

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 5567 SB	<b>Title:</b> Vol. firefighter pensions
-----------------------------	---

## Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Board for Volunteer Firefighters and Reserve Officers	0	0	895,000	0	0	875,000	0	0	855,000
<b>Total \$</b>	<b>0</b>	<b>0</b>	<b>895,000</b>	<b>0</b>	<b>0</b>	<b>875,000</b>	<b>0</b>	<b>0</b>	<b>855,000</b>

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	No fiscal impact					
Local Gov. Total						

## Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
State Investment Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Board for Volunteer Firefighters and Reserve Officers	.0	0	0	0	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	Non-zero but indeterminate cost and/or savings. Please see discussion.											
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

## Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
State Investment Board	.0	0	0	.0	0	0	.0	0	0
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
<b>Total \$</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

### Estimated Capital Budget Breakout

NONE

--

<b>Prepared by:</b> Marcus Ehrlander, OFM	<b>Phone:</b> (360) 489-4327	<b>Date Published:</b> Final
---	---------------------------------	---------------------------------

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5567 SB	<b>Title:</b> Vol. firefighter pensions	<b>Agency:</b> 126-State Investment Board
-----------------------------	---	---

## Part I: Estimates

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Operating Expenditures from:**

NONE

**Estimated Capital Budget Impact:**

NONE

*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: Amanda Cecil	Phone: 360-786-7460	Date: 01/24/2023
Agency Preparation: Celina Verme	Phone: (360) 956-4740	Date: 02/01/2023
Agency Approval: Allyson Tucker	Phone: 360-956-4710	Date: 02/01/2023
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/03/2023

## Part II: Narrative Explanation

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

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

This legislation splits the current volunteer firefighters' and reserve officers' relief and pension system into two separate plans. Reserve officer members, including active, retired, and beneficiaries of those members would be moved to a new reserve officers' plan, while volunteer firefighter and emergency medical technicians would remain in the existing plan.

Section 6 – Creates the reserve officers' relief and pension principal fund, grants the state investment board, upon request of the state treasurer, the full power to invest, reinvest, manage, contract, sell, commingle, or exchange investments of the funds, and directs the transfer funds into the reserve officers' relief and pension principal fund.

The State Investment Board expects only minimal operational and investment impacts resulting from this legislation.

### II. B - Cash receipts Impact

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

### II. C - Expenditures

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

## Part III: Expenditure Detail

### III. A - Operating Budget Expenditures

NONE

### III. B - Expenditures by Object Or Purpose

NONE

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

NONE

### III. D - Expenditures By Program (optional)

NONE

## Part IV: Capital Budget Impact

### IV. A - Capital Budget Expenditures

NONE

### IV. B - Expenditures by Object Or Purpose

NONE

### IV. C - Capital Budget Breakout

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE

**IV. D - Capital FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

## **Part V: New Rule Making Required**

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5567 SB	<b>Title:</b> Vol. firefighter pensions	<b>Agency:</b> 220-Board for Volunteer Firefighters and Reserve Officers
-----------------------------	---	--

## Part I: Estimates

**No Fiscal Impact**

### Estimated Cash Receipts to:

ACCOUNT	FY 2024	FY 2025	2023-25	2025-27	2027-29
Volunteer Fire Fighter' and Reserve Officers' Relief and Pension Principal Acct-Non-Appropriated 614-6	450,000	445,000	895,000	875,000	855,000
<b>Total \$</b>	450,000	445,000	895,000	875,000	855,000

### Estimated Operating Expenditures from:

NONE

### Estimated Capital Budget Impact:

NONE

*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: Amanda Cecil	Phone: 360-786-7460	Date: 01/24/2023
Agency Preparation: Hailey Bryant	Phone: (360) 753-7318	Date: 01/25/2023
Agency Approval: Hailey Bryant	Phone: (360) 753-7318	Date: 01/25/2023
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/31/2023

## Part II: Narrative Explanation

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

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

This bill proposes splitting the Relief and Pension Principal Fund defined in Chapter 41.24 RCW from one into two. One fund will be established for the volunteer firefighters and EMT's while the second is established for the reserve law enforcement officers'. SSB 5829 passed in 2020 required BVFF to verify with the IRS the tax qualification status of the existing Volunteer Firefighters' and Reserve Officers Relief and Pension plan. It has been determined that to come into compliance the principal fund needs to be divided. With two funds there will be administrative process changes, but it is expected that the agency will absorb the cost as the processes associated will be minimal impact once established.

