Lump Sum Duty-Death Benefit

Issue

Stakeholders have asked the SCPP to revisit the issue of increasing the lump sum duty-death benefit for general public employees and consider making a recommendation to the 2011 Legislature.

Background

The state-administered retirement systems provide a lump sum death benefit for public employees who die as a result of a duty-related injury or illness. The amount of the benefit is $150,000 for general public employees and $214,000* for police officers (including troopers) and fire fighters. The amount for police and fire automatically increases for inflation, while the amount for general public employees does not automatically increase and has not changed since it was first provided in 1999.

**Excluding automatic adjustments for inflation.*

Committee/Legislative Activity

During the 2009 Legislative Session, the SCPP recommended increasing the amount of the benefit to $175,000 for all public employees. The bill did not pass the Legislature: it passed the House (HB 1547), but not Senate.

In 2010 the Legislature passed EHB 2519, a non-SCPP bill that improved death benefits for police officers and fire fighters. Among other things, the bill increased the lump sum duty-death benefit to $214,000 and provided for automatic increases in the amount for future inflation. These changes applied retroactively to duty-related deaths occurring since January 1, 2009.

Also during the 2010 Session, the House revived the 2009 SCPP bill (EHB 1547). The bill was amended to increase the amount of the benefit for general public employees to $214,000 and made retroactive to January 1, 2009. The amended bill did not include automatic increases for future inflation. The amended bill did not pass the Legislature: it passed the House (2EHB 1547), but was not heard in the Senate.

In November 2010 the Executive Committee directed staff to bring a bill draft increasing the lump sum duty-death benefit for general public employees for a public hearing. The Executive Committee further directed staff to ensure the amount of the benefit increase would not result in an immediate contribution rate increase.

Policy Considerations

- The value of the lump sum duty-death benefit for general public employees has declined by over 30 percent since it was first provided.
- Police officers and fire fighters receive a higher lump sum duty-death benefit than general public employees.
- Key policy questions:
  - Is the current amount of the lump sum duty-death benefit for general public employees adequate?
  - If not, should the benefit be adjusted for inflation, set equal to the amount provided for police officers and fire fighters, or set to some other amount?

What Is The Next Step?

A public hearing with possible executive session is scheduled for the December meeting on a bill draft increasing the amount of the lump sum duty-death benefit for general public employees to $214,000.

Materials

- Executive Summary.
- Handout comparing duty-death benefits for policy & fire and general public employees.
- 2008 Issue Paper (without attachments).
- Stakeholder correspondence from:
  - John Kvamme, WASA & AWSP, May 20, 2010.
  - Ester Wilfong, Gordon Irle, and Leslie Main, WSSRA, August 4, 2010.
- Bill draft increasing the benefit amount to $214,000 prospectively.
- Draft fiscal note.

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Comparison Of Duty-Death Benefits

Introduction

The following tables compare duty-related death benefits for police officers and fire fighters with duty-related death benefits provided for generall public employees. The tables show benefits provided from the state's retirement systems, other state sources, and federal sources. Separate tables are provided for lump sum duty-death benefits and other types of benefits including survivor annuities.

Lump Sum Duty-Death Benefits		
Benefit	**Police & Fire**	**General**
Retirement Systems		
Statutory Amount	$214,000	$150,000
Automatic Increase	Yes	No
Workers' Compensation	$12,000[1]	$12,000[1]
Federal PSOB[2]	$318,000[1]	

[1] *As of December 2010.*

[2] *Public Safety Officers' Benefits program. Also available to corrections and other public safety officers.*

Duty-Death Survivor Annuities And Other Benefits[1]		
Benefit	**Police & Fire**	**General**
DRS Survivor Annuities		
Unreduced	X	Partial
Waive Minimum Service	X	
10 Percent AFC Minimum	X	
Workers' Compensation		
Survivor Annuities	X	X
Improved Cash-Out	X	
Other		
Reimburse Survivor Health Care Premiums	X	
Tuition Waiver/Reimbursement[2]	X	

[1] *As of December 2010.*

[2] *Police officers, fire fighters, corrections and other public safety officers may qualify for Federal PSOB reimbursement of education expenses.*

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$150,000 Death Benefit

In Brief

ISSUE

The retirement systems provide a $150,000 death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount has not changed since 1996.

The LEOFF 2 Board asked the SCPP to consider adjusting the amount of this benefit for past inflation and adding an automatic COLA to address future inflation.

The SCPP twice recommended legislation that would have applied an automatic COLA to the death benefit. The COLA provisions did not pass the Legislature.

MEMBER IMPACT

*Actuaries expect fewer than 13 duty-deaths each year from a group of over 290,000 public employees.**

**As of June 30, 2007.*

This report appeared in the 2008 Interim Issues Report, and was presented to the SCPP on December 15, 2009. It has not been updated.

Current Situation

The retirement systems provide a $150,000 lump sum (or one-time) death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount is set in statute and has not changed since the benefit was first established in 1996. The benefit is not subject to federal income tax.

The benefit is available to members of all state retirement systems*. Determination of eligibility is made by the Department of Labor and Industries (L&I).

The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board asked the SCPP to consider adjusting the amount of this benefit for past inflation and adding an automatic Cost-Of-Living-Adjustment (COLA) to address future inflation.

**Also state, school district, and higher education employees who are not members of a state retirement system; paid from the state general fund.*

History

History Of The $150,000 Death Benefit

The $150,000 death benefit was first established in the LEOFF and the Washington State Patrol Retirement System (WSPRS) in 1996. The benefit was subsequently extended to various other groups of public employees over a period of several years. See **Appendix A** for a legislative history of the benefit.

Fifty-four $150,000 death benefits have been paid out since the benefit was first established—the majority being paid for LEOFF members (see **Figure 1**).

Figure 1

Number of $150,000 Death Benefits Paid*	
System	**Benefits Paid**
LEOFF	32
PERS	14
VFF	2
TRS	1
SERS	1
WSPRS	1
Unknown (paid from general fund)	3
Total	**54**

**As of 9/25/2008. Length of reporting period varies among systems.*

SCPP Has Recommended Death Benefit Bills

The SCPP studied this issue in coordination with the LEOFF 2 Board in 2006 and 2007. The Committee recommended legislation in the 2007 and 2008 Sessions that would have applied an automatic COLA to the death benefit. The COLA provisions did not pass the Legislature. See below for more details concerning the SCPP legislation.

The Legislature Has Rejected Death Benefit COLAs

Bills with provisions that would have automatically increased the amount of the $150,000 death benefit for inflation were introduced in the past three legislative sessions. None of the bills passed the Legislature with the COLA provisions intact.

Bills that would have automatically increased the amount of the $150,000 death benefit for inflation were introduced in the past three legislative sessions.

2006 Session

HB 2933/SB 6724 dealt with the death benefit for LEOFF Plan 2. The bill expanded eligibility and provided an automatic COLA on the benefit amount. The proposed COLA would have annually increased the amount of the death benefit based on cumulative changes in the Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB), up to a maximum of 3 percent per year. This is the same increase provided for pensions in the Plans 2/3 retirement systems. The COLA was removed before the bill passed the Legislature.

2007 Session

HB 1266/SB 5177, an SCPP bill, made similar changes to the death benefit as the 2006 bill except it applied to all plans. The COLA was removed from the House bill in the Appropriations Committee, but was retained in the Senate version of the bill that passed Ways and Means. The House version of the bill, without the COLA, ultimately passed the Legislature.

2008 Session

HB 3026/SB 6664, another SCPP bill, contained the same COLA provisions as introduced in the earlier legislation. The bill was heard in the Senate Ways and Means Committee and received no hearing in the House.

