Fish And Wildlife Service Credit Transfer

Description Of Issue

Fish and Wildlife enforcement officers were placed into Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System beginning July 23, 2003. When this occurred, existing employees were not allowed to transfer their prior Public Employees' Retirement System (PERS) service as enforcement officers into LEOFF Plan 2.

The question for policy makers is: Should these enforcement officers be allowed to transfer their prior PERS service into LEOFF Plan 2?

Policy Highlights

- Fish & Wildlife enforcement officers did not always have general law enforcement authority while in PERS.
- Impacted enforcement officers are currently dual members, with service in both PERS and LEOFF Plan 2.
- Prior examples of groups gaining LEOFF Plan 2 membership allowed the transfer of prior PERS service.
- Prior proposed legislation on this issue did not include enforcement officers with prior service in PERS Plan 3.

Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session. The 2008 SCPP bill (HB 3023/SB 6653) allowed the transfer of prior enforcement officer service and required payments by members and the Department of Fish and Wildlife sufficient to keep from increasing the LEOFF Plan 2 contribution rates. The bill did not pass the Legislature, but did pass the Senate.

Staff briefed the Committee on this issue in September, and the Committee held a public hearing on this issue in October. The Committee held a second public hearing in December and took executive action to recommend this proposal to the Legislature.

Recommendation To 2009 Legislature

Allow enforcement officers for the Department of Fish & Wildlife to convert prior PERS Plan 2 or PERS Plan 3 service to LEOFF Plan 2.

Staff Contact

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Fish and Wildlife Service Credit Transfer

In Brief

ISSUE

Should the SCPP once again jointly recommend to the Legislature a proposal to allow Fish and Wildlife enforcement officers to transfer prior PERS Plan 2 service into LEOFF Plan 2?

The LEOFF Plan 2 Board has requested the Committee jointly recommend this proposal. Additionally, the Board has requested the Committee study allowing officers with prior service in PERS Plan 3 to also transfer their service into LEOFF Plan 2.

MEMBER IMPACT

This proposal would impact an estimated 81 active members of LEOFF Plan 2 serving as Fish and Wildlife enforcement officers with prior PERS Plan 2 or Plan 3 service. 72 officers have prior Plan 2 service, and nine have prior Plan 3 service.

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Current Situation

Fish and Wildlife enforcement officers who were members of the Public Employees' Retirement System (PERS) Plan 2 or PERS Plan 3 on or before January 1, 2003, and were employed on July 23, 2003, are required by legislation passed in 2003 to be members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. Service as an enforcement officer prior to that date remains in PERS. Enforcement officers that were members of PERS Plan 1 remained in Plan 1.

History

Prior to the passage of HB 1205 in the 2003 Legislative Session, all enforcement officers hired by the Department of Fish and Wildlife were placed into the PERS retirement system. The employees had long sought membership in the LEOFF system, but the responsibilities and authority of these officers were somewhat different than LEOFF-eligible police officers. Generally, the eligibility of a group of employees for membership in LEOFF Plan 2 as law enforcement officers is determined by three things:

- They must be full-time, fully authorized law enforcement officers commissioned and employed to enforce the criminal laws in general.
- Their employer must be a general authority law enforcement agency that has as its primary function the enforcement of the traffic and criminal laws of the state in general.
- They must meet certain qualifications, including the Criminal Justice Training Commission basic law enforcement course.

As summarized by Office of the State Actuary staff in an October 18, 2000, letter to the Joint Committee on Pension Policy, enforcement officers were considered limited authority peace officers prior to 2002, with their primary

responsibility to enforce the laws and regulations related to Fish and Wildlife. However, staff research at the time showed their duties often placed them in cooperative working situations with local law enforcement agencies, assisting with actions clearly outside the enforcement of Fish and Wildlife regulations. These situations were fairly common, particularly in the rural areas of the state.

Legislation in 2002 explicitly authorized Fish and Wildlife enforcement officers to be general authority enforcement officers, and designated the Department of Fish and Wildlife as a general authority enforcement agency. This legislation also kept the enforcement officers from qualifying for LEOFF by excluding the employer from the employer definition section in the LEOFF statute.

The legislation in 2003 established the future eligibility in LEOFF Plan 2 for existing employees and all new hires into these positions, but specifically did not allow the transfer of prior PERS service credit earned as enforcement officers into the LEOFF Plan 2 system. These existing members would be dual members in the PERS and LEOFF systems. Public testimony from both labor and employer representatives at the time agreed that they were asking only for prospective LEOFF eligibility, without a transfer of prior service.

The legislative request in 2003 to allow enforcement officers membership in LEOFF Plan 2 did not include the ability to transfer prior PERS service into LEOFF Plan 2.

Since that time, the LEOFF Plan 2 Board endorsed legislation for the 2006 and 2007 Legislative Sessions that would have allowed for the transfer of prior PERS Plan 2 service into LEOFF Plan 2. Neither effort was passed by the Legislature. The Committee jointly recommended with the LEOFF Plan 2 Board a proposal to the Legislature in 2008 that also allowed the transfer of prior PERS Plan 2 service. This bill passed in the Senate, but did not pass the House.

