule?
- Is an overall benefit limitation even needed in a Plan 2/3 world?



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Proposal 3: Term-Vested Benefit

- Term-vested member
 - Terminated, i.e. inactive member
 - Vested in the retirement system
- Benefit of a term-vested member with at least 20 years of service credit is indexed (3% per year) in Plans 3 and LEOFF 2
- Dual members combine service to receive this benefit, except LEOFF 2



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Proposal 3: Add LEOFF 2 to List

- Statute lists all plans with this benefit, except LEOFF 2
- LEOFF 2 got the benefit in 1993
- Ability to combine service to get this benefit not addressed in portability statute at that time
- LEOFF 2 seeks to be added to statutory list



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Issue 4: Actives vs. Inactives

- Identified by DRS (not LEOFF 2)
- Inconsistency for members similarly situated
 - Active members can retire earlier than inactive members in PERS 1 and WSPRS 1
 - Portability treats inactive members of PERS 1 as active; silent re: WSPRS 1



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General Questions

- What are the distinctions between
 - Correcting inconsistencies and oversights
 - Lifting penalties
 - Adjusting controls to adapt to changing pension plan design
 - Improving benefits
- Do costs play a role in answering these questions?



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Next Steps

- Direction from the Executive Committee
 - Possible options
 - Pricing
- Currently scheduled for October hearing



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What is Dual Membership and How Does It Affect Me?

If you are an active member in any of the retirement systems listed below and you once belonged to another of these systems, you may be eligible for benefits under the provisions for dual membership. Dual member systems and plans include:

- Public Employees' Retirement System (PERS) Plans 1, 2 and 3
- Teachers' Retirement System (TRS) Plans 1, 2 and 3
- School Employees' Retirement System (SERS) Plans 2 and 3
- Public Safety Employees' Retirement System (PSERS) Plan 2
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
- Washington State Patrol Retirement System (WSPRS) Plans 1 and 2
- City Retirement Systems for Seattle, Spokane and Tacoma
- State-wide City Employees' Retirement System (SCERS) - *If you were a member of SCERS, contact a DRS Retirement Services Analyst for complete information about dual membership.*

How Do I Qualify?

You qualify for dual membership if you meet **all** of the following criteria:

- You are currently a member of one of the dual-member systems listed above.
- You previously contributed to a dual member system other than the one to which you now belong.
- You have not retired from any Department of Retirement Systems (DRS) administered system.
- You are not receiving disability retirement or disability leave benefits from any DRS-administered retirement system.

Note: If you are employed at the same time in a SERS-eligible position and a PERS-eligible position, different rules apply. Contact DRS for more information.

What Are the Advantages of Dual Membership?

Dual membership has three advantages:

- You may restore service credit withdrawn from any other dual member system.
- You may combine service credit earned in all dual member systems to become eligible for retirement.
- You can use your highest "base salary" in a dual member system to calculate your retirement benefit.



Restoring contributions and service credit

If you become a dual member, you may restore contributions and service credit that you previously withdrew from any other dual member system. To restore, you must repay the withdrawn contributions plus interest within 24 months of becoming a dual member.

You can find out more about restoring contributions and service credit, or purchasing service credit, by reading the DRS publication *Recovery of Withdrawn or Optional Service Credit*. If you are restoring TRS Plan 1 service credit, you may be eligible to re-establish your membership in TRS Plan 1 after your bill for restoring the service credit is paid in full.

Retirement eligibility for dual members

As a dual member, you may combine service credit in all dual member systems to become eligible for retirement. If your combined service makes you eligible to retire under any dual member system, you may elect to retire from all dual member systems to which you belong. If a system's laws would not allow retirement because you are younger than the system's minimum retirement age, you may:

- Defer receiving a benefit until you reach full normal retirement age under the plan; or
- Begin receiving a reduced benefit prior to full retirement age.

Although you can combine service from all systems to become eligible for retirement, the amount of the benefit you will receive is determined by the rules of each individual system. Retirement eligibility rules from the dual member systems are as follows:

<p>PERS and TRS Plan 1 may retire at:</p> <ul style="list-style-type: none"> • Any age with at least 30 service credit years • Age 55 with at least 25 service credit years • Age 60 with at least 5 service credit years 	<p>PERS, SERS and TRS Plan 2 may retire at:</p> <ul style="list-style-type: none"> • Age 65 with at least 5 service credit years • Age 55 with at least 20 service credit years (benefit reduced) • Age 55 with at least 30 Washington State service credit years (benefit will be reduced by 3% per year under age 65)
<p>PSERS Plan 2 may retire at:</p> <ul style="list-style-type: none"> • Age 65 with at least 5 service credit years • Age 60 with at least 10 service credit years in PSERS • Age 53 with at least 20 service credit years (benefit will be reduced by 3% per year under age 60) 	<p>SERS, TRS and PERS Plan 3 may retire at age 65 with:</p> <ul style="list-style-type: none"> • At least 10 service credit years, or • Five service credit years, including 12 service credit months earned after age 44, or • At least five service credit years that were earned under Plan 2 before: <ul style="list-style-type: none"> - July 1, 1996 for TRS - September 1, 2000 for SERS - June 1, 2003 for PERS <p>SERS, TRS and PERS Plan 3 may retire at age 55 with:</p> <ul style="list-style-type: none"> • At least 10 service credit years (benefit reduced)
<p>LEOFF Plan 2 may retire at:</p> <ul style="list-style-type: none"> • Age 53 with at least 5 service credit years • Age 50 with at least 20 service credit years (benefit reduced) 	<p>SCERS The Statewide City Employees' Retirement System was closed to new members in 1972. Contact DRS for more information.</p>
<p>WSPRS Plans 1 and 2 may retire from active status at:</p> <ul style="list-style-type: none"> • Any age with at least 25 service credit years • Age 55 with any service credit <p>WSPRS Plans 1 and 2 may retire from inactive status at:</p> <ul style="list-style-type: none"> • Age 60 with at least 5 service credit years • Age 55 with at least 5 service credit years (benefit reduced) 	<p>First Class Cities The Seattle, Tacoma and Spokane city retirement systems are not administered by DRS. If you need information, contact the appropriate system directly. Phone numbers are listed on page 8.</p>

Disability Retirement

If you receive a disability retirement from your active system, you remain eligible to receive a service retirement benefit from each of your inactive dual member systems. Benefits from your inactive system may be reduced. Contact a DRS Retirement Services Analyst for further information.

Benefit Calculation

Under dual membership, you receive a separate defined benefit from each of your systems. All dual member systems have service retirement benefit calculations that are composed of three factors:

- Service credit in that system
- Average earnings
- A multiplier (usually two percent; or one percent for the defined benefit portion of SERS, TRS and PERS Plan 3)

Note: TRS Plan 3, SERS Plan 3 and PERS Plan 3 are composed of both a defined-benefit component, similar to those found in other DRS-administered retirement plans, and a defined-contribution component in which the benefit is based on contributions made and the investment earnings.

TYPICAL DEFINED BENEFIT FORMULA
service credit x multiplier x average earnings = retirement benefit

Service Credit: The benefit you receive from each system will be based on the service credit you accumulated in that system.

• **Average Earnings:** Each retirement system and plan uses its own criteria to establish your average earnings in the benefit calculation. For instance, Plan 1 systems use a two-year average while Plan 2 and Plan 3 use a five-year average. For more detailed descriptions of average earnings criteria, refer to your member handbook.

• Under dual membership, DRS will establish your average earnings using two methods. You will be awarded the higher of the benefits.

- Each system calculates your service retirement defined benefit based on the compensation earned in that system; or

- The highest “base salary” from any one system is used to determine the average earnings factor when calculating the retirement benefit for another dual member system. If you are eligible to retire retroactively, your base salary is salary earned prior to the date your combined service in both dual member systems makes you eligible for an **unreduced** benefit. However, if your average earnings are higher after the first date you are eligible to retire, you may choose to retire at a later date.

• Base salary means salaries or wages earned during a payroll period for personal services. The base salary includes wages and salaries deferred under federal tax codes. Base salary does not include:

- Overtime pay;
- Non-money maintenance compensation;
- Cash-outs for deferred annual sick leave, unused accumulated vacation or unused accumulated annual leave;
- Any form of severance pay; or
- Fringe benefits.