Comparisons

Other Death Benefits Provided

The $150,000 death benefit is one of many death benefits that are provided for members*. Others include:

Many death benefits are provided for members.

- Survivor and death benefits from the retirement plan.
- L&I death benefits.
- Social Security survivor benefits.
- Federal public safety officer's death benefits.
- Reimbursement of premiums paid to the Health Care Authority.

A detailed list of the various death benefits provided is contained in **Appendix B**. Among these, the most significant other lump sum death benefit provided is the federal Public Safety Officers' Benefits Death Benefit. This benefit ($315,746 in 2008) is payable to survivors of law enforcement officers, fire fighters, and other public safety personnel who die in the line of duty. The benefit is annually adjusted for inflation.

**Employer provided life insurance is beyond the scope of this paper and is not considered among the death benefits provided.*

Death Benefits In Comparative Systems

Most of Washington's comparative systems provide survivor annuities similar to those in Washington's retirement systems. The annuities are generally based on the member's earned benefit or some percentage of the member's salary.

Five of Washington's comparative systems also provide some type of lump sum death benefit (see **Figure 2**). The three systems (California, Idaho, and Iowa) that provide fixed-dollar lump sum benefits similar to Washington do not automatically increase the benefit amount for inflation. Three systems (Colorado, Idaho, and Wisconsin) provide a lump sum based on the member's contributions. Since contributions are based on salaries, and salaries grow with inflation, contribution-based lump sums effectively have built-in inflation adjustments. One system (California) provides a lump sum that is "periodically adjusted." Idaho and Iowa provide an enhanced return of contributions and a special duty-related lump sum death benefit for public safety employees.

Figure 2

Lump Sum Death Benefits in Comparative Systems*

System	Benefit Amount	COLA
California CALSTRS	$24,652	Periodically adjusted.
Colorado PERA	200% Return Of Contributions plus interest (ROC).	None.
Idaho PERSI	200% ROC. Also $100,000 for police and firefighters killed in line of duty.	None.
Iowa IPERS	100% ROC plus additional amount based on salary and service. Also $100,000 for public safety officer killed in line of duty.	None.
Wisconsin WRS	200% ROC.	None.

**Source: Member handbooks published on system administrator's web sites as of 10/08/2008.*

Policy Analysis

This Issue Raises Two Basic Policy Questions

The issue of whether or not to adjust the $150,000 death benefit for inflation raises two basic policy questions:

- Is the current amount of the death benefit sufficient, or should it be increased for past inflation?
- Should the death benefit be protected against future inflation?

The way policy makers respond will likely depend upon three key factors.

The way policy makers respond to these questions will likely depend upon three key factors:

- How they choose to apply policy on inflation protection to the death benefit.
- How they view the purpose of the death benefit.
- How much control they wish to keep over the death benefit.

The rest of this paper will explore these and other factors that policy makers may consider in addressing this issue.

Inflation Erodes The Relative Value Of The Death Benefit

The value of the death benefit has declined 27 percent since 1996.

Inflation erodes the relative value of a fixed dollar amount over time. The $150,000 death benefit was first established in 1996. The cumulative effect of inflation since then has eroded 27 percent* of the relative value of the benefit. Put another way, the amount of the death benefit would need to be increased to $205,000 to provide the same level of purchasing power that it did in1996. Absent any adjustment, inflation will continue to erode the value of the death benefit in the future.

**Based on the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB), all Items.*

The State's Policy On Inflation Protection For Pensions

State policy on protecting retirement benefits from inflation can be found in existing policy statements and further inferred from plan design. The SCPP has adopted as a stated goal ". . . to increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS. . . ." The Plans 2/3 of the state's retirement systems, the most recently created tiers, provide an annual COLA on retirement pensions. The Plans 2/3 COLA is based on inflation as measured by changes in a Consumer Price Index (CPI). The inclusion of this COLA in the Plans 2/3 design indicates a clear desire to protect retirement pensions from the effects of inflation.

Policies on inflation protection were not necessarily designed for lump sum benefits.

These policies around inflation protection were designed to apply to ongoing *pension* benefits and not necessarily one-time *lump sum* benefits. Policy makers may wish to consider to what extent, if any, inflation protection policies apply to non-pension benefits like the $150,000 death benefit.

COLAs For Pensions And Lump Sums Have Different Policy Implications

Why would the nature of the benefit matter when considering inflation protection policies? COLAs for ongoing pensions have different policy implications than COLAs for one-time lump sum benefits. One provides inflation protection, while the other provides equity across generations.

Providing a COLA for a pension or other annuity-type benefit provides inflation protection for an *individual's* income. The COLA helps maintain the relative value of the pension payments over time by offsetting the effects of inflation.

COLAs for lump sums maintain value among generations.

In contrast, providing a COLA for a lump sum benefit maintains the value of the benefit among successive *generations* of recipients. It ensures that later recipients are able to purchase the same amount of goods and services with the benefit that earlier recipients could. It does not provide inflation protection for an individual's income. Why not? A lump sum payment is only received once. It doesn't become part of the recipient's ongoing income stream and consequently doesn't lose its value (from the recipient's perspective) over time.

Lump Sum Death Benefits Are Less Likely To Have COLAs

Given the different policy implications of COLAs for annuities and lump sums, policy makers may wish to consider current practice in this area. **Figure 3** shows that death benefits for retirement system members paid in the form of a monthly annuity are more likely to have inflation protection than benefits paid in a lump sum. A detailed list of the various death benefits provided is contained in **Appendix B**.

Figure 3

Death Benefits Provided*			
Type	**Total**	**COLA**	**%COLA**
Annuity	9	7	78%
Lump Sum	7	3	43%

**Similar benefits in state retirement systems are considered a single type.*

In the preceding figure, the "Total" column shows the total number of benefits of each type (annuity or lump sum); the "COLA" column shows how many include an automatic COLA; and the "%COLA" column shows the percentage of annuity and lump sum benefits with an automatic COLA.

The Death Benefit Is Designed To Provide Temporary Assistance

A key policy consideration is the intended purpose of the benefit.

Policy makers may consider the purpose of the $150,000 death benefit in determining how to apply policy on inflation protection. Is the benefit intended to replace income and support an ongoing standard of living? Or, is the benefit intended to provide one-time relief for specific situations? The answers to these questions have implications for policy decisions.

The death benefit is a one-time payment that is not related to a member's salary. Recipients may do with the payment whatever they wish—including spending the entire amount at once. Given this design, it is unlikely that the benefit was intended to replace income and support an ongoing standard of living. Rather, it is more likely that the death benefit was primarily intended to provide temporary financial assistance following the death of a member.

The purpose of the benefit may affect how policy makers view this issue. From the perspective of policy makers, there may be less need to adjust for inflation a benefit that is transitional and does not serve to replace income or maintain an ongoing standard of living.

Policy Makers May Take An Insurance-Based Approach

The death benefit more closely resembles an insurance benefit than a pension.

The design and purpose of the $150,000 death benefit more closely resembles an insurance benefit than a traditional pension benefit. It is a one-time payment of a fixed-dollar amount that provides temporary financial assistance—much like term life insurance. Policy makers who view this as an insurance-type benefit may be inclined to take more of an insurance-based approach to this issue. An insurance approach would involve periodically reviewing the “policy” and adjusting the coverage amount based on the risks and needs at that time. Under this approach, the policy focus shifts away from COLAs and more towards the adequacy of the benefit provided.

Assessing The Adequacy Of The Death Benefit May Be Challenging

Policy makers may find it challenging to assess the adequacy of a benefit (like the $150,000 death benefit) that is not dedicated to a specific purpose. Since the value of the benefit can’t easily be measured against a specific outcome, assessments of adequacy will likely be highly subjective. Such assessments may involve considering how the $150,000 death benefit fits in with all the other death benefits provided—many of which are pension benefits that do have inflation protection. This could be a complex task given the number and variety of different death benefits provided, and the fact that survivors may qualify for multiple death benefits (see **Appendix B**).