For the 2009 Legislative Session, the LEOFF Plan 2 Board has again requested the Committee jointly recommend a transfer proposal. They have also recommended the Committee study allowing officers with prior service in PERS Plan 3 to also transfer their PERS service into LEOFF Plan 2.

Examples

The following examples highlight the difference in the total retirement benefit amount between an enforcement officer that retires at the normal age in LEOFF Plan 2 as a

dual member or retires with all prior service transferred into LEOFF Plan 2. Dual members are members who retain service in the retirement system they were members of previously. When they retire, they receive a benefit from each system, calculated under each system's rules.

A Fish and Wildlife enforcement officer had ten years of prior PERS Plan 2 time as an enforcement officer, worked 15 years in LEOFF Plan 2, and now is retiring at age 53, with a Final Average Salary of $50,000 per year.

Members who transfer their prior service to LEOFF Plan 2 will likely receive higher retirement benefits.

Example 1: Retiring As A Dual Member

15 yrs X 2% X $50,000 = LEOFF Plan 2 annual benefit of $15,000

10 yrs X 2% X $50,000 X .31 (reduction factor for 12 year early retirement) = PERS Plan 2 annual benefit of $3,100

Total annual benefit of ***$18,100.***

Example 2: Retiring With All Service In LEOFF

25 yrs X 2% X $50,000 = *Total annual benefit of* ***$25,000***

Policy Analysis

The policy question is whether the current LEOFF Plan 2 Fish and Wildlife enforcement officers should be allowed to transfer prior PERS service as enforcement officers into the LEOFF Plan 2 system.

Dual membership provisions help members retain the value of the retirement benefit they will receive for the time worked in their previous retirement system.

Currently, the policy of dual membership is in place to provide a cost effective way to help retain the value of service credit earned in a prior system under the prior system's rules. Are there compelling reasons why the dual membership status is insufficient in this situation?

Additionally, when service from one system is transferred to a system with a higher level of benefits, a financial liability is created. How that liability is paid for becomes part of the policy deliberations about the transfer. Should the affected members and employers be the only parties that pay for the transfer, and if so, in what proportion for each? Alternatively, should the costs be socialized throughout the

plan so everyone in the plan pays through increased contribution rates, if necessary?

There are two key questions:

1. *Do you keep the policy of dual membership in place and not allow the transfer of prior service?*
2. *If the transfer is allowed, then who pays for the increased cost of moving the PERS service to LEOFF Plan 2?*

To address these questions, we can first look at what has been the historical practice in LEOFF Plan 2 when eligibility has been expanded to include former PERS duties. There have been four prior instances where other PERS members were allowed to become members of LEOFF. In each case, prior PERS service was allowed to be transferred, although the funding models to pay for the increased liabilities varied.

The following chart displays information about these four prior situations, including the year the expansion took place, what members were included in the eligibility change, what payment was required of the affected member to transfer prior service, what corresponding payment was required of the affected member's employer if the member paid their share, and finally, was their additional liability socialized over all members and employers of the plan?

YEAR	Members Affected	Cost to Affected Member	Cost to Affected Employer	Additional liability socialized by plan? (Y/N)
1993 SHB 1744	Port and university police officers	Difference in member contribution rates, plus interest	Difference in PERS employer rate and the LEOFF employer and state contribution rates, plus interest amount sufficient to prevent increased rates	N
1996 SHB 2191	Higher Ed fire fighters	Difference in member contribution rates, plus interest	Difference in PERS employer rate and the LEOFF employer and state contribution rates, plus interest, and an additional amount sufficient to ensure the LEOFF rates would not increase due to the transfer	N
2003 SHB 1202	Prior PERS EMTs whose jobs were relocated to a fire district and they became fire fighters	Difference in member contribution rates, plus interest	None	Y
2005 HB 1936	Current PERS EMTS working for a LEOFF employer	Difference in member contribution rates, plus interest	An amount sufficient to ensure the LEOFF contribution rates will not increase due to the transfer	N

Previous expansions of LEOFF Plan 2 eligibility allowed prior service transfers.

In each of the four above cases, the member's prior time in PERS was allowed to transfer into LEOFF. The only consistency in the funding, however, was the amount required to be paid by the member. The nature of the prior service in the four instances also varied. For example, EMT service alone had long been considered PERS service, until 2005 legislation amended the definition of LEOFF-eligible duty to include EMT time. As discussed earlier, for the Fish and Wildlife enforcement officers, the duties and authority granted them over time grew into more LEOFF-like service, but may not have always been as similar as they were in 2003.

Other Systems

There are also examples within the other retirement systems administered by the State of individuals performing the same job who are moved to a different retirement system.

- In 2000, existing PERS Plan 2 members of school and educational service districts had all their prior service transferred to the School Employees' Retirement System (SERS) Plan 2.
- In 2002, PERS Commercial Vehicle Enforcement Officers (CVEO) became eligible for the WSPRS, and prior service as a CVEO was allowed to be transferred.
- In 2006, PERS Plan 2 and 3 members could transfer to the Public Safety Employees' Retirement System (PSERS), but their prior PERS service remained in PERS.

Other Washington State systems addressed prior service transfers based upon the unique circumstances of the situation.

