# Pre-LEOFF Survivor Benefits

## Description Of Issue

The ability of some spouses to collect survivor benefits in the Firemen's Relief and Pension Plans (FRP) is restricted. Some spouses do not qualify for survivor benefits from the plan, and survivor benefits for certain other spouses are stopped upon remarriage.

Stakeholders are proposing two changes:

- ❖ Continue paying survivor benefits when a surviving spouse remarries.
- ❖ Provide a new, member-paid survivor benefit option for spouses who are otherwise ineligible to receive a survivor benefit from the plan.

The FRP covered fire fighters prior to the creation of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System in 1970. There are no active members remaining in the FRP plan. It is unknown how many retired members or survivors would be impacted by these proposals since the plan is not administered by the state.

## Policy Highlights

- ❖ The proposed changes are consistent with earlier changes in LEOFF.
- ❖ There is also a pre-LEOFF police system with provisions for surviving spouses similar to those currently in the FRP.
- ❖ Policy makers may take different views on this issue depending on whether benefits are member-paid or offered at no additional cost to the member.
- ❖ Not providing survivor pensions may raise broader public policy concerns around
    - o financially supporting spouses, and
    - o benefit designs that may discourage marriage.

## Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session implementing the proposed changes (HB 3020/SB 6650). The 2008 SCPP bill did not pass the Legislature, but did pass the House and the Senate Committee on Ways and Means.

The Committee held a public hearing and took executive action on this issue in December of 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 session.

## Recommendation To 2009 Legislature

Provide a new, member-paid survivor benefit option for spouses who are ineligible to receive a survivor benefit from the plan, and continue paying survivor benefits when a surviving spouse remarries.

## Staff Contact

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# Pre-LEOFF Survivor Benefits

## In Brief

### ISSUE

*Stakeholders are proposing two changes to survivor benefits provided in the pre-LEOFF Firemen's Relief and Pension Plans (FRP).*

*Stakeholders are requesting that survivor pensions not stop when a surviving spouse remarries.*

*Stakeholders are also requesting that members be allowed to provide a survivor annuity to a spouse who is otherwise ineligible to receive one. This annuity would be provided at member cost.*

### MEMBER IMPACT

*There are no active members remaining in the FRP plan. It is unknown how many retired members or survivors would be impacted by these proposals since the plan is not administered by the State.*

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## Current Situation

**Stakeholder Proposals**

Stakeholders are proposing two changes to survivor benefits provided in the Firemen's Relief and Pension Plans:

- Continue paying survivor benefits when a surviving spouse remarries.
- Provide a new, member-paid survivor benefit option for spouses not eligible for a benefit from the plan.

Stakeholders have requested that the new survivor benefit option be modeled after an option currently provided in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The option would allow members to provide an actuarially equivalent survivor annuity to a spouse who is otherwise ineligible for a survivor annuity. Members electing this new option would have their pensions actuarially reduced to pay the cost of providing the survivor annuity. The actuarial reduction would be removed if the spouse predeceases the member.

**Background**

The FRP covered fire fighters prior to the creation of LEOFF. The plan provides retirement, disability, and survivor benefits for paid members of a fire department who were actively employed as a fire fighter or a fire dispatcher prior to March 1, 1970. The plan closed to new members on March 1, 1970, and all active members were transferred to LEOFF. The plan is administered by local governments for remaining members, and benefits are paid out of local government funds.

Benefits in the plan are funded through a property tax levy and a portion of fire insurance premium taxes. Each municipality may levy property taxes of up to 45 cents per $1,000 of assessed value against all taxable property to support the FRP. If all or a portion of the property tax is not necessary to maintain the FRP, the taxes may be reduced or used for any other municipal purpose. Additionally, the State distributes 25 percent of the tax collected on fire insurance premiums to support the FRP. Each eligible city, town, or fire protection district receives its share of the premium taxes based on their current number of active fire fighters.

Currently, FRP provides different survivor benefits depending on the circumstances of the member's death. The surviving spouse of a member who is killed in the line of duty receives a survivor pension of 50 percent of the member's basic salary. The surviving spouse of a member who dies while retired for service or for a duty-related disability continues to receive the member's benefit. The surviving spouse of a member who dies from a disability not related to duty receives a survivor pension of one-third of the member's basic salary with additional amounts provided for each child. If there is no surviving spouse, the pension that would otherwise have been payable to the spouse is divided among the eligible children in equal shares. Survivor benefits are provided at no additional cost to the member.

