Multiple Agency Fiscal Note Summary

Bill Number: 1912 HB	**Title:** Vol. firefighter pensions

Estimated Cash Receipts

Agency Name	2019-21		2021-23		2023-25	
	GF- State	Total	GF- State	Total	GF- State	Total
Actuarial Fiscal Note - State Actuary	0	1,200,000	0	1,200,000	0	1,200,000
Total $	**0**	**1,200,000**	**0**	**1,200,000**	**0**	**1,200,000**

Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other						
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Board for Volunteer Firefighters and Reserve Officers	.3	0	2,512	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	4,600,000	.0	0	5,100,000	.0	0	5,500,000
Total $	**0.3**	**0**	**4,602,512**	**0.0**	**0**	**5,100,000**	**0.0**	**0**	**5,500,000**

Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other			750,970			750,970			750,970
Local Gov. Total			750,970			750,970			750,970

Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Board for Volunteer Firefighters and Reserve Officers	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

NONE

FNPID: 57193

Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Revised 3/ 8/2019

Individual State Agency Fiscal Note

Bill Number: 1912 HB	**Title:** Vol. firefighter pensions	**Agency:** 220-Board for Volunteer Firefighters and Reserve Officers

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.5	0.0	0.3	0.0	0.0
Account					
Volunteer Firefighters' and Reserve Officers' Administrative Account-State 204-1	2,512	0	2,512	0	0
Total $	2,512	0	2,512	0	0

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 02/23/2019
Agency Preparation:	Hailey Bryant	Phone: (360) 753-7318	Date: 02/28/2019
Agency Approval:	Hailey Bryant	Phone: (360) 753-7318	Date: 02/28/2019
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/28/2019

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill has cost to the agency because it increases the pension benefits for all past volunteers currently collecting pension benefits and requires those monthly benefits received to be recalculated on a one time basis following the effective date. The estimated cost are included; however, the agency will absorb the cost of the additional work required under this bill.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Please see the Office of the State Actuary's Fiscal Note regarding the impact on Cash Receipts.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

This bill will required a one-time recalculation of pension benefits being paid monthly to retired volunteer firefighters, EMTs and reserve officers. We estimate that it would take the equivalent of .5 FTE for a two month period following the effective date to complete the calculations and have them verified. Due to the short period that the additional staffing would be needed the agency plans to absorb the work load without bringing on additional staff. The small amount included for goods and services it the expected cost of supplies to complete the calculations for current pension benefit recipients.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
204-1	Volunteer Firefighters' and Reserve Officers' Administrative Account	State	2,512	0	2,512	0	0
		Total $	2,512	0	2,512	0	0

III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.5		0.3		
A-Salaries and Wages	2,462		2,462		
B-Employee Benefits					
C-Professional Service Contracts					
E-Goods and Other Services	50		50		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	2,512	0	2,512	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2020	FY 2021	2019-21	2021-23	2023-25
Administrative Assistant 1		0.5		0.3		
Total FTEs		0.5		0.3		0.0

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 1912 HB	Title: Vol. firefighter pensions	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2020	FY 2021	2019-21	2021-23	2023-25
Volunteer Fire Fighter' and Reserve Officers' Relief and Pension Principal Acct-Non-Appropriated 614-6	600,000	600,000	1,200,000	1,200,000	1,200,000
Total $	600,000	600,000	1,200,000	1,200,000	1,200,000

Estimated Operating Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
Account					
Volunteer Fire Fighter' and Reserve Officers' Relief and Pension Principal Acct-Non-Appropriated 614-6	2,200,000	2,400,000	4,600,000	5,100,000	5,500,000
Total $	2,200,000	2,400,000	4,600,000	5,100,000	5,500,000

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	David Pringle	Phone: 360-786-7310	Date: 02/23/2019
Agency Preparation:	Kaitlyn Donahoe	Phone: 3607866149	Date: 02/27/2019
Agency Approval:	Michael Harbour	Phone: 360-786-6151	Date: 02/27/2019
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/27/2019

