

Annuity Purchase

Issue

Members of certain plans in the state's retirement systems currently have the option to purchase an expanded actuarially equivalent annuity at the time of retirement in order to supplement their normal retirement benefit.

The Washington State Patrol Troopers Association has requested consideration of extending this expanded annuity option to members of the Washington State Patrol Retirement System.

The issue raises the following key policy questions.

- ❖ Are the existing annuity purchase options sufficient?
- ❖ Should an expanded annuity purchase option be extended to all members of the state's retirement systems?

Background

An annuity is a one-time, lump sum payment made by an employee in exchange for a guaranteed fixed monthly benefit payment for the rest of their life. Currently, there are multiple options available to members to purchase various forms of annuities.

During the 2014 Legislative Session, a bill passed allowing members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 the option of purchasing an expanded annuity at the time of retirement.

All members have the option of purchasing up to five years of additional service credit at the time of retirement as a way to increase their lifetime benefit payment. Plan 3 members also have the ability to purchase an annuity with their defined contribution account. Only the Teachers' Retirement System and LEOFF Plan 2 members have the option of purchasing an expanded annuity in order to supplement their defined benefit at the time of retirement.

Highlights Of Analysis

- ❖ Allowing members to purchase an optional annuity from the retirement system can support many potential policy goals such as member flexibility, benefit portability, adequacy of benefits, and retirement security.
- ❖ Optional annuities are a valuable benefit to members who can afford to purchase them. However, it may be cost prohibitive for some.

- ❖ All members have access to optional annuities through the private market. However, the retirement systems can typically provide optional annuities at a lower cost.
- ❖ Data suggests a small percentage of members would likely take advantage of an expanded annuity purchase option, and that these members will tend to be higher-income.
- ❖ The cost of an actuarially equivalent annuity is expected to be borne by the purchaser. However, costs to the system can arise if members live longer than expected or investment returns are not as high as expected.
- ❖ There are ways to reduce the risk that the retirement systems will experience a loss on annuity purchases, while still providing a valuable benefit to members including limiting liability exposure and managing pricing risk.
- ❖ Policy makers will likely wish to weigh the benefits of extending an expanded annuity purchase option to all or some members of the state's retirement systems against the existing benefit options and potential risks.

Committee Activity

The committee considered this issue at the September and October meetings. The Executive Committee scheduled an additional work session in November to follow up on outstanding questions and further explore risk mitigation.

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