How Does the Maximum Benefit Limitation Affect a Dual Member?

Several retirement systems have rules that set a maximum benefit. For instance, a PERS Plan 1 retiree may not receive a benefit in excess of 60 percent of his or her average earnings.

Retirement systems with maximum benefit limitations:

- **WSPRS Plans 1 and 2** - 75 percent of average earnings
- **TRS Plan 1** - 60 percent of average earnings
- **PERS Plan 1** - 60 percent of average earnings
- **First Class City systems** - Seattle and Tacoma - 60 percent of average earnings; Spokane - 64.5 percent of average earnings

If one of your retirement systems has a maximum benefit limitation, DRS will:

1. **Determine the maximum benefit.** DRS computes the benefit for each system as if all career service and earnings occurred in that system. The system with the highest benefit establishes the maximum benefit.
2. **Determine the individual benefit.** DRS will determine the individual benefit under each system and add the individual benefits together.
3. **Compare the total of the individual benefits with the maximum.** If the total exceeds the maximum benefit, the individual benefits will be proportionately reduced until the total equals the maximum benefit.

How Is My Retirement Benefit Affected By Dual Membership?

DRS has created the examples below, and on the following pages, to illustrate some of the common ways that dual membership may affect a member's retirement benefit. This is not a complete listing of dual membership scenarios. Please contact DRS if your particular situation is not addressed here or if you need more information.

- **Example 1** (See below) - Earlier retirement date
- **Example 2** (See page 5) - Immediate retirement, but benefits are significantly reduced
- **Example 3** (See page 5) - Base salary enhances total benefit
- **Example 4** (See page 6) - Salary earned after retirement does not increase benefit
- **Example 5** (See page 7) - Dual membership rules do not increase benefit
- **Example 6** (See page 7) - Maximum benefit rule limits benefit
- **Example 7** (see page 8) - Defer receipt for one system until full benefits are available

EXAMPLE 1:

Dual Membership provides an opportunity for an earlier retirement date

Lee is 52 years old and has four service credit years in LEOFF Plan 2 and 21 years in PERS Plan 1. Under dual membership rules, Lee can combine his service credit from the two systems to qualify for retirement. Under PERS Plan 1, Lee cannot qualify for retirement until age 55 with at least 25 service credit years. Since Lee has at least 20 years of service credit and is at least age 50, he qualifies under LEOFF Plan 2 eligibility rules. (Refer to LEOFF Plan 2 retirement eligibility rules on page 2.)

Dual membership allows Lee to retire immediately and collect reduced benefits from both systems.

EXAMPLE 2:**Dual membership allows immediate retirement, but benefits are significantly reduced**

Vickie is 57 years old. She is a former Washington State Patrol Officer. She now works for a state agency and is a member of PERS Plan 2. She would like to retire as soon as possible without drastically reducing her retirement income. Vickie's accumulated service credit and average monthly earnings are:

WSPRS Plan 1	14 years	\$3,000
PERS Plan 2	8 years	\$3,000

Since Vickie is not an **active** State Patrol Officer, she is not eligible for a full retirement until age 60. If she chooses to retire at age 57, her benefit will be reduced to 74 percent of its full value to reflect the early retirement. (Refer to WSPRS Plan 1 retirement eligibility rules on page 2.)

WSPRS Plan 1 benefit:

$$14 \times 2\% \times \$3,000 = \$840 \text{ (full benefit)}$$

$$74\% \times \$840 = \$621.60 \text{ (reduced benefit)}$$

PERS Plan 2 benefit: Vickie's PERS Plan 2 benefit would be reduced to 43 percent of its full value. A full benefit is not available until age 65.

$$8 \times 2\% \times \$3,000 = \$480 \text{ (full benefit)}$$

$$43\% \times \$480 = \$206.40 \text{ (reduced benefit)}$$

Total monthly benefits at age 57

At age 57, Vickie's total benefits would be \$828 (\$621.60 + \$206.40)

If Vickie delays retirement...

If Vickie remains in PERS Plan 2 for three more years, she will be able to claim a full benefit from WSPRS on the basis of her age.

WSPRS Plan 1 benefit:

$$14 \times 2\% \times \$3,000 = \$840 \text{ per month}$$

PERS Plan 2 benefit:

At age 60, she will be eligible for a PERS Plan 2 benefit that is 58 percent of full value based on 11 years of service rather than eight years.

$$11 \times 2\% \times \$3,000 = \$660 \text{ per month}$$

$$58\% \times \$660 = \$382.80 \text{ (reduced benefit)}$$

Total monthly benefits at age 60

If Vickie continues to work until age 60, her total benefits will be \$1,222.80 (\$840 + \$382.80). That's a 48 percent increase in Vickie's benefit, or nearly \$400 per month.

EXAMPLE 3:**Dual member uses base salary to enhance total benefit**

Ellen is age 65. She worked for 10 years as a teacher under TRS Plan 1. She spent the last 15 years of her career as a clerical employee under PERS Plan 3. Ellen's service credit and average monthly earnings are:

TRS Plan 1	10 years	\$1,600
PERS Plan 3	15 years	\$3,000

Because she is eligible for a full benefit from both systems based on her age and service credit, she does not need to use dual membership to qualify. Ellen chooses to retire as a dual member and use her base salary from PERS Plan 3 to calculate her TRS Plan 1 benefits.

Designating the base salary for TRS benefit

Ellen earned an average monthly salary of \$3,000 during her two-year average period in PERS. This included overtime that averaged \$125 per month. Overtime can be used for the PERS average earnings. It cannot be included in the base salary used to calculate a benefit in another system. Her monthly average base salary is \$2,875.

The following calculations demonstrate Ellen's benefit using individual system earnings and using the base salary.

Calculating the PERS Plan 3 benefit

$1\% \times 15 \times \$3,000 = \450 per month

Calculating the TRS Plan 1 benefit

TRS Plan 1 benefit using TRS salary

$2\% \times 10 \times \$1,600 = \320 per month

TRS Plan 1 benefit using PERS Plan 3 base salary

$2\% \times 10 \times \$2,875 = \575 per month

Total benefits

Based on individual systems rules

\$770 per month (\$450 + \$320)

Using the PERS base salary

\$1,025 per month (\$450 + \$575)

Note: Ellen will have a choice in selecting her retirement date from TRS Plan 1 and may receive a retroactive payment. For more information, contact a DRS Retirement Services Analyst.

EXAMPLE 4:

Dual member benefits may not be increased by salary earned after the retirement date

Mary works for four years in PERS Plan 1, then terminates employment and does not withdraw her contributions. Later, at age 33, she returns to employment as a teacher in TRS Plan 1, becoming a dual member. She works for another 23 years as a teacher and terminates employment at age 56 with 27 years of combined service.

Because she is over age 55 and has more than 25 years of combined service, she is immediately eligible to retire from TRS.

Her retirement date from PERS is retroactive, as she would have been eligible had she not continued employment as a teacher. Since she had 26 years of service when she reached her 55th birthday, her retirement date in PERS could be the first day of the month following her 55th birthday. Mary could also choose to retire at any date thereafter.

The average earnings used to calculate her benefit will be her TRS base salary from her 25th and 26th years of combined service - the 24 months immediately prior to her PERS eligibility date.

EXAMPLE 5:

Dual membership retirement does not increase benefit

Joe is age 60 and is an active PERS Plan 1 member. He has 30 years of TRS Plan 1 service and five years of PERS Plan 1 service. His TRS Plan 1 average earnings were \$3,500. His PERS Plan 1 average earnings were \$1,500. If he retires separately from TRS Plan 1 and PERS Plan 1, his benefit would be calculated as:

TRS Plan 1 Benefit

$2\% \times 30 \text{ years} \times \$3,500 = \$2,100$

PERS Plan 1 benefit

$2\% \times 5 \text{ years} \times \$1,500 = \$150$

His retirement benefit total would be \$2,250 (\$2,100 + \$150)

If Joe elected to retire under dual membership rules, he could use his TRS average earnings to determine both his TRS and PERS retirement benefit.