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
614-6	Volunteer Fire Fighter' and Reserve Officers' Relief and Pension Principal Acct	Non-Appropriated	2,200,000	2,400,000	4,600,000	5,100,000	5,500,000
		Total $	2,200,000	2,400,000	4,600,000	5,100,000	5,500,000

III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits	2,200,000	2,400,000	4,600,000	5,100,000	5,500,000
C-Professional Service Contracts					
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	2,200,000	2,400,000	4,600,000	5,100,000	5,500,000

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill increases pension benefits for members in VFF by providing larger monthly retirement payments to current and future annuitants. This bill also increases annual contributions paid by members and employers while actively volunteering.

BACKGROUND ON VFF

- VFF provides relief and pension benefits for volunteer fire fighters, reserve officers, and emergency workers who belong to regularly organized volunteer departments.
  - Relief benefits cover line-of-duty sickness, death, injury, or disability. Annual per member relief fees are paid by each municipality or emergency medical service district (employer). Members may also elect to enroll in the pension plan. If so, both the member and their employer pay an annual pension fee.
- VFF is a cost-sharing system that relies on contributions from members and employers, as well as 40 percent of the annual Fire Insurance Premium Tax (FIPT) collected by the state. Under current law, 87 percent of annual VFF funding (or revenue) is covered by the FIPT contributions.
  - At our most recent measurement, VFF has "surplus income" because the annual income it receives exceeds the annual plan costs required under current funding policy (the "actuarial costs").

HIGHLIGHTS ON ACTUARIAL ANALYSIS

- This bill results in a cost to VFF because it provides members an improved pension benefit. The cost will be paid by members and employers through increased fees, along with a reduction in annual surplus income.
  - Current state contributions, along with the increased member and employer contributions required under this bill, pay for the full expected cost of the benefit enhancements. As a result, we expect no impact to state budgets from this bill.
- Based on our June 30, 2017, actuarial valuation, the benefit enhancements provided under this bill lower the funded status of the pension plan from 100 percent down to 92 percent.
  - This bill has no direct impact to the relief plan benefits, which are generally paid for as they are incurred out of the combined pension and relief trust fund.
- The annual actuarial cost to VFF increases by $5.9 million as a result of the benefit enhancements provided under this bill, while the annual income increases by $0.6 million due to the increased pension and relief fees.

Annual Income vs. Actuarial Costs			
(Dollars in Millions)	**Under Current Law**	**Change**	**Under This Bill**
a. Total Income	$7.5	$0.6	$8.1
b. Total Actuarial Costs	$0.9	$5.9	$6.8
Net Income (a – b)	**$6.6**	**($5.3)**	**$1.3**

NOTE: Total may not agree due to rounding.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts the following system:

- ❖ Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFF).

Our actuarial analysis relies on the Board of Volunteer Fire Fighters and Reserve Officers' (the Board) interpretation of how they intend to administer future member benefits under this bill. The actual impact of this bill may vary under a different interpretation.

- ❖ Effective July 1, 2019: The monthly base pension for all current and future retirees and beneficiaries (annuitants) will increase by $50. In effect, this change increases the monthly pension from:
  - ◊ $50 plus $10 for each year the annual pension fee is paid, capped at $300, to
  - ◊ $100 plus $10 for each year the annual pension fee is paid, capped at $350.

  The increase will appear on the pension payment following the effective date.
- ❖ Effective January 1, 2020: Pension fees paid on service rendered above 25 years will be allowed prospectively from the monthly pension for all future retirees. This will increase the monthly pension from:
  - ◊ $100 plus $10 for each year the annual pension fee is paid, capped at $350, to
  - ◊ $100 plus $10 for each year the annual pension fee is paid, uncapped.

  Members will not be able to pay for, or buy back, retrospective service over 25 years rendered before January 1, 2020.

Additionally, this bill increases annual fees as follows:

- ❖ Mandatory relief coverage fee, paid by municipalities, will increase from $30 to $50 per member.
- ❖ Pension fee, paid by municipalities, will increase from $30 to $45 per fire fighter enrolled in the pension plan.
- ❖ Pension fee, paid by volunteer fire fighters enrolled in the pension plan, will increase from $30 to $45.