*Some spouses are not eligible to receive survivor benefits from the plan.*

In order to qualify for survivor benefits, a surviving spouse must have been married to the member at the time of the member’s death in the line of duty or retirement for disability, or married five years prior to the member’s retirement for service.

The survivor benefit paid to a surviving spouse of a member who died in the line of duty or was retired for disability is stopped if the spouse remarries. In contrast, the survivor benefit paid to the surviving spouse of a member retired for service continues even if the spouse remarries. Survivor benefits paid to child survivors cease when the child attains the age of eighteen or is married.

## History

### Survivor Benefits In LEOFF

*The changes stakeholders are proposing for FRP are similar to changes that have been made in the LEOFF system.*

The changes stakeholders are proposing for FRP are similar to changes that have been made in the LEOFF system.

Initially, survivor benefits payable to surviving spouses in LEOFF Plan 1 were stopped if the spouse remarried. Over time, the plan was amended so that benefits payable to surviving spouses continued even if the spouse remarried. The plan was further amended in 2002 to allow members to provide an actuarially equivalent survivor annuity to a spouse otherwise ineligible for a survivor annuity from the plan. The cost of the new survivor benefit was paid for by members electing it. Members who were already married to an ineligible spouse were given a one-year window to designate their spouse as a beneficiary for the new survivor benefit option.

### The SCPP Has Recommended Bills On This Issue

The SCPP studied this issue in 2007 and recommended a bill in the 2008 Session implementing the stakeholders' proposed changes. See below for more details concerning the SCPP legislation.

### Bills Have Been Introduced In Two Sessions

In 2007, non-SCPP legislation was introduced that would have addressed one of the stakeholder proposals regarding survivor pensions in the FRP. HB 1824 would have removed provisions in the FRP that stop the survivor pension for certain spouses who remarry. The bill did not address the other stakeholder proposal concerning a new survivor benefit option. The bill passed the House, but did not receive a hearing in the Senate.

*The SCPP introduced legislation on this issue in 2008.*

In 2008, the SCPP introduced a bill that would have implemented both of the stakeholders' proposed changes (HB 3020/SB 6650). The 2008 SCPP bill did not pass the Legislature, but did pass the House and the Senate Committee on Ways and Means.

## Examples

### Remarriage Of Surviving Spouse

Emma is the widow of a fire fighter who retired from the FRP for disability. Emma has been collecting a survivor pension for 20 years, and is currently receiving $3,000 per month. If Emma were to remarry, her survivor pension would be stopped. However, if Emma's husband had been retired for service, Emma would be able to remarry without having her survivor pension stopped.

**Ineligible Spouse – Post-Retirement Marriage**

Bill is a former fire fighter who retired for *disability* from the FRP 37 years ago. At the time of his retirement, Bill was not married. Five years after retiring, Bill married Becky. Because Becky was not married to Bill *at the time of his retirement*, she is not eligible for a survivor benefit from the plan.

**Ineligible Spouse – Married At Retirement**

John is a former fire fighter who retired for *service* from the FRP 37 years ago. Six months prior to his retirement, John was married to his current wife Joan. Because Joan was not married to John *one year prior to his retirement*, she is not eligible for a survivor benefit from the plan

## Policy Analysis

**Other Washington Plans**

The majority of fire fighters in Washington State are covered by the LEOFF system, and this paper will use the LEOFF system as the basis for comparison.

The first stakeholder proposal relates to the remarriage of surviving spouses. In both plans of the LEOFF system, survivor pensions do not cease when a surviving spouse remarries -- regardless of whether the survivor benefit was paid for by the member or provided at no additional cost to the member.

*Surviving spouses in the LEOFF system may generally qualify for a member-paid survivor pension regardless of when or how long they were married to the member. Pensions are not stopped even if the spouse remarries.*

The second stakeholder proposal relates to the eligibility of a spouse to qualify for a survivor pension. Here, the approach taken by the plans differs depending on whether the survivor benefit is paid for by the member or provided at no additional member cost.

In LEOFF 1, a surviving spouse must be married to the member one year prior to retirement for service to qualify for a survivor benefit at no member cost. LEOFF 1 also provides an additional member-paid survivor benefit option for spouses not otherwise eligible for the free survivor annuity (including post-retirement spouses).

LEOFF 2 generally provides survivor benefits at member cost and does not generally limit the ability of a spouse to receive a benefit based on when or how long they were married to the member (including post-retirement spouses).