The fees and pension benefit increases passed with SSB 5829 were contingent on IRS review and compliance. The proposed changes are outlined in the new sections of this bill and assuming this bill passes the implementation of those changes passed in SSB5829 will be implemented and create an increase in annual fee revenue.

The agency does not expect the amount received from the Fire Insurance Premium Tax to be impacted, rather it will be disbursed to two funds rather than the single fund that exist today.

City and County municipalities will see an increase in per member annual fees; this assumption is contingent on passage of the bill and IRS tax qualification of the volunteer firefighters' relief and pension plan established in Section 13 of the bill.

Potential tax liabilities to the plan remain in existence for the three open tax years but the fiscal impact is indeterminate.

### II. B - Cash receipts Impact

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

Upon passage the annual fees paid by city and county municipalities for volunteer firefighters will increase from \$30 to \$50 per person for required relief and \$60 to \$90 for optional pension enrollment. The annual fees for Reserve Law Enforcement Officers and Emergency Medical Service Districts are set annually so the associated increase in fees are indeterminate. This fee increase was passed in SSB 5829 in 2020; however, implementation is contingent on passage of SB 5567 (HB1336) and Volunteer Firefighters' Relief and Pension Plan IRS tax qualification.

There are roughly 9,700 participants enrolled in the required relief benefits plan with 8,400 enrolled in the optional pension plan. Annual reporting and fees are paid in January of each year, fees will not increase prior to December 1, 2023. Given the timing it is estimated there will be an increase in fee revenue of \$450,000 in the first year. Given the annual decline in plan enrollment we expect this revenue to slowly decrease based on enrollment trends.

Overall, we do not expect to see a difference or impact to the 40% of the Fire Insurance Premium Tax that is received by the agency and disbursed to the principal funds to pay benefits under Chapter 41.24 RCW. Currently, operating cost are withheld in the administrative fund while the remainder is transferred to the principal fund for relief and pension benefits. In the future, a portion of the Fire Insurance Premium Tax will be transferred to the newly established principal fund for Reserve Officers' Relief and Pension Benefits.

### II. C - Expenditures

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

Upon passage and implementation of changes the maximum monthly benefit will increase from \$300 to \$350 (passed in 2020 SSB 5829).

This bill does not propose an operating expenditure increase to the agency. While the agency will be able to implement changes passed previously, this bill gives the agency the ability to create two principal funds. The funding methodology and sources will remain the same. The accrued liabilities for the Reserve Law Enforcement Officers Principal Fund will be transferred on an annual basis from the Volunteer Firefighters' Principal fund (614).

Plan administration will remain the same by current staff without fiscal impact, both plans being governed by the existing Board of Trustees.

### **Part III: Expenditure Detail**

#### **III. A - Operating Budget Expenditures**

NONE

#### **III. B - Expenditures by Object Or Purpose**

NONE

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

NONE

#### **III. D - Expenditures By Program (optional)**

NONE

### **Part IV: Capital Budget Impact**

#### **IV. A - Capital Budget Expenditures**

NONE

#### **IV. B - Expenditures by Object Or Purpose**

NONE

#### **IV. C - Capital Budget Breakout**

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE

**IV. D - Capital FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

### **Part V: New Rule Making Required**

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*



# Individual State Agency Fiscal Note

<b>Bill Number:</b> 5567 SB	<b>Title:</b> Vol. firefighter pensions	<b>Agency:</b> AFN-Actuarial Fiscal Note - State Actuary
-----------------------------	---	--