Effective Date: July 1, 2019.

What Is The Current Situation?

The Board currently provides relief and pension benefits for volunteer fire fighters, reserve officers, and emergency workers who belong to regularly organized volunteer fire departments, law enforcement agencies, and emergency medical service districts.

Relief benefits cover line-of-duty sickness, death, injury, or disability. The payment of annual relief fees by employers – municipalities for fire fighters and reserve officers, emergency medical service districts for emergency workers – is mandatory. Annual relief fees include:

- Fire fighters: A per-member fee of $30, plus 1.5 percent of the annual salary attached to the rank of each full-paid member of its fire department.
- Reserve officers and emergency workers: A per-member fee sufficient to pay the full coverage cost for relief benefits. Coverage cost is determined by the Board based on an actuarial valuation of the system.

Annual pension fees are paid both by members and employers if the member elects to join the pension plan, as follows:

- Fire fighters: $60 per member, split between the member and the employer, or paid in full by the employer.
- Reserve officers and emergency workers: $30, paid by the member, plus a per-member fee paid by the employer sufficient to pay the remainder of full coverage costs for pension benefits. Coverage cost is determined by the Board based on an actuarial valuation of VFF. Employers may elect to cover the members' fees.

In addition to pension and relief contributions from members and employers, VFF is funded by the state via 40 percent of the annual Fire Insurance Premium Tax (FIPT) collected. This annual portion of the FIPT that is provided to VFF accounts for approximately 87 percent of VFF's funding/annual revenue.

Enrolled members who honorably serve for at least ten years as an active member in a volunteer fire department or law enforcement agency may be paid a monthly pension starting at age 60. The maximum vested pension benefit for eligible retirees (age 65, with at least 25 years of service and 25 annual pension contributions) is $300 per month.

If an enrolled member has fewer than 25 years of annual pension contributions, the member is eligible for a base monthly benefit of $50, plus $10 for each year the annual pension fee has been paid, subject to reduction factors.

Who Is Impacted And How?

We estimate this bill would affect all VFF pension members through increased benefits. This includes 9,223 active members, 6,120 terminated vested members, and 4,446 annuitants. This bill will also impact all active members of VFF and their respective employers through increased pension fees.

There are two separate benefit improvements being provided under this bill, and each becomes effective on a different date. The example below illustrates the impact of each benefit improvement for John, a volunteer fire fighter who, as of July 1, 2019, is age 65, has volunteered for 25 years, and contributes toward his pension every year. John plans on retiring on January 1, 2024.

- ❖ The first benefit improvement increases the monthly base benefit by $50 and goes into effect on July 1, 2019.
  - ◊ Under current law, there is a pension contribution limit of 25 years, and a monthly pension benefit cap of $300. Therefore, under current law, John is entitled upon retirement to a monthly pension benefit of $50 + ($10 * 25), capped at $300, which equals $300.
  - ◊ With this first benefit improvement, John would be entitled upon retirement to a monthly pension benefit of $100 + ($10 * 25), capped at $350, which equals $350. John would not need to make any additional pension contributions to receive this increase.
- ❖ The second benefit improvement allows members to purchase prospective pensionable service beyond 25 years following January 1, 2020.
  - ◊ Continuing with the example above, John's monthly pension upon retirement after the first benefit improvement would be $350.
  - ◊ With this second benefit improvement, John would be entitled upon retirement to a monthly pension benefit of $100 + ($10 * 29), uncapped, which equals $390. John would need to make four additional pension contributions of $45 per year to receive the $40 monthly benefit increase.

This bill will also impact all 11,184 active members of VFF and their respective employers through increased relief fees.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill has a cost to VFF because it increases the pension benefits for current and future annuitants. For context, the benefit increase paid to current annuitants represents approximately 60 percent of the cost of this bill. See the **Appendix** for additional detail.

Who Will Pay For These Costs?