In both plans of the LEOFF system, member-paid survivor benefits are administered by means of an actuarial reduction to the member's pension. Both plans have provisions to restore the member's pension to the unreduced amount if the spouse predeceases the member -- commonly referred to as a "pop-up" provision.

*There is also a pre-LEOFF police system with provisions for surviving spouses similar to the FRP.*

There also exists a pre-LEOFF Police Relief and Pensions (PRP) system that has provisions similar to the FRP in regards to survivor benefits for spouses. The PRP closed to new members on March 1, 1970, and all active members were transferred to LEOFF. Like the FRP, the plan is administered by local governments for remaining members, and benefits are paid out of local government funds. As in the FRP, survivor pensions paid to surviving spouses are stopped if the spouse remarries, and a spouse must be married five years prior to the member's retirement for service to qualify for survivor benefits. The PRP also provides a $300 per month pension for a surviving spouse who is otherwise ineligible for a survivor pension.

**Other States**

An examination of how plans covering fire fighters in Washington's comparative states handle spousal eligibility for survivor pensions and the remarriage of surviving spouses is relevant to the discussion of this issue.

*Other states generally provide options for most spouses to receive a survivor pension and do not stop such pensions if the survivor remarries.*

Research conducted in 2007 showed that Washington's comparative states generally provide survivor benefits at member-cost. These states do not have length of marriage requirements for a spouse of a service retiree to be eligible for a member-paid survivor annuity. The majority of other states also allow members some opportunity to designate a post-retirement spouse for a survivor benefit, and "Pop-up" provisions are common.

In addition to member-paid benefits, California also offers an employer-provided (at no member cost) survivor annuity benefit. The spouse must have been married at least one year prior to the member's retirement to qualify for the employer-provided annuity.

Plans covering fire fighters in Washington's comparative states do not stop a survivor pension if the surviving spouse remarried.

See **Appendix A** for more detailed information on survivor benefits in other states.

### Free Versus Member-Paid Benefits

*Policy makers may take different views depending on whether benefits are member-paid or offered at no additional cost to the member.*

The two stakeholder proposals on FRP survivor benefits generally address the ability of a spouse to qualify for a survivor pension from the plan. Policy makers may take different views on this issue depending on whether benefits are member-paid or offered at no additional cost to the member.

When survivor benefits are paid for entirely by the member, they may be viewed more along the lines of providing member flexibility in payment options. There may be little perceived need to place restrictions on who may qualify for such benefits since the cost is entirely born by the member. When survivor benefits are paid for by the member, there is little reason from both a plan design and public policy perspective to either limit a spouse's ability to receive a survivor benefit or to stop survivor benefits if a surviving spouse remarries.

*When survivor benefits are provided free to the member, there may be greater reason to limit who qualifies.*

In contrast, survivor benefits that are provided free to the member may be viewed more along the lines of a public benefit. In such cases, policy makers may wish to place restrictions on who qualifies for such benefits and limit the circumstances under which the benefits are paid. Such restrictions may serve many purposes such as:

- Lowering the cost of providing survivor benefits.
- Directing benefit dollars to recipients with the greatest perceived need.
- Preventing perceived abuse.

For example, policy makers may require a spouse to be married to the member for a certain number of years prior to the member's retirement or death. Such a restriction may serve to ensure survivor benefits are going to spouses who were married to the member for some portion of their public career. It may also serve to prevent "death-bed" marriages—where a member who has a short time to live marries simply to provide the free survivor benefit to someone.

Policy makers may also choose to stop survivor benefits when a surviving spouse remarries. Such a restriction may serve to prevent a spouse from collecting more than one survivor benefit from the plan if they remarry another plan member. It may also serve to direct survivor pension dollars to those surviving spouses who do not have access to income from another marriage.

*Some restrictions may run counter to broader public policy concerns.*

While there are reasons from a plan design perspective to restrict the ability of a spouse to collect a survivor pension, some restrictions may run counter to broader public policy concerns. Restrictions related to the length and timing of marriage may result in a member not being able to provide a survivor annuity for a spouse of many years. Restrictions related to collecting survivor pensions after remarriage may serve as a disincentive for a surviving spouse to ever remarry. For those spouses who do remarry, the loss of a survivor pension may create financial difficulty—particularly if the pension had been collected and relied upon for many years.