## Part I: Estimates

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Operating Expenditures from:**

**Non-zero but indeterminate cost and/or savings. Please see discussion.**

**Estimated Capital Budget Impact:**

NONE

*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: Amanda Cecil	Phone: 360-786-7460	Date: 01/24/2023
Agency Preparation: Aaron Gutierrez	Phone: 360-786-6152	Date: 01/25/2023
Agency Approval: Michael Harbour	Phone: 360-786-6151	Date: 01/25/2023
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/31/2023

## Part II: Narrative Explanation

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

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

### II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

### II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

## Part III: Expenditure Detail

### III. A - Operating Budget Expenditures

Non-zero but indeterminate cost and/or savings. Please see discussion.

### III. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

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

NONE

### III. D - Expenditures By Program (optional)

NONE

## Part IV: Capital Budget Impact

### IV. A - Capital Budget Expenditures

NONE

### IV. B - Expenditures by Object Or Purpose

NONE

### IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

**IV. D - Capital FTE Detail:** FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.

NONE

## Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

## SUMMARY OF RESULTS

**BRIEF SUMMARY OF BILL:** This bill splits the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) into two plans - one plan for Volunteer Fire Fighters (VFFs) and Emergency Medical Technicians (EMTs), and a separate plan for Reserve Law Enforcement Officers (RLEOs).

### BACKGROUND ON VFFRPF

- ❖ This system provides relief and pension benefits for approximately 20,000 VFFs, EMTs, and RLEOs who belong to organized volunteer departments.
  - Relief benefits cover line-of-duty sickness, death, injury, or disability. Annual per member relief fees are paid by employers.
  - Members may also elect to enroll in the pension plan. If so, both the member and their employer pay an annual pension fee.
- ❖ VFFRPF is a cost-sharing plan 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. As of our [June 30, 2020, VFFRPF Actuarial Valuation Report](#) (VAVR), approximately 90 percent of annual VFFRPF funding (or revenue) is covered by the FIPT contributions.
  - Based on the 2020 VAVR, the system currently has expected “surplus income” because the annual non-investment revenue it receives exceeds the annual actuarially determined costs.

### HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ RLEOs comprise approximately 1 percent of VFFRPF's headcounts and corresponding liabilities. Given this small percentage, we expect the impact of this bill on the remaining VFF/EMT plan will be limited.
- ❖ The impact of this bill in creating the new RLEO plan is **indeterminate** for several reasons, including:
  1. An asset allocation for the RLEO plan has not been determined; any change from the current investment policy could impact our discount rate for liabilities and calculated contribution rates.
  2. The method for how the assets will be split is not fully defined.
  3. Tax implications are uncertain; short-term retroactive impacts for both plans and long-term prospective impacts for the RLEO plan could reduce future funded ratios.
- ❖ There is no impact to state budgets since the percentage of the annual FIPT that is directed to the Board for Volunteer Fire Fighters (BVFF) does not change under this bill.
- ❖ In terms of risk, the RLEO plan could experience higher volatility in relief costs that would have a material impact on its funded ratio. However, we understand that could be managed annually by the BVFF allocating a different portion of the FIPT to each plan.

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

## WHAT IS THE PROPOSED CHANGE?

### Summary of Bill

This bill impacts the following system:

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

This bill splits the VFFRPF into two plans: one plan for VFFs and EMTs, and a separate plan for RLEOs. The primary purpose for this change is to meet federal Internal Revenue Service (IRS) requirements. Both plans will be under the oversight of the BVFF, as well as the current administrative account.

It is our understanding that BVFF will be responsible for choosing (1) the exact method by which current assets will be split, and (2) how future annual FIPT contributions will be allocated between the plans. All active and retired RLEOs will be moved to the new plan along with a proportionate amount of assets, noting that the bill requires all members receive the same benefits after the split as they would have before.