There doesn't appear to be a consistent application of a prior service transfer policy to each of the above situations. All but PSERS allowed prior service to transfer, and the SERS example mandated the transfer. The SERS example is the only situation where the benefits in the two systems affected were equivalent and where the affected individuals were not moving to a system with a higher benefit level. What the disparity shows, is that each situation was treated uniquely, and may have had other compelling reasons to justify the decisions made regarding the transfer of prior service.

Other States*

Other peer state's systems have expanded eligibility. However, as in Washington, it appears the decision whether to allow the transfer of prior service was made based on the circumstances of each expansion.

A look at similar situations in our comparative states provides a general mix of how this situation has been handled over time, even within the same state. The state of California, for example, is indicative of other states' practice, and has seen significant expansion of their public safety plan. In all cases save one, where the public safety eligibility requirements were expanded to include members previously reported in their general plan, the prior service was also moved into the public safety plan. The only exception to allowing prior service was the latest transfer, in 2005, where some 4,000 employees in various job classes were allowed into the system, but only on a prospective basis. According to staff of the system, the main reason for disallowing the transfer in this case was the cost.

** Research into practices by other states was performed in October of 2007.*

Possible Options

The Committee has two primary options:

Option 1: Maintain the current policy of dual membership for the prior service in PERS.

Option 2: Recommend allowing some form of prior service transfer.

The **first option** allows the enforcement officers to maintain value of their prior service according to the original plan rules through dual membership, and is in keeping with the original requests of the labor and employer representatives who backed the legislation in 2003. While this doesn't appear to be consistent with the past practice in LEOFF Plan 2, the examples from the other systems show in those cases that prior service transfers were addressed based upon their own unique circumstances.

One argument against dual membership in these situations was in the House bill analysis for HB 1202. The argument made was that though the dual membership provisions exist, given the wide difference in the normal retirement ages for PERS Plan 2 and LEOFF Plan 2 (age 65 and age 53), only a greatly reduced PERS 2 benefit would be available to the member at the LEOFF 2 normal retirement

age. This reduction was demonstrated in our earlier example.

The **second option** is consistent with past practice in LEOFF Plan 2, and represents the current wishes of the affected stakeholders. While it doesn't match with the use of dual membership, it recognizes the impact of disparate normal ages of retirement.

Funding The Transfer

If the Committee recommends the option to transfer prior PERS service, several questions arise regarding the funding of the transfer:

1. If a member payment is required, how much should it be and how long should the member have to elect and pay for the transfer of service?
2. If an employer payment is required, how much should it be and how long should the employer have to pay?
3. Should any amount of the liability be socialized over all members and employers in the plan?

With regard to the first question, past practice in LEOFF Plan 2 has required the member to pay the difference in the PERS 2 member contributions and the LEOFF 2 member contributions, plus interest, and provide a window to complete that payment, usually five years. There is no past practice for transferring prior PERS Plan 3 service. However, other payment options exist. For example, the proposal could require the employee to pay the full actuarial cost of the prior service in the LEOFF system. Given the value of the service, the cost could be high, but it would be a compromise between the current dual membership status and the employer paying for the benefit enhancement.

As to the employer payment, the past practice is generally to pay an amount sufficient to keep contribution rates from ever increasing due to the transfer. A payment of this nature makes the question of socialization moot. The one time in LEOFF Plan 2 the employer didn't make this type of payment was the 2003 EMT legislation. In that situation, the remaining liability was socialized throughout the plan.

However, the socialized cost would not have been sufficient to cause an immediate rate increase in the 2003-2005 Biennium.

New Consideration For This Interim

The LEOFF Plan 2 Board has again requested the Committee jointly recommend this transfer proposal. Additionally, the Board has requested the Committee study allowing officers with prior service in PERS Plan 3 to also transfer their service into LEOFF Plan 2.

For the 2009 Legislative Session, the LEOFF Plan 2 Board has again requested the Committee jointly recommend a transfer proposal. The Board also recommended the Committee study allowing officers with prior service in PERS Plan 3 to also transfer their PERS service into LEOFF Plan 2.

The proposal to the Legislature on this issue in 2006 and 2007 from the LEOFF Plan 2 Board, and the jointly recommended proposal of the Committee and the Board in 2008, allowed the transfer of prior PERS Plan 2 service to the LEOFF system. The details of the proposals are as follows:

- Members who elect to transfer their prior service pay the difference in the member contribution rates between PERS 2 and LEOFF 2, plus interest.
- Members would have five years to complete payment, but service credit would not be transferred prior to the end of the five-year waiting period.
- Upon completion of the five-year waiting period, the Department of Fish and Wildlife would have one year to pay a sum sufficient to ensure the LEOFF Plan 2 rates would not increase at any time due to this transfer.

Why Didn't The Proposals Include Members With Prior PERS Plan 3 Service?

Enforcement Officers with prior PERS Plan 3 service were excluded from earlier proposals due to possible IRS concerns. DRS clarified with tax counsel that these concerns do not likely apply to this situation.

