**Washington State**
**House of Representatives**
**Office of Program Research**

# BILL ANALYSIS

## Appropriations Committee

# HB 1269

**Brief Description:** Permitting members of the law enforcement officers' and fire fighters' retirement system plan 2 to make a one-time purchase of additional service credit.

**Sponsors:** Representatives Conway, Curtis, Simpson, Hinkle, Upthegrove, Moeller, Morrell, Green, O'Brien, P. Sullivan, Kenney, McDonald, Campbell, Chase, B. Sullivan, Ormsby, Kilmer, McCoy, Jarrett, Wallace, Serben and Strow; by request of LEOFF Plan 2 Retirement Board.

**Brief Summary of Bill**

- Permits members of the Law Enforcement Officers' and Fire Fighters' Plan 2 retirement system to purchase up to five years of service credit.
- Allows the service credit to be purchased at time of retirement at full actuarial cost.
- Allows a member purchasing service credit to pay all or part of the cost with a transfer from an eligible retirement account.

**Hearing Date:** 2/3/05

**Staff:** David Pringle (786-7310).

**Background:**

A vested member of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF 2) may retire with an unreduced benefit at age 53. At retirement in LEOFF 2 a member receives 2 percent of the member's final average salary for each year of credited service.

Beginning at age 50, a member of LEOFF 2 may apply for early retirement after 20 years of service. A member who applies for early retirement has his or her benefit reduced by 3 percent per year for each year that the member is retiring prior to age 53.

Members of LEOFF 2 generally have the opportunity to participate in deferred compensation plans. These plans permit an individual to place a portion of salary into a special account prior to being subject to payroll tax reductions. The Department of Retirement Systems (DRS) operates a deferred compensation program consistent with the federal tax requirements of 26 United States Code section 457, commonly called a "457 Plan", in which employees of the state, counties, municipalities and other political subdivisions may participate. Some school districts and local governments may also participate in other deferred compensation-type plans commonly referred to as "403(b)" or "401(k)" plans. Individuals may also be able to deposit funds into accounts with preferential tax treatment such as Individual Retirement Accounts (IRAs).

In recent years, changes in federal law have liberalized the rules on the transfer of funds between tax-deferred accounts, including governmental defined benefit pension plans like the LEOFF 2 and deferred compensation accounts such as 457, 403(b), and 401(k) plans. Many state and local government pension plans have subsequently provided the opportunity for members to transfer funds, including funds from tax-deferred accounts, into these plans to add up to five years of service credit to a member's defined benefit.

The 2004 Legislature enacted House Bill 2535, which provided the opportunity for members of the Public Employees' Retirement System and the School Employees' Retirement Systems Plans 2 and 3 to purchase up to five years of additional service credit at the time of retirement. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

**Summary of Bill:**

A LEOFF 2 member who applies for retirement may, at the time of retirement, file an application with DRS to purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

The member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. The DRS must adopt rules to ensure that all purchases and transfers comply with the requirements of the federal Internal Revenue Code and regulations. Additional purchased service credit is not regular membership service credit, and may not be used to qualify a LEOFF 2 member for early retirement prior to completion of 20 years of credited service.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect July 1, 2006.