**Cost Implications**

The two stakeholder proposals relating to FRP survivor benefits have very different cost implications. Continuing survivor pension payments that would otherwise be stopped upon the remarriage of the surviving spouse has a direct cost to the plan. Because the FRP has been closed for many years and there are no longer any active members, such additional costs cannot be funded over the working lifetime of plan members. It is unknown whether the tax revenue currently allocated to pay the benefits of the plan is sufficient to cover the cost of any additional benefit improvements.

Providing members a new actuarially equivalent survivor benefit option for otherwise ineligible spouses has no cost to the plan—the benefit is entirely paid for by the member. However, implementing such an option may generate administrative costs for the various local governments that still pay FRP benefits. Plan administrators may need to consult with actuaries or other experts to develop the new survivor option.

The total cost of the stakeholder proposals relating to FRP survivor benefits is indeterminate at this time due to lack of available data (see attached fiscal note). The plan is administered by local boards and there is no State oversight or centralized reporting. The cost of the proposals would be entirely born by the local governments paying the benefits. SCPP members may wish to consider whether the policy concerns warrant advancing a legislative proposal with an unknown cost.

*Members may wish to consider if policy concerns warrant advancing a legislative proposal with an unknown cost.*

## Conclusion

Stakeholders have made two proposals regarding survivor benefits in the FRP. Both of the proposals generally address the ability of a spouse to collect a survivor pension from the plan. One proposal is to continue paying survivor pensions when a surviving spouse remarries. This proposal has a cost that is indeterminate at the present time due to insufficient data. The other proposal is to provide a new member-paid survivor benefit option for an otherwise ineligible spouse. This proposal has no cost to the plan. Both proposals are consistent with current practice in the LEOFF system.

## Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 Session implementing the proposed changes (HB 3020/SB 6650). The 2008 SCPP bill did not pass the Legislature, but did pass the House and the Senate Committee on Ways and Means.

The Committee held a public hearing and took executive action on this issue in December of 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 Session.

## Executive Committee Recommendation

None.

## Recommendation To 2009 Legislature

Provide a new, member-paid survivor benefit option for spouses who are ineligible to receive a survivor benefit from the plan, and continue paying survivor benefits when a surviving spouse remarries. Recommended December 16, 2008.

## Bill Draft

A Code Reviser bill draft to implement the SCPP recommendation is attached (Z-0401.1/09).

## Draft Fiscal Note

Attached.

**Stakeholder Input**

*Four items regarding this issue are on file with OSA.*

## Stakeholder Input

The following correspondence is on file with the Office of the State Actuary.

| Correspondent | Affiliation | Date |
|---|---|---|
| Richard Warbrouk | President, RFFOW | 09/25/2008 |
| Harold Kershner | | 11/24/2008 |
| Gail Swan | | 12/12/2008 |
| Joseph Burns | | 12/23/2008 |

# Supporting Information

## Appendix A

| Plans Covering Fire Fighters in Other States | | | | |
|---|---|---|---|---|
| **State** | **Survivor Benefit Ceases on Remarriage** | **Restrictions on Eligible Spouse for Service Retirement Survivor Benefit** | **May Designate a Post-Retirement Spouse for Survivor Benefits** | **Pop-Up** |
| California | | | | |
| *Employer-Provided* | No | Married 1 year prior | No | |
| *Member-Paid* | No | No | Yes | Yes |
| Iowa | No | No | Yes | Yes |
| Missouri | No | No | No | Yes |
| Ohio | No | No | Yes | Not specified |
| Colorado | No | No | Yes | Yes |
| Florida | No | No | Yes | Not specified |
| Idaho | No | No | Yes | Yes |
| Iowa | No | No | No | Yes |
| Minnesota | No | No | No | Yes |
| Oregon | No | No | Yes | Yes |
| Wisconsin | No | No | Yes | Yes |

*Data obtained from plan administrator websites, member handbooks, and other publications available online as of 11/26/2007.*

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**BILL REQUEST - CODE REVISER'S OFFICE**

BILL REQ. #: Z-0401.1/09

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Providing benefits for the survivors of certain firefighters.

AN ACT Relating to benefits for the survivors of certain firefighters; amending RCW 41.18.080 and 41.18.100; and adding a new section to chapter 41.18 RCW.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.18 RCW to read as follows:

(1) Any retired firefighter married to a spouse ineligible for survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 may choose an actuarially equivalent benefit adopted by the board that pays the retired firefighter a reduced retirement allowance, and upon death such portion of the retired firefighter's reduced retirement allowance as designated by the retired firefighter shall be continued throughout the life of the spouse.

