



The Select Committee on Pension Policy

Work Session, LEOFF 1 Survivor Benefits

*Aaron Gutierrez, Policy Analyst
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Office of the State Actuary

"Securing tomorrow's pensions today."

Background

- SB 6078 was introduced in 2009 Legislative Session
 - Non-SCPP bill
- Correspondence from prime sponsor
- Executive Committee forwarded issue for work session



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"Securing tomorrow's pensions today."

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If A LEOFF 1 Member Dies Prior To Retirement

- Survivor may receive benefits that are different from what the member would have received at retirement
 - Calculated using a different method
 - May result in less than what the member has accrued at the time of death
- Stakeholders have asked that members be able to receive whichever provides the greater benefit

Earned Benefits Received At Retirement

- Based on service credit
- Generally, 2 percent of average salary for each year of service



Guaranteed Benefits

- Members who die before retiring receive guaranteed benefits
- Not based on service credit
- Survivors receive 50 percent of the member's average salary at the time of death
 - Additional amounts available for qualified dependants, up to a maximum of 60 percent

Death Prior To Retirement

- Guaranteed benefits for death prior to retirement are the same as retiring with 25 years of service
 - Death prior to retirement
 - Guaranteed 50 percent
 - At retirement
 - 2% of salary average X 25 years of service = 50%
 - If the member dies before retirement, but with more than 25 years, the survivor will receive less than the member accrued



As A General Rule

- Survivors of members who die early in career may receive more than the member has accrued
- Survivors of members who die later in career may receive less than the member has accrued
 - Trade-off may have been intended to keep the plan affordable and provide peace of mind early in a career



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What Stakeholders Are Asking

- Stakeholders have asked that survivors receive the better of
 - Guaranteed benefits
 - Earned benefits
 - As if the member had retired on the date of death



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Legislative History

- SB 6078 was introduced in the 2009 session
 - The bill did not go through the SCPP
 - The bill did not receive a hearing
- Under SB 6078, a survivor would receive either
 - The current guaranteed benefits
 - Earned benefits, as if the member had retired on the date of death
 - If the member's death was duty-related, the survivor would get to choose
 - If not, the member would receive the greater of the two

Survivor Benefits Vary In Peer States

- All states have multiple options, depending on a member's circumstances
- Four broad generalizations
 - Guaranteed benefits
 - Colorado and Minnesota
 - Earned benefits
 - Iowa
 - Return of contributions
 - Ohio, Oregon, and Wisconsin
 - Hybrid
 - California
 - Earned benefits
 - With a guaranteed minimum

Four Policy Questions

- Is the plan design trade-off still appropriate?
- Should active members' benefits be improved at the end of a plan's life cycle?
- How might benefit improvements affect the surplus?
- Would benefit improvements create an inconsistency?



Is The Plan Design Trade-off Still Appropriate?

- General Rule
 - Survivors of members who die with less than 25 years may receive more than accrued
 - Survivors of members who die with more than 25 years may receive less than accrued
- Most active members have over 25 years
- May discourage experienced personnel from remaining in service

Should Active Members' Benefits Be Improved At The End Of A Plan's Life Cycle?

- LEOFF 1 is closed, most members have retired, and all are eligible to retire
 - Approximately 421 remaining active members
 - Average age 57.8 years
- Benefit improvements may only affect the small group of remaining members



How Might Benefit Improvements Affect The Surplus?

- Improvements for few remaining active members may seem relatively inexpensive
- Surplus might absorb the cost in the short term
 - Fiscal note for SB 6078
- LEOFF 1 is currently projected to be out of surplus in the next decade
- Might take the plan out of surplus sooner

Would Benefit Improvements Create An Inconsistency?

- Between members?
 - Previous survivors receiving benefits under current provisions
- Between systems?
 - LEOFF 1 and WSPRS 1 have similar survivor benefits
 - No guaranteed benefits in other plans



Current Survivor Benefits

- Represent a trade-off in plan design
 - May or may not still be appropriate
- May be a disincentive for experienced personnel to stay on duty

Increased Benefits For Survivors

- May provide survivors of experienced members with benefits more representative of what the member has accrued
- Would apply near the end of the plan's life cycle
- May bring the plan out of surplus sooner
- May create inconsistency between members and plans



Next Step

- Take no further action
- Endorse or recommend SB 6078
- Study additional options