Policy makers may assume the amount was adequate when the benefit was first enacted.

For the sake of simplicity, some policy makers may assume the amount was adequate when the benefit was first enacted in 1996. Under this assumption, all that is needed to ensure the adequacy of the benefit today is to adjust the amount of the benefit for past inflation.

Duty-Related Death Benefits May Impact Recruitment

When contemplating adjustments to the $150,000 death benefit, policy makers may also consider the purpose and adequacy of the benefit from an employer perspective. Duty-related death benefits may impact the ability of employers to recruit for high-risk occupations. The availability and generosity of such benefits may serve as an added inducement for employees considering such occupations. This would likely have the greatest impact for public safety employers. The fact that the $150,000 death benefit was first established for police and fire fighters (see **History**) may be indicative of a greater interest in duty-related death benefits by public safety groups.

Automatic And Ad-Hoc COLAs Can Be Equally Effective In Maintaining The Value Of Benefits

Policy makers who feel the $150,000 death benefit should be adjusted for inflation will likely consider how to adjust it. Most likely, this will involve some form of a COLA—since COLAs are a common and effective way to adjust benefits for inflation. There are two basic approaches to COLAs that policy makers may wish to consider: ad-hoc and automatic. The approach chosen has implications for how much control policy makers retain over the benefit.

Policy makers who want the most control will likely prefer an ad-hoc approach.

Ad-hoc COLAs are one-time increases. Ad-hoc COLAs are generally more backward-looking. They can be very effective at making up for past inflation, but usually do little to address future inflation. Ad-hoc COLAs can give policy makers the most flexibility in reacting to specific situations and in controlling costs. Policy makers who want to maintain the most control in adjusting benefits will likely prefer an ad-hoc approach.

Policy makers who want less involvement will likely prefer an automatic approach.

In contrast, automatic COLAs are ongoing increases and tend to be more forward-looking. Automatic COLAs can be very effective at protecting benefits against future inflation, but may do little to address lost purchasing power due to past inflation. Automatic COLAs may be preferred from the member viewpoint since they are ongoing and don't require continual action by policy makers. However, for the same reasons, it may be more difficult to fine-tune an automatic COLA for a specific situation. Policy makers who want less involvement in the process of adjusting benefits will likely prefer an automatic approach.

A common way of implementing automatic COLAs is to base the COLA on a measure of inflation such as the CPI. This process of linking a benefit to an underlying measure of inflation is known as *indexing*. Indexing is a direct and effective way to protect benefits against inflation. This is the method chosen by the SCPP in prior years when the Committee recommended applying an automatic COLA to the death benefit (see **History**). **Appendix C** contains a more complete discussion on the various ways to index a benefit.

Periodically granting ad-hoc COLAs can have much the same effect as an automatic COLA.

Ad-hoc COLAs can be as effective in maintaining the value of a benefit as automatic COLAs, depending on how they are administered. Periodically granting ad-hoc COLAs to make up for past inflation can have much the same effect as providing an automatic COLA. The main difference is that ad-hoc COLAs may occur less frequently than every year. When this happens, the benefit loses more value in the years between ad-hoc COLAs than it would lose under an automatic COLA. Given that both approaches can be equally effective in maintaining value, the approach taken will likely depend on how much control and involvement policy makers want in the process of adjusting benefits.

Conclusion

The issue of adjusting the $150,000 death benefit for inflation raises two basic policy questions. Is the current amount sufficient or should it be increased for past inflation? Should it be protected against future inflation?

How policy makers respond to these questions will likely depend upon three key factors:

- How they choose to apply policy on inflation protection to the death benefit.
- How they view the purpose of the death benefit.
- How much control they wish to keep over the death benefit.

Some policy makers may prefer to take an insurance-based approach to this issue rather than the COLA-based approach taken in the past.

Possible Options

Policy makers who feel the current amount of the death benefit is sufficient for its intended purpose will likely be inclined to take no further action at this time. Policy makers who feel the current death benefit should be adjusted for inflation may consider one of the options below.

Preliminary pricing for each of the policy options was provided at the November meeting.

Option 1: Provide A One-Time Adjustment For Past Inflation

This option restores the relative value to its original level.

This option would grant an ad-hoc COLA on the amount of the death benefit to make up for past inflation. The amount of the death benefit would be increased to $205,000.

This option would restore the relative value of the death benefit to its original level but wouldn't prevent future loss in value due to inflation.

Option 2: Provide An Automatic CPI-Based COLA

This option generally prevents further loss of value.

This option would apply an automatic CPI-based COLA to the death benefit. The COLA would be modeled after the COLA provided for pensions in the Plans 2/3. The amount of the death benefit would annually increase based on cumulative changes in the CPI-W, STB, up to a maximum of 3 percent per year. This is the approach that has been taken by the SCPP in the past and has been rejected by the Legislature (see **History**).

This option would generally not recover value already lost due to past inflation since the annual increases are capped at 3 percent. The 3 percent cap is a cost-control feature originally intended for pension benefits. It may be of limited value for a death benefit that is paid out infrequently. This option would generally prevent further loss of value due to inflation—while long-term inflation averages 3 percent or less. This approach requires policy makers to give up some control over the benefit amount, but may reduce the need to revisit this in the future.

Option 3: One-Time Adjustment And Automatic CPI-Based COLA

This option recovers lost value and generally prevents further loss.

This option combines the previous two options. It would increase the amount of the death benefit to $205,000 and apply an automatic CPI-based COLA on the new amount.

This option would recover all value lost to past inflation as well as generally prevent further loss of value due to inflation—while long-term inflation averages 3 percent or less. This option has the same policy implications regarding the cap on the automatic COLA as discussed under Option 2. This approach also requires policy makers to give up some control over the benefit amount, but may reduce the need to revisit this in the future.

Option 4: Increase To $175,000

This option recovers some lost value.

This option would increase the amount of the death benefit to $175,000. This option would recover some of the value of the benefit lost to past inflation, but would not fully restore the benefit to its original level. This option would not prevent further loss in value due to future inflation.

Committee Activity

During their September meeting, the Executive Committee of the SCPP directed staff to develop policy options and bring those options back to the full SCPP with pricing.

Staff briefed the Committee on the first three options at the October meeting. Following the meeting, the Chair requested staff to prepare draft legislation and pricing for an additional option of increasing the benefit to $175,000.

At the November meeting, staff briefed the Committee on Option 4 and a public hearing was held. The Committee moved this issue to December for another public hearing.

The Committee held a second public hearing in December and took executive action recommending Option 4 to the Legislature.

Executive Committee Recommendation

None.

Stakeholder Input

Correspondence attached from:

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

Correspondence on file from:

John Kvamme, WASA & AWSP consultant, 5/15/2008.

Recommendation To 2009 Legislature

Increase the amount of the death benefit from $150,000 to $175,000. Recommended December 16, 2008.

Bill Draft

A Code Reviser bill draft to implement the SCPP recommendation is attached (Z-0399.1/09).

Draft Fiscal Note

Attached.