TRS Plan 1 Benefit

$2\% \times 30 \text{ years} \times \$3,500 = \$2,100$

PERS Plan 1 benefit

$2\% \times 5 \text{ years} \times \$3,500 = \$350$

However, under dual membership rules, the system with the highest benefit establishes the maximum benefit. And since TRS Plan 1 has a maximum benefit limitation of 60 percent of average earnings, Joe's benefit under dual membership would be limited to \$2,100 (60 percent x \$3,500).

In this example, Joe would receive a higher benefit by retiring from each system independently and not by using dual membership rules. Contact DRS for more information.

EXAMPLE 6:

The maximum benefit rule limits dual membership retirement benefits

Tom is age 60. He has accumulated service credit in TRS Plan 1 and in PERS Plan 1. Both TRS and PERS Plans 1 have a maximum benefit of 60 percent of average earnings. Tom's service and average annual earnings are as follows:

TRS Plan 1	20 years	\$3,400
PERS Plan 1	11 years	\$3,500

Calculating the maximum benefit

DRS calculates Tom's maximum benefit as if all career service and earnings had been in a single Plan 1 system. TRS Plan 1 average annual earnings are derived from the highest two consecutive fiscal years. PERS Plan 1 average monthly earnings are derived from the highest consecutive 24 months. Tom's highest average monthly earnings are \$3,500. Sixty percent of \$3,500 is \$2,100, the maximum monthly benefit.

Calculating the TRS benefit

Tom worked for 20 years in TRS Plan 1. His average monthly earnings are \$3,000, but his dual member average earnings are \$3,500. His TRS benefit was calculated as: $20 \times 2\% \times \$3,500 = \$1,400$ per month.

Calculating the PERS benefit

Tom has 11 years in PERS Plan 1. His average monthly earnings were \$3,500. His PERS benefit was calculated as:

$$11 \times 2\% \times \$3,500 = \$770 \text{ per month.}$$

Proportional reduction

The total of the TRS Plan 1 (\$1,400) and PERS Plan 1 (\$770) benefits is \$2,170. This exceeds the allowable maximum benefit (\$2,100) by \$70. DRS will reduce Tom's TRS Plan 1 and PERS Plan 1 benefits to create a combined benefit equal to the maximum benefit of \$2,100. The reduction is the proportional amount of service in each system compared to the total service.

Calculating the reduced benefits

Twenty years of TRS service divided by 31 total years is 64.5%. $64.5\% \times \$70 = \45.15 , the reduction to the TRS benefit. The reduced TRS benefit:
 $\$1,400 - \$45.15 = \$1,354.85$.

Eleven years of PERS service divided by 31 total years = 35.5%. $35.5\% \times \$70 = \24.85 , the reduction to the PERS benefit. The reduced PERS benefit:
 $\$770 - \$24.85 = \$745.15$.

The individually reduced benefits for TRS (\$1,354.85) and PERS (\$745.15) combine to make a total benefit of \$2,100, which is the maximum benefit.

Tom has the option to retire from each system independently. The maximum benefit rule would not apply in this case. If he chooses to retire from each system independently, Tom's benefits would be calculated as:

$$\text{TRS Plan 1: } 20 \times 2\% \times \$3,400 = \$1,360$$

$$\text{PERS Plan 1: } 11 \times 2\% \times \$3,500 = \$770$$

Tom's total benefits received after retiring from each system independently would be \$2,130 ($\$1,360 + \770).

EXAMPLE 7:**Defer receipt of benefit from one system until full benefits are available**

Dave is age 60 and is an active PSERS Plan 2 member. He has 20 years of PSERS Plan 2 service and 8 years of PERS Plan 3 service. His PSERS average earnings were \$3,500.00. His PERS average earnings were \$1,500.00. Dave is eligible to retire with full benefits under PSERS, but if he takes his PERS benefit, it will be reduced at age 60.

PSERS Plan 2 Benefit at age 60
 $2\% \times 20 \text{ years} \times \$3,500 = \$1,400$

PERS Plan 3 Benefit at age 60
 $1\% \times 8 \text{ years} \times \$3,500 = \$280$
 $\$280.00 \times 61\% \text{ Early Retirement Factor (ERF)} = \170.80

If Dave defers his PERS benefit until age 65, he would receive the full benefit amount.

PERS Plan 3 Benefit at age 65
 $1\% \times 8 \text{ years} \times \$3,500 = \$280$

Dave can retire from PSERS at age 60 and collect his benefit. He can then defer receipt of his PERS Plan 3 defined benefit until age 65 when he will receive full benefits, or take it at age 60 and receive a reduced benefit for his lifetime.

To Learn More

For information about a specific dual member system, refer to the appropriate member handbook. Member handbooks and other publications for either PERS, SERS, TRS, PSERS, LEOFF or WSPRS are available on the DRS Web site. Print copies can be obtained by contacting your employer's personnel office or DRS.

DRS Web site: www.drs.wa.gov

Telephone: 1-800-547-6657; or (360) 664-7000 in the Olympia area
 TDD: 1-866-377-8895; or (360) 586-5450 in the Olympia area

E-mail: recep@drs.wa.gov

Address: P.O. Box 48380
 Olympia WA 98504-8380

For information about a First Class city retirement system call:

Seattle	(206) 386-1292
Tacoma	(253) 591-2035
Spokane	(509) 625-6330



July 2006

This brochure does not contain a complete description of the law. If there are conflicts between what is written here and what is contained in the law, the applicable law will govern. Dual membership is described in Chapter 41.54 of the Revised Code of Washington (RCW) and Chapter 415-113 of the Washington Administrative Code (WAC).



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.

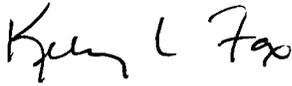
Inflationary Adjustment for \$150,000 Death Benefit

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 Fox, Chair

cc: Matt Smith, State Actuary

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Dual Membership Preliminary Report

April 26, 2006

1. Issue

An initial presentation was given in August 2005, on dual membership. This report is a follow-up report to reacquaint the Board with the topic of dual membership.

2. Staff

Greg Deam, Senior Research and Policy Manager
(360) 586-2325
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3. Members Impacted

As stated in the August report, based on preliminary data as of September 30, 2004, there were 14,754 active, 1,788 inactive and 413 retired LEOFF Plan 2 members. Of the 14,754 active members, 1,485 have dual membership; of the 1,788 inactive members, 505 have dual membership; and of the 413 retired members, 57 have dual membership; for a total of 2,047 LEOFF 2 members who currently have dual membership.

4. Current Situation

Under the current portability statutes (RCW 41.54), when members meet age and service requirements from one system, they are eligible to retire out of all systems; however, not all systems allow for portability. For example, LEOFF Plan 1, the Judges and Judicial systems are not included in the portability statutes. A complete list of dual member systems is listed in Appendix B.

5. Background Information and Policy Issues

History

Dual membership or portability was created with the passage of ESSB 5150 in 1987. LEOFF Plan 2 was added as a dual member system in 1993. The purpose of portability was to ensure that employees, who serve the public in multiple careers, neither had their benefit increased nor decreased due to their career path in multiple public retirement systems.

Features of Dual Membership

- Allows members to combine their service credit in all systems to qualify for benefits in each system.
- Allows members to restore withdrawn contributions from a prior system within two years of establishing membership in the current system.
- Allows members to combine service credit from all systems to qualify for a disability retirement, but only in their current system. If they qualify for a disability retirement, they can receive a service retirement from the prior system, including actuarial reductions, if applicable.
- Allows Plan 3 members to combine service credit from all systems to qualify for the inflation factor feature.
- Allows members to combine service credit from all systems to qualify for a survivor benefit. Many of the plans, including LEOFF Plan 2, require a minimum of 10 years of service credit in order for the surviving spouse or eligible minor children to be eligible for a retirement allowance.
- Allows members to substitute the base salary from any of the systems as compensation used in calculating the retirement allowance. The base salary does not include overtime, vacation leave cash-outs or other similar types of compensation enhancements. This feature can be particularly attractive if the member's service in the inactive system occurred in the past when compensation was much lower.

