

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.

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

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. All retirement system 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. All members may also purchase an annuity from the private market. Only Teachers' Retirement System (TRS) and LEOFF 2 members have the option of purchasing an expanded annuity from the retirement system. Expanded annuities allow for larger benefits than additional service credit purchases.

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.
- ❖ Retirement systems can typically provide annuities at a lower cost than the private market.
- ❖ 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.
- ❖ Limiting liability exposure and managing pricing risk can reduce the risk that the retirement systems will experience a loss on annuity purchases, while still providing a valuable benefit to members.

Options

- ❖ **Option 1:** Do not provide an expanded annuity to additional groups.
 - ◇ The current options appear sufficient for most members and the potential risks are not well known at this time.
- ❖ **Option 2:** Provide the TRS expanded annuity to additional groups.
 - ◇ Maximizes member flexibility, which may raise more concerns about competing with private industry.
- ❖ **Option 3:** Provide the LEOFF 2 expanded annuity to additional groups.
 - ◇ Promotes public service portability while limiting some member flexibility.
- ❖ **Option 4:** Develop a new expanded annuity option.
 - ◇ Could include new policy goals or risk mitigation. Staff could bring new options next interim.

Expanded annuity purchases could be extended to all members in all retirement systems, all police officers and firefighters, WSPRS members only, or other groups.

Committee Activity

The committee considered this issue at the September, October, and November meetings. The Executive Committee scheduled a public hearing with possible executive session on a bill providing an expanded annuity purchase option in WSPRS.

Staff Contact

Darren Painter
Policy and Research Services Manager
360.786.6155
darren.painter@leg.wa.gov

O:\SCPP\2014\12-16-14_Full\7.Annuity_Purchase_Exec_Sum.docx