Select Committee on Pension Policy

LEOFF 1 Study

Issue

The 2025-27 Operating Budget requires the Select Committee on Pension Policy (SCPP) to study and report on the tax, legal, actuarial, pension policy, and administrative implications of:

- Terminating the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 as contemplated in Substitute House Bill (SHB) 2034.
- Merging the legacy pension systems as contemplated in Substitute Senate Bill (SSB) 5085.

Background

The LEOFF Plan 1 has been closed to new members since 1977, and nearly all of its members are retired. As of June 30, 2024, the plan has a funded status of 160%, which means it has an *expected* surplus (see the attached report for critical details). Over the last 25 years, a number of proposals have been made aimed at managing that expected surplus. The study mandate requires the SCPP to evaluate the two most recent legislative proposals.

Who Does This Impact?

Both proposals impact members of LEOFF 1. To the extent that SHB 2034 provides budget relief through a reversion of assets, it impacts all Washingtonians. SSB 5085 would also impact members of the Teachers' Retirement System (TRS) Plan 1 and the Public Employees' Retirement System (PERS) Plan 1 by establishing ongoing Cost-Of-Living Adjustments (COLA).

Highlights

The Legislature has several viable options to address the expected surplus in LEOFF 1, including taking no action at all. Taking no action presents the least risk to plan qualification, and allows the LEOFF 1 fund to continue growing, as it is expected to do.

According to the analysis received by the SCPP, the two bills identified in the study mandate can be implemented successfully. While the bills carry some risk, much of the potential risks are already mitigated by one or both of the bills. For example, the risk the plan could be disqualified for tax purposes can be mitigated by:

- A delayed effective date;
- A bill provision requiring the Department of Retirement Services to request both a determination letter and private letter ruling from the IRS; and
- The historic practice of the IRS to allow remediation rather than disqualification.

The remaining question for policymakers is whether or not either bill should be enacted. To answer this question, it can help to choose one or more goals, and assess whether the mechanism will achieve those goals. For example:

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- SHB 2034 makes a large sum of money available to pay for other state obligations, but forgoes any future growth of that money through investment returns.
- SSB 5085 establishes an ongoing “Plans 2 Style” COLA for members of PERS 1 and TRS 1, but “spends down” the expected LEOFF 1 surplus to pay for that COLA and increases long-term liabilities.

Committee Activity

The SCPP received briefings on this issue at their June, July, September, and October meetings. The Committee received the final version of the report at their November meeting.

Recommendation

The Committee made no recommendation on the merits of either SHB 2034 or SSB 5085, but instead recommended that the Legislature request supplemental risk analysis that separately analyzes the policy choices within those bills. For example, by separately analyzing the impacts of the merger and COLA provisions in SSB 5085.

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