LEOFF Plan 2 Dual Membership Issues

1. **Base salary.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have the same provision defining what is included in salary for calculating a retirement benefit within each of the systems. Under the current dual membership statutes, a member can choose to use their "base salary" from any dual member system in which they are members to calculate their retirement benefit in that system. However, the "base salary" is not as inclusive as the normal salary within the definitions of each of the systems (Appendix A).

The definition for base salary in the dual member statutes does not include overtime and is vague in regards to deferred salary. Because part of the original intent of the dual membership statutes was to not diminish a member's retirement benefit because of a career change, the fact that certain salary elements are excluded in the calculation

of a dual member benefit, would appear to be in conflict with the original intent of the statute.

2. **Thirty-year cap.** If a member is a dual member in LEOFF Plan 2 and PERS Plan 1, they are subject to a potential cap on their benefit calculation. Under the current dual membership statutes, the combined pension benefits from both plans may not exceed the maximum allowable benefits for any one of the dual member's plans. PERS Plan 1 has a limit (cap) of 30 years for calculating the maximum benefit allowance. Even though LEOFF Plan 2 does not have a 30-year cap, the dual member's benefit could still be affected by the Plan 1 cap if their combined service exceeds 30 years.
3. **Inflation factor for twenty years of service.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have an inflation factor provision within each system. This inflation factor increases a member's benefit by twenty-five one-hundredths of a percent, compounded each month from the member's date of separation to the date retirement benefits are received. Under the current dual membership statutes, all of the systems allow members to combine service to qualify for the inflation factor, except LEOFF Plan 2.

7. Supporting Information

Appendix A – Salary RCWs

Appendix B – Examples

APPENDIX A: Salary RCWs

LEOFF Plan 2:

"Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

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

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

PERS Plan 2 & 3:

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude non-money maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

SERS Plan 2 & 3:

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude non-money maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

TRS Plan 2 & 3:

"Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

Dual Membership Definitions:

"Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude **overtime payments** [emphasis added], non-money maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment.

Appendix B – Examples

Thirty-year Cap Example:

A member retires at age 54, with a total of 35 years combined service; 22 years in PERS Plan 1 and 13 years in LEOFF Plan 2. Their LEOFF Plan 2 final average salary is \$50,400 per year (\$4,200/month). Their PERS Plan 1 average final salary is \$54,000 per year (\$4,500/month).

Step 1: Determine benefit cap by calculating a monthly benefit in each system as if all of the service credit had been earned in one system subject to each system's rules.

$$\begin{array}{ll} \text{L2} = .02 \times \$4,200 \times 35 & \text{P1} = .02 \times \$4,500 \times 30 \text{ (can only use 30 because of cap)} \\ \text{L2} = \$2,940.00 & \text{P1} = \$2,700.00 \end{array}$$

The largest calculation amount is their benefit cap. In this example, their benefit cap is **\$2,940.00**.

Step 2: Calculate their monthly benefit in each system based on each system's rules.

$$\begin{array}{ll} \text{L2} = .02 \times \$4,200 \times 13 & \text{P1} = .02 \times \$4,500 \times 22 \\ \text{L2} = \$1,092.00 & \text{P1} = \$1,980.00 \end{array}$$

Step 3: Add the benefits from Step 2 and compare to benefit cap from Step 1. If the combined monthly benefits are greater than the cap, reduce the benefits proportionately in each to equal the cap.

$$\begin{array}{ll} \text{Monthly benefit} = \text{L2} + \text{P1} & \text{Benefit cap} = \$2,940 \\ = \$1,092 + \$1,980 & = \$2,940 \\ = \$3,072 & = \$2,940 \end{array}$$

The monthly benefit is greater than the benefit cap therefore, both benefits would be reduced proportionately, to equal the benefit cap.

$$\begin{array}{ll} \text{L2} = \$1,092 - \$49 & \text{P1} = \$1,980 - \$83 \\ \text{L2} = \$1,043 & \text{P1} = \$1,897 \end{array}$$

If the statute was changed to eliminate the 30-year cap be consistent with the Plan 3 Systems, the member would be entitled to the larger monthly benefit of \$3,072, instead of the capped benefit of \$2,940.

Inflation Factor Example:

A member leaves employment at age 46 with four years of service credit in PERS Plan 2 and 18 years in LEOFF Plan 2. At age 53, they retire out of both systems, but choose to defer their PERS Plan 2 benefit until age 65. Their final average salary (FAS) when they terminated at age 46 is \$4,500.

Under current dual membership statutes, the FAS would not qualify for the inflation factor because they have less than 20 years of service in LEOFF Plan 2. Their monthly benefit at age 53 would be \$1,620.00.

If the LEOFF 2 statute was changed to be consistent with the Plan 3 Systems, their monthly benefit at age 53 would be \$1,772.36.

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 ten duty deaths are expected each year from a group of over 281,000 public employees.

Darren Painter
Research Analyst
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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. 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 281,000 estimated active and disabled 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 ten 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.

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

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

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 6/30/2001.
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; 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.

Survivors may receive a variety of death benefits.

Death Benefits for Public Employees

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;
- ❖ Labor and Industries (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

Figure 3

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

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.

The table below summarizes the lump sum death benefits provided for public employees (see 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 Employees¹		
Benefit	Amount	Annual Adjustment
\$150,000 Death Benefit	\$150,000 (+\$2,000 in VFF)	None
VFF Funeral Benefit	\$2,000	None
TRS 1 Death Benefit*	\$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
Social Security Burial Benefit*	\$255	None
Federal Public Safety Officers’ Death Benefit	\$283,385 as of 10/01/2005	Indexed to CPI

1. Eligibility includes duty & non-duty deaths and varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Benefits marked with an asterisk 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 death from duty-related illness differs between plans.

There is one area where the provisions of the \$150,000 death benefit differ between plans--eligibility for 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 death from a duty-related illness differ both between the retirement systems and within the plans of the LEOFF system.

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.

Conclusion

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.

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?

Next Steps

The Executive Committee of the SCPP will provide further direction on this issue.

Stakeholder Correspondence

Kelly Fox, Chair, LEOFF 2 Board

Attachments

"\$150,000 Death Benefit Inflation Adjustment Initial Consideration", Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board, April 26, 2006

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.

The Select Committee on Pension Policy



\$150,000 Death Benefit

Darren Painter
Research Analyst

June 20, 2006



Issues

- Amount doesn't adjust for inflation
- LEOFF 2 Board request
- Other Issues
 - Plan differences
 - Technical



Presentation Goals

- Explain \$150,000 death benefit
- Show how indexing affects members
- Point out things to consider
- Provide reasons to index or not to index



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O/SCPP/2006/6-20-06 Full/150_thou_death_ben.ppt

\$150,000 Death Benefit

- \$150,000 lump sum upon death
 - Duty-related injury (all systems)
 - Duty-related illness (LEOFF 2 and VFF)
- Eligibility determined by L&I
- Amount hasn't changed since 1996



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O/SCPP/2006/6-20-06 Full/150_thou_death_ben.ppt

Members Impacted

- Fewer than ten duty-deaths expected each year from all systems
- Provided for all active and disabled state retirement system members



Benefits Paid

\$150,000 Death Benefits Paid to Date*	
Plan	Number
LEOFF 2	20
PERS 2	7
LEOFF 1	2
VFF	2
PERS 1	1
TRS 3	1
WSP	1
Not identified	3
Total	37

**Length of reporting period varies among systems.*



Recent Legislation

- HB 2933—2006 Session
 - LEOFF 2 Board legislation
 - Changed provisions for LEOFF 2
 - Expanded eligibility to include death from duty-related illness
 - Added CPI-based annual increase
 - Annual increase not included in version that passed (C351,L2006)



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O/SCPP/2006/6-20-06 Full/150_thou_death_ben.ppt

Other Death Benefits

- State and federal sources
 - State
 - Retirement plans
 - L&I
 - Federal
 - Social Security
 - Public Safety Officers' Benefits [PSOB]
- Annuities are twice as likely as lump sums to be annually adjusted



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Lump Sum Examples

- TRS 1 death benefit
 - \$600
 - No annual adjustment
- VFF funeral
 - \$2,000
 - No annual adjustment
- Federal PSOB death benefit
 - \$283,385
 - Annually adjusted by CPI