Appendix A: History Of Legislative Changes To The $150,000 Death Benefit*

History of Legislative Changes to the $150,000 Death Benefit		
Year	**Bill**	**Effect**
1996	E2SSB 5322	$150,000 death benefit established for LEOFF and WSP.
1998	SB 5217 ESB 6305	$150,000 death benefit established in VFF. $150,000 death benefit is established for survivors of PERS 1 port and university police officers.
1999	ESSB 5180 (Budget)	$150,000 death benefit provided to teachers and paid as sundry claim from general fund. Expired 6/30/2001.
2000	EHB 2487 (Budget)	$150,000 death benefit provided to school district employees and paid as sundry claim from general fund. Expired 6/30/2001.
2001	ESSB 6153 (Budget)	$150,000 death benefit provided to state, school district, and higher education employees and paid as sundry claim from general fund. Expired 6/30/2003.
2003	HB 1207	$150,000 death benefit established in PERS, TRS, and SERS. Benefit also provided as a sundry claim to the general fund for state, school district, and higher education employees who are not eligible to receive the benefit from a state retirement system.
2006	SHB 2933	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for LEOFF 2.
2007	SHB PL 1266	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for all plans.

See **Appendix D for a description of the plan acronyms used.*

Appendix B: Death Benefit Provided For Public Employees*

Death Benefits Provided for Public Employees[1]				
Benefit	**Normal Form**	**Eligible Deaths**	**Amount**	**Annual Adjustment[2]**
LEOFF & WSP Plan 1 Survivor Pension	Annuity	Duty & Non-Duty	50%-60% of AFC	Indexed to CPI
PERS & TRS Plan 1 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or return of contributions with interest (ROC)[3]	Uniform COLA on annuity -- indexed by level 3%
Plans 2/3 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or ROC[3,4]	Annuity Indexed to CPI
VFF Survivor Benefit	Annuity	Duty & Non-Duty	Member's earned benefit	None -- Benefits periodically increased by Board
VFF Duty-Death Survivor Pension	Annuity	Duty	$1,589/month +$137/month per child. As of 7/1/2008.	Indexed to CPI
HIED Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Payout of member's account	None
LEOFF Plan 2 Survivor Health Care	Annuity	Duty	Reimbursement of premiums paid to Health Care Authority—up to $839/month for 2008	Indexed to Health Care Authority medical and dental premiums
L&I Death Benefit	Annuity	Duty	60%-70% of gross wages up to 120% of state average wage[5]	Indexed to state average wage[5]
Social Security Survivor Benefit	Annuity	Duty & Non-Duty	75%-100% of employees earned Social Security benefit	Indexed to CPI
$150,000 Death Benefit	Lump Sum	Duty	$150,000 (+$2,000 in VFF)	None
VFF Funeral Benefit	Lump Sum	Duty	$2,000	None
TRS 1 Death Benefit	Lump Sum	Duty & Non-Duty	$400 or $600	None
L&I Death Lump Sum	Lump Sum	Duty	100% state average monthly wage[5]	Indexed to state average wage[5]
L&I Burial Benefit	Lump Sum	Duty	Up to 200% state average monthly wage[5]	Indexed to state average wage[5]
Social Security Burial Benefit	Lump Sum	Duty & Non-Duty	$255	None
Federal Public Safety Officers' Death Benefit	Lump Sum	Duty	$315,746 as of 10/01/2008	Indexed to CPI

1. *Eligibility varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Excludes employer provided life insurance.*
2. *Excludes optional COLAs purchased by recipient.*
3. *Actuarial reduction applied if death is not duty-related.*
4. *150% ROC for LEOFF Plan 2; payout of member's DC account for Plans 3.*
5. *$3,727 as of 7/01/2008.*

*See ***Appendix D*** for a description of the plan acronyms used.*

Appendix C: Indexing Benefits

A frequently used method of protecting the value of a benefit against inflation is indexing. Indexing involves making annual adjustments to the benefit amount based on changes in an underlying measure of inflation.

One of the most commonly used measures of inflation is the Consumer Price Index (CPI). The CPI records changes in the price of a set "market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation. The CPI most commonly used in Washington State's retirement systems is the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB). An individual may experience inflation quite different from that measured by the CPI if the goods and services purchased by the individual do not closely match the market basket used by the CPI.

A key issue in indexing benefits is the amount of inflation protection to provide. The value of a benefit may be:

- Fully protected from inflation (full indexing).
- Protected up to a maximum amount of inflation (partial indexing).
- Protected against a set amount of inflation (level indexing).

A **fully indexed** benefit increases at the same percentage change as inflation each year. This method ensures the full purchasing power of the benefit is always maintained, but can lead to greater than expected costs if actual inflation exceeds the amount assumed for funding the benefit. Examples of fully indexed retirement benefits include Social Security, which is indexed to the CPI-W, All U.S. Cities; and the LEOFF Plan 1 pension, which is indexed to the CPI-W, STB.

A **partially indexed** benefit increases with the percentage change in inflation each year up to a maximum percentage. In years where inflation exceeds the maximum, the benefit will lose some purchasing power.

The index can be designed to allow the benefit to recover lost purchasing power during periods when actual inflation is lower than the maximum. This method can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Examples of partially indexed retirement benefits are Plans 2/3 pensions, which are indexed to the CPI-W, STB, to a maximum of 3 percent.

A **level indexed** benefit increases by a fixed percentage every year. Purchasing power is lost in years when inflation exceeds the fixed percentage and is gained in years when inflation is less than the fixed percentage. This method is simple to administer and can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Under this method, if actual inflation is consistently less than the fixed amount, the purchasing power of the benefit will increase. An example of a level indexed retirement benefit is the PERS and TRS Plan 1 Uniform COLA, which increases by 3 percent each year.

Appendix D: Plan Acronyms

- Public Employees' Retirement System (PERS)
- Teachers' Retirement System (TRS)
- School Employees' Retirement System (SERS)
- Public Safety Employees' Retirement System (PSERS)
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- Washington State Patrol Retirement System (WSPRS)
- Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFF)
- Judicial Retirement System (JRS)
- Higher Education Retirement Plans (HIED)

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Wallis, Keri

From: john kvamme [jekvamme@yahoo.com]
Sent: Thursday, May 20, 2010 12:01 PM
To: Smith, Matt
Cc: Conway, Rep. Steve
Subject: WASA & AWSP 2010 Interim Pension Issues
Attachments: 2010 Interim proposed issues.doc

Matt

Attached is a listing of pension issues that are a priority to WASA & AWSP. Please include this in the list of correspondence for the June SCPP meeting. Thank you!

John Kvamme

WASA and AWSP
Retirement and Health Benefits
2010 Interim Proposed Legislative Issues

Plan 2/3 Administrator ERRF Retirement Solution: Due to the administrator contract year, by statute going from July 1 to June 30, almost all administrators will be short two service months if they were to retire July 1 of their 30th service year. These administrators can take advantage of early retirement if they wait till September 1 to begin their retirement, however without a new contract they would have no salary or pension and need COBRA health coverage for that July and August. A possible solution is to allow these administrators that complete their 30th administrative fiscal year to begin their pension on July 1 of that year.

Survivor Access to Plan 1 TRS Annuity: Allow the survivor of an active Plan 1 TRS member that is qualified to retire under RCW 41.32.480 at the time of death, the option to withdraw the member's account balance and receive an actuarially adjusted pension benefit as provided to retiring members under RCW 41.32.497.

Change Plans 2/3 Default: New employees hired into TRS, SERS or PERS eligible positions must make a choice between being a member of Plan 2 or of Plan 3. If a choice is not made the new member is defaulted into Plan 3. We recommend the default be to Plan 2 rather than to Plan 3.

Indexed $150,000 Death Benefit: Automatically adjust the $150,000 death benefit for inflation by indexing the benefit to changes in the Consumer Price Index with a maximum change of 3 percent per year. Such a death benefit would be provided to survivors of public employees who die as a result of duty-related injury or illness.