Each plan's trust fund will cover any reasonable tax liability incurred by members or beneficiaries due to the split. BVFF may conduct rulemaking for this purpose.

Effective Date: December 1, 2023.

In this summary, we only include changes pertinent to our Actuarial Fiscal Note (AFN). See the legislative bill report for a complete summary of the bill.

### What Is the Current Situation?

[Engrossed Substitute Senate Bill 5829](#) that passed during the 2020 Legislative Session increased pension benefits and annual contribution fees. However, the effective date of that bill is contingent on BVFF receiving notice from the IRS that the VFFRPF is a qualified employee benefit plan under federal law.

Please see our AFN for further information on the costs associated with that bill.

### Who Is Impacted and How?

This bill will not impact member benefits or fees but could impact future contributions from employers of EMTs and RLEOs since they are statutorily required to pay for the full cost of their pension and relief benefits. We do not know how these plans may be impacted by both retroactive and prospective IRS taxes.

The following table provides a summary of current VFFRPF membership as of our 2020 VAVR.

VFFRPF Membership			
Actives (Relief*)	Count	Average Age	Average Years of Service
VFFs	9,501	42	10
EMTs	45	44	9
RLEOs	105	47	10
<b>Total</b>	<b>9,651</b>	<b>42</b>	<b>10</b>
Terminated Vested	Count	Average Age	Average Years of Service
VFFs	6,038	61	16
EMTs	17	56	14
RLEOs	93	56	15
<b>Total</b>	<b>6,148</b>	<b>61</b>	<b>16</b>
Annuitants**	Count	Average Age	Average Annual Benefit
VFFs	4,617	76	\$2,333
EMTs	4	72	1,879
RLEOs	48	72	1,999
<b>Total</b>	<b>4,669</b>	<b>76</b>	<b>\$2,329</b>

\*Approximately 85% participate in the pension plan.

\*\*Separately, 21 members/survivors are receiving Relief annuities.

**WHY THIS BILL HAS AN INDETERMINATE IMPACT**

We were not able to estimate how this bill will impact the VFF/EMT plan and the new RLEO plan for several reasons (which will be discussed in more depth as part of the following sections). At a high level, those unknowns are:

1. An asset allocation for the RLEO plan has not been determined;
2. The method for how the assets will be split is not fully defined; and
3. Tax implications for both the VFF/EMT and RLEO plans are uncertain.

The items listed can impact the assets and investment earnings of the fund which impact contribution requirements and funded status. Please see the remainder of this AFN for further details on these considerations.

**ACTUARIAL RESULTS**

A typical AFN would include a section entitled How We Valued These Costs, as well as sub-sections that outline the Special Data Needed, the Assumptions We Made, and How We Applied These Assumptions. This information is not relevant because we did not set any new assumptions or methods when preparing the analysis in this AFN.

The actuarial results described below are from the 2020 VAVR, which is our most recent full actuarial valuation report.

**Liabilities**

The following table shows a breakdown of the liabilities, including (1) the value of the total commitment to all current members, and (2) the portion of the fully projected benefits attributable to past service.

<b>VFFRPF Actuarial Liabilities</b>				
<i>(Dollars in Millions)</i>	<b>VFF</b>	<b>EMT</b>	<b>RLEO</b>	<b>Total</b>
<b>(1) Present Value of Fully Projected Benefits</b>				
<b>Pension Benefits</b>	\$245.4	\$0.5	\$2.7	\$248.6
<b>Relief Benefits</b>	\$19.1	\$0.1	\$0.2	\$19.3
<b>(2) Entry Age Normal Accrued Liability</b>				
<b>Pension Benefits</b>	\$240.5	\$0.5	\$2.7	\$243.7
<b>Relief Benefits</b>	\$9.2	< \$0.1	< \$0.1	\$9.2

*Note: Totals may not agree due to rounding.*

These liabilities are based upon a 6.00 percent discount rate, which matches our annual Investment Rate of Return assumption. Please see our [2022 VFF Economic Experience Study](#) for further information, including details on the current VFFRPF asset allocation.