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O/SCPP/2006/6-20-06 Full/150_thou_death_ben.ppt

Examples From Other States

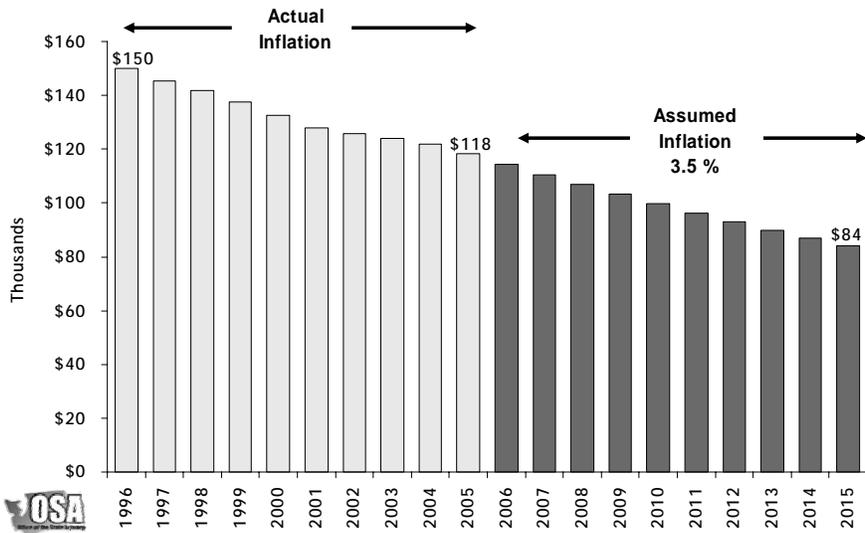
- California (CalSTRS)
 - \$6,136
 - Amount periodically adjusted
- IOWA (IPERS)
 - \$100,000 line-of-duty for public safety
 - No annual adjustment



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Effect of Inflation on \$150,000 Death Benefit



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Equivalent Benefit Today

\$190,000 paid today

Equals

\$150,000 paid in 1996



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Policy on Inflation Protection

- SCPP goal “To increase and maintain the purchasing power of retiree benefits in Plans 1 of PERS and TRS...”
- Plans 2/3 provide annual CPI-based COLAs on pensions
- Suggests a clear desire to protect *pensions* from inflation



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Indexing

- Increases benefit annually based on measure of inflation
- Common and effective way to protect benefits against inflation
- Tailored to achieve various goals
 - Maintain full value
 - Control cost
 - Promote stable funding
 - Simple to administer
 - Predictable



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Examples From Washington

- LEOFF 1 COLA (full CPI) maintains full value of the pension
- Plan 2/3 COLA (CPI up to 3%) maintains most of the pension's value while controlling costs
- Uniform COLA (level 3%) provides a predictable benefit while controlling costs



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Key Consideration

- Purpose of the benefit
 - Become part of the ongoing income stream?
 - Provide one-time relief for specific situations?
- Why? Effect of indexing a lump sum and an annuity differs



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Indexing Lump Sum vs. Annuity

- Indexing an annuity
 - Protects an individual from inflation
- Indexing a lump sum
 - Maintains value of the benefit among successive generations
- Significant policy implications



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Plan Differences

- LEOFF 2 and VFF include death from duty-related *injury* or *illness*
- Other plans only include death from duty-related *injury*
- LEOFF 2 eligibility expanded in 2006
- VFF death benefit predates \$150,000



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Plan Consistency

- Plan consistency is a continual issue
- Inconsistency in eligibility criteria between *systems* and between *plans* of LEOFF
 - Increased with recent changes to LEOFF 2
- Duty-related illness may be more of an issue for fire fighters



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Technical Issue With VFF

- Amount codified as \$152,000
 - \$150,000 death benefit
 - \$2,000 pre-existing duty-death
 - Deliberate decision of JCPP
 - Members don't receive L&I death benefits
- How much to adjust?
 - \$152,000 or \$150,000



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Summary

- Indexing protects benefits from inflation
- Many ways to index a benefit
- Key consideration is the intended purpose of the benefit
 - Ongoing or one-time?
- Results differ
 - Annuity = individual protection
 - Lump sum = generational protection



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Policy Questions

- Does the \$150,000 death benefit need to be annually adjusted for inflation?
- Will there be calls to provide similar adjustments in other lump sum benefits?
 - VFF funeral benefit (\$2,000)
 - TRS Plan 1 death benefit (\$600)
- Should plan differences in eligibility criteria be addressed?
- How much of the VFF benefit should be adjusted (if adjusted)?
 - \$152,000 or \$150,000?



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Next Steps

- Direction from the Executive Committee
 - Possible options and pricing
- Scheduled for September hearing





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.

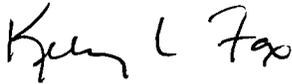
Inflationary Adjustment for \$150,000 Death Benefit

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 Fox, Chair

cc: Matt Smith, State Actuary

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

\$150,000 Death Benefit Inflation Adjustment Initial Consideration

April 26, 2006

1. Issue

Currently, the \$150,000 lump-sum death benefit is a fixed amount. This report looks at the policy issues and costs related to adding an inflation factor to this benefit.

2. Staff

Greg Deam, Senior Research and Policy Manager
(360) 586-2325
greg.deam@leoff.wa.gov

3. Members Impacted

Any member who dies in the line of duty could potentially be impacted. According to the Office of the State Actuary, as of September 30, 2004 there were 14,754 active LEOFF Plan 2 members and 432 retirees.

4. Current Situation

The beneficiaries of members who die in the line of duty, either as a result of an injury or occupational illness, are entitled to a \$150,000 lump-sum payment. The amount is fixed and has been the same since the introduction of the lump-sum death benefit payment in 1996.

5. Background Information and Policy Issues

The Legislature passed an amendment to the \$150,000 Death Benefit during the 2006 session. The original bill included two amendments to existing statutes. The first added death due to an occupational illness as a qualified reason to receive the \$150,000 lump-sum death benefit. The second amendment added an annual inflation adjustment to increase the one-time \$150,000 amount over time. The proposed inflation adjustment was to be the same as the one members receive on their pensions.

The proposed inflation adjustment was removed from the version of the bill that was signed into law. Because all of the other plans also have the same \$150,000 lump-sum death benefit, the Legislature wanted to understand how the other plans would be affected before they set a precedent with LEOFF Plan 2.

During the original cost analysis performed by the Office of the State Actuary, the addition of the inflation adjustment did not create an increase in contribution rates. The Select Committee on Pension Policy (SCPP) has committed to work in coordination with the LEOFF 2 Board to study this matter during the 2006 Interim.

Of the eight states that provide a lump-sum death benefit of \$100,000 or more, three have an inflation adjustment. In addition to state provided lump-sum death benefits, the Public Safety Officers' Benefits (PSOB) Act, a federal death benefit, was enacted in 1976 to assist in the recruitment and retention of law enforcement officers and fire fighters by providing a lump-sum death benefit. This benefit has had an inflation adjustment since October 15, 1988. The benefit has been adjusted each year on October 1 to reflect the percentage of change in the Consumer Price Index. As of October 1, 2005, the amount is \$283,325

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, and LEOFF 2.

Robert Wm. Baker
Senior Research Analyst
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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 two years of service credit for periods that they are on TDD and receiving Workers' Compensation time-loss payments; they were formerly limited to purchasing one year of service credit for TDD. These improvements were exclusive to PERS. Temporary duty disability 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 (see 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 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.

TRS has no provisions allowing the purchase of service credit for injury recovery periods.

Purchased Service Credit

PERS members 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.

A PERS member may also purchase up to five years of service credit for interruptive military service. Interruptive military service occurs after a member establishes PERS membership – which is distinct from military service that occurred prior to establishing PERS 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 leave of absence 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 credit in a working career.

TRS has no provisions allowing the purchase of service credit for injury recovery periods.

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.

Example

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.

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

- ❖ After the employer has paid the contributions, DRS will credit the member's service.

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.

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

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 periods 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.

