H-2357.1

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**SUBSTITUTE HOUSE BILL 1701**

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**State of Washington 67th Legislature 2022 Regular Session**

**By** House Appropriations (originally sponsored by Representatives Bergquist, MacEwen, Sells, Bateman, Graham, Fitzgibbon, Callan, Peterson, Sullivan, Pollet, Maycumber, and Ormsby; by request of LEOFF Plan 2 Retirement Board)

AN ACT Relating to law enforcement officers' and firefighters' retirement system benefits; amending RCW 41.26.420, 41.26.463, 41.45.155, 41.45.158, 41.45.0604, and 41.26.802; adding a new section to chapter 41.26 RCW; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

**Sec.**  RCW 41.26.420 and 1993 c 517 s 2 are each amended to read as follows:

TIERED MULTIPLIER BENEFIT IMPROVEMENT.

(1) Except as provided in RCW 41.26.530, a member of the retirement system shall receive a retirement allowance equal to two percent of such member's final average salary for each year of service.

(2) Beginning January 16, 2023, members new to the retirement system after February 1, 2021, who earn more than 15 years of service credit shall receive a tiered multiplier retirement allowance as follows:

(a) Two percent of such member's final average salary for the first 15 years of service;

(b) Two and one-half percent of such member's final average salary for the 10 years of service after 15 years and up to 25 years; and

(c) Two percent of such member's final average salary for years of service above 25 years.

(3) Members active in the retirement system on or before February 1, 2021, at retirement must make an irrevocable choice between the lump sum defined benefit in section 2 of this act or a tiered multiplier retirement allowance as follows:

(a) Two percent of such member's final average salary for the first 15 years of service;

(b) Two and one-half percent of such member's final average salary for the 10 years of service after 15 years and up to 25 years; and

(c) Two percent of such member's final average salary for years of service above 25 years.

(4) Any member who receives the tiered multiplier benefit in this section is not eligible for the lump sum defined benefit in section 2 of this act.

NEW SECTION. **Sec.**  A new section is added to chapter 41.26 RCW under the subchapter heading "plan 2" to read as follows:

LUMP SUM BENEFIT IMPROVEMENT.

(1) Members who are retired on or before February 1, 2021, will receive a one-time lump sum defined benefit of $100 per service credit month payable by January 31, 2023.

(a) Members who retired for an in the line of duty disability under RCW 41.26.470 shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000.

(b) A member's beneficiary is eligible for an in the line of duty death benefit under RCW 41.26.048. If there is more than one eligible beneficiary the lump sum defined benefit will be distributed in accordance with RCW 41.26.048.

(c) If the member is deceased the member's survivor beneficiary under RCW 41.26.460 is eligible for this lump sum defined benefit.

(2) Members who are active in the plan on or before February 1, 2021, must make an irrevocable choice at retirement between the tiered multiplier benefit defined in RCW 41.26.420(3) or a one-time lump sum defined benefit of $100 per service credit month to be paid at retirement.

(a) Members who retire for an in the line of duty disability under RCW 41.26.470 and who elect to receive this lump sum defined benefit shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000.

(b) A member's beneficiary eligible for an in the line of duty death benefit under RCW 41.26.048 and who elects to receive this lump sum defined benefit shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000. If there is more than one eligible beneficiary the lump sum defined benefit will be distributed in accordance with RCW 41.26.048.

(c) For a beneficiary of a member who dies in service but not in an in the line of duty death, the distribution shall be made according to the member's beneficiary designation under this chapter.

(3) Members who are inactive on or before February 1, 2021, but who later return to membership must make an irrevocable choice at retirement between the tiered multiplier benefit in RCW 41.26.420 and this lump sum defined benefit.

(4) Members who receive a refund of contributions under RCW 41.26.540 are not eligible for this lump sum defined benefit.

(5) This lump sum defined benefit is exempt from judicial process and taxes under RCW 41.26.053.

(6) Any member who receives this lump sum defined benefit is not eligible for the tiered multiplier benefit in RCW 41.26.420.

**Sec.**  RCW 41.26.463 and 2014 c 91 s 1 are each amended to read as follows:

ANNUITY OPTION.

(1) At the time of retirement, plan 2 members may purchase an optional actuarially equivalent life annuity benefit from the ((~~[Washington]~~)) Washington law enforcement officers' and firefighters' ((~~retirement~~)) system plan 2 retirement fund established in RCW 41.50.075. A minimum payment of twenty-five thousand dollars is required.

(2) Retirees, or their beneficiaries, who have received a one-time lump sum defined benefit under section 2 of this act may purchase an optional actuarially equivalent life annuity benefit from the Washington law enforcement officers' and firefighters' system plan 2 retirement fund established in RCW 41.50.075, with the money received from the lump sum defined benefit. A minimum payment of $20,000 is required.

(3) Subject to rules adopted by the department, a member purchasing an annuity under this section must pay all of the cost with an eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan.

(a) The department shall adopt rules to ensure that all eligible rollovers and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(b) "Eligible retirement plan" means a tax qualified plan offered by a governmental employer.