VFF is a cost-sharing system that relies on contributions from members and employers, as well as contributions from the state in the form of 40 percent of the annual FIPT collected.

Members and employers of VFF will pay for the costs of these improved benefits through increased pension and relief fees. Per member pension fees, paid by members who enroll in the pension plan and their respective employer, will increase from $30 to $45 a year. Per member relief fees, paid by employers, will increase from $30 to $50 a year.

Current state contributions, along with the increased member and employer contributions required under this bill, pay for the full expected cost of the benefit enhancements. As a result, we expect no impact to state budgets from this bill. After increasing member and employer contributions under this bill, the percentage of the system's funding that comes from the FIPT is expected to decrease from 87 percent down to 82 percent.

HOW WE VALUED THESE COSTS

Assumptions We Made

This bill will remove the pension contribution limit of 25 years. Because of this, we expect fewer members with 25 years of service or greater will quit volunteering, since they would be able to continue accruing a pension benefit past 25 years of service. To reflect this, we lowered the rates of termination as follows.

Probability of Termination				
Service Years	24	25	26	27+
Under Current Law	8%	13%	11%	9%
Under This Bill	8%	9%	9%	9%

We changed our coding to be consistent with this bill, such that members and employers continue making pension contributions past 25 years of service prospectively.

However, we did not assume any change in retirement behavior. Based on our calculations for an age 65 member with greater than 25 years of service, we found that it would take approximately 30 years to benefit from deferring retirement by a year to accrue an additional $10 per month retirement annuity. Given this context, we do not believe retirement behavior will be significantly impacted by this bill.

Otherwise, we developed these costs using the same assumptions as disclosed in the *June 30, 2017, Volunteer Fire Fighters and Reserve Officers Actuarial Valuation Report* (VAVR) available on our website.

How We Applied These Assumptions

To estimate the impacts of this bill, we compared projected liabilities, pension contributions, and present value of future service under current law to these same measures under the provisions of this bill and our best estimate assumptions. Specifically, we modified our programming to reflect the provisions of the bill and assumptions as follows.

- For current active members, we changed the monthly base benefit from $50 to $100. For current terminated vested members and annuitants, we performed a similar adjustment, but also took into account any relevant early retirement factors (age and/or service) and optional reduction factors (such as the selection of a joint-and-survivor option). The monthly benefit cap was also increased from $300 to $350 to accommodate the change to the base benefit.
- As mentioned above, we changed our coding to be consistent with this bill, such that members continue making pension contributions and accruing their pension benefit past 25 years of service prospectively. In other words, members can continue making pension contributions and accruing a benefit for each year of service rendered beyond 25 years after January 1, 2020.
- We increased annual relief fees from $30 to $50, and we increased annual pension fees from $30 to $45.

Otherwise, we developed these costs using the same methods as disclosed in the VAVR.

ACTUARIAL RESULTS

The following sections display the actuarial impact to VFF due to this bill, as of the 2017 VAVR. For information on the liability and per person annual pension contribution rate impacts under each incremental component of this pricing, see the **Appendix**.

How The Liabilities Changed

This bill will impact the actuarial funding of VFF by increasing the present value of future benefits payable to the members. Pension liabilities increase due to the improvement in pension benefits. Relief liabilities increase because we expect members will work longer under this bill. This occurs because volunteering for a longer period of time increases exposure to duty-related injuries. We also expect an Unfunded Actuarial Accrued Liability (UAAL) to emerge under this bill because the increase in earned pension liabilities exceeds total assets as of our June 30, 2017, actuarial valuation. The impacts of these increases are shown in the table below.