At the time of the previous proposals on this issue, concern existed about the Internal Revenue Service (IRS) disallowing an additional transfer choice between a Plan 3 and a Plan 2. The Department of Retirement Systems (DRS) has since consulted with tax counsel and clarified the parameters around that IRS concern. This transfer of service from a Plan 3 to a Plan 2 *would not likely cause IRS concern* for the following reasons:

- The transfer that would occur is between two separate systems, PERS and LEOFF.

- The transfer would not affect future contribution rates within the same defined benefit plan.

Should Prior PERS Plan 3 Service Be Allowed To Transfer?

Given that this would not cause IRS concern, is there another reason to exclude these officers from transferring their prior service? Except for transferring to PERS Plan 3, there are no other distinguishing differences between these members and the PERS Plan 2 members. Both groups of members perform the same duties and have the same varying levels of experience as enforcement officers. There are currently nine enforcement officers mandated into LEOFF Plan 2 whose prior service is in PERS Plan 3. All nine of the Plan 3 members are younger than the normal age of retirement in Plan 3 and could potentially benefit from the prior service transfer. The additional members in the proposal could increase the cost to the Department of Fish and Wildlife to ensure the rates in LEOFF Plan 2 do not ever increase due to the transfer.

Conclusion

In determining whether to allow the transfer of prior service, the historical practice in LEOFF Plan 2 has been to allow the members moving to the new system the option to transfer their prior service. However, a prior service transfer was not part of the original request by the stakeholders in the 2003 legislation that moved the members into LEOFF Plan 2. Other systems administered by the state of Washington have addressed this issue in variety of ways, each situation based upon their own unique circumstances.

When the transfer has been allowed, the funding of the transfer has generally required:

- A member payment of the difference in contributions between the systems, plus interest.
- An employer payment sufficient to keep the LEOFF 2 rates from ever increasing due to the transfer.

Finally, the clarification of the possible IRS issues with transferring prior PERS Plan 3 service to LEOFF Plan 2 removes the primary reason for excluding these members

from past proposals. However, including them in the proposal could result in additional cost to the Department of Fish and Wildlife.

Committee Activity

Staff briefed the Committee on this issue in September, and the Committee held a public hearing on this issue in October. The Committee held a public hearing and took executive action in December to recommend this proposal to the Legislature.

Executive Committee Recommendation

None.

Recommendation To 2009 Legislature

Allow enforcement officers for the Department of Fish & Wildlife to convert prior PERS Plan 2 or PERS Plan 3 service to LEOFF Plan 2. Recommended December 16, 2008.

Stakeholder Input

Correspondence attached from:

Kelly Fox, Chair, LEOFF Plan 2 Board, 5/12/2008 and 6/30/2008.

Bill Draft

A Code Reviser bill draft to implement the SCPP recommendation is attached (Z-0217.2/09).

Draft Fiscal Note

Attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0217.2/09 2nd draft

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Allowing department of fish and wildlife enforcement officers to transfer service credit.

AN ACT Relating to allowing department of fish and wildlife enforcement officers to transfer service credit; and adding a new section to chapter 41.26 RCW.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW to read as follows:

(1) A member of plan 2 who was a member of the public employees' retirement system plan 2 or plan 3 while employed as an enforcement officer for the department of fish and wildlife has the option to make an election no later than December 31, 2009, filed in writing with the department of retirement systems, to transfer all service credit previously earned as an enforcement officer in the public employees' retirement system plan 2 or plan 3 to the law enforcement officers' and firefighters' retirement system plan 2. Service credit that a member elects to transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system under this section shall be transferred no earlier than June 30, 2014, and only after the member completes payment as provided in subsection (2) of this section.

(2)(a) A member who elects to transfer service credit under subsection (1) of this section shall make the payments required by this subsection prior to having service credit earned as an enforcement officer with the department of fish and wildlife under the public employees' retirement system plan 2 or plan 3 transferred to the law enforcement officers' and firefighters' retirement system plan 2.

(b) A member who elects to transfer service credit from the public employees' retirement system plan 2 under this subsection shall pay, for the applicable period of service, the difference between the contributions the employee paid to the public employees' retirement system plan 2 and the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest on this difference as determined by the director. This payment must be made no later than June 30, 2014, and must be made prior to retirement.

(c) A member who elects to transfer service credit from the public employees' retirement system plan 3 under this subsection shall transfer to the law enforcement officers' and firefighters' retirement system plan 2, for the applicable period of service, the full balance of the member's defined contribution account within plan 3 as of the effective date of the transfer. At no time will the member pay, for the applicable period of service, a sum less than the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest as determined by the director. This transfer and any additional payment, if necessary, must be made no later than June 30, 2014, and must be made prior to retirement.

(d) No later than June 30, 2015, the department of fish and wildlife shall pay an amount sufficient to ensure that the contribution level to the law enforcement officers' and firefighters' retirement system will not increase due to this transfer. Payments made prior to June 30, 2015, are authorized as determined by the department and coordinated with the state actuary.

(e) Upon completion of the payment required in (b) of this subsection, the department shall transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system plan 2: (i) All of the employee's applicable accumulated contributions plus interest and all of the applicable

employer contributions plus interest; and (ii) all applicable months of service, as defined in RCW 41.26.030(14)(b), credited to the employee under this chapter for service as an enforcement officer with the department of fish and wildlife as though that service was rendered as a member of the law enforcement officers' and firefighters' retirement system plan 2.