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

Policy Analysis

Provisional Differences in Washington Systems

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 (see Figure 3). The provisions related to the time that can be awarded vary from none in the Teachers Retirement System (TRS) to an unlimited amount in the Washington State Patrol Retirement System (WSPRS). The costs borne by the members receiving such service credit range from contributions plus interest in PERS to a fully subsidized benefit in WSPRS and the LEOFF Plan 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	None
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 (see Figure 4, next page). 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 temporary duty disability 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. 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.

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

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 (see 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 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

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

TDD optional bill data from DRS, the average TDD period being purchased is 4.0 months (see 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 lesser injury threshold that 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 (see 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 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, plus interest. The actual amount billed the member and employer will inevitably be different because of the differing interest periods and total contribution rates.

While this form of cost sharing is the model in PERS, SERS, PSERS, and LEOFF 2, policy-makers may want to ask whether that model is appropriate in all on-the-job injury situations. How much onus should be placed on the plan member and how much on the employer? It is apparent that there was a shift towards a cost sharing policy with the creation of LEOFF 2, but there was no shift in TDD cost sharing policy with the advent of WSPRS 2.

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. While the cost of expanding the service credit purchase for injury provision in PERS was not sufficient to increase contribution rates, it has not been estimated at this time whether such a benefit change would have similarly small fiscal impacts in the other systems.

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?

Next Steps

The Executive Committee of the SCPP will provide direction on this issue – whether to continue with further analysis, to provide the committee with options and pricing, and the level of coordination with the LEOFF 2 Board.

Stakeholder Correspondence

Kelly Fox, Chair
LEOFF Plan 2 Retirement Board

Attachments

Service Credit Purchase for Injury, Preliminary Report
LEOFF Plan 2 Retirement Board.

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The Select Committee on Pension Policy



Service Credit Purchase Due to Injury

Robert Wm. Baker
Senior Research Analyst

June 20, 2006



In Brief

- Injured members receiving time-loss benefits (L&I) must purchase service credit
- PERS service credit purchase provisions for on-the-job injury periods were improved in 2005 while other systems unchanged
- LEOFF 2 Board coordination



Members Impacted

- PERS
- SERS
- PSERS
- LEOFF 1
- LEOFF 2
- WSPRS
- TRS members may not purchase service credit for injury periods



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Acquiring Service Credit

- Earned
- Purchased



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Service Credit Earned

- Earned each month
 - Actively employed
 - Paid leave of absence
- Used to determine retirement benefits
 - $AFC \times 2\% \times \text{Service Credit}$



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Service Credit Purchased

- “Air Time”
- Interruptive military service
- On-the-job injury - Temporary Duty Disability (TDD)

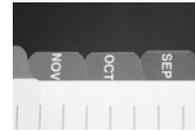


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Purchasing Service Credit for Injury (TDD) in PERS

- Received or are receiving Workers' Compensation
- May purchase up to 24 months
- Members pay employee contributions plus interest
- Employers pay employer contributions plus interest



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Average TDD Billed Amounts*

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



*Source: DRS

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2005 Legislation: SB 5522 - HB 1521

- Increased TDD period that a PERS member could purchase from 12 months to 24 months
- Other systems unchanged



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Policy Analysis

- Provisional differences
- Comparative systems differences
- Risk of injury
- Injury period
- Cost sharing
- Plan consistency



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Service Credit for TDD: Washington Systems and Plans

System/Plan	Limit	Member cost
PERS	24 months	Member contributions *
SERS	12 months	Member contributions *
TRS	No provision	No provision
PSERS	12 months	Member contributions *
WSPRS	No limit	None
LEOFF 1	No limit	None
LEOFF 2	6 months per incident, 24 months total	Member contributions

* Plus interest if applicable



Service Credit for TDD: Comparative Systems and Plans

System/Plan	Limit	Member cost
CA PERS	No limit	Member contributions plus interest
CO PERA	No provision	No provision
FL FRS	No limit	Member contributions plus interest
ID PERSI	No limit	Full actuarial cost
IA IPERS	No limit	Full actuarial cost
MO MOSERS	12 month	None
MN MSRS	No limit	Member contributions plus interest
OH OPERS	3 years	None
OR OPSRS	No limit	None if member received workers comp
Seattle SCERS	No limit	20% of member contributions plus interest
WI WRS	No provision	No provision



Workers Compensation Claims FY 2004*

Industry description	Claims per 200,000 hours
Software Publishers	0.64
Elementary And Secondary Schools	6.51
Executive Offices	6.09
Legislative Bodies	6.89
Other General Government Support	9.39
Courts	1.15
Police Protection	13.32
Correctional Institutions	10.77
Fire Protection	12.42
Administration Of Public Health Programs	5.18
Administration Of Air And Water Resources	4.82
Regulation And Administration Of Transportation Programs	8.34



*Source: Labor and Industries

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TDD Billings and Membership by System and Plan*

System/Plan	Bills	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	118,572	0.76%
PERS 3	73	19,855	0.37%
WSPRS 1	4	997	0.40%
Total	2,312	221,861	1.04%



*Source: DRS

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Average Injury Period Purchased by System and Plan*

System/Plan	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



*Source: DRS

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Maximum Service Billings by System and Plan*

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%



*Source: DRS

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Cost Sharing Policy

- Costs borne by member and employer
 - Move to cost sharing policy with the advent of the Plans 2/3 including LEOFF 2
- No move to cost sharing in WSPRS 2



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Consistency Policy

- Possible consistency issue
- Improvement in PERS amplifies plan dissimilarity



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Policy Questions

- Are service credit purchase for injury provisions adequate?
 - Is period of coverage appropriate, should there be a limit?
 - Is cost sharing appropriate?
- Are differences significant enough to warrant a statutory remedy?
- Should TRS be included in any remedy?



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Next Steps

- Direction from the Executive Committee
 - Possible options and pricing
- Scheduled for September hearing



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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.

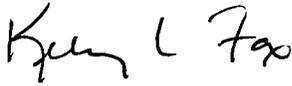
Inflationary Adjustment for \$150,000 Death Benefit

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 Fox, Chair

cc: Matt Smith, State Actuary

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Service Credit Purchase for Injury Preliminary Report

November 16, 2005

1. Issue

During the June meeting of the Select Committee on Pension Policy there was discussion of extending to other plans, the policy from Senate Bill 5522 (2005), which increased the period of service credit that could be purchased by an employee who is on a leave of absence for an injury on the job.

2. Staff

Tim Valencia, Senior Research and Policy Manager
(360) 586-2326
tim.valencia@leoff.wa.gov

3. Members Impacted

Any active LEOFF Plan 2 member who is injured on the job may be affected. As of September 30, 2003 there were 14,560 active members as reported in *The Office of the State Actuary's 2003 LEOFF 2 Actuarial Valuation Report*.

4. Current Situation

The purchase of service credit for periods of temporary leave for a disability is accomplished through a two part process for LEOFF Plan 2 members. A member who is receiving a leave supplement or similar benefit can purchase service credit for a period up to 6 months through the provisions of temporary duty disability. A member may purchase service credit for periods of leave beyond the 6 months through the provisions of authorized leave of absence.

5. Background Information and Policy Issues

The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Washington State Patrol Retirement System (WSPRS) and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) provide retirement benefits to most Washington State and local government employees. Except for TRS, each of these systems include provisions for Plan 2 members to purchase service credit for periods of temporary leave related to a disability resulting from an injury on the job, commonly referred to as "Temporary Duty Disability" or "TDD". Each plan determines its requirements to complete such a purchase.

Under the current LEOFF Plan 2 provisions, some members may not be entitled to purchase service credit utilizing the temporary duty disability provisions because of the eligibility restrictions and service credit purchase limit. When compared to most other Plan 2 systems, LEOFF Plan 2 has stricter eligibility requirements and a lower service credit purchase limit. Members not qualified to purchase service credit under temporary duty disability provisions may purchase the service credit under authorized leave of absence provisions, which are more costly to the member.

The first section of this report provides a description of the temporary duty disability provisions in LEOFF Plan 2 and is followed by a comparison to other Washington Plan 2 systems in the second section. The third section provides a description of the authorized leave of absence service credit purchase provisions. Following the third section, Appendix A, provides a comparison table which summarizes the temporary duty disability and authorized leave of absence provisions in each of the Plan 2 systems.

