FINAL BILL REPORT
SHB 2688

PARTIAL VETO
C 350 L 06
Synopsis as Enacted

Brief Description: Addressing the law enforcement officers' and fire fighters' retirement system plan 1.

Sponsors: By House Committee on Appropriations (originally sponsored by Representatives Fromhold, Conway, Lovick, Kenney, Quall, Simpson, Ormsby, Moeller and Ericks; by request of Select Committee on Pension Policy).

House Committee on Appropriations
Senate Committee on Ways & Means

Background:

The Law Enforcement Officers' and Fire Fighters' Retirement System, Plan 1 (LEOFF 1) provides retirement and disability benefits to law enforcement officers and fire fighters who entered eligible employment between 1969 and 1977. Since 1977, eligible law enforcement officers and fire fighters have entered LEOFF 2.

In 1974, the Legislature capped retirement allowances of new members of LEOFF 1 at 60 percent of final average salary, except as retirement allowances might increase after retirement by the annual Consumer Price Index cost of living adjustment. The result was that for the members who joined LEOFF 1 between the institution of the cap on February 19, 1974, and the closing of the plan in 1977, a LEOFF 1 member's retirement allowance would initially be based on no more than 30 years of service credit.

Prior to 1974, 30 years of service caps were placed in the Public Employees' Retirement System, Plan 1, and the Teachers' Retirement System, Plan 1. Final average salary is defined in LEOFF 1 as (1) the basic salary earned by a member attached to the same position for 12 months before retirement, or (2) the highest consecutive 24-months of basic salary for a member not in the same position for 12 months prior to retirement.

To date, members of LEOFF 1 have not been affected by the 60 percent cap. The cap was put in place during 1974 for members newly entering LEOFF 1, and about 32 years have elapsed since. Also, relatively few members of LEOFF 1 have retired at the older ages typically associated with members who have more than 30 years of service. For example, between 1995 and 2000, the period of the last Actuarial Experience Study, only 211 members retired from LEOFF 1 after age 55 and only 41 retired after age 60.

Rather than retirement, most LEOFF 1 members have left active service with a disability allowance equal to 50 percent of pay, not subject to federal income tax. During the 1995-2000 period, 984 members began disability allowances, nearly 82 percent of all the members beginning either a disability or retirement allowance. As LEOFF 1 was closed to new members in 1977, the number of active plan participants has gradually declined. In the Washington State Actuarial Valuation Report 2002, the Office of the State Actuary reported 1,147 LEOFF 1 active and 7,987 retired members at the end of 2002. About 568 of these active members were first hired after the 60 percent cap came into effect.

The LEOFF statutes also provide that LEOFF Plan 1 employers must pay for medical services incurred by retired members. 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. In 2001, the State Actuary completed a statutorily-mandated study of LEOFF 1 medical benefits and found that present value of local government liability for LEOFF 1 medical benefits was between $700 and $800 million.

Summary:

The LEOFF 1 60 percent of final average salary cap on retirement allowances is removed.

The Governor must establish a seven member joint executive task force to study funding postretirement medical benefits for LEOFF 1. The membership consists of: the Director of the Department of Retirement Systems; the Administrator of the Health Care Authority; the State Actuary; one representative of Washington cities, one representative of Washington counties, and one active and one retired member of LEOFF 1, each appointed by the Governor. The intent of the task force is to create a funding mechanism to assist employers in providing postretirement medical benefits to LEOFF 1 members. The task force must make recommendations for proposed legislation to the appropriate committees of the Legislature by September 1, 2006, and submit a final report no later than December 1, 2006. The task force expires December 1, 2006.

Votes on Final Passage:

House	78	19	
Senate	34	6	(Senate amended)
House	75	23	(House concurred)

Effective: July 1, 2006

Partial Veto Summary: The veto eliminates the Joint Executive Task Force on Funding Postretirement Medical Benefits for members of LEOFF plan 1.