(f) Upon completion of the payment required in (c) of this subsection, the department shall transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system plan 2: (i) All of the employee's applicable accumulated contributions plus interest and all of the applicable employer contributions plus interest; and (ii) all applicable months of service, as defined in RCW 41.26.030(14)(b), credited to the employee under this chapter for service as an enforcement officer with the department of fish and wildlife as though that service was rendered as a member of the law enforcement officers' and firefighters' retirement system plan 2.

(g) If a member who elected to transfer pursuant to this section dies or retires for disability prior to June 30, 2014, the member's benefit is calculated as follows:

(i) All of the applicable service credit, accumulated contributions, and interest is transferred to the law enforcement officers' and firefighters' retirement system plan 2 and used in the calculation of a benefit.

(ii) If a member's obligation under (b) or (c) of this subsection has not been paid in full at the time of death or disability retirement, the member, or in the case of death the surviving spouse or eligible minor children, have the following options:

(A) Pay the bill in full;

(B) If a continuing monthly benefit is chosen, have the benefit actuarially reduced to reflect the amount of the unpaid obligation under (b) or (c) of this subsection; or

(C) Continue to make payment against the obligation under (b) or (c) of this subsection, provided that payment in full is made no later than June 30, 2014.

(h) Upon transfer of service credit, contributions, and interest under this subsection, the employee is permanently excluded from membership in the public employees' retirement system for all service

related to time served as an enforcement officer with the department of fish and wildlife under the public employees' retirement system plan 2 or plan 3.

--- END ---

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ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/08/08**	**Z-0217.2**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this draft fiscal note based on our understanding of the proposal as of the date shown above. We intend this draft fiscal note to be used by the Select Committee on Pension Policy and Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board throughout the 2008 Interim only. If a legislator introduces this proposal as a bill during the next Legislative Session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

We advise readers of this draft fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this draft fiscal note as a whole. Distribution of or reliance on only parts of this draft fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This proposal would allow enforcement officers for the Department of Fish & Wildlife (DFW) to convert prior PERS Plan 2 or PERS Plan 3 service to LEOFF Plan 2.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$26,784	$4.2	$26,788
Earned Pensions Not Covered by Today's Assets	N/A	N/A	N/A

Impact on Contribution Rates: (Effective 09/01/2009)

2009-11 State Budget	**PERS**	**LEOFF**
Employee (Plan 2)	0.00%	0.00%
Employer:		
Current Annual Cost	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%
Total	0.00%	0.00%
State		0.00%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.0	($0.1)
Total Employer	$0.0	($0.1)	($0.4)

See the Actuarial Results section of this draft fiscal note for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This proposal impacts Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF 2) Retirement System, as well as Plans 2 and 3 of the Public Employees' Retirement System (PERS). This proposal allows LEOFF 2 members to transfer into LEOFF 2 their prior PERS 2 or PERS 3 service credit for periods of employment as enforcement officers for DFW. The proposal specifies Department of Retirement Systems (DRS) may not transfer the service credit prior to June 30, 2014, except for members who become disabled or die during the waiting period. Members have until June 30, 2014, to make their payments. The proposal also specifies the DRS may only transfer service credit after members complete their payments.

Finally, the proposal provides that members who elect to transfer their service credit must transfer all their service as an enforcement officer with DFW under PERS 2 or PERS 3. Furthermore, upon transfer this proposal permanently excludes members from using service related to time served as an enforcement officer with the DFW in PERS 2 or PERS 3.

Effective Date: 90 days after session.

What Is The Current Situation?

Currently, LEOFF 2 members who were members of PERS 2 or PERS 3 while serving as enforcement officers for DFW cannot transfer their prior PERS service to LEOFF 2. They are dual members of PERS 2 or PERS 3 and LEOFF 2 and can retire under portability provisions (Chapter 41.54 RCW).

Who Is Impacted And How?

We estimate this proposal could affect 81 members out of the total 104 active DFW enforcement officers because they have eligible prior service credit in PERS. Furthermore, we expect 61 members will actually receive improved benefits. We expect the remaining members would not elect to transfer service credit because it would not be financially advantageous for them. This proposal would not affect inactive members in LEOFF 2.

We estimate that for a typical member impacted by this proposal, the increase in benefits would be the opportunity for a full retirement at age 53 instead of 65, or a benefit at age 50 with 20 years of service reduced 3 percent for each year under age 53.

This proposal requires Plan 3 members who elect to transfer their eligible service to transfer their entire defined contribution (DC) account balances attributable to the transferred service.

The terms of this proposal include transfer payments made by members and the employer from PERS to LEOFF Plan 2.

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Please see Appendix A for more details.

WHY THIS PROPOSL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal has a cost because service credit in LEOFF 2 is more valuable than service credit in PERS. However, it also provides that there shall be no impact to LEOFF 2 contribution rates. Any costs that result from this proposal will be paid as described below.

This proposal also results in a slight savings in PERS because the reduction in liability from the service credit transfer exceeds the value of assets transferred from PERS to LEOFF Plan 2.