Future Pension Issues: A number of important issues that impact our members that have been submitted to the Select Committee on Pension Policy (SCPP) in the past that are probably inappropriate for attention at this time due to their cost and the economic conditions within the state and nation are: **Plan 3 Vesting, Plan 2 Access to the PEBB and Plan 2/3 Postretirement Employment Related to Early Retirement.**

Washington State School Retirees' Association

4276 Pacific Avenue SE, Lacey, WA 98503-1216 ~ 360-413-5493 / fax 360-413-5497 / 1-800-544-5219 ~ www.wssra.org

MEMORANDUM

RECEIVED

AUG - 4 2010

Office of
The State Actuary

TO: Select Committee on Pension Policy

FROM: Ester Wilfong, WSSRA Legislative Committee Co-Chair
Gordon Irle, WSSRA Legislative Committee Co-Chair
Leslie Main, WSSRA Legislative Coordinator

DATE: August 2, 2010

SUBJECT: WSSRA Priorities for 2010-11

The Washington State School Retirees' Association (WSSRA) again looks forward to working with members of the Select Committee on Pension Policy (SCPP) to address issues of concern to current and future school retirees. WSSRA has general goals and specific objectives which represent the continuing interests and concerns of 16,400+ statewide members that will be pursued as conditions permit. Following are WSSRA's Legislative Goals for 2010-11:

(Due to the continuing economic challenges facing the State of Washington, WSSRA intends on focusing on the objectives in highlighted print.)

WSSRA LEGISLATIVE GOALS ~ 2010-11

WSSRA: Providing leadership and promoting action.

Recovery of lost purchasing power for all TRS/PERS 1 retirees.

Objectives:

- Preservation and protection of the full value of the Teacher Retirement System / Public Employees Retirement System (TRS/PERS) Plan 1 defined benefit from inflation:
  - ◊ Short-term – **Protection** / improvement of the Plan 1 dollars/per months/per years of service post-retirement adjustment known as the Uniform Cost-of-Living Adjustment (COLA).
  - ◊ Long-term – Establishment of a true, Consumer Price Index (CPI)-based, Plan 1 COLA, consistent with the COLA provided to Plan 2/3 retirees.

Full funding of Washington State's Plan 1 and Plans 2/3 pension systems.

Objectives:

- Adherence to RCW 41.45.010 which calls for "dependable and systematic funding processes and pension contribution rates which will remain a relatively predictable proportion of future state budgets."
- Re-establishment of the June 30, 2024, amortization date for the Teacher Retirement System / Public Employees Retirement System (TRS/PERS) Plan 1 Unfunded Liabilities.

Pension improvements for active members of TRS/SERS/PERS.

Objectives:

- Establishment of Plan 2 as the default plan for new hires in the Teacher Retirement System / School Employees Retirement System / Public Employees Retirement System (TRS/SERS/PERS).
- Improvement of the $150,000 death benefit for survivors of active members of TRS/SERS/PERS killed in the course of employment.
- Re-establishment of the Employees Retirement Benefits Board (ERBB) to address issues related to Plan 3 member Defined Contribution plans (i.e. self-directed investment options for Plan 3 defined contribution plans, payment options available for Plan 3 members, recommendations on investment options for the Deferred Compensation Program, etc.).
- Removal of age restrictions on 5-year vesting eligibility criteria for members of TRS/SERS/PERS Plan 3.
- Improvement of pension benefits which address concerns unique to classified school employees in SERS 2/3 and current TRS/SERS/PERS 3 retirees remaining from the 2007 repeal of Gain Sharing.
- A full retirement benefit for TRS/SERS/PERS Plan 2/3 members below the alternate Early Retirement Reduction Factor (ERRF) eligibility option of age 62 with 30 years of service.

Improved health insurance benefits and lower premiums for school retirees.

Objectives:

- Increases in the Public Employee Benefits Board (PEBB) Medicare eligible retiree subsidies that reflect increases in the rate of medical inflation.
- Protection plan design and containment of costs related to PEBB sponsored retiree health insurance plans (i.e. comprehensive benefit coverage - the type and level of benefit coverage and containment of costs - co-payments, deductibles, and monthly premiums).
- A "2nd chance" PEBB enrollment window for those state and K-12 employees who retired prior to 1/1/01, missed their initial enrollment opportunity, and can meet PEBB continuity of care requirements.

Improved livelihood for current and future school retirees.

Objectives:

- Support efforts of other senior advocate groups on long-term care and health care reform.
- Support efforts of other senior advocate groups on consumer privacy and protection, and fraud prevention.
- Support efforts of other senior advocate groups when their goals are consistent with ours.

Regarding WSSRA's top objectives for 2010-11:

Objective: Protection / improvement of the Plan 1 dollars/per months/per years of service post-retirement adjustment known as the Uniform Cost-of-Living Adjustment (COLA)

In the context of the current economic climate and the pension system Risk Assessment policies under development, WSSRA is compelled to have ***protection*** of the Uniform Plan 1 COLA as one of its top priorities for the 2010 Interim and 2011 Session. Much attention has been given to previously enacted benefit improvements, especially for members of TRS/PERS 1, as an underlying cause for the increasing pension costs the state is currently facing. **We believe that it is not the much needed enacted benefit improvements that are the problem, but *the Legislature's failure to pay for such improvements* that is the problem.**

The worth of a defined benefit is measured by how it retains its value over time. Plan 1 benefit improvements have been enacted because the original design of Plan 1 did not provided for adequate protection from inflation. Moreover, these benefits play a critical role in the economic vitality of the State of Washington. We encourage the SCPP to incorporate objective ***and*** subjective factors, such as follows, in their considerations of pension Risk Assessment:

- The principled "value" of maintaining Plan 1 benefit improvements which have ***helped*** to regain lost purchasing power – According to past reports by the Office of the State Actuary, even with the Gain Sharing improved Uniform Plan 1 COLA, members of TRS Plan 1 who retired during the mid-1970s have lost approximately 50% of their purchasing power (PERS 1, approximately 40%).
- The potential negative impact on employee recruitment and retention if Washington State becomes known for ***not*** living up to pension benefit promises that have been, or may be, made to current and future employees and retirees, and
- The cost/benefit "multiplier effect" of retiree pension benefits as they flow throughout the economy – The National Institute for Retirement Security (NRIS) in their February 2009 study, ***Pensionomics: Measuring the Economic Impact of State and Local Pension Plans*** found that:
    - ◇ **Every $1 in state and local pension benefits paid to retirees in Washington State supported $1.37 in total output.** This "multiplier" incorporates the impacts of retiree spending ($2.35 million), and induced impacts of retiree spending ($1.5 billion), to arrive at a total state economic impact of $3.2 billion in 2006.

Note: The NIRS study also measured the cost/benefit "multiplier effect" of retiree pension contributions, and found that **every $1 contributed by taxpayers in the form of employer and employee pension contributions to Washington pension plans over the last 30 years amounts to $9.69 in increased economic activity.** This reflects the multiplier effect of taxpayer contributions to pension funds that are invested and the impact of those investments as they ripple through the economy.

The ***Pensionomics*** summary of Washington State is attached, and the complete findings of this important NRIS study are available on the internet using the following link:
http://www.nirsonline.org/index.php?option=com_content&task=view&id=184&Itemid=88.

Objective: Adherence to RCW 41.45.010 which calls for "dependable and systematic funding processes and pension contribution rates which will remain a relatively predictable proportion of future state budgets"

WSSRA appreciates the SCPP's unanimous recommendation of support to the Pension Funding Council for the adoption of the State Actuary's recommended pension contribution rates for the 2011-13 biennium. We are also gratified that the Pension Funding Council has adopted these rates.

