

SENATE BILL REPORT

SB 5916

As of April 18, 2013

Title: An act relating to administration of public retirement plans.

Brief Description: Addressing the administration of public retirement plans.

Sponsors: Senators Bailey, Baumgartner, Hill, Holmquist Newbry, Ericksen, Schoesler, Hewitt and Mullet.

Brief History:

Committee Activity: Ways & Means: 4/18/13.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Pete Cutler (786-7474)

Background: LEOFF Plan 1. Former employers of persons who retire in Plan 1 of the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) are responsible for paying necessary medical services not paid from some other source. The medical services are not paid from the LEOFF Plan 1 retirement fund. The medical services that employers must pay for LEOFF Plan 1 retirees include expenses for nursing home confinement or a hospital extended-care facility.

LEOFF Plan 1 city and county disability boards review and approve applications for disability retirement and also designate the medical services available to retired members. Each board uses its own discretion regarding which medical services are paid by their LEOFF Plan 1 employer. Disability board decisions denying or canceling a disability retirement can be appealed to the director of the Department of Retirement Systems (DRS); decisions regarding medical services are not subject to appeal to DRS.

An actuarial valuation done by the Office of the State Actuary in 2011 estimated the total employer actuarial accrued liability for LEOFF Plan 1 medical benefits to be approximately \$1.9 billion. Individual employer expenses can fluctuate widely from year to year depending especially on retirees' need for nursing home confinement.

Excess Compensation. The monthly defined benefit retirement allowances in state retirement plans are most commonly calculated by multiplying the retiree's number of years of service by a percentage multiplier of 1 or 2 percent, and by the retiree's average pension-eligible

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compensation. In Plan 1 of the Public Employees' Retirement System Plan (PERS) and the Teachers' Retirement System (TRS), the allowance is based on the retiree's average pension-eligible compensation over a two-year period; in Plans 2 of PERS, TRS, and LEOFF, the allowance is based on a five-year average.

Since 1984, excess compensation has been defined in the pension statutes as consisting of specific types of payments when those payments increase the member's retirement allowance. If excess compensation is included in the reportable compensation used to calculate a retirement allowance, then the applicable employer is responsible for the resulting liability to the pension fund. Without such an employer payment, the cost to the pension fund caused by the excess compensation would be paid by all employers through the contribution rate structure for the plan. In the case of the Plan 2 systems, the cost would be spread among all members as well as all employers.

Under current retirement statutes, employers that make payments to employees which qualify as excess compensation are liable to the pension fund for the total estimated cost of all present and future retirement benefits attributable to the excess compensation. The labeling of a form of compensation as excess compensation does not affect the calculation of a retiree's pension benefits.

Excess compensation includes the following payments, when used in the calculation of the retirement allowance:

- a cashout of more than 240 hours of annual leave;
- a cashout of any other form of leave;
- a cashout in lieu of the accrual of annual leave;
- any payment added to salary or wages, concurrent with a reduction of annual leave;
- any payment that exceeds twice the regular daily or hourly rate of pay;
- a payment for, or in lieu of, any personal expenses or transportation allowance, to the extent that the payment qualifies as reportable compensation in the member's retirement system; or
- any termination or severance payment.

The excess compensation statutes apply to all of the retirement systems administered by DRS, including PERS, TRS, the School Employees' Retirement System, the Public Safety Employees Retirement System, LEOFF, and the Washington State Patrol Retirement System.

Summary of Bill: The local government self-insurance program of the Department of Enterprise Services must provide assistance to a workgroup composed of city, county, and fire district representatives to develop a voluntary local government risk pool for LEOFF Plan 1 retiree medical services. Employer premiums must be the sole source of funding for the risk pool claims and administrative expenses. Upon request, the Office of the State Actuary may provide actuarial support to the workgroup. If statutory changes are needed, the local government self-insurance program must submit a report and proposed legislation to the fiscal committees of the Legislature no later than December 1, 2013.

LEOFF Plan 1 members and employers may appeal to the the director of DRS any disability board decision to grant or to deny coverage for a requested medical service. The director

must review the appeals using standards recommended by the Health Care Authority medical director.

An additional category of excess compensation is created to include any increases in the compensation used to calculate a retirement allowance that exceeds 125 percent of the person's reportable compensation from the prior salary averaging period, where the increase is the result of payments for overtime, bonuses, cashouts of any form of leave, or lump-sum payments.

Appropriation: None.

Fiscal Note: Requested on April 17, 2013.

Committee/Commission/Task Force Created: No.

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