Who Will Pay For These Costs?

Members electing to transfer eligible service pay the difference between the PERS contributions they paid while earning the service credit and the contributions they would have paid as a member of LEOFF 2. Members with past service in PERS 3 must pay the balance in their DC accounts attributable to service credit earned as an enforcement officer in DFW, plus an additional amount, if any, to cover the difference between that balance and the contributions they would have paid in LEOFF 2. These amounts are increased with interest as determined by the director of DRS. DRS will transfer the assets associated with the PERS 2 member and PERS employer contributions with interest from PERS to LEOFF 2.

The proposal provides that no later than June 30, 2015, DFW will pay an additional amount to ensure the LEOFF 2 contribution rates do not change. The proposal also allows for payments prior to 2015 as determined by DRS in consultation with the Office of the State Actuary.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed this proposal makes all past PERS service with DFW eligible for transfer to LEOFF 2, and only active DFW enforcement officers may transfer prior service. We assumed members eligible to transfer service credit would elect to transfer that service if the increase in benefits exceeds the additional costs they must pay. See Appendix A for more detail.

We assumed members who transfer service will not receive additional benefits from the transfer until after June 30, 2014. We assumed DRS will perform the calculation of the cost to DFW using annuity factors that use no pre-retirement decrements other than mortality.

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We assumed DRS would charge 8 percent interest when calculating additional contributions due from members electing to transfer their service to LEOFF 2. We also assumed an 8 percent rate of return on DC accounts for Plan 3 members.

Otherwise, we developed these costs using the same assumptions as disclosed in the 2007 Actuarial Valuation Report (AVR).

How We Applied These Assumptions

The proposal gives DFW the responsibility for funding the liability increase to LEOFF 2 not covered by the additional member contributions and assets transferred from PERS.

We calculated the additional contributions for each member with prior eligible PERS 2 service by finding the difference between historical LEOFF 2 and PERS 2 contribution rates and multiplying that difference by their estimated past salaries. We estimated salaries at the time the service was earned. We accumulated those contributions with interest to the present. For members with past PERS 3 service, we calculated the contributions they would have paid if they had been in LEOFF 2, accumulated the contributions with interest to the present, and subtracted their DC account balances.

We estimated the assets transferred from PERS 2 to LEOFF 2 as twice the members' contribution account balances. The assets transferred from PERS 3 to LEOFF 2 equal the employer contributions made during the PERS 3 service, with interest.

To estimate the liability in LEOFF 2, we projected members' age, service, and salary to June 30, 2014 or their LEOFF 2 normal retirement age, whichever was later. Then we calculated the members' final average salary at retirement and multiplied it by a deferred annuity factor.

This proposal also affects PERS by decreasing liabilities and assets when members transfer their service to LEOFF. We used a similar method to find the liability savings in PERS, except we found age, service, and salary for these members under PERS rules for retirement.

Otherwise, we developed these costs using the same methods as those disclosed in the AVR.

Special Data Needed

We relied in part on information from the LEOFF Plan 2 Retirement Board and DRS to determine members eligible for the improved benefits under this proposal. The PERS 3 DC balances for eligible members came from annual data provided by DRS. Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

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Please see Appendix A for a detailed description of how we determined who we expect to transfer service under this proposal.

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal would increase the liability in LEOFF 2 by about $7 million. Assets transferred from PERS, additional member contributions, and a payment by DFW will completely offset this cost.

The liability in PERS would decrease by about $2.7 million under this proposal. The estimated transfer of assets from PERS to LEOFF 2, which consists of the member and employer contributions, with interest, would not completely offset this gain to PERS. This results in a small contribution decrease in PERS.

The members eligible to transfer service credit are currently dual members eligible for portability benefits. The transfer could result in additional experience gains for PERS Plans 2 and 3.

The next table shows a summary of costs/(savings) for all parties:

Summary of Costs/(Savings) for All Parties

(Dollars in Millions)	PERS	LEOFF 2	Total
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($2.7)	$7.0	$4.2
Assets Transferred from PERS to LEOFF 2	2.3	(2.3)	0.0
Additional Member Contributions	0.0	(1.8)	(1.8)
Payment from Department of Fish and Wildlife	0.0	(2.9)	(2.9)
Net Change in Present Value of Unfunded Fully Projected Benefits	($0.5)	$0.0	($0.5)

Note: Totals may not agree due to rounding.

We based these costs on the assumption that 61 out of 81 eligible DFW enforcement officers will transfer past PERS service credit to LEOFF 2. The actual cost of this proposal will depend on the number of affected members who elect to transfer past service.