Impact on Liabilities			
(Dollars in Millions)	**Under Current Law**	**Change**	**Under This Bill**
Present Value of Future Benefits			
(The Value of the Total Commitment to all Current Members)			
VFF Pension Fund	**$194.0**	**$42.2**	**$236.2**
Active Members	59.7	16.6	76.4
Inactive Members	134.3	25.6	159.9
VFF Relief Fund	**$18.4**	**$0.1**	**$18.5**
Active Members	13.4	0.1	13.5
Inactive Members	5.0	0.0	5.0
Present Value of Earned Benefits			
(The Value of the Past Service Accruals to all Current Members)			
VFF Pension Fund	**$190.2**	**$41.1**	**$231.3**
Active Members	55.9	15.6	71.5
Inactive Members	134.3	25.6	159.9
Unfunded Actuarial Accrued Liability			
(The Liability spread over a 15-Year Rolling Amortization Attributable to Members' Past Service)			
VFF Pension Fund	**$0.0**	**$19.0**	**$19.0**

NOTE: Total may not agree due to rounding.

How The Assets Changed

This bill does not impact current asset values. However, it does impact how pension and relief benefits are funded based upon the current funding method adopted by the Board. Under current law, VFF's assets are first allocated to pre-fund pensions. Any assets above the pension plan's accrued liability are then allocated to the relief plan. Because this bill increases pension liabilities, assets that were previously earmarked for relief under current law are now shifted over to fund the increased pension obligations under this bill as shown below.

Impact on Actuarial Value of Assets			
(Dollars in Millions)	**Under Current Law**	**Change**	**Under This Bill**
(Smoothed Value of Assets Used in Contribution Rate Calculations)			
Allocated to Pensions	$190.2	$22.2	$212.4
Allocated to Relief	$22.2	($22.2)	$0.0

How The Pension Plan Funded Status Changed

Under this bill, the increase in the present value of earned benefits exceeds the amount of assets shifted from relief to pensions. This results in a decrease to the pension plan funded status for VFF as shown in the table below.

Impact on Pension Plan Funded Status			
(Dollars in Millions)	Under Current Law	Change	Under This Bill
a. Present Value of Earned Pension Benefits	$190.2	$41.1	$231.3
b. Actuarial Value of Assets Allocated to Pensions	$190.2	$22.2	$212.4
Pension Plan Funded Status (b / a)	**100%**	**N/A**	**92%**

How The Present Value Of Future Service (PVFS) Changed

This bill will impact the actuarial funding of VFF by increasing the PVFS. The Pension PVFS increases because the 25 years of service limit is removed from member and employer pension contributions. The Relief PVFS increases because we assume lower termination rates and therefore expect members will volunteer longer. The change to PVFS for current members as a result of this bill is shown below.

Impact on Present Value of Future Service			
(Service in Years)	Under Current Law	Change	Under This Bill
VFF Pension Fund	38,350	7,592	45,942
VFF Relief Fund	53,855	269	54,124

How Contribution Rates Changed

Impact on Per Person Annual Contribution Rates			
(Cost in Dollars)	Under Current Law	Change	Under This Bill
Pension			
Member Fee	**$30**	**$15**	**$45**
Employer Fee	**30**	**15**	**45**
Normal Cost Rate	**$100**	**$6**	**$107**
UAAL Rate	0	211	211
Total Pension Rate	**$100**	**$217**	**$318**
Relief			
Employer Fee	**$30**	**$20**	**$50**
Normal Cost Rate	**($70)**	**$412**	**$342**

NOTE: Total may not agree due to rounding.

Non-fire fighters generally make pension contributions based upon the Pension Normal Cost Rate. This rate increased from $100 to $107 under this bill; it represents the contribution that would be required to fund the pension benefit over a member's entire career.

The Relief Normal Cost Rate increases under this bill as well, though the bill does not directly impact the relief benefits. Primarily, this is due to the impact of the Board's current funding policy to pre-fund pension benefits first. This bill increases pension obligations resulting in all currently available assets now being allocated to the pension plans.

Under current law, the board-adopted method for allocating assets between the pension and relief plans could amplify the annual volatility of the relief contribution rate. As such, the contribution rate impacts of this pricing could vary materially from one valuation date to the next based primarily on actual asset performance.

How This Impacts Annual Income And Costs

This bill is expected to increase both the income and actuarial costs of VFF as displayed in the following table.

