LEOFF Plan 1 Account Reviews

Dave Nelsen
Department of Retirement Systems

This Presentation

- LEOFF Plan 1 Articles
- Background on LEOFF Plan 1 Basic Salary
- Results of the Account Reviews
- Next Steps for the Department

Media Focus

- Series of AP Articles on LEOFF Plan 1- April 2013
  - Salary increases near retirement
  - Cost of medical benefits for local government employers
  - Disability retirements
- Department undertook a review of salary increases
  - Worked with employers and others

About LEOFF Plan 1

- Closed in 1977
  - 143 active members
  - 7,820 receiving a benefit
  - 135% funded (2012 Preliminary Valuation)
- Benefit Based on Salary at Time of Retirement
  - Only system not based on average salary over period of time

WHAT IS L1 BASIC SALARY?

- Only "Basic Salary" is used to calculate the benefit
- "Basic monthly rate of salary or wages, including longevity pay…" RCW 41.26.030
- Includes salary based upon the position
- Excludes salary based upon the individual
  - Longevity pay is an exception, as it is based upon years of service

WHAT IS BASIC SALARY?

LEOFF REPORTABLE COMPENSATION TABLE

Type of Payment	LEOFF Plan 1 Basic Salary	LEOFF Plan 2 Basic Salary
Additional Duty Pay	Yes - WAC 415-104-3205	Yes - WAC 415-104-360
Allowances (i.e. uniform)	No - WAC 415-104-3404	No - WAC 415-104-390
Basic Monthly Rate	Yes - WAC 415-104-3200	Yes - WAC 415-104-360
Cafeteria Plans	No - WAC 415-104-3303	Yes - WAC 415-104-367
Deferred Wages Attached To Position	Yes - WAC 415-104-3201 (1)	Yes - WAC 415-104-363 (1)
Deferred Wages not Attached to a Position	No - WAC 415-104-3201 (2)	No - WAC 415-104-363 (2)
Differential Military Pay	Yes - DRS Notice 08-019	Yes - DRS Notice 08-019
Disability Payments	No - WAC 415-104-340	No - WAC 415-104-380
Education Attainment Pay	No - WAC 415-104-3301	Yes - WAC 415-104-375
Employer Taxes/Contributions	No - WAC 415-104-3401	No - WAC 415-104-383
Fringe Benefits	No - WAC 415-104-3402	No - WAC 415-104-385
Illegal Payments	No - WAC 415-104-3403	No - WAC 415-104-387
Leave Cash Outs/Severance	No - WAC 415-104-3304	No - WAC 415-104-401
Longevity Pay	Yes - WAC 415-104-330 RCW 41.26.030 13(a)	Yes - WAC 415-104-375
Overtime	No - WAC 415-104-3305	Yes - WAC 415-104-370
Paid Leave	Yes - WAC 415-104-3203	Yes - WAC 415-104-373
Payments in Lieu of Excluded Items	No - WAC 415-104-350	No - WAC 415-104-405
Performance Bonuses	No - WAC 415-104-3302	Yes - WAC 415-104-377
Retroactive Salary Increase	Yes - WAC 415-104-3202	Yes - WAC 415-104-365
Reimbursements	No - WAC 415-104-3404	No - WAC 415-104-390
Retirement or Termination Bonuses	No - WAC 415-104-3406	No - WAC 415-104-395
Shared Leave	No - WAC 415-104-311	Yes - DRS Email 10-009
Shift Differential	Yes - WAC 415-104-3204	Yes - WAC 415-104-379
Special Salary or Wages	No - WAC 415-104-330	Yes - WAC 415-104-375
Standby Pay	No - WAC 415-104-3405	No - WAC 415-104-393
Tuition/Fee Reimbursement	No - WAC 415-104-3404	No - WAC 415-104-390
Worker's Compensation	Not Applicable	No - WAC 415-104-380

DRS Review

- Request sent to the employer to verify final basic salary for each L1 retiree
  - Included in the request is descriptions of pay types that are and are not basic salary
  - Follow up with employer if questions
- Regular and upon-request employer training
- Employer Auditors verify basic salary at time of audit
- Self-audit tool available on DRS website

DRS Review

- Article highlighted actions at nine employers
  - Two employer situations had already been reviewed and outcomes presented in the article
- Seven other employer situations were reviewed
  - Primary research by Employer Auditors
  - One on-sight audit at this time

DRS Review

- Salary increases prior to retirement
  - Many L1 members retire shortly after increase granted due to immediate application to benefit calculation
  - Allowable if salary of position is maintained for subsequent hires
- Four instances where some portion of increases were retirement incentives
  - Overpayments will be collected from retirees
- Two cases where increases were allowable
  - Salary was within salary schedule and continued for subsequent employee in the position
- Two cases where increase was discovered during a previous employer audit and already corrected

DRS Review

- Adjustments to longevity pay
  - Longevity pay is a percentage or lump sum increase to monthly salary based upon years of service
  - Incentivizing retirement is a by-product of the salary type
  - Several situations where all or significant portion of increase was due to increases in longevity pay
- All longevity salary increases were allowed
  - Some were previously agreed upon increases to payments
  - Some were special or one-time adjustments to longevity schedule
  - None could be linked definitively as *only* being retirement incentives

DRS Review

- Hiring of retiree as independent contractor
  - No impact to pension unless person is an employee in a LEOFF eligible position
- A retiree was hired as an IC but was found to be an employee
- Employer billed for overpayment
  - Employer responsible if benefit was paid due to misreporting a retiree

Next Steps

- Administrative rules
  - Additional clarification on certain pay types
- Additional follow-up at time of retirement
  - Focus on documentation for significant salary increases
- Evaluating contracts for retirees hired as independent contractors
  - Requested copies from all LEOFF employers

QUESTIONS?