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Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 2/3	**$20,634**	**(2.7)**	**$20,632**
LEOFF 2	**$6,149**	**7.0**	**$6,156**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 2/3	**N/A**	**N/A**	**N/A**
LEOFF 2	**N/A**	**N/A**	**N/A**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not Covered by Current Assets)			
PERS 2/3	**($2,470)**	**(0.5)**	**($2,470)**
LEOFF 2	**($974)**	**0.0**	**($974)**

How Contribution Rates Changed

The decrease in the required actuarial contribution rate does not round down to the minimum supplemental contribution rate of (0.01 percent); therefore, the proposal will not affect contribution rates in the current biennium. However, we will use the unrounded rate decrease to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 09/01/2009)		
System/Plan	**PERS**	**LEOFF**
Current Members		
Employee (Plan 2)	0.000%	0.000%
Employer:		
Normal Cost	0.000%	0.000%
Plan 1 UAAL	0.000%	0.000%
Total	0.000%	0.000%
State		0.000%
New Entrants*		
Employee (Plan 2)	0.000%	0.000%
Employer:		
Normal Cost	0.000%	0.000%
Plan 1 UAAL	0.000%	0.000%
Total	0.000%	0.000%
State		0.000%

**Rate change applied to future new entrant payroll and used to determine budget impacts only.*
Current members and new entrants pay the same contribution rate.

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How This Impacts Budgets And Employees

We have not included the estimated $3 million payment by DFW in the budget impacts below.

Budget Impacts			
(Dollars in Millions)	**PERS**	**LEOFF**	**Total**
2009-2011			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0
Total State	**0.0**	**0.0**	**0.0**
Local Government	0.0	0.0	0.0
Total Employer	**0.0**	**0.0**	**0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**
2011-2013			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0
Total State	**0.0**	**0.0**	**0.0**
Local Government	0.0	0.0	0.0
Total Employer	**(0.1)**	**0.0**	**(0.1)**
Total Employee	**$0.0**	**$0.0**	**$0.0**
2009-2034			
General Fund	($0.1)	$0.0	($0.1)
Non-General Fund	(0.1)	0.0	(0.1)
Total State	**(0.2)**	**0.0**	**(0.2)**
Local Government	(0.2)	0.0	(0.3)
Total Employer	**(0.4)**	**0.0**	**(0.4)**
Total Employee	**($0.3)**	**$0.0**	**($0.3)**

Note: Totals may not agree due to rounding.

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

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

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The estimated cost to DFW under this proposal is sensitive to the number of members we assume will transfer their PERS service to LEOFF 2. For this pricing exercise we assumed the members who benefit financially from making the transfer would do so. For the sensitivity analysis, we assumed that the members who benefit the most would be the members most likely to transfer their service.

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If only the 14 most costly members transfer, the cost to DFW would be $1 million. If between 15 and 33 of the most expensive transfers occur, DFW would be required to contribute about $2 million. If the top 34 or more members transfer, DFW would pay around $3 million. We assumed 61 members would transfer and this generates a $3 million estimated cost for DFW.

Plan 3 members' DC accounts can be impacted by poor stock market performance. We found our estimated Plan 3 transfer count by comparing their DC account balances to the increased value of their benefits if they were to transfer to LEOFF (see Appendix A for more detail). Therefore, given recent economic events, the number of members electing to transfer their past service from PERS to LEOFF could differ from our assumptions.

To model this sensitivity, we decreased the DC account balance for each Plan 3 member by 25 percent and compared the new balances to the increased value of benefits under this proposal. We found an additional four of the nine PERS 3 members would transfer under these conditions. The table below shows that under this scenario, the liability in LEOFF 2, member contributions, asset transfers from PERS to LEOFF, and the charge to DFW would all increase. There would still be a net liability decrease in PERS, but it would be slightly smaller.

Summary of Costs/(Savings) for All Parties if PERS 3 DC Balances were 25% Lower

(Dollars in Millions)	**PERS**	**LEOFF 2**	**Total**
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($2.8)	$8.3	$5.5
Assets Transferred from PERS to LEOFF 2	2.5	(2.5)	0.0
Additional Member Contributions	0.0	(2.4)	(2.4)
Payment from Department of Fish and Wildlife	0.0	(3.4)	(3.4)
Net Change in Present Value of Unfunded Fully Projected Benefits	($0.3)	$0.0	($0.3)

Note: Totals may not agree due to rounding.

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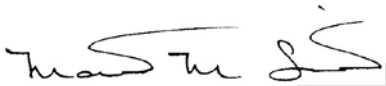
ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this draft fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. This draft fiscal note has been prepared for the Select Committee on Pension Policy and Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board.
6. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page one of this draft fiscal note.

This draft fiscal note is a preliminary actuarial communication and the results shown may change. While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA
State Actuary

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APPENDIX A – Additional Information About the Data We Used

Of the 104 DFW enforcement officers active as of June 30, 2007, we found 81 who had prior service credit in PERS Plans 2 and 3. Among the DFW active records we found a few members with more than the approximately four years of service they could have earned in their current positions since joining LEOFF 2 in 2003. These members probably have past service with other LEOFF agencies. We also observed some active members with no past service in PERS because they began employment after July 2003. Of the LEOFF members with prior PERS service, we found 61 who would likely transfer that service. To determine which members we expect to transfer prior service, we compared estimated liabilities in LEOFF 2 under this proposal with liabilities under current benefit provisions.

We excluded members who become eligible for normal retirement in PERS by June 30, 2014. These members would get the same benefits under portability as provided in this proposal. We also excluded members who become eligible for alternate early retirement in PERS by June 30, 2014. These members would receive smaller reductions in their benefits for early retirement than members with less than 30 years of service. The reduction in PERS benefits would be less costly than the additional contributions they would pay to transfer their PERS service to LEOFF 2.

