

# SENATE BILL REPORT

## SB 6792

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As Reported By Senate Committee On:  
Ways & Means, February 8, 2000

**Title:** An act relating to payment of medical benefits provided under chapter 41.26 RCW to law enforcement officers' and fire fighters' retirement system plan 1 retirees.

**Brief Description:** Paying medical benefits provided under chapter 41.26 RCW to law enforcement officers' and fire fighters' retirement system plan 1 retirees.

**Sponsors:** Senators Snyder, Long, Fraser, Loveland, Winsley, Horn, Benton, Franklin, Honeyford, B. Sheldon, Bauer, Kline, Haugen, Rasmussen, McDonald, Gardner, West, Hargrove, Rossi, Kohl-Welles, McAuliffe, Fairley, Prentice, Goings, Jacobsen, Spanel, Oke, Hale, Morton, Roach, Sellar, Finkbeiner, Sheahan, Stevens, Patterson and Johnson.

**Brief History:**

**Committee Activity:** Ways & Means: 2/2/2000, 2/8/2000 [DPS].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6792 be substituted therefor, and the substitute bill do pass.

Signed by Senators Loveland, Chair; Bauer, Vice Chair; Brown, Vice Chair; Fairley, Fraser, Honeyford, Kline, Kohl-Welles, Long, McDonald, Rasmussen, Roach, Rossi, B. Sheldon, Snyder, Spanel, West, Winsley, Wojahn and Zarelli.

**Staff:** Pete Cutler (786-7454)

**Background:** The Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) was created in 1969 and covers all full-time law enforcement officers and fire fighters. At that time the state took over the liabilities of local police and fire pension plans.

As of October 1, 1977, a new set of benefits was created for newly hired LEOFF members. The original set of benefits for those first hired before October 1977 is referred to as LEOFF Plan 1; the new set of benefits is referred to as LEOFF Plan 2.

LEOFF Plan 1 pension benefits are funded by a 6 percent member contribution, a 6 percent employer contribution, and a state contribution of whatever additional funding is needed for the plan benefits. For a number of reasons, including high disability retirement rates and high inflation, the LEOFF Plan 1 liabilities grew rapidly and the state's contributions have greatly exceeded the combined local employer and employee contributions.

The LEOFF statutes also provide that LEOFF Plan 1 employers must pay for medical services incurred by retired members. The statute which creates the LEOFF Plan 1 fund states that the fund shall consist of all moneys paid to finance the benefits provided to members of LEOFF Plan 1.— Even though the medical coverage is a benefit created by the

LEOFF statutes, it is paid directly by employers, and not from the LEOFF Plan 1 fund. The minimum medical services provided by statute include confinement in a nursing home or hospital extended care facility.

The federal tax code places certain restrictions upon the use of assets in a qualified pension plan for payment of retiree medical services.

The Office of the State Actuary's (OSA) report on the actuarial valuation for LEOFF Plan 1 as of December 31, 1998, indicated that the plan has liabilities of about \$3.9 billion, and valuation assets of about \$4.55 billion, resulting in a plan surplus of about \$650 million.

In 1993 the Legislature directed OSA to do an actuarial study of the local government liabilities for LEOFF Plan 1 medical benefits. In 1999, funding was provided for an update of the 1993 study. The Joint Committee on Pension Policy (JCPP) has directed OSA to expand the current study to review the LEOFF Plan 1 disability boards, and the potential use of employer contributions and the LEOFF Plan 1 fund for payment of LEOFF Plan 1 medical benefits.

**Summary of Substitute Bill:** The Legislature declares its intent that not less than \$50 million of surplus assets from the LEOFF Plan 1 fund be used, if possible, for payment of certain LEOFF Plan 1 retiree extraordinary medical expenses. The JCPP must also review, with input from a LEOFF advisory workgroup, possible long-term options for funding a portion of the LEOFF Plan 1 retiree medical expenses from the LEOFF Plan 1 trust fund.

Extraordinary medical expenses are defined for the purposes of the bill as certain nursing home services and hospital care expenses in excess of \$25,000 per year. Statutory guidelines for the payment of certain extraordinary medical expenses are to be adopted in the 2001 session. Expenditures from the LEOFF Plan 1 fund for such expenses are authorized only if the next LEOFF Plan 1 valuation study indicates it has not less than \$500 million in surplus funds.

The JCPP must provide for a study during the 2000 interim of options for providing partial funding of LEOFF Plan 1 retiree medical expenses from surplus assets of the LEOFF Plan 1 fund. The study shall include a report by OSA on local government liabilities, and a review of legal issues, federal tax compliance issues, variations in local government benefits and funding mechanisms for LEOFF Plan 1 retiree medical services, and other relevant issues. The JCPP shall solicit information and advice from a LEOFF employer and member advisory workgroup, which consists of not less than six representatives of LEOFF employer organizations and six representatives of LEOFF member organizations. Support for the study is provided by OSA. The JCPP must submit its report and recommendations to the Legislature no later than December 15, 2000.

No LEOFF Plan 1 employer or member contribution is required after June 30, 2000, unless the most recent valuation study for LEOFF Plan 1 indicates the plan has unfunded liabilities.

**Substitute Bill Compared to Original Bill:** Legislative intent is clarified.

**Appropriation:** None.

**Fiscal Note:** Requested on January 29, 2000.

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

**Testimony For:** Local governments face potentially large and unpredictable expenses for medical services for LEOFF 1 retirees. Hopefully, the study by the JCPP in 2000 will lead to agreement on a means to use surplus LEOFF Plan 1 assets for paying a portion of the LEOFF Plan 1 liabilities.

**Testimony Against:** None.

**Testified:** PRO: Dan LaRoche, Douglas County Sheriff, WASPC; Bill Vogler, WA State Assn. of Counties; Jim Justin, AWC; Roger Ferris, WA Fire Commissioners Assn.; Jim Rudd, WSCFF; Mike Patrick, WA Council of Police.