The next hurtle will be whether the Legislature adheres to these rates as they build the State's budget for the forthcoming biennium. As pointed out during WSSRA's testimony at the July 20th SCPP meeting, the Legislature has acted over the last decade to cut pension funding by:

- reducing pension contribution rates mid-biennium, *2SSB 6404 (2000)*
- amending statute to provide that, ***"The contribution rate changes adopted by the PFC shall be subject to revision by the Legislature,"*** *ESSB 6167 (2001)*
- changing economic assumptions and actuarial methods used in pension actuarial valuations, *ESSB 6167 (2001)*
- moving the amortization date from 12-31-16 (realized from '98 and '00 Gain Sharing) back to 6-30-24, *ESSB 6167 (2001)*
- suspending payments on the Unfunded Liability for the 2003-05 and 2005-07 biennia, *SB 6029 (2003)*
- amending statutory pension funding goals to provide increased flexibility in manipulating contribution rates, *ESHB 1044 (2005)*
- avoiding recognition of the cost of future Gain Sharing distributions as a material liability of the pension funds (a.k.a. "pre-funding"), *ESHB 1044 (2005)*
- most recently, under *SSB 6161 (2009)* ~
  - repealing the 2024 Plan 1 Unfunded Liability amortization date established under the 1989 Pension Reform Act, and amending statutory *pension funding goals* by replacing references to the 2024 date with references to the new 10-year rolling amortization schedule in, plus
  - suspending adoption of revised mortality tables and two contribution rate floors (levels beyond which rates cannot fall) due to go into effect at the beginning of the 2009-11 biennium: one for the TRS/PERS 1 Unfunded Liability and one for employer and member contribution rates for Plans 2/3 basic benefits in TRS/SERS/PERS, and
  - reducing the 2009-11 Unfunded Actuarial Accrued Liability (UAAL) pension contribution rates by 63.7% from those adopted by the Pension Funding Council.

The days of the Legislature manipulating pension contribution rates for short-term budget relief must end now. WSSRA asks SCPP members for their active support during the 2011 Session of enactment of the PFC's 2011-13 adopted pension contribution rates.

Objective: Establishment of Plan 2 as the default plan for new hires in the Teacher Retirement System / School Employees Retirement System / Public Employees Retirement System (TRS/SERS/PERS).

Considering the previously projected long-term savings that would be realized by the enactment of Plan 2 as the default plan for new hires in TRS/SERS/PERS, we also ask that the SCPP reconsider recommending this legislation for consideration before the Legislature during the 2011 Session. As with the issue of responsible pension funding, WSSRA correspondingly requests the active support for the Plan 2 default issue throughout the legislative process.

Objective: Improvement of the $150,000 death benefit for survivors of active members of TRS/SERS/PERS killed in the course of employment

Regarding improvement of the $150,000 death benefit provided to active members of TRS/SERS/PERS, WSSRA seeks uniformity of this benefit with that enacted for members of LEOFF 2 and the WSPRS during the 2010 Session: The $150,000 benefit would be increased to reflect inflation impacts since the benefit was established (approximately $214,000), and automatically adjusted each year by an amount equal to the Consumer Price Index (CPI) for urban wage earners and clerical workers for the Seattle / Tacoma / Bremerton area up to a maximum of 3 percent per year. Under the best of circumstances, this benefit would never be utilized. However, having this benefit indexed to the CPI will ensure that the value of this important benefit is maintained.

WSSRA looks forward to working with the SCPP during the 2010 Interim and 2011 Session to address these challenging and critical issues. Please contact WSSRA at 1-800-544-5219 if you have any questions regarding these requests. Thank you.

Cc: Matt Smith, Washington State Actuary
Ed Gonion, WSSRA Executive Director

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

WASHINGTON

Pensionomics:

Measuring the Economic Impact of State and Local Pension Plans

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of Washington.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a *multiplier effect*.

Expenditures stemming from state and local pensions supported...

- 21,035 jobs that paid $1.3 billion in wages and salaries
- $3.2 billion in total economic output
- $462.9 million in federal, state, and local tax revenues

... in the state of Washington.

Each dollar paid out in pension benefits supported $1.37 in total economic activity in Washington.

Each dollar "invested" by Washington taxpayers in these plans supported $9.69 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Washington communities and the state economy. In 2006, 129,378 residents of Washington received a total of $2.35 billion in pension benefits from state and local pension plans, with $2.17 billion paid from plans within the state and the remainder originating from plans in other states.

The average pension benefit received was $1,516 per month or $18,191 per year. These modest benefits provide retired teachers, public safety personnel and others who served the public during their working careers income to meet basic needs in retirement.

Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 21,035 jobs in the state. The total income to state residents supported by pension expenditures was $1.3 billion.

Of this, the greatest share, $717.6 million, was comprised of employee compensation (wages and salaries). Proprietors' income (self-employment income) represented $101.6 million, and other property income (including payments from interest, rent, royalties, profits and dividends) totaled $491.3 million.

Economic Impact

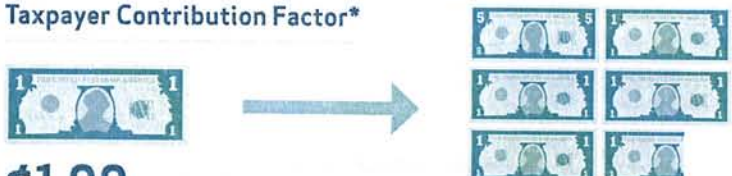
State and local pension funds in Washington and other states paid a total of $2.35 billion in benefits to Washington residents in 2006. Retirees' expenditures from these benefits supported a total of $3.2 billion in total economic output in the state, and $1.5 billion in value added in the state.

$2.3 billion in direct economic impacts were supported by retirees' expenditures on goods and services from businesses in the state. An additional $472.1 million in indirect economic impact resulted when these businesses purchased additional goods and services, generating additional income in the local economy. $491.5 million in induced impacts occurred when employees hired by businesses as a result of the direct and indirect impacts made expenditures, supporting even more additional income.

For more information on the data and methodology used for these estimates, please refer to *Pensionomics: Measuring the Economic Impact of State and Local Pension Plans*
National Institute on Retirement Security: Washington DC. February 2009. www.nirsonline.org

Economic Multipliers

Taxpayer Contribution Factor*



$1.00
Contributed by taxpayers to Washington pensions over 30 years

$9.69
total output

Each $1 in taxpayer contributions to Washington's state and local pension plans supported $9.69 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits - investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier

$1.00
pension benefits paid to retirees in Washington

$1.37
total output

Each $1 in state and local pension benefits paid to Washington residents ultimately supported $1.37 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

* Caution should be used in interpreting this number, because the Census data used reflect the taxable status of contributions only; because employee contributions may be reported as taxpayer contributions, the multiplier here may be underestimated.

Impact on Tax Revenues

State and local pension payments made to Washington residents supported a total of $462.9 million in revenue to federal, state and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled $82.4 million. Taxes attributable to direct, indirect and induced expenditures accounted for $380.5 million in tax revenue.

Federal Tax	312.9 million
State/Local Tax	149.2 million
Other Corporate Taxes	0.7 million
Total	**$462.9 million**

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in the state. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Value Added Impact ($ millions)	Income Impact ($ millions)	Output Impact ($ millions)
Health Care and Social Assistance	4,778	$250.9	$247.9	$397.0
Retail Trade	4,008	210.8	166.8	316.5
Accommodation and Food Services	2,376	68.6	60.9	133.4
Other Services (Except Public Administration)	1,859	54.9	51.1	101.4
Real Estate and Rental and Leasing	1,099	121.9	101.2	180.7
Finance and Insurance	935	115.4	110.3	206.0
Professional, Scientific, and Technical Services	854	51.0	50.0	95.1
Wholesale Trade	844	102.5	80.1	152.0
Arts, Entertainment, and Recreation	674	20.1	17.9	34.1
Administrative and Waste Services*	648	25.1	57.2	40.4

*The North American Industry Classification System classifies this industry as Administrative and Support and Waste Management and Remediation Services.