Temporary Duty Disability – LEOFF Plan 2

If a member does not earn full service credit because of leave associated with a temporary duty disability, a member may have the option to purchase up to six months of service credit for each covered duty disability. To be eligible to purchase service credit for temporary duty disability, the member must be receiving a disability leave supplement or similar benefits provided by their employer and the disability must have occurred in the line of duty.

If a member's employer does not provide a disability leave supplement or similar benefits, the member is ineligible to purchase service credit under temporary duty disability provisions. A disability leave supplement must be provided by an employer if the employee is receiving temporary total disability benefits under Title 51 unless 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. If the member is not eligible under temporary duty disability, the member may be eligible to purchase the service credit under the authorized leave of absence provisions.

The member is responsible for payment of the employee contributions and the employer is responsible for payment of the employer contributions. Recovery interest is not charged on

LEOFF Plan 2 temporary duty disability billings. The purchase cost is based on the compensation the member would have earned had the member been working. While there is no statutory deadline for requests to purchase service credit for temporary duty disability, full payment for the purchase must be received prior to retirement.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is includable within the Final Average Salary calculation.

Temporary Duty Disability in Other Washington Systems

Except for TRS Plan 2, all of the Plan 2 systems have a provision allowing for the purchase of temporary duty disability. While the basic provisions in each plan are similar, there are a couple of notable differences.

One difference is the amount of service credit that can be purchased for each incident of temporary duty disability. The table below shows the limits for each of the Plan 2 systems:

Plan	Purchase Limit
WSPRS Plan 2	No limit
PERS Plan 2	24 months per incident
SERS Plan 2	12 months per incident
TRS Plan 2	No TDD provision
LEOFF Plan 2	6 months per incident

Senate Bill 5522, passed by the 2005 Legislature, expanded the service credit purchase for temporary duty disability in PERS. Prior to Senate Bill 5522, members of PERS could only purchase up to 12 months of service credit for temporary duty disability. Senate Bill 5522, increased the period of unearned service credit that a member of PERS could purchase from 12 months to 24 months, doubling the per incident amount of service credit. During the June meeting of the Select Committee on Pension Policy, there was discussion of extending the policy from SB 5522 (2005) to other plans.

The second key difference between the LEOFF Plan 2 temporary duty disability and other Plan 2 temporary duty disability provisions is the eligibility criteria for a temporary duty disability purchase. In PERS and SERS, a person is eligible to purchase service credit for temporary duty disability if they are receiving benefits under Title 51 RCW or a similar federal workers' compensation program. In WSPRS, a member must be relieved from duty by the Chief of Washington State Patrol for an injury on the job. In LEOFF Plan 2, a person must be receiving a disability leave supplement or similar benefits provided by their

employer. As noted above, some cities and counties may not be required to provide a disability leave supplement, which means that a period of leave for an uncovered member could only be purchased through authorized leave of absence provisions.

Lastly, PERS and SERS charge both the member and employer recovery interest on temporary duty disability billings. The current recovery interest rate is 8%. LEOFF Plan 2 temporary duty disability billings do not currently charge interest.

Temporary Duty Disability in Comparison Systems

The comparison systems treat temporary duty disabilities in one of three ways. The comparison system either provides a process for keeping the member's account whole by allowing some form of service credit purchase, the comparison system pays out benefits during the period of disability and the member cannot recover the period of service, or there are no benefits extended for temporary leave of absence related to an on the job injury.

Out of the twelve comparison systems, seven systems provide for the recovery of lost service credit through some sort of purchase mechanism. Among these seven systems that allow for the recovery of service credit, two allow the recovery of five years, two allow the recovery of two years, one allows the recovery of one year, and two have no limit on the amount of service that can be recovered.

In the remaining comparison systems, three provide disability benefits payments and two systems do not provide any benefits. See Appendix C.

Authorized Leave of Absence

If a member is not eligible to purchase a period of service credit under temporary duty disability provisions, the member may purchase the service under authorized leave of absence provisions. This could occur for a LEOFF Plan 2 member if they were not receiving a disability leave supplement or if the temporary duty disability period exceeded the 6-month temporary duty disability purchase limit. The following key provisions apply to all of the Plan 2 systems, except WSPRS Plan 2 which does not have an authorized leave of absence provision.

A member may request to purchase service after returning to work from an authorized leave of absence. Requests for recovery of service credit and payment must be received within five years from the initial date of return to work, or prior to retirement, whichever occurs first.

A member is only allowed to purchase a maximum of twenty-four months of service credit for an authorized leave of absence during his or her entire working career.

The member is responsible for payment of both the employee and employer contributions, plus applicable interest. This makes an authorized leave of absence service credit purchase more expensive than a temporary duty disability service credit purchase. The purchase cost

is based on the average of the member's compensation earnable at the time the authorized leave was granted, and the time the member resumed employment.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is not includable within the Final Average Salary calculation.

6. Policy Options

Option 1: Adopt policy from Senate Bill 5522 (2005)

Adopting the policy from Senate Bill 5522, passed in 2005 for the Public Employees' Retirement System (PERS) would make two changes to the current LEOFF Plan 2 policy. First, the new policy would increase the per incident amount of service credit a member could purchase, for absence from an injury incurred in the line of duty, from 6 months to 24 months. Second, the new policy would change the eligibility requirement from receiving a leave supplement from an employer to receiving benefits under state workers' compensation (Title 51 RCW) or a similar federal workers' compensation program.

These changes would create consistency with the PERS policy established in 2005, allows the purchase of a longer period of service for LEOFF Plan 2 members, and eliminates the possibility that a member will not qualify to purchase such service credit due to working for an employer that does not provide a leave supplement.

7. Supporting Information

- **Appendix A:** Temporary Duty Disability & Authorized Leave of Absence Comparison
- **Appendix B:** Leave Supplement Statutes
- **Appendix C:** Temporary Duty Disability Provisions in Comparison Systems

Appendix A: Temporary Duty Disability & Authorized Leave of Absence Comparisons

Temporary Duty Disability Comparison

Plan	Eligibility	Purchase Limits	Computation	Payment	Include In FAS
LEOFF Plan 2	Receiving a disability leave supplement or similar benefits provided by their employer	6 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions through employer Employer pays employer contributions. State pays state contributions	Yes
PERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	24 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
SERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	12 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
TRS Plan 2	No temporary duty disability provision	NA	NA	NA	NA
WSPRS Plan 2	Relieved from duty by the Chief of Washington State Patrol for an injury on the job	No statutory limit	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes

Authorized Leave of Absence Comparison

System	Eligibility	Purchase Limits	Cost Computation	Payment	Include In FAS
LEOFF Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays member, employer, and state contributions, plus interest	No
PERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
SERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
TRS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
WSPRS Plan 2	No authorized leave of absence provision	NA	NA	NA	NA

Appendix B: Leave Supplement Statutes

<p>RCW 41.04.500 Disability leave supplement for law enforcement officers and fire fighters.</p>	<p>County, municipal, and political subdivision employers of full-time, commissioned law enforcement officers and full-time, paid fire fighters shall provide a disability leave supplement to such employees who qualify for payments under RCW 51.32.090 due to a temporary total disability.</p>
<p>RCW 41.04.505 Disability leave supplement for law enforcement officers and fire fighters -- Amount.</p>	<p>The disability leave supplement shall be an amount which, when added to the amount payable under RCW 51.32.090 will result in the employee receiving the same pay he or she would have received for full time active service, taking into account that industrial insurance payments are not subject to federal income or social security taxes.</p>
<p>RCW 41.04.510 Disability leave supplement for law enforcement officers and fire fighters -- Payment.</p>	<p>The disability leave supplement shall be paid as follows:</p> <p>(1) The disability leave supplement shall begin on the sixth calendar day from the date of the injury or illness which entitles the employee to benefits under RCW 51.32.090. For the purposes of this section, the day of injury shall constitute the first calendar day.</p> <p>(2) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be charged against the accrued paid leave of the employee. In computing such charge, the employer shall convert accumulated days, or other time units as the case may be, to a money equivalent based on the base monthly salary of the employee at the time of the injury or illness. "Base monthly salary" for the purposes of this section means the amount earned by the employee before any voluntary or involuntary payroll deductions, and not including overtime pay.</p> <p>(3) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be paid by the employer.</p> <p>If an employee has no accrued paid leave at the time of an injury or illness which entitles him to benefits under RCW 51.32.090, or if accrued paid leave is exhausted during the period of disability, the employee shall receive only that portion of the disability leave supplement prescribed by subsection (3) of this section.</p>
<p>RCW 41.04.515 Disability leave supplement for law enforcement officers and fire fighters -- Time limitation.</p>	<p>The disability leave supplement provided by RCW 41.04.500 through 41.04.530 shall continue as long as the employee is receiving benefits under RCW 51.32.090, up to a maximum of six months from the date of the injury or illness.</p>

