

**Select Committee on Pension Policy**



**TRS 1 Survivor Benefit Payment Options**

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**What's The Issue?**

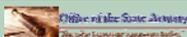
- TRS 1 members may withdraw their contributions at retirement and receive a reduced pension
  - PLOP
- Not available to TRS 1 survivors
- Stakeholders are asking that survivors be given access to the member PLOP



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## Key Policy Questions

- Should TRS 1 survivors be provided the PLOP?
- If so, should it be provided to
  - All qualified survivors?
  - Survivors of retirement-eligible members only?



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## Today's Briefing

- Background on PLOPs
- Policy views
  - Flexibility or consistency
- Policy considerations
  - Value
  - Retirement planning
  - Benefit adequacy
- Stakeholder proposal



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### How Does The TRS 1 PLOP Work?

- Available to members at retirement
- Members can withdraw all or part of their contributions plus interest
- Receive an actuarially reduced pension
  - Offsets pension funded by the withdrawn contributions

### Example of TRS 1 PLOP

Impact of PLOP on TRS 1 Monthly Pension		
Contributions Withdrawn	Monthly Pension*	Percent Reduction In Monthly Pension
\$0	\$3,750	0%
\$75,000	\$3,155	16%
\$150,000	\$2,560	32%

*Note: Age 60 retirement; 30 years of service; \$75,000 AFC; \$150,000 SF.*

*\*Excludes other optional adjustments or COLAs.*

## Flexibility Is The Value Added By The PLOP

- Essentially a cash advance on the retirement benefit
  - Doesn't change the total expected financial value
  - Impacts timing
- Provides members flexibility in benefit payments
- Members pay for that flexibility



## Survivors Do Not Have Access To The PLOP

- Qualified survivors can choose *between*
  - Survivor pension
  - Full refund of member contributions plus interest
    - All non-qualified survivors receive refund
- PLOP is not provided
- Survivors qualify for a survivor pension
  - Member is eligible to retire
  - Member has ten years of service
- Expect fewer than ten a year

## Other Washington Plans

- TRS 1 is the only Plan 1 or Plan 2 that offers a PLOP
- Plan 3 hybrid design similar to PLOP
  - Allows members to withdraw contributions and investment earnings from their DC accounts
  - Receive a employer-funded DB pension from the plan
    - DB pension accrues at half the rate of Plans 1 and 2 pensions



## Other States Divided On PLOPs

- Seven states do not provide a PLOP at all
  - CA, CO, FL, ID, IA, MN, WI
- Oregon and Missouri provide a PLOP to members only
- Ohio provides a PLOP to members and survivors
  - Qualified survivors of retirement-eligible members

*Note: Research for peer state plans covering teachers.*

## Two Basic Policy Views

- Flexibility
- Consistency
- Other policy considerations
  - Extent survivors are similarly situated with members
  - Impacts on retirement planning and benefit adequacy



## Some May View This As An Issue Of Flexibility

- PLOPs provide increased member flexibility at member cost
- Some policy makers may apply similar policy to survivors
  - “Increased survivor flexibility at survivor cost”
- Other policy makers may feel survivors don’t need the same benefit flexibility as members
- Survivors are given less benefit flexibility in WA plans
  - Can’t designate their own survivor
  - Can’t make certain optional benefit purchases

## Some May View This As An Issue Of Consistency

- State policy is for retirement systems to provide similar benefits wherever possible (RCW 41.50.005)
- Different views
  - Survivors are similar to members and should have similar benefits
  - Survivors are different from members and consistency is not an issue
- Key policy distinction for survivors
  - Different pension eligibility criteria than members
  - Which survivors are similarly situated with members?
    - All qualified survivors?
    - Qualified survivors of retirement-eligible members?



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## Goals Will Determine How Consistency Applied

- Policy Goal: Give all survivors who qualify for a pension access to the PLOP
  - All qualified survivors similarly situated
  - Consistency between survivors
- Policy Goal: Give survivors access to the PLOP only if the member had access
  - Survivors of retirement-eligible members similarly situated
  - Consistency between member and survivor



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## PLOPs Can Impact Retirement Planning

- Members can use money from a PLOP for
  - Paying down debt
  - Investing for future income
  - Personal consumption
- Retirement plans may be disrupted if a member
  - Plans on withdrawing contributions
  - Dies prior to retirement
  - Survivor can't access those funds



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## PLOPs May Raise Concerns About Benefit Adequacy

- PLOPs reduce lifetime income
  - Can cut monthly pension in half
- May increase risk that future income won't meet future needs
- Some may have reservations about providing survivors an option that could adversely impact benefit adequacy
- Others may feel that individuals are best able to determine their financial needs and risk tolerances
  - Live with the consequences



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## Stakeholder Proposal

- Allow survivors of TRS 1 retirement-eligible members access to the TRS 1 member PLOP
- Policy implications
  - Gives survivors access if member had access
  - Increases consistency between members and survivors
    - Views retirement-eligible-member survivors as similarly situated
  - Gives survivors increased benefit flexibility at their cost
  - Some survivors who qualify for a pension won't have access to the PLOP



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## Conclusion

- TRS 1 PLOP allows members to withdraw their contributions and receive a reduced pension
- Stakeholders are asking that survivors be given access to the member PLOP
- Can be viewed as an issue of flexibility or consistency
- Policy makers with either view will likely consider
  - Extent survivors are similarly situated with members
  - Impacts on retirement planning and benefit adequacy



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## Next Steps

- Take no further action
- Direct staff to develop legislation for possible executive action
  - Stakeholder proposal
  - Different proposal