Under this bill, we don't expect a material change to the investment portfolio for the VFF/EMT plan. However, the Washington State Investment Board may select a different asset allocation for the new RLEO plan due to differences in the size and liquidity needs as well as IRS rules. Any changes may impact our Investment Rate of Return assumption, with a higher/lower discount rate resulting in a decrease/increase to the calculated RLEO liabilities.

**Assets**

The following table shows the total assets for VFFRPF under current law.

<b>VFFRPF Assets</b>	
<i>(Dollars in Millions)</i>	
<b>Market Value of Assets</b>	\$265.3
<b>Actuarial Value of Assets</b>	\$262.0

Under this bill, the new RLEO plan will receive a share of the current VFFRPF assets that is "proportionate to the members being transferred." The exact method for accomplishing this task is not defined and will be determined by BVFF. There are several different methods that could be used to make the split, such as approaches based on headcounts or liabilities. On both of those bases, RLEOs make-up roughly 1 percent of VFFRPF, which would correspond to almost \$3 million in assets. The Office of the State Actuary (OSA) is available to consult with BVFF on this matter.

Additionally, the assets of both plans could be reduced to pay any applicable IRS taxes. Based on input from BVFF, our understanding is that both the VFF/EMT plan and the new RLEO plan may be subject to three years of back taxes. Additionally, the RLEO plan may be required to pay taxes prospectively, due to

its status as an unqualified IRS plan. Paying these taxes will decrease future plan assets, but the magnitude of this impact is unknown at this time.

**Funded Status**

The following table shows the combined pension and relief funded status for VFFRPF under current law.

<b>VFFRPF Funded Status</b>	
<i>(Dollars in Millions)</i>	
<b>a. Entry Age Normal Accrued Liability</b>	\$252.9
<b>b. Actuarial Value of Assets</b>	\$262.0
<b>c. Unfunded Liability (a-b)</b>	(\$9.1)
<b>d. Funded Ratio (b/a)</b>	104%

*Note: Totals may not agree due to rounding.*

As illustrated above, RLEO liabilities comprise approximately 1 percent of the overall VFFRPF. Given that the amount of assets allocated to the new RLEO plan must be proportionate to the membership, we anticipate the resulting funded ratios under this bill for the VFF/EMT plan and the new RLEO plan will be similar to the underlying funded ratio of the VFFRPF under current law.

That said, any changes to the economic or demographic assumptions (along with emerging experience that deviates from our expectations) for either of the two plans could impact future funded ratios.

**Contribution Rates and Budgets**

The pension and relief contribution fees for all members and VFF employers are set in statute and do not change under this bill. Employers of EMTs and RLEOs pay the full cost of their pension and relief benefits, so this bill may impact their future calculated contribution rates for the reasons noted above. OSA is currently consulting with BVFF on their funding policy and will incorporate any impacts from this bill into those ongoing discussions.

This bill will have no impact to state budgets since there is no change to the 40 percent of the FIPT that is contributed by the state.

**Comments on Risk**

Under this bill, we anticipate the impacts to the VFF/EMT plan will be limited. However, certain financial risks are more prevalent for the smaller RLEO plan, specifically the potential for greater volatility in relief benefit payments. Severe medical occurrences, while uncommon, could result in very large costs to the plan and have a material impact on the funded ratio.

That said, it’s our understanding BVFF will determine how future annual FIPT are allocated between the VFF/EMT and RLEO plans. This mechanism can be used to help mitigate adverse experience.