Impact on Annual Income vs. Actuarial Costs			
(Dollars in Millions)	**Under Current Law**	**Change**	**Under This Bill**
Annual Income			
State	$6.6	$0.0	$6.6
Pension	0.6	0.2	0.8
Relief	0.3	0.3	0.6
a. Total Income	**$7.5**	**$0.6**	**$8.1**
Annual Actuarial Costs			
Pension	$0.9	$2.0	$2.9
Relief	0.0	3.8	3.8
b. Total Actuarial Costs	**$0.9**	**$5.9**	**$6.8**
Net Income			
Surplus (Deficit) Income (a – b)	**$6.6**	**($5.3)**	**$1.3**

NOTE: Total may not agree due to rounding.

Annual income will increase by approximately $0.6 million, since higher pension and relief fees will be collected from members and employers. There is no change to state contributions as a result of this bill.

Annual actuarial pension costs will increase since current and future annuitants are expected to receive higher annual pensions. Additionally, annual actuarial relief costs will increase primarily since all currently available assets are now allocated to pensions.

The net impact of these two changes is a reduction in VFF's annual surplus income compared to current law. That said, VFF is still expected to collect more in annual income than actuarially required.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The results presented in this fiscal note can change under a different set of assumptions and methods. To determine the sensitivity of the actuarial results to the best estimate assumptions selected for this pricing, we considered the impact of assuming no behavioral changes under this bill. In other words, what is the impact if there's no impact to termination behavior or the number of years members contribute to their pensions beyond 25 years of service?

When we assume no behavioral change, the impact to the pension and relief liabilities is immaterial to the plan as a whole. However, the PVFS is reduced by approximately 17 percent which correspondingly increases the Pension Normal Cost Rate under this bill from our best estimate of $107 up to $127. The impact to the annual surplus is limited though, reducing it from our best estimate of $1.3 million down to $1.2 million.

COMMENTS ON RISK

The results of this pricing do not account for the potential of a severe economic downturn, a decrease to the FIPT amount allocated to VFF, or a significant increase in VFF's membership. All of these risks already exist under current law. If any of these events were to occur, the benefit improvement provided under this bill would result in a greater chance of exhausting the VFF trust fund. If VFF were to enter into a Pay-Go status, the additional contributions needed from the state to meet pension and relief obligations would be larger under this bill.

We have not developed a risk assessment model for VFF. As such, we are not able to quantify the likelihood of Pay-Go under current law or under this bill at this time. However, we don't anticipate this is a significant risk given historical funding practices and the steady decline in volunteer membership we've observed. That said, under a Pay-Go circumstance, we expect the projected benefit payments (which would be paid by the state) to increase by roughly 20 percent as a result of this bill. Also, due to the nature of the relief benefits, actual annual benefit payments may be more volatile than a typical pension plan.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2019 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost and asset valuation methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods and assumptions may also be reasonable, and might produce different results.
5. The risk analysis summarized in this fiscal note involves the interpretation of many factors and the application of professional judgment.
6. We prepared this fiscal note for the Legislature during the 2019 Legislative Session.
7. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted Actuarial Standards of Practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Michael Harbour

Michael T. Harbour, ASA, MAAA
Actuary

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APPENDIX

The tables below show the liability and per person annual contribution rate increases from each component of this pricing. These components are as follows:

- "$100 Base" refers to the increase of the monthly base pension benefit from $50 to $100.
- "Remove Cap" refers to the removal of the 25-year limit on pension contributions and benefit accruals.
- "Increase Fees" refers to the increase to relief fees from $30 to $50 and the increase to pension fees from $30 to $45.

Impact on Liabilities					
	Under	Increase from Each Component			Under
(Dollars in Millions)	Current Law	$100 Base	Remove Cap	Increase Fees	This Bill
Present Value of Future Benefits					
(The Value of the Total Commitment to all Current Members)					
VFF Pension Fund	**$194.0**	**$35.7**	**$6.4**	**$0.1**	**$236.2**
Active Members	$59.7	$10.1	$6.4	$0.1	$76.4
Inactive Members	$134.3	$25.6	$0.0	$0.0	$159.9
VFF Relief Fund	**$18.4**	**$0.0**	**$0.1**	**$0.0**	**$18.5**

NOTE: Total may not agree due to rounding.

