

SENATE BILL REPORT

SB 6563

As of February 17, 2012

Title: An act relating to merging plan 1 and plan 2 of the law enforcement officers' and firefighters' retirement system.

Brief Description: Merging plan 1 and plan 2 of the law enforcement officers' and firefighters' retirement system.

Sponsors: Senators Brown, Harper, Hobbs, Murray, Pridemore, Delvin, Kohl-Welles, Chase, Shin and Conway.

Brief History:

Committee Activity: Ways & Means: 2/16/12.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: The Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) provides retirement benefits to full-time, fully-compensated law enforcement officers and fire fighters employed by the state, cities, counties, and special districts. LEOFF Plan 1 (LEOFF 1) provides retirement and disability benefits to LEOFF members who entered eligible employment between 1969 and 1977. Since 1977 eligible law enforcement officers and fire fighters have entered LEOFF Plan 2 (LEOFF 2).

LEOFF 1 provides members with a defined benefit equal to 2 percent of a member's average salary with a minimum retirement age of 50 years and at least 5 years of service. In addition to regular retirement and disability benefits, LEOFF 1 is unique among state retirement system benefits in that retiree benefits include coverage for all necessary medical services. As of the 2010 Actuarial Valuation Report (AVR) prepared by the State Actuary, LEOFF 1 had approximately 350 actively employed members and 8000 benefit recipients.

Decisions on eligibility for LEOFF 1 disability and medical benefits are made by city and county LEOFF 1 disability boards. Disability benefits may be granted by LEOFF 1 disability boards to members in LEOFF 1 for both duty and non-duty related causes. Each city with a population of 20,000 or more has a LEOFF 1 disability board and each county also has a disability board, and these county boards have jurisdiction over LEOFF 1 members who are not employed in a city that has its own disability board. LEOFF 1 is funded through

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.

employer and employee contributions made at rates established by the Pension Funding Council (PFC). Retirement system contribution rates adopted by the PFC are subject to revision by the Legislature. Currently, both employee and employer contributions are suspended. As of publication of the State Actuary's 2010 AVR, LEOFF 1 was 127 percent funded, with approximately \$4.4 billion in liabilities and \$5.6 billion in assets generating a surplus of about \$1.2 billion as valued on an actuarial basis.

LEOFF 2 provides members with a defined benefit equal to 2 percent of a member's average salary with a regular retirement age of 53 years with at least 5 years of service. Early retirement is available in LEOFF 2 from age 50 with at least 20 years of service, however a member's benefit is reduced by 3 percent for each year of difference between the member's age at retirement and 53 years. As of June 30, 2011, LEOFF 2 had approximately 16,800 active members and 1600 annuitants.

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board (LEOFF 2 Board) is responsible for the adoption of the economic assumptions, actuarial methods, and contribution rates for LEOFF 2, subject to revision by the Legislature. The membership of the LEOFF 2 Board consists of: (1) three law enforcement officers who belong to LEOFF 2, one of whom may be retired; (2) three fire fighters who belong to LEOFF 2, one of whom may be retired; (3) three representatives of employers; (4) one member of the House of Representatives; and (5) one member of the Senate. One of the board members must be a retired member of LEOFF 2.

LEOFF 2 is funded by contributions from members, employers, and the state, as well as investment earnings on the funds contributed. The total level of contributions required in a given period is allocated as follows: 50 percent is paid by the members, 30 percent is paid by employers, and the remaining 20 percent is paid by the state. As of the publication of 2010 AVR, LEOFF 2 had actuarial liabilities of about \$4.9 billion, an actuarial value of assets of about \$6.0 billion, and was approximately 124 percent funded.

Summary of Bill: The LEOFF 2 Board is replaced by a LEOFF Board. Board members occupying plan member positions may be appointed from either LEOFF 1 or LEOFF 2.

The LEOFF Plan 1 and LEOFF Plan 2 retirement funds are merged. The LEOFF Board has the authority to adopt contribution rates, actuarial methods, and actuarial assumptions for both LEOFF 1 and LEOFF 2. The total level of contributions required in a given period is allocated as follows: 50 percent is paid by the members, 30 percent is paid by employers, and the remaining 20 percent is paid by the state. The LEOFF Board's adopted rates and assumptions would not be subject to revision by the Legislature if they are certified as reasonable by the State Actuary.

The benefits that LEOFF 1 and LEOFF 2 members are eligible for are not changed.

State contributions to LEOFF 2 are suspended immediately upon passage of the bill for the remainder of the 2011-13 biennium. There is no reduction in employer or member rates.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony: PRO: The combined LEOFF system created by this bill will be stronger than the two plans are currently. The State Actuary has indicated that there is currently a 28 percent chance that LEOFF 1 will run out of funds and enter pay-as-you-go status, while the merged plan would have no risk of funding failure. The employees and employers in LEOFF 2 would face some risk of increased costs, though, so it's important that the Board be given authority to manage the plan. This bill is about stabilizing funding and strengthening the plans. Reducing rates for short-term savings and giving up investment earnings isn't sound fiscal policy. We want to be certain that adequate contributions are made to protect the plans. Perhaps in the future the benefit enhancements necessary to protect members of both plans can be implemented. Members of LEOFF 1 say that they'll lose something if this bill is enacted, but they won't. We're trying to keep the plans solvent and take care of all the members.

CON: The merger of these plans would be poor fiscal policy. This bill diminishes legislative oversight of rates. Which assumptions are reasonable aren't always clear. We are concerned about the potential enhancement of benefits in LEOFF while general service employees are left behind. It's not clear who is ultimately entitled to any unnecessary surplus funds at this time. One of the most important benefits of LEOFF 1 is access to medical benefits governed by local boards; this bill does not protect the authority of the boards. LEOFF 2 members are at a disadvantage because they don't have the medical benefits that they should, but you should focus on fixing that rather than merging the plans. Both plans are financially healthy and there is reason to merge them. It isn't at all clear what the intent of this legislation is. LEOFF 1 members weren't consulted in the development of this bill. There is no way that LEOFF 1 members would get adequate representation on the combined plans' board. This bill doesn't contain any relief for employers, who face enormous costs associated with LEOFF 1 medical benefits in addition to LEOFF 2 contributions. The promises made to LEOFF 1 members should be kept. This legislation impairs contractual rights, which is unlawful under both the state Constitution and the U.S. Constitution.

Persons Testifying: PRO: Mike Brown, WA Fire Chiefs (with concerns); Carl Burke, Fraternal Order of Police; Kelly Fox, WA State Council of Fire Fighters; David Hayes, WACOPS; Renee Maher, COMPAS; Pat McElligott, Tacoma Fire Fighters; Steve Nelson, LEOFF Plan 2 Retirement Board.

CON: Jim Adsley, LEOFF 1; Jeff Caldwell, Retired Seattle Police Officers' Association; Ken Conder, Tom Helms, retired, Seattle Police Department; Mark Curtis, LEOFF 1 Coalition; Brian Enslow, WA State Assn. of Counties; James Fossos, Roger Keller, Dick Warbrouck, Retired Fire Fighters of Washington; Remi Hansen, LEOFF 1 Disability Board of Thurston County; William Kantor, LEOFF 1 Coalition; Paul Pearce, WA State Assn. of Counties, Skamania County Commissioner; Dave Peery, LEOFF 1 Coalition; Ashley Probart, Assn. of WA Cities; Brian Schoening, retired, Sheriff of Thurston County; Jack Seward, LEOFF 1;

Jerry Taylor, retired, Seattle Police Officer; Joseph Valencia, LEOFF 1; Al O'Brien, former Representative.