Darren Painter 786-6155

OSA

November 29, 2010 (10:11 AM)

AN ACT Relating to increasing the duty-related death benefit for public employees; amending RCW 41.04.017, 41.24.160, 41.32.053, 41.35.115, 41.37.110, 41.40.0931, and 41.40.0932.

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

Sec. 1. RCW 41.04.017 and 2007 c 487 s 1 are each amended to read as follows:

A ((~~one hundred fifty~~)) <u>two hundred fourteen</u> thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee of any state agency, the common school system of the state, or institution of higher education who dies as a result of (1) injuries sustained in the course of employment; or (2) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter, and is not otherwise provided a death benefit through coverage under their enrolled retirement system under chapter 402, Laws of 2003. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

Sec. 2. RCW 41.24.160 and 2001 c 134 s 2 are each amended to read as follows:

(1)(a) Whenever a participant dies as the result of injuries received, or sickness contracted in consequence or as the result of the performance of his or her duties, the board of trustees shall order and direct the payment from the principal fund of (i) the sum of ((~~one hundred fifty-two~~)) two hundred fourteen thousand dollars to his widow or her widower, or if there is no widow or widower, then to his or her dependent child or children, or if there is no dependent child or children, then to his or her dependent parents or either of them, or if there are no dependent parents or parent, then the death benefit shall be paid to the member's estate, and (ii)(A) the sum of one thousand two hundred seventy-five dollars per month to his widow or her widower during his or her life together with the additional monthly sum of one hundred ten dollars for each child of the member, unemancipated or under eighteen years of age, dependent upon the member for support at the time of his or her death, (B) to a maximum total of two thousand five hundred fifty dollars per month.

(b) Beginning on July 1, 2001, and each July 1st thereafter, the compensation amount specified in (a)(ii)(B) of this subsection shall be readjusted to reflect the percentage change in the consumer price index, calculated as follows: The index for the calendar year preceding the year in which the July calculation is made, to be known as "calendar year A," is divided by the index for the calendar year preceding calendar year A, and the resulting ratio is multiplied by the compensation amount in effect on June 30th immediately preceding the July 1st on which the respective calculation is made. For the purposes of this subsection, "index" means the same as the definition in RCW 2.12.037(1).

(2) If the widow or widower does not have legal custody of one or more dependent children of the deceased participant or if, after the

death of the participant, legal custody of such child or children passes from the widow or widower to another person, any payment on account of such child or children not in the legal custody of the widow or widower shall be made to the person or persons having legal custody of such child or children. Such payments on account of such child or children shall be subtracted from the amount to which such widow or widower would have been entitled had such widow or widower had legal custody of all the children and the widow or widower shall receive the remainder after such payments on account of such child or children have been subtracted. If there is no widow or widower, or the widow or widower dies while there are children, unemancipated or under eighteen years of age, then the amount of one thousand two hundred seventy-five dollars per month shall be paid for the youngest or only child together with an additional one hundred ten dollars per month for each additional of such children to a maximum of two thousand five hundred fifty dollars per month until they become emancipated or reach the age of eighteen years; and if there are no widow or widower, child, or children entitled thereto, then to his or her parents or either of them the sum of one thousand two hundred seventy-five dollars per month for life, if it is proved to the satisfaction of the board that the parents, or either of them, were dependent on the deceased for their support at the time of his or her death. In any instance in subsections (1) and (2) of this section, if the widow or widower, child or children, or the parents, or either of them, marries while receiving such pension the person so marrying shall thereafter receive no further pension from the fund.

(3) In the case provided for in this section, the monthly payment provided may be converted in whole or in part into a lump sum payment, not in any case to exceed twelve thousand dollars, equal or proportionate, as the case may be, to the actuarial equivalent of the monthly payment in which event the monthly payments shall cease in whole or in part accordingly or proportionately. Such conversion may be made either upon written application to the state board and shall rest in the discretion of the state board; or the state board is

authorized to make, and authority is given it to make, on its own motion, lump sum payments, equal or proportionate, as the case may be, to the value of the annuity then remaining in full satisfaction of claims due to dependents. Within the rule under this subsection the amount and value of the lump sum payment may be agreed upon between the applicant and the state board.

Sec. 3. RCW 41.32.053 and 2007 c 487 s 3 are each amended to read as follows:

(1) A ((~~one hundred fifty~~)) two hundred fourteen thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 4. RCW 41.35.115 and 2007 c 487 s 4 are each amended to read as follows:

(1) A ((~~one hundred fifty~~)) two hundred fourteen thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the

member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 5. RCW 41.37.110 and 2007 c 487 s 5 are each amended to read as follows:

(1) A ((~~one hundred fifty~~)) two hundred fourteen thousand dollar death benefit shall be paid to the member's estate, or the person or persons, trust, or organization the member has nominated by written designation duly executed and filed with the department. If the designated person or persons are not still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 6. RCW 41.40.0931 and 2007 c 487 s 6 are each amended to read as follows:

(1) A ((~~one hundred fifty~~)) two hundred fourteen thousand dollar death benefit for members who had the opportunity to transfer to the law enforcement officers' and firefighters' retirement system pursuant to chapter 502, Laws of 1993, but elected to remain in the public employees' retirement system, shall be paid to the member's estate, or such person or persons, trust, or organization as the member has nominated by written designation duly executed and filed with the department. If there is no designated person or persons still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) Subject to subsection (3) of this section, the benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment as a general authority police officer; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3) The benefit under this section shall not be paid in the event the member was in the act of committing a felony when the fatal injuries were suffered.

Sec. 7. RCW 41.40.0932 and 2007 c 487 s 7 are each amended to read as follows:

(1) A ((~~one hundred fifty~~)) two hundred fourteen thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the

member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

--- END ---

DRAFT

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/03/2010**	**$214,000 Lump Sum Duty-Death Benefit**

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 during the 2010 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 increases the amount of the lump sum duty-death benefit provided for public employees and volunteer fire fighters to $214,000.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$61,952	$2.7	$61,954
Earned Pensions Not Covered by Today's Assets	$6,884	$0.1	$6,884

Impact on Contribution Rates: (Effective 9/1/2011)				
2011-2013 State Budget	**PERS**	**TRS**	**SERS**	**PSERS**
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%
Employer:				
Current Annual Cost	0.00%	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%	0.00%

Budget Impacts			
(Dollars in Millions)	**2011-2013**	**2013-2015**	**25-Year**
General Fund-State	$0.0	$0.2	$4.2
Total Employer	$0.0	$0.6	$13.3

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 the following retirement systems:

- Public Employees' Retirement System (PERS).
- Teachers' Retirement System (TRS).
- School Employees' Retirement System (SERS).
- Public Safety Employees' Retirement System (PSERS).
- Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF).

This proposal increases the amount of the lump sum duty-death benefit from $150,000* to $214,000.

The lump sum duty-death benefit is also provided as a sundry claim to the state general fund for members of the Judicial Retirement System (JRS), and to state, school district, and higher education employees who aren't members of a state retirement system.

**$152,000 in VFFRPF.*

Effective Date: 90 days after session.

What Is The Current Situation?

Survivors of public employees who die as a result of injuries sustained or illnesses contracted in the course of employment are eligible to receive a lump sum duty-death benefit. The amount of this benefit is $150,000 for members of PERS, TRS, SERS, and PSERS. VFFRPF members receive a $152,000 duty death benefit. The amount is provided as a sundry claim to the state general fund for members of the Judicial Retirement System, and to state, school district, and higher education employees who aren't members of a state retirement system. The benefit amount does not adjust annually for inflation.

