

HOUSE BILL REPORT

HB 1701

As Reported by House Committee On:
Appropriations

Title: An act relating to law enforcement officers' and firefighters' retirement system benefits.

Brief Description: Concerning law enforcement officers' and firefighters' retirement system benefits.

Sponsors: Representatives Bergquist, MacEwen, Sells, Bateman, Graham, Fitzgibbon, Callan, Peterson, Sullivan, Pollet, Maycumber and Ormsby; by request of LEOFF Plan 2 Retirement Board.

Brief History:

Committee Activity:

Appropriations: 1/20/22, 1/27/22 [DPS].

Brief Summary of Substitute Bill

- Increases the retirement benefit multiplier for certain members of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) from 2 percent to 2.5 percent for years of service from 15 and up to 25.
- Provides certain LEOFF 2 retirees with a one-time lump sum equal to \$100 per month of service for retirees and a minimum of \$20,000 for catastrophic and duty disability retirees and duty death beneficiaries.
- Creates a minimum contribution rate for the Law Enforcement Officers' and Fire Fighters' Retirement System and freezes contribution rates for two biennia at the rates adopted by the LEOFF 2 Board.
- Creates tiered minimum contribution rates for future biennia, from 80 percent to 100 percent of employer normal cost, depending on the funded status of the plan, and subject to revision by the Legislature.
- Requires the Washington State Investment Board to transfer the full

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balance of the Local Law Enforcement Officers' and Firefighters' System Benefits Improvement Account to the LEOFF 2 Retirement Fund.

- Requires the Office of the State Actuary to calculate a contribution rate reduction to begin June 1, 2025, that will ensure member contribution rates do not increase as a result of the benefit improvement.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 30 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Caldier, Chandler, Cody, Dolan, Dye, Fitzgibbon, Frame, Hansen, Harris, Jacobsen, Johnson, J., Lekanoff, Pollet, Rude, Ryu, Schmick, Senn, Springer, Steele, Stonier, Sullivan and Tharinger.

Staff: David Pringle (786-7310).

Background:

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) provides retirement benefits to full-time, fully compensated law enforcement officers and firefighters employed by the state, cities, counties, and special districts, who were first employed in an eligible position on or after October 1, 1977.

The basic retirement allowance for LEOFF 2 retirees is equal to 2 percent of the member's average final compensation, calculated on the member's highest consecutive five years of compensation, multiplied by the member's years of service. Retirement benefits are available to members at a normal retirement age of 53. Members with at least 20 years of service may take a reduced early retirement benefit beginning at age 50. Early retirement benefits are reduced by up to 3 percent per year before the retiree reaches age 53.

The LEOFF 2 benefits are funded by contributions from members, employers, and the state, as well as by investment earnings. Contribution rates are set biennially by the LEOFF 2 Board and are allocated as follows: 50 percent is paid by members, 30 percent is paid by employers, and the remaining 20 percent is paid by the state. Contribution rates established by the LEOFF 2 Board are subject to revision by the Legislature. In addition to setting contribution rates, the LEOFF 2 Board also studies issues related to plan funding and benefits and makes recommendations to the Legislature.

The LEOFF 2 Local Benefits Improvement Account (LEOFF 2 BIA) was created by the Legislature in 2008 as a distinct part of the LEOFF 2 Retirement Fund. Funds in the

LEOFF 2 BIA are not included in the calculation of contribution rates and may only be used to fund LEOFF 2 benefit improvements. Since the creation of this account there have been two transfers into the account. The first, during the 2013-15 fiscal biennium, \$15.8 million was transferred from the LEOFF 2 Retirement Fund to the LEOFF 2 BIA. The second transfer, on July 1, 2019, was \$300 million transferred from the LEOFF 2 Retirement Fund to the LEOFF 2 BIA.

