

HOUSE BILL REPORT

HB 2577

As Reported by House Committee On: Appropriations

Title: An act relating to an optional life annuity benefit for plan 2 members of the law enforcement officers' and firefighters' retirement system.

Brief Description: Creating an optional life annuity benefit for plan 2 members of the law enforcement officers' and firefighters' retirement system.

Sponsors: Representatives Van De Wege, Fitzgibbon, Holy, Hayes, Reykdal, Bergquist and Freeman; by request of LEOFF Plan 2 Retirement Board.

Brief History:

Committee Activity:

Appropriations: 1/28/14, 2/4/14 [DP].

Brief Summary of Bill

- Permits members of Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) to purchase actuarially equivalent life annuity benefits from the LEOFF 2 retirement fund.
- Requires annuity purchases to be for a minimum of \$25,000, and funds used for the purchase must be from a tax qualified plan offered by a governmental employer.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 27 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Ross, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Christian, Cody, Dahlquist, Dunshee, Fagan, Green, Haigh, Hudgins, G. Hunt, S. Hunt, Jinkins, Kagi, Lytton, Morrell, Parker, Pettigrew, Schmick, Seaquist, Springer, Sullivan, Taylor and Tharinger.

Staff: David Pringle (786-7310).

Background:

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

A vested member of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) may retire with an unreduced benefit at age 53. At retirement in the 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 the 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 the 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.

The 2005 Legislature enacted House Bill 1269, which provided the opportunity for members of the LEOFF 2 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. The member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. During 2013, 43 retiring LEOFF 2 members purchased an average of 54 months of service credit at an average cost of \$132,699.

Members and survivors of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees' Retirement Systems Plans 3 may convert some or all of the funds from their Plan 3 member account to a life annuity, but only those funds that are in the Washington State Investment Board (WSIB) pension funds may be used to purchase annuities from the Total Allocation Portfolio (TAP), essentially part of the commingled pension fund. Funds from Plan 3 member accounts in the Self-Directed Investment Program used to purchase annuities are made through an insurance company on the member's behalf.

The minimum TAP annuity purchase from the WSIB from a Plan 3 member account is \$25,000, but a Plan 3 member may use any amount of the member contributions and interest contributed to the TAP fund during the member's career to purchase the TAP annuity. Interest rates offered by insurers on annuity products, and the resulting monthly payments, are typically much lower than the rates offered by the DRS for actuarially equivalent annuities from the TAP funds.

Summary of Bill:

Members of the LEOFF 2 are permitted to purchase actuarially equivalent life annuity benefits from the LEOFF 2 retirement fund. Annuity purchases must be for a minimum of \$25,000, and funds used for the purchase must be from a tax qualified plan offered by a

governmental employer. The DRS shall adopt rules to ensure that all eligible rollovers and transfers comply with the requirements of the Federal Internal Revenue Code and regulations adopted by the Internal Revenue Service.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill provides additional security to members through the investment skills of the WSIB. The bill will allow better retirement benefits, beyond the five years of service credit annuity that can be purchased now. The bill was unanimously endorsed by the LEOFF 2 Board (Board). The Board is looking for ways to encourage members to save more, as most are exempt from Social Security.

(Opposed) None.

Persons Testifying: Representative Van de Wege, prime sponsor; and Steve Nelsen, Law Enforcement Officers' and Fire Fighters' Plan 2.

Persons Signed In To Testify But Not Testifying: None.