

SENATE BILL REPORT

SB 5652

As Reported by Senate Committee On:
Ways & Means, January 27, 2022

Title: An act relating to law enforcement officers' and firefighters' retirement system benefits.

Brief Description: Concerning law enforcement officers' and firefighters' retirement system benefits.

Sponsors: Senators Conway, Rivers, Lovick, Mullet, Muzzall, Nobles, Short, Van De Wege, Wagoner and Wilson, C.; by request of LEOFF Plan 2 Retirement Board.

Brief History:

Committee Activity: Ways & Means: 1/17/22, 1/27/22 [DPS].

Brief Summary of First Substitute Bill

- Increases the retirement benefit multiplier for certain members of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) from 2 percent to 2.5 percent for years of service from 15 and up to 25.
- Provides certain LEOFF 2 retirees with a one-time lump sum equal to \$100 per month of service for retirees and a minimum of \$20,000 for catastrophic and duty disability retirees, and duty death beneficiaries.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5652 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Capital; Robinson, Vice Chair, Operating & Revenue; Wilson, L., Ranking Member; Brown, Assistant Ranking Member, Operating; Schoesler, Assistant Ranking Member, Capital; Honeyford, Ranking Minority Member, Capital; Billig, Braun, Carlyle, Conway, Dhingra, Gildon, Hasegawa, Keiser,

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Mullet, Muzzall, Pedersen, Van De Wege, Wagoner, Warnick and Wellman.

Staff: Amanda Cecil (786-7460)

Background: The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) provides retirement benefits to full-time, fully-compensated law enforcement officers and firefighters employed by the state, cities, counties, and special districts, who were first employed in an eligible position on or after October 1, 1977.

The basic retirement allowance for LEOFF 2 retirees is equal to 2 percent of the member's average final compensation, calculated on the member's highest consecutive five years of compensation, multiplied by the members years of service. Retirement benefits are available to members at a normal retirement age of 53. Members with at least 20 years of service may take a reduced early retirement benefit beginning at age 50. Early retirement benefits are reduced by up to 3 percent per year before the retiree reaches age 53.

LEOFF 2 benefits are funded by contributions from members, employers, and the state, as well as by investment earnings. Contribution rates are set biennially by the LEOFF 2 Board and are allocated as follows: 50 percent is paid by members, 30 percent is paid by employers, and the remaining 20 percent is paid by the state. In addition to setting contribution rates, the LEOFF 2 Board also studies issues related to plan funding and benefits, and makes recommendations to the Legislature.

In 2008, ESSB 6573 was enacted creating the LEOFF 2 Benefits Improvement Account in the LEOFF 2 Retirement Fund. Funds in the Benefits Improvement Account are not included in the calculation of contribution rates and may only be used to fund LEOFF 2 benefit improvements. Since the creation of this account there have been two transfers in to the account. The first, during the 2013-15 fiscal biennium, was \$15.8 million transferred from the LEOFF 2 Retirement Fund to the Benefits Improvement Account. The second, on July 1, 2019, was \$300 million transferred from the LEOFF 2 Retirement Fund to the Benefits Improvement Account.

Summary of Bill (First Substitute): Benefit Improvements. LEOFF 2 members and beneficiaries who are retired on or before February 1, 2021, will receive a one-time lump sum benefit equal to \$100 per service credit month. Members and beneficiaries of a member who retired with a line-of-duty disability will receive the greater of a one-time lump sum benefit equal to \$100 per service credit month or \$20,000. Retirees, or their beneficiaries, receiving a one-time lump sum payment may use the funds to purchase an optional actuarially equivalent life annuity benefit.

Retirement benefits for members entering active service after February 1, 2021, will be based on an increased benefit multiplier of 2.5 percent per years of service after 15 years and up to 25 years. Members that are active on or before February 1, 2021, may choose between the one-time lump sum payment or the increased benefit multiplier.

Contribution Rates. The LEOFF 2 contribution rates may not exceed the rate established by the LEOFF 2 Board in 2020, of 8.53 percent, for the 2021-23 and 2023-25 fiscal biennia.

A minimum LEOFF 2 rate is created of 90 percent of the normal cost calculated using the entry age normal cost method when the plan's funded status is between 105 percent and 110 percent and 80 percent when the funded status is great than or equal to 110 percent. If the funded status is below 105 percent, the minimum rate is equal to 100 percent of the normal cost calculated using the entry age normal cost method.

Funds in the Benefits Improvement Account combined with funds in the LEOFF 2 Retirement Fund are intended to cover the full cost of these benefit improvements so contribution rates under the plan's minimum funding policy will not increase. To accomplish this, the state actuary must calculate the rate reduction to be applied to the new minimum rates in time for it to go into effect on June 1, 2025.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Changes the date of the actuarial valuation from annually by June 30th to only in even-numbered years to align with rate setting.
- Provides that if the plan's funded status is greater than or equal to 110 percent the minimum rate is equal to 80 percent of the normal cost as calculated under the entry age normal cost method.
- Corrects the date that the LEOFF 2 board adopted the current rates from 2021 to 2020.
- Changes the date of transfer of funds from the Law Enforcement Officers' and Firefighters' System Plan 2 Retirement Fund to the Benefit Improvement Account from June 30, 2022 to July 31, 2022 and the date that the funds are transferred out of the Benefit Improvement Account to the Law Enforcement Officers' and Firefighters' System Plan 2 Retirement Fund from July 31, 2022 to August 31, 2022.
- Provides that the Office of the State Actuary must calculate rate reductions rather than the State Actuary.
- Clarifies that minimum employer contribution rates, including those that might be adjusted by the Pension Funding Council, are subject to revision by the Legislature.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: LEOFF 2 plans have reserves and ability to address these pension needs. These changes make good sense given the times that we are in. The LEOFF 2 Board voted unanimously to endorse this bill. The Benefit Improvement Account was created to address the inadequate benefit of the plan. Law Enforcement Officers and Firefighters have been on the front line doing critical work during the pandemic and the pension system should reflect the important nature of that work. The funded status of the plan is a testament to the management and prudence of the system. The increased multiplier might keep folks around longer.

Persons Testifying: PRO: Senator Steve Conway, Prime Sponsor; Chris Tracy, WACOPS - Washington Council of Police and Sheriffs; Dennis Lawson, Washington State Council of Fire Fighters; Steve Brooks, Washington Fire Chiefs Association; Steve Nelsen, LEOFF 2 Board; Michael Transue, WA Fraternal Order of Police; James Schrimpsheer, WA Fraternal Order of Police.

Persons Signed In To Testify But Not Testifying: No one.