We excluded members with prior PERS 3 service whose DC account balances were more valuable than the increased lifetime LEOFF benefits they would get under this proposal. These members received a transfer bonus of about 100 percent when they moved their service to Plan 3. Investment returns for these accounts had also been higher than expected from 2003 through 2007. As a result, we found that only two of nine eligible members with past Plan 3 service would likely transfer that service.

If we consider the current market volatility in our analysis, we realize this estimate could change. Recent losses in the stock market could translate to lower future DC account balances. If so, more Plan 3 members might elect to transfer their past service to LEOFF. Please see the section "How the Results Change When the Assumptions Change" for a more thorough description.

The table on the following page shows a demographic summary of the affected members under our best estimate analysis.

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Demographic Summary of the Affected Members				
	Count	Average Service (Years)	Average Savings Fund*	Average Current Salary**
LEOFF Actives	104	4.42	$19,657	$68,776
LEOFF Actives with PERS Service	61	7.76	$18,691	$71,214
PERS Service Range (Rounded, in years)				
0 - 2	17	1.11	$607	$66,981
3 - 5	14	3.38	2,624	70,273
6 - 10	8	7.82	12,916	71,322
11 - 15	12	13.63	36,009	75,197
16 - 20	9	17.69	54,475	75,779
21+	1	22.00	$67,355	$66,621

**PERS 3 amounts represent DC account balances as of June 30, 2008.*
***We use LEOFF 2 salary, effective June 30, 2007, for all records including PERS inactive records.*

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GLOSSARY OF ACTUARIAL TERMS

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

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

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

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

- Normal cost.
- Amortization of the unfunded liability.

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

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

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

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

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

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

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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

May 12, 2008

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 thank you for the cooperative working relationship we have shared in the past and look forward to a similar partnership in the future.

I would like to bring several topics back to your attention as you begin preparation for the 2008 interim. It is our hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to once again develop legislation. I have provided a brief summary of each topic for your reference:

Interruptive Military Service Credit

Working cooperatively last interim, the Board and the SCPP jointly endorsed a bill that would have eliminated a member's obligation to pay for interruptive military service credit if the member served during a period of war. The Board is once again interested in working cooperatively with the SCPP on the issue and feels the following additional question will need to be further explored:

- Should the benefit apply to all periods of interruptive military service which have not yet been recovered?

Inflationary Adjustment for $150,000 Death Benefit

The Board is interested in once again working with the SCPP to further study the effect of adding an inflationary adjustment to all the state retirement plans that provide the $150,000 death benefit. In addition to last year's study the Board feels following issues will need to be explored further:

- Should an adjustment in the lump sum amount be made to account for inflation since the creation of the benefit?

- Should both the lump sum adjustment and the addition of the inflationary adjustment be included in the bill?

Military Service Death Benefit

The Board and the SCPP jointly recommended legislation to the 2008 Legislature, which would have provided an unreduced annuity to qualifying survivors of members of all plans, who leave employment due to service in the National Guard or Reserves and die while in military service, during a period of war. The Board would like to continue our joint work to eliminate the "early retirement" actuarial reduction applied to the pensions of members who die while honorably serving our country.

Fish and Wildlife Enforcement Officer Service Credit Transfer

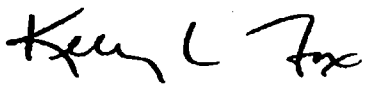
The Board and the SCPP also jointly recommended legislation last session that would have permitted Department of Fish and Wildlife Enforcement Officers to transfer service credit earned in the Public Employees' Retirement System (PERS) Plan 2 as enforcement officers into the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. The Board feels the following issue may need to be further explored as well:

- Should PERS 3 members be included in the transfer group?

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) 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

STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
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June 30, 2008

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:

At the recent meeting of the Select Committee on Pension Policy (SCPP) the chairman requested that the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF 2 Board) provide a prioritized list of the suggested joint topics that the LEOFF 2 Board would like to work on cooperatively with the SCPP.

During the course of the most recent LEOFF 2 Board meeting we prioritized the suggested topics for cooperation in the following order:

1. **Fish and Wildlife Enforcement Officer Service Credit Transfer**
   Allow FWEO members to transfer their PERS Plan 2 service as enforcement officers to LEOFF Plan 2.

2. **Inflationary Adjustment for $150,000 Death Benefit**
   The $150,000 lump-sum death benefit paid to survivors of public employees who die in the line of duty is not adjusted for inflation.

3. **Interruptive Military Service Credit**
   Members whose public employment is interrupted by military service are required to pay member contributions in order to purchase service credit.

4. **Military Service Death Benefit**
   Beneficiaries of members who die while serving on active duty with the United States Military do not qualify for duty related death benefits.

5. **Purchase of Annuity**
   Members are limited in the amount of money they can convert to a defined benefit by the amount required to purchase 5 years of service.

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) 943-3030 or pres@wscff.org.

Thank you for your consideration and we look forward to working with you.

Sincerely,

Kelly Fox, Chair

cc: Matt Smith, State Actuary