**Sec.**  RCW 41.45.155 and 2009 c 561 s 6 are each amended to read as follows:

MINIMUM CONTRIBUTION RATES.

(1) Beginning July 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the public employees' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(2) Beginning July 1, 2011, a minimum contribution rate is established for the plan 2 normal cost as part of the basic employer contribution rate for the public safety employees' retirement system. The minimum contribution rate for the plan 2 normal cost shall equal the total contribution rate required to fund eighty percent of the plan 2 normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(4) Beginning September 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(5) A minimum contribution rate is established for the plan 2 normal cost as part of the basic employer and state contribution rate for the law enforcement officers' and firefighters' retirement system. The council may not adopt changes to the minimum contribution rate for plan 2 of the law enforcement officers' and firefighters' retirement system under subsection (6) of this section. On June 30th of each even-numbered year, if the funded status of the law enforcement officers' and firefighters' retirement system plan 2 as measured by the most recent completed actuarial valuation performed by the office of the state actuary is:

(a) Less than 105 percent, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 100 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method;

(b) Greater than or equal to 105 percent and less than 110 percent, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 90 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method; or

(c) Greater than or equal to 110 percent, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 80 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method.

(6) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the council any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience. ((~~Any~~)) The minimum contribution rates in this section, including changes adopted by the council, shall be subject to revision by the legislature.

**Sec.**  RCW 41.45.158 and 2006 c 365 s 4 are each amended to read as follows:

MINIMUM CONTRIBUTION RATES.

(1) Beginning July 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the public employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(2) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(4) A minimum contribution rate is established for the plan 2 normal cost as part of the basic member contribution rate for the law enforcement officers' and firefighters' retirement system. The council may not adopt changes to the minimum contribution rate for plan 2 of the law enforcement officers' and firefighters' retirement system under subsection (5) of this section. On June 30th of each even-numbered year, if the funded status of the law enforcement officers' and firefighters' retirement system plan 2 as measured by the most recent completed actuarial valuation performed by the office of the state actuary is:

(a) Less than 105 percent, then the minimum contribution rate for the member normal cost shall equal the total contribution rate required to fund 100 percent of the plan 2 member normal cost as calculated under the entry age normal cost method;

(b) Greater than or equal to 105 percent and less than 110 percent, then the minimum contribution rate for the member normal cost shall equal the total contribution rate required to fund 90 percent of the plan 2 member normal cost as calculated under the entry age normal cost method; or

(c) Greater than or equal to 110 percent, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 80 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method.

(5) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience.

**Sec.**  RCW 41.45.0604 and 2007 c 280 s 3 are each amended to read as follows:

FREEZE LEOFF 2 CONTRIBUTION RATES.

(1)(a) Not later than July 31, 2008, and every even-numbered year thereafter, the law enforcement officers' and firefighters' plan 2 retirement board shall adopt contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 as provided in RCW 41.26.720(1)(a).

(b) For 2021-2023 and 2023-2025 fiscal biennia, contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 may not exceed the rates adopted by the law enforcement officers' and firefighters' plan 2 retirement board in 2020.

(2) The law enforcement officers' and firefighters' plan 2 retirement board shall immediately notify the directors of the office of financial management and department of retirement systems of the state, employer, and employee rates adopted. Thereafter, the director shall collect those rates adopted by the board. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

**Sec.**  RCW 41.26.802 and 2019 c 366 s 2 are each amended to read as follows:

TRANSFER OF FUNDS.

(1) Prior to May 13, 2019, this section required certain transfers to be made to the local public safety enhancement account. After May 13, 2019, except for the transfer in subsection (2) of this section, no further transfers will be made to the local public safety enhancement account pursuant to this section.

(2) On July 1, 2019, the state treasurer shall transfer the sum of three hundred million dollars from the law enforcement officers' and firefighters' plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

(3) By July 31, 2022, the Washington state investment board shall transfer the difference between the value of the benefit enhancements in this act as identified by the office of the state actuary and the value of the local law enforcement officers' and firefighters' retirement system benefits improvement account, from the law enforcement officers' and firefighters' system plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

(4) By August 31, 2022, the Washington state investment board shall transfer the total available balance of the local law enforcement officers' and firefighters' retirement system benefits improvement account to the law enforcement officers' and firefighters' system plan 2 retirement fund. The amount transferred under this subsection goes toward the benefit enhancements in this act.

NEW SECTION. **Sec.**  OFFSET LANGUAGE. The transfer of funds in section 7 of this act is intended to pay the full cost of the benefit improvements in sections 1 and 2 of this act for current law enforcement officers' and firefighters' retirement system plan 2 members so that contribution rates under the plan's minimum funding policy for those members will not increase as a result of this benefit improvement. To accomplish this goal, after the transfer of funds in section 7 of this act the office of the state actuary must calculate a rate reduction to be applied to rates calculated in sections 4(5) (a) and (b) and 5(4) (a) and (b) of this act. This rate must be calculated in time for it to go into effect on July 1, 2025, using any data, assumptions, and methods the office of the state actuary believes are reasonable for this purpose.

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