LEOFF 1 retirement system: Discussion of potential merger scenarios

LEOFF 1 history
The Law Enforcement Officers’ and Firefighters’ (LEOFF) retirement system was created by the Legislature in 1969. At that time, the state consolidated 52 municipal police and fire pension systems and transferred their existing members to the new LEOFF system. Cities and counties retained responsibility for benefits existing for “pre-LEOFF” members and their beneficiaries.

At the time it was being discussed and debated, the Legislature was considering a retirement age of 55 for the new LEOFF system. In the end, the Legislature settled on a retirement age of 50 and agreed to take on fiscal responsibility for the new under-funded system. Employers and employees were both required to immediately start contributing to the new system at a rate of 6% of annual salary for members; however, the state failed to begin making significant financial contributions to the LEOFF system until 1976. The initial unfunded liability as of March 1, 1970 was estimated at $239 million and by 1974 that had grown to $400-500 million. The reasons are complex but can be attributed, at least in part, to a lower than initially anticipated retirement age (50 versus 55), the Legislature not making the necessary contributions to the new system, and a higher than expected number of early retirements due to disability.

When the state created the LEOFF retirement system, it also required that employers provide medical benefits to retirees for necessary and reasonable medical expenses. How those medical expenses are defined is governed by state law and local LEOFF 1 disability boards. In a 2015 report, the State Actuary estimated the current liability for providing medical benefits is about $3 billion to cover costs of approximately 7,800 eligible LEOFF 1 members.

By 1976 there was a realization that the LEOFF system as it was established in 1969 was not fiscally sustainable. The Bakenhaus Supreme Court decision of 1956 protects existing public pension benefits, making it nearly impossible to change benefits for existing members. As a result, the Legislature opted to close the LEOFF plan and create a new LEOFF 2 plan in 1977 for all police officers and fire fighters entering service. The original LEOFF plan became known as LEOFF 1.

As of June 2000, all employer, employee, and state contributions to the LEOFF 1 plan were suspended. LEOFF 1 is currently estimated to be funded at 127% with a potential surplus of $1.2 billion. Under RCW 41.26.080, no additional contributions will be required of employers and employees unless the actuarial valuation shows the plan has unfunded liabilities. The State Actuary predicts that LEOFF 1 would become underfunded only in a “very pessimistic” scenario, which has a likelihood only about 5% in their simulated outcomes.

LEOFF 1 merger discussions
There have been occasional efforts to discuss what to do with the LEOFF 1 surplus, and it is important to note that the actual surplus cannot be determined until the plan has completely closed. In 2001 and 2008, there were discussions with city stakeholders who advocated for using the city attributed portion of the surplus to help offset LEOFF 1 medical benefit costs. In 2011, legislation was proposed to merge the LEOFF 1 and 2 plans with the state, assuming a transfer of some of the surplus to the general fund. In 2016, another legislative proposal, SB 6668, would have merged the LEOFF 1 system with the Teachers’ Retirement System 1 (TRS 1), assuming $1.5 billion in state general fund savings over 25 years from avoided TRS 1 costs and providing direct payment to LEOFF 1 members in the amount of $5,000 per member or beneficiary.

The 2016 proposal resulted in a budget proviso directing the Select Committee on Pension Policy to study the possibility of a LEOFF 1/TRS 1 merger and the LEOFF 2 Board (which governs the LEOFF 2 plan) to update a 2011 study of a LEOFF1/LEOFF 2 merger.
Some outstanding legal issues remain regarding the ability to merge LEOFF 1 with either TRS 1 or LEOFF 2. Any merger would be subject to IRS approval.

The potential mergers pose different issues (both potentially positive and negative) for cities.

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