(2) A retired firefighter who married a spouse ineligible for survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 prior to the effective date of this section has one year after the effective date of this section to designate their spouse as a survivor beneficiary.

(3) The benefit provided to a child survivor beneficiary under RCW 41.18.040, 41.18.080, and 41.18.100 shall not be affected or reduced by the retired firefighter's selection of the actuarially reduced spousal survivor benefit provided by this section, and shall be equivalent to the amount payable as if the choice under subsection (1) of this section was not made.

(4)(a) Any retired firefighter who chose to receive a reduced retirement allowance under subsection (1) of this section is entitled to receive a retirement allowance adjusted in accordance with (b) of this subsection if:

(i) The retiree's survivor spouse designated in subsection (1) of this section predeceases the retiree; and

(ii) The retiree provides to the board proper proof of the designated beneficiary's death.

(b) The retirement allowance payable to the retiree from the beginning of the month following the date of the beneficiary's death shall be the current monthly amount payable as if the selection under subsection (1) of this section was not made.

**Sec. 2.** RCW 41.18.080 and 2007 c 218 s 49 are each amended to read as follows:

Any firefighter who has completed his or her probationary period and has been permanently appointed, and sustains a disability not in the performance of his or her duty which renders him or her unable to continue his or her service, may request to be retired by filing a written request with his or her retirement board within sixty days from the date of his or her disability. The board may, upon such request being filed, consult such medical advice as it deems fit and proper. If the board finds the firefighter capable of performing his or her duties, it may refuse to recommend retirement and order the firefighter back to duty. If no request for retirement has been received after the expiration of sixty days from the date of his or her disability, the board may recommend retirement of the firefighter. The board shall give the firefighter a thirty-day written notice of its recommendation, and he or she shall be retired upon expiration of said notice. Upon retirement he or she shall receive a pension equal to fifty percent of his or her basic salary. For a period of ninety days following such disability the firefighter shall receive an allowance from the fund equal to his or her basic salary. He or she shall during said ninety days be provided with such medical, hospital, and nursing care as the board deems proper. No funds shall be expended for such disability if the board determines that the firefighter was gainfully employed or engaged for compensation in other than fire department duty when the disability occurred, or if such disability was the result of dissipation or abuse. Whenever any firefighter shall die as a result of a disability sustained not in the line of duty, his widow or her widower shall receive a monthly pension equal to one-third of his or her basic salary ((~~until remarried~~)); if such widow or widower has dependent upon her or him for support a child or children of such deceased firefighter, he or she shall receive an additional pension as follows: One child, one-eighth of the deceased's basic salary; two children, one-seventh; three or more children, one-sixth. If there be no widow or widower, monthly payments equal to one-third of the deceased firefighter's basic salary shall be made to his or her child or children. The widow or widower may elect at any time in writing to receive a cash settlement, and if the board after hearing finds it financially beneficial to the pension fund, he or she may receive the sum of five thousand dollars cash in lieu of all future monthly pension payments, and other benefits, including benefits to any child and/or children.

**Sec. 3.** RCW 41.18.100 and 2007 c 218 s 51 are each amended to read as follows:

In the event a firefighter is killed in the performance of duty, or in the event a firefighter retired on account of service connected disability shall die from any cause, his widow or her widower shall receive a monthly pension under one of the following applicable provisions: (1) If a firefighter is killed in the line of duty his widow or her widower shall receive a monthly pension equal to fifty percent of his or her basic salary at the time of his or her death; (2) if a firefighter who has retired on account of a service connected disability dies, his widow or her widower shall receive a monthly pension equal to the amount of the monthly pension such retired firefighter was receiving at the time of his or her death. If she or he at any time so elects in writing and the board after hearing finds it to be financially beneficial to the pension fund, he or she may receive in lieu of all future monthly pension and other benefits, including benefits to child or children, the sum of five thousand dollars in cash. If there be no widow or widower at the time of such firefighter's death or upon the widow's or widower's death the monthly pension benefits ((~~hereinabove~~)) provided for under this section shall be paid to and divided among his or her child or children share and share alike, until they reach the age of eighteen or are married, whichever occurs first. ((~~The widow's or widower's monthly pension benefit, including increased benefits to his or her children shall cease if and when he or she remarries: PROVIDED, That no~~)) A pension payable under the provisions of this section shall not be less than that specified under RCW 41.18.200.