<p>RCW 41.04.520 Disability leave supplement for law enforcement officers and fire fighters -- Employee to perform light duty tasks.</p>	<p>While an employee is receiving disability leave supplement, the employee, subject to the approval of his or her treating physician, shall perform light duty tasks in the employee's previous department as the employer may require, with no reduction in the disability leave supplement.</p>
<p>RCW 41.04.525 Disability leave supplement for law enforcement officers and fire fighters -- Continuation of employee insurance benefits.</p>	<p>The disability leave supplement provided in RCW 41.04.510(3) shall not be considered salary or wages for personal services: PROVIDED, That the employee shall also continue to receive all insurance benefits provided in whole or in part by the employer, notwithstanding the fact that some portion of the cost of those benefits is paid by the employee: PROVIDED FURTHER, That the portion of the cost not paid by the employer continues to be paid by the employee.</p>
<p>RCW 41.04.530 Disability leave supplement for law enforcement officers and fire fighters -- Exhaustion of accrued sick leave.</p>	<p>If an employee's accrued sick leave is exhausted during the period of disability, the employee may, for a period of two months following return to active service, draw prospectively upon sick leave the employee is expected to accumulate up to a maximum of three days or three work shifts, whichever is greater. Any sick leave drawn prospectively as provided in this section shall be charged against earned sick leave until such time as the employee has accrued the amount needed to restore the amount used. In the event an employee terminates active service without having restored the sick leave drawn prospectively, the employer shall deduct the actual cost of any payments made under this section from compensation or other money payable to the employee, or otherwise recover such payments.</p>
<p>RCW 41.04.535 Disability leave supplement for law enforcement officers and fire fighters -- Greater benefits not precluded.</p>	<p>Nothing in RCW 41.04.500 through 41.04.530 shall preclude employers of law enforcement officers and fire fighters and such employees from entering into agreements which provide benefits to employees which are greater than those prescribed by RCW 41.04.500 through 41.04.530, nor is there any intent by the legislature to alter or in any way affect any such agreements which may now exist.</p>
<p>RCW 41.04.540 Disability leave supplement for law enforcement officers and fire fighters -- Supplement not required in smaller cities, towns, and counties.</p>	<p>Cities and towns with a population of less than twenty-five hundred and counties with a population of less than ten thousand shall not be required to provide a disability leave supplement to their commissioned law enforcement officers and full-time paid fire fighters who qualify for payments pursuant to RCW 51.32.090, due to temporary total disability.</p>

<p>RCW 41.04.545 Disability leave supplement for law enforcement officers and fire fighters -- Vested right not created.</p>	<p>Chapter 462, Laws of 1985 neither grants employees a vested right to receive a disability leave supplement nor creates a contractual obligation on behalf of the state or its political subdivisions to provide a disability leave supplement.</p>
<p>RCW 41.04.550 Disability leave supplement for law enforcement officers and fire fighters -- Not subject to interest arbitration.</p>	<p>Disability leave supplement payments for employees covered by chapter 462, Laws of 1985 shall not be subject to interest arbitration as defined in RCW 41.56.430 through 41.56.905.</p>

Appendix C: Temporary Duty Disability provisions in comparison systems

Alaska	<p>Service Credit Recovery: An employee who takes more than 10 days leave of absence without pay in a calendar year because the employee is unable to work due to an on-the-job injury or occupational illness for which the employee is receiving benefits under Alaska Statute 23.30 (Workers' Compensation) may elect to receive credited service for the time on leave of absence without pay status. There is <u>no limit</u> on the amount of time that may be purchased.</p>
Arizona	<p>Disability Benefit: A member may receive benefits for Total and presumably temporary disability, incurred in performance of duty, prior to normal retirement, preventing performance of a reasonable range of duties within the employee's department. The monthly pension is one-twelfth of 50% of annual compensation at time of disability. Payments terminate after <u>twelve months</u> or return to work. The member must terminate employment to receive this benefit.</p>
Arkansas	<p>No Benefit: LOPFI does not offer or extend benefits for temporary disabilities and does not have any service credit purchase provisions that this type of service can be purchased under.</p>
Colorado	<p>Disability Benefit: A member injured on the job may be entitled to a Temporary Occupational Disability that is 40% of base salary. Once granted, benefits are payable from the day following the member's last day on the employer's payroll. Minimum of 1 year. Maximum of <u>five years</u>. At the end of five years the member either returns to employment, upgrades to Permanent Occupational or Total Disability status, or benefits are discontinued.</p> <p>If the member is restored to active service with his/her former employer, FPPA will transfer from the D&D fund the contributions required to fund the money purchase plan (or component) or fund service credit under the defined benefit plan (or component) while the member was on Temporary Disability (up to 16%). If the mandatory contribution amount is above 16%, the employer will make the additional contributions.</p> <p>If the disability is expect to be less than 12 months, short term disability benefits may be provided by the employer. No benefits will be provided by the Statewide defined benefit plan.</p>
Delaware	<p>Service Credit Recovery: A member may purchase service credit for a medical leave if the member subsequently accrues at least 1 year of credited service and pays into the Fund prior to the issuance of his or her 1st pension check, contributions determined by multiplying the rates in effect at the time of payment for member contributions and employer contributions times the average of the 60 months of creditable compensation used to calculate the member's pension benefit times the months or fractions thereof so credited. Any credited service purchased for medical leave shall not be used to determine eligibility for benefits.</p>

Kansas	<p>Disability Benefit: If you cannot perform duties related to your job due to an injury or illness, you can apply for disability benefits. You receive an annual benefit of 50 percent of your final average salary in on-going monthly payments. There is no child's benefit. If you return to work with any KP&F participating employer, your disability benefits will automatically stop.</p> <p>Participating Service is any service after your membership date. You will automatically receive this type of service credit while you work in a covered position and make contributions to the Retirement System. For Tier II members, this type of service will be credited during any period of approved disability if you qualify for disability benefits.</p>
Maryland	<p>Authorized leave of absence purchase: A member who goes on an approved leave of absence due to an injury or illness may purchase up to two years of service credit for the period of leave. The member pays the member contributions that would have been paid if not on leave, plus interest.</p>
Nevada	<p>Service Credit Purchase: If a member has five years of creditable service they may purchase up to a maximum of five years of service credit. The cost to purchase service is based on the average compensation times the number of months purchased times the actuarial percentage based on the member's age.</p>
New Jersey	<p>Service Credit Recovery: Members are eligible to purchase credit for time spent on official, authorized leaves of absence without pay. Members may purchase up to two years of service credit for leave for personal illness, and up to 3 months for leave for personal reasons. The cost of the purchase is shared equally between the member and the employer.</p>
New York	<p>No Benefit: New York does not provide any temporary disability leave purchase, authorized leave of absence purchase, or service credit purchase provisions.</p>
Ohio	<p>Service Credit Recovery: If a member is placed on a medical leave of absence due to a medical disability, the member may purchase credit for such a break in service, up to one year per event.</p>
South Carolina	<p>Service Credit Recovery: Members may establish service credit for various types of previous employment and leaves of absence, and up to five years of non-qualified service. A member may establish service credit for a period while on leave of absence and receiving Workers' Compensation benefits. The cost is based on contributions plus interest using your earnable compensation at the time of injury.</p>