In addition to the duty-death benefit, VFFRPF beneficiaries also receive an additional $2,000 funeral benefit.

Who Is Impacted And How?

We estimate this proposal could affect all 296,863 active members of the systems listed above through improved benefits. In the future, we expect this benefit to be paid to about one member out of 40,800 members per year over the long-term.

This proposal will increase the lump sum death benefit by $64,000* for any member that dies as a result of a duty-related injury or illness.

**$62,000 in VFFRPF.*

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal increases the amount of the lump sum death benefit by $64,000.* This increases the present value of future benefits of the affected systems. This proposal will not result in more lump sum death benefits being paid, but when the benefits are paid, the amount will be larger.

**$62,000 in VFFRPF.*

Who Will Pay For These Costs?

Each system will subsidize the increase in liability that results from this proposal under their normal cost-sharing formulas:

- Plan 1: 100 percent employer.
- Plan 2: 50 percent member and 50 percent employer.
- Plan 3: 100 percent employer.

HOW WE VALUED THESE COSTS

Assumptions We Made And How We Applied Them

We changed the lump sum duty-death benefit to provide a $214,000 benefit in place of the current $150,000* benefit. We assumed no members of JRS will die from duty-related illness or injury and have excluded these members from this pricing.

We assumed that two-thirds of all future entrants into PERS, TRS, and SERS will choose to join Plan 2 and the remaining one-third will enter Plan 3.

Otherwise, we developed these costs using the same assumptions and methods as disclosed in the June 30, 2009, Actuarial Valuation Report (AVR).

We used the Entry Age Normal Actuarial Funding Method to determine the fiscal budget changes for future new entrants. We used the Aggregate Actuarial Funding Method to determine the fiscal budget changes for current plan members.

**$152,000 in VFFRPF.*

Special Data Needed

We developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding of the plans by increasing the present value of future benefits payable under the plans as shown in the following table.

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 1	$14,215	$0.1	$14,215
PERS 2/3	24,472	1.7	24,474
PERS Total	**$38,687**	**$1.8**	**$38,689**
TRS 1	$10,956	$0.0	$10,956
TRS 2/3	8,661	0.3	8,662
TRS Total	**$19,617**	**$0.3**	**$19,617**
SERS 2/3	**$3,260**	**$0.6**	**$3,260**
PSERS 2	**$388**	**$0.1**	**$388**
Unfunded Actuarial Accrued Liability			
*(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
PERS 1	**$4,208**	**$0.1**	**$4,208**
TRS 1	**$2,676**	**$0.0**	**$2,676**
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 1	$4,169	$0.1	$4,169
PERS 2/3	(2,560)	1.7	(2,558)
PERS Total	**$1,609**	**$1.8**	**$1,611**
TRS 1	$2,692	$0.0	$2,692
TRS 2/3	(947)	0.3	(946)
TRS Total	**$1,745**	**$0.3**	**$1,745**
SERS 2/3	**($341)**	**$0.6**	**($340)**
PSERS 2	**($15)**	**$0.1**	**($15)**

Note: Totals may not agree due to rounding.
** PERS 1 and TRS 1 are amortized over a ten-year period.*

In addition, this proposal increases the relief liability of VFFRPF by $297,097. Currently the Board for VFFRPF pays for all relief costs as they come due (no prefunding).

We did not value the impact of this proposal on the following members since we do not currently value them in any of our actuarial valuations:

- 2,659 Volunteer Fire Fighters that are not members of the pension plan.
- Members of Higher Education Retirement Plans.
- State, school district, and higher education employees who aren't members of the Washington State Retirement Systems.

How The Present Value of Future Salaries (PVFS) Changed

This proposal does not change the PVFS of the members of PERS, TRS, SERS, and PSERS so there is no impact on the actuarial funding of these plans due to the PVFS.

How Contribution Rates Changed

The increase in the required actuarial contribution rate does not round up 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 un-rounded rate increases in the following table to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2011)				
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**
Current Members				
Employee (Plan 2)	0.001%	0.001%	0.003%	0.001%
Employer:				
Normal Cost	0.001%	0.001%	0.003%	0.001%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%
Total	0.001%	0.001%	0.003%	0.001%
New Entrants*				
Employee (Plan 2)	0.002%	0.001%	0.005%	0.002%
Employer:				
Normal Cost	0.002%	0.001%	0.005%	0.002%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%
Total	0.002%	0.001%	0.005%	0.002%

**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.*

How This Impacts Budgets And Employees

Budget Impacts					
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2011-2013					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2013-2015					
General Fund	$0.1	$0.0	$0.1	$0.0	$0.2
Non-General Fund	0.1	0.0	0.0	0.0	0.1
Total State	**$0.2**	**$0.0**	**$0.1**	**$0.0**	**$0.3**
Local Government	0.2	0.0	0.1	0.0	0.3
Total Employer	**$0.3**	**$0.1**	**$0.1**	**$0.0**	**$0.6**
Total Employee	**$0.3**	**$0.0**	**$0.1**	**$0.0**	**$0.3**
2011-2036					
General Fund	$1.7	$1.0	$1.4	$0.1	$4.2
Non-General Fund	2.5	0.0	0.0	0.0	2.5
Total State	**$4.2**	**$1.0**	**$1.4**	**$0.1**	**$6.6**
Local Government	4.5	0.5	1.7	0.0	6.7
Total Employer	**$8.6**	**$1.5**	**$3.0**	**$0.2**	**$13.3**
Total Employee	**$5.9**	**$0.7**	**$1.8**	**$0.2**	**$8.7**

Note: Totals may not agree due to rounding.

The analysis of this proposal does not consider any other proposed changes to the systems. 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 draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions used in this pricing, we varied the duty-related death assumption for PERS, TRS, SERS, and PSERS. We changed the duty-related death assumption by doubling the rate of deaths that we expect will result from a duty-related injury or illness. We did not increase our mortality assumptions, only the number of deaths that are duty-related. The next table shows our current assumptions ("Base Assumptions") and increased assumptions ("Sensitivity Assumptions") for each system.

	Base Assumptions	Sensitivity Assumptions
PERS	0.0026%	0.0052%
TRS	0.0008%	0.0016%
SERS	0.0026%	0.0052%
PSERS	0.0026%	0.0052%

The result of increasing the rate of deaths from a duty-related injury or illness is detailed in the following table. We compare the assumptions used in this proposal ("Best Estimate Pricing") with the increased assumptions ("Sensitivity Pricing") to show the sensitivity of this pricing on the duty-related death assumptions.

(Dollars in Millions)	Best Estimate Pricing	Sensitivity Pricing
Liability Increase		
PERS	1.8	3.6
TRS	0.3	0.5
SERS	0.6	1.1
PSERS	0.1	0.1
Employer Contribution Rate Increase		
PERS	0.001%	0.003%
TRS	0.001%	0.001%
SERS	0.003%	0.007%
PSERS	0.001%	0.002%
25 Year Budget Impacts (2011-2036)		
General Fund - State		
PERS	1.7	3.4
TRS	1.0	1.9
SERS	1.4	2.9
PSERS	0.1	0.2
Total Employer		
PERS	8.6	17.3
TRS	1.5	2.9
SERS	3.0	6.4
PSERS	0.2	0.3

There is also the possibility that fewer duty-related deaths will occur than we assume for each system in the future. If we tested the sensitivity of the results to lower rates, we would expect lower costs than our pricing of this proposal shows.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost and asset valuation methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions and methods 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. We prepared this draft fiscal note for the Select Committee on Pension Policy during the 2010 Interim.
6. We prepared this draft fiscal note and provided opinions 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.

While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Lisa A. Won, ASA, MAAA
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 actuarial accrued 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 actuarial accrued 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 that 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.