The Public Employees' Retirement System, the Public Safety Employees' Retirement System, the School Employees' Retirement System, and the Teachers' Retirement Systems Plans 2 and 3 have minimum contribution rates in statute. These minimum rates are 80 percent of the employer normal cost of the plans, calculated under the entry age normal cost method. The minimum rates are reviewed by the State Actuary after each biennial actuarial valuation, and the Actuary may recommend changes to be considered for adoption by the Pension Funding Council (PFC). Any changes by the PFC are subject to revision by the Legislature.

Summary of Substitute Bill:

The LEOFF 2 members and beneficiaries who are retired on or before February 1, 2021, will receive a one-time lump sum benefit equal to \$100 per service credit month. Members and beneficiaries of a member who retired with a line-of-duty disability will receive the greater of a one-time lump sum benefit equal to \$100 per service credit month or \$20,000. Retirees or their beneficiaries receiving a one-time lump sum payment may use the funds to purchase an optional actuarially equivalent life annuity benefit.

Retirement benefits for members entering active service after February 1, 2021, will be based on an increased benefit multiplier of 2.5 percent per years of service after 15 years and up to 25 years. Members who are active on or before February 1, 2021, may choose between the one-time lump sum payment or the increased benefit multiplier.

Minimum contribution rates are established in statute for the LEOFF 2. The minimum rate is 80 percent of the normal cost calculated using the entry age normal cost method when the plan's funded status is equal to or greater than 110 percent, 90 percent if the plan's funded status is equal to or greater than 105 percent, and if the funded status is below 105 percent, the minimum rate is equal to 100 percent of the normal cost calculated using the entry age normal cost method.

The minimum rates for the LEOFF 2 are subject to revision by the Legislature.

On July 31, 2022, the Washington State Investment Board must transfer the difference between the cost of benefits in the bill and the value of the funds in the LEOFF 2 BIA from the LEOFF 2 Retirement Fund into the LEOFF 2 BIA. On August 31, 2022, the total available balance of the LEOFF 2 BIA must be transferred to the LEOFF 2 Retirement

Fund.

To ensure that the funds transferred from the LEOFF 2 BIA are sufficient to pay the full cost of the benefit improvements in the bill, the Office State Actuary must calculate the rate reduction to be applied to the new minimum rates in time for it to go into effect on June 1, 2025. This offset calculation will not be applied to the 80 percent minimum rate created in the bill.

Substitute Bill Compared to Original Bill:

The substitute bill changes the date of the actuarial valuation from annually by June 30 to only in even-numbered years to align with rate setting, adds the 80 percent minimum contribution rate, corrects references to LEOFF 2 Board-adopted rates, and changes the dates for the transfer of funds to and from the LEOFF 2 BIA. The Office of the State Actuary, rather than the State Actuary, must calculate the offset reductions to the minimum rates, and those minimum rates are made subject to revision by the Legislature.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The LEOFF 2 BIA was put in place in 2008 with the idea of creating a substantial benefit increase. The plan is very well funded, and the small reduction under the terms of the bill will not create a difficult financial situation in any way. Please support this unanimously. A tremendous amount of refinement of this proposal has occurred over the years. Contribution rates don't increase as a result of this bill. The LEOFF 2 members should be provided a dignified and adequate retirement. When or what might be created from the LEOFF 2 BIA has been a source of controversy for some time. This is a good proposal that is fair to all active and retired members of the plan.

(Opposed) None.

(Other) There are some technical adjustments that may be needed at the suggestion of the State Investment Board and the State Actuary, and the LEOFF 2 Retirement Board welcomes these proposed fixes.

Persons Testifying: (In support) Representative Steve Bergquist, prime sponsor; Dennis Lawson, Washington State Council of Fire Fighters; Chris Tracy, Washington Council of

Police and Sheriffs; Steve Brooks, Washington Fire Chiefs Association; Steve Nelsen, Law Enforcement Officers' and Fire Fighters' 2 Board; Greg Lineberry; and Michael Transue and James Schrimsher, Washington Fraternal Order of Police.

(Other) Lisa Won, Office of the State Actuary.

Persons Signed In To Testify But Not Testifying: None.