**--- END ---**

# DRAFT
# ACTUARY'S FISCAL NOTE

| RESPONDING AGENCY: | CODE: | DATE: | PROPOSAL [NAME or Z-NUMBER]: |
|---|---|---|---|
| **Office of the State Actuary** | **035** | **12/31/08** | **Z0401.1 / Z-0402.1** |

## 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 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 impacts the Firemen's Relief and Pensions (FRP) Plans (1955 Act) by providing a new survivor benefit option and allowing certain survivor benefits to continue if the survivor remarries.

The cost for this proposal is indeterminate as we do not have any data to perform a sufficient analysis.

## WHAT IS THE PROPOSED CHANGE?

### Summary Of Benefit Improvement

This proposal impacts the FRP Plans (1955 Act).

This proposal will create a new actuarially equivalent survivor benefit for spouses who are otherwise ineligible to receive ongoing survivor benefits under the plan. If a member who is married to an ineligible spouse elects this option, the member's retirement allowance will be actuarially reduced. Then, upon the death of the member, the reduced retirement allowance will continue throughout the life of the spouse. The selection of this survivor option will not affect any payments due to child beneficiaries. Members married to an ineligible spouse prior to the effective date of this proposal will have one year from the effective date of this proposal to designate their spouse as a survivor beneficiary. This new survivor option also provides a “pop-up” provision in the event the designated spouse predeceases the member. This provision would increase the amount of the member’s retirement allowance to the amount the member would have received had the member not selected the option.

This proposal also allows survivor benefits, for members who retired on disability or who died in the line of duty, to continue if the survivor remarries.

Assumed Effective Date: 90 days after session.

**What Is The Current Situation?**

The FRP Plans (1955 Act) provides retirement, disability, and survivor benefits for paid members of a fire department who are actively employed as a fire fighter or a fire dispatcher. The plan closed to new members on March 1, 1970, and the majority of members transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The plan is administered by local governments with benefits paid out of local government funds.

Currently, the plan provides different survivor benefits depending on the circumstances of the member's death. The surviving spouse of a member who is killed in the line of duty receives a survivor pension of fifty percent of the member's basic salary. The surviving spouse of a member who dies while retired for service or for a duty-related disability continues to receive the member's benefit. The surviving spouse of a member who dies from a disability not related to duty receives a survivor pension of one-third of the member's basic salary with additional amounts provided for each child. If there is no surviving spouse, the pension that would otherwise have been payable to the spouse is divided among the eligible children in equal shares.

In order to qualify for survivor benefits, a surviving spouse must have been married to the member at the time of the member’s death in service or disability, or married five years prior to the member’s retirement for service. The survivor benefit paid to a surviving spouse of a member retired for service continues even if the spouse remarries, while in all other cases, the survivor benefits stop if the spouse remarries. Survivor benefits paid to child survivors cease when the child marries or attains the age of eighteen.

**Who Is Impacted And How?**

We do not have any data to determine the number of members impacted by this bill.

## WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

### Why This Proposal Has A Cost

Some intrinsic costs exist when offering an actuarially equivalent survivor benefit because local governments will have to administer this additional benefit and possibly obtain actuarial services to calculate the actuarially equivalent values.

The cost to continue a survivor pension when the survivor remarries equals the cost of a benefit continuing when otherwise it would have stopped under the current terms of the plan.

### Who Will Pay For These Costs

Local governments administer the FRP Plan with benefits and administrative costs paid out of local funds. The benefit improvements do not impact the LEOFF Plans or any other State retirement plans.

## HOW WE VALUED THESE COSTS

The provision of an actuarially equivalent survivor benefit for spouses who are otherwise ineligible is cost neutral as far as the benefit provision itself. An actuarially equivalent benefit has the same present value as the benefit it replaces.

The cost to continue a survivor pension when the survivor remarries is essentially the "loss of savings" to the fund that would have occurred without this provision. We do not have any data to support a fiscal cost determination for this part of the proposal.

Based on information provided in HB 3020 during the 2008 Legislative Session, The City of Seattle, with the largest FRP membership, assumes that no surviving spouse will remarry when budgeting for the Plan. They also report that the number of surviving spouses who remarry is very small. This suggests that the impact of this part of the proposal is a small "loss of savings" to the Plan's fund. If, however, this provision was made retroactive, the cost to provide this benefit back many years, plus the administrative work to find the impacted surviving spouses, could be significant.

## ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. This draft fiscal note has been prepared for the Select Committee on Pension Policy.
2. 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 1 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

## 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.