Impact on Per Person Annual Contribution Rates					
	Under	Increase from Each Component			Under
(Cost in Dollars)	Current Law	$100 Base	Remove Cap	Increase Fees	This Bill
Pension					
Member Fee	**$30**	**$0**	**$0**	**$15**	**$45**
Employer Fee	**30**	**0**	**0**	**15**	**45**
Normal Cost Rate*	**$100**	**$17**	**($12)**	**$1**	**$107**
UAAL Rate	0	143	68	1	211
Total Pension Rate	**$100**	**$160**	**$55**	**$2**	**$318**

NOTE: Total may not agree due to rounding.
**Only Reserve Officers and Emergency Workers pay the Normal Cost Rate.*

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e., interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. Under this method, all plan costs (for past and future service credit) are included under the normal cost. Therefore, the method does not produce an unfunded actuarial accrued liability outside the normal cost. It's most common for the normal cost to be determined for the entire group rather than on an individual basis for this method.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded actuarial accrued liability.

The normal cost is most commonly determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Unfunded EAN Liability: The excess, if any, of the present value of benefits calculated under the EAN cost method over the valuation assets. This is the portion of all benefits earned to date that are not covered by plan assets.

GLOSSARY OF RISK TERMS

Affordability Risk: Measures the affordability of the pension systems. Affordability risk measures the chance that pension contributions will cross certain thresholds with regards to the General Fund and contribution rates.

"Current Law": Scenarios in which assumptions about legislative behavior are excluded. These scenarios show projections regarding the current state of Washington statutes.

Funded Status: The ratio of a plan's current assets to the present value of earned pensions. There are several acceptable methods of measuring a plan's assets and liabilities. In financial reporting of public pension plans, funded status is reported using consistent measures by all governmental entities. According to the Government Accounting Standards Board (GASB), the funded ratio equals the actuarial value of assets divided by the actuarial accrued liability calculated under the allowable actuarial methods.

Optimistic: A measurement of the pension system under favorable conditions (above expected investment returns, for example). Optimistic refers to the 75th percentile, where there is a 25 percent chance of the measurement being better and 75 percent chance of the measurement being worse. Very optimistic refers to the 95th percentile.

"Past Practices": Scenarios in which assumptions regarding legislative behavior are introduced. These assumptions include actual contributions below what are actuarially required and improving benefits over time. These scenarios are meant to project past behavior into the future.

Pay-Go: The trust fund runs out of assets, and payments from the General Fund must be made to meet contractual obligations.

Pessimistic: A measurement of the pension system under unfavorable conditions (below expected investment returns, for example). Pessimistic refers to the 25th percentile, where there is a 75 percent chance of the measurement being better and 25 percent chance of the measurement being worse. Very pessimistic refers to the 5th percentile.

Premature Pay-Go: Pay-go payments, measured in today's value, which might be considered "significant" in terms of the potential impact on the General Fund.

Risk Tolerance: The amount of risk an individual or group is willing to accept with regards to the likelihood and severity of unfavorable outcomes.

Solvency Risk: Measures the risk metrics of the pension systems, including the chance that the pension systems will prematurely run out of assets, the amount of potential pay-go contributions, and the chance that the funded status will cross a certain threshold.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1912 HB	**Title:** Vol. firefighter pensions

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [X] Cities: Increase in expenditures due to the increase in employer-paid fees for the pension and relief fund.
- [X] Counties: Same as above
- [X] Special Districts: Same as above
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [X] Legislation provides local option: Fire departments may choose to cover the full cost of volunteer firefighter retirement pension coverage.
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

Jurisdiction	FY 2020	FY 2021	2019-21	2021-23	2023-25
City	64,022	64,022	128,044	128,044	128,044
Special District	311,463	311,463	622,926	622,926	622,926
TOTAL $	375,485	375,485	750,970	750,970	750,970
GRAND TOTAL $					**2,252,910**

Part III: Preparation and Approval

Fiscal Note Analyst: Rebecca Duncan	Phone: 360-725-5040	Date: 03/08/2019
Leg. Committee Contact: David Pringle	Phone: 360-786-7310	Date: 02/23/2019
Agency Approval: Alice Zillah	Phone: 360-725-5035	Date: 03/08/2019
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 03/08/2019

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This legislation would increase pension benefits for members of the Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund. Specifically, the legislation would increase the contribution to the annual disability relief fee annual pension fee for each member of a volunteer fire department, as well as increasing the pension paid to fund members from a maximum of $300 per month to a maximum of $350 per month plus $10 for each year that the retirement fee is paid beyond 25 years.

Section 1 would increase part of the annual fee that a municipal corporation pays for the purpose of affording relief provided in this chapter for firefighters from $30 to $50 per volunteer or part-paid member of its fire department. In addition, the section would provide that for a municipal corporation that pays into retirement pensions, the annual fee paid for each firefighter electing to enroll is increased from $60 to $90. Thus, the amount each member pays would be increased from $30 to $45 each, and the amount the municipality pays for each member would also be increased from $30 to $45. Nothing in this section prohibits any municipality from voluntarily paying the firefighters' fee for this retirement pension coverage.

Section 2 would increase the pension paid to members of the Volunteer Firefighters' and Reserve Officers' Relief and Pension System from a maximum of $300, to a maximum of $350 plus $10 per month for each year that the retirement fee is paid beyond 25 years.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

This legislation would increase fire protection district expenditures.

Volunteer firefighters may work for several different firefighting entities. City fire departments, fire protection districts and regional fire authorities can all have volunteer firefighters under their jurisdiction. All of these firefighters and their departments or offices would be impacted by the legislation changing the annual relief fee, but only those who chose to enroll in the pension system would be impacted by the legislation changing the annual pension fee.

Section 1 would increase the annual relief fee that employers must pay for each volunteer firefighter from $30 to $50. Since the employers of volunteer firefighters are cities, fire protection districts and regional fire authorities, these municipalities would have an increase in expenditures of $20 per volunteer firefighter under each municipality or district. According to the Board for Volunteer Firefighters, data from FY 2018 shows that there are 2,141 volunteers at city fire departments and 10,756 volunteers at fire protection districts or regional fire authorities. Cities, fire protection districts and regional fire authorities would need to pay an additional $20 for each of these volunteers for a total of $257,930 annual increase in expenditures.

Another provision of section 1 would increase the annual pension fee for volunteer fire departments whose volunteers participate in the pension program, increasing the contribution of municipal corporations (fire protection districts) from $30 to $45. Since the employers of volunteer firefighters are cities, counties, and fire protection districts, these municipalities would have an increase in expenditures of $15 per volunteer firefighter participating in the pension program. According to the Board for Volunteer Firefighters, data from FY 2018 shows that there are 1414 volunteers paying into the pension at city fire departments and 6424 volunteers at fire protection districts or regional fire authorities. Cities, fire protection districts and regional fire authorities would need to pay an additional $15 for each of these volunteers paying into the pension for a total of $117,55 annual increase in expenditures.

Therefore, the total annual increase in local government expenditures as a result of this bill would be $375,485.

In addition, it is worth noting that current and proposed law splits the pension fee between the member and the fire department, as is demonstrated in the previous paragraph. However, nothing prevents the department from paying the full amount on behalf of the member, so each department would have the option to increase their expenditures further. Since paying the full amount is a local option, the potential expenditures are not detailed here and we assume no impact.

BACKGROUND:
The data provided from the Board of Volunteer Firefighters regarding firefighters paying into the relief fund and pension system is from Fiscal Year 2018. The estimates for expenditures in upcoming fiscal years relies on the assumption that the number of volunteer firefighters will remain approximately the same from fiscal year to fiscal year.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

This legislation would have no impact on local government revenues.

SOURCES:
Actuarial Fiscal Note
Board for Volunteer Firefighters
Washington State Council of Firefighters
Association of Washington Cities