**ACTUARY'S CERTIFICATION**

The undersigned certifies that:

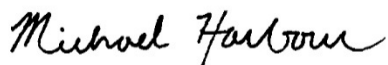
1. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment.
2. We prepared this AFN based on our current understanding of the bill as of the date shown in the footer. If the bill or our understanding of the bill changes, the analysis in a future AFN based on those changes may vary from this AFN. Additionally, the analysis shared in this AFN may change after our next annual update of the underlying actuarial measurements.
3. We prepared this AFN 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 AFN.

We prepared this AFN to support legislative deliberations during the 2023 Legislative Session. This AFN may not be appropriate for other purposes.

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

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

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



Michael T. Harbour, ASA, MAAA  
Actuary

O:\Fiscal Notes\2023\5567.SB.1336.HB.docx



# LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

**Bill Number:** 5567 SB

**Title:** Vol. firefighter pensions

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

## Legislation Impacts:

- Cities:
- Counties:
- Special Districts: Fire protection districts.
- Specific jurisdictions only:
- Variance occurs due to:

## Part II: Estimates

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time:

### Estimated revenue impacts to:

None

### Estimated expenditure impacts to:

**Non-zero but indeterminate cost and/or savings. Please see discussion.**

## Part III: Preparation and Approval

Fiscal Note Analyst: Kristine Williams	Phone: (564) 669-3002	Date: 01/26/2023
Leg. Committee Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/24/2023
Agency Approval: Alice Zillah	Phone: 360-725-5035	Date: 01/26/2023
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/31/2023

## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

*Description of the bill with an emphasis on how it impacts local government.*

This legislation would split the current volunteer firefighters' and reserve officers' relief and pension system into two separate retirement plans by amending RCW 41.24.030, 41.24.035, 43.84.092; reenacting and amending RCW 41.24.010; and adding new sections to RCW 41.24. Reserve officer members, including active, retired, and beneficiaries of those members would be moved to a new reserve officers' plan, while volunteer firefighter and emergency medical technicians would remain in the existing plan. These changes are necessary for the pension system to retain its qualified status with the internal revenue service.

Sec. 2: Adds a new section to chapter 41.24 RCW which states that any tax liability incurred to members or beneficiaries of the plan will be paid with appropriate principal funds in accordance with a process to be developed by the state board.

Sec. 3: Adds a new section to RCW 41.24.010 which splits the principal fund into two funds: 1) the volunteer firefighters' principal fund for the volunteer firefighters' plan and 2) the reserve officers' principal fund for the reserve officers' plan and directs the state board to transfer assets proportionate to the members being transferred.

Sec. 4: Adds a new section to chapter 41.24 which directs the state board to administer these changes in a manner that does not either reduce or increase benefits for plan members.

Sec. 5: Amends RCW 41.24.010 to remove reserve officer from the volunteer firefighter's plan and adds language defining the reserve officers' plan to include any reserve officer or whose beneficiary may be eligible to receive retirement pension benefits. The definition of principal fund is amended to include either the volunteer firefighters' relief and pension principal fund or the reserve officers' relief and pension principal fund.

Sec. 6: Amends RCW 41.24.030 to clarify the separation of the volunteer firefighters' relief and pension fund in the state trust fund and removes subsection (1)(d) which references the process in which annual fees are paid on behalf of reserve officers by municipal corporations. Subsection (2) is added to state that the reserve officers' relief and pension principal fund is being created and describes the process in which fees are collected and administered. Subsection (3) provides additional information as to how investments are to be managed by the state investment board. Subsection (6) provides an effective date of July 1, 2023, in which the state board will transfer funds into the reserve officers' relief and pension principal fund.

Sec. 7: Amends RCW 41.24.030 to add language specific to the new reserve officers' relief and pension principal fund related to fees, benefits, and fiscal management of the fund.

Sec. 8: Amends RCW 41.24.035 to provide authorization to the state board to use principal earnings and principal funds to pay for legal and medical expenses.

Sec. 9 and 10: Amends RCW 43.84.092 to include 'the reserve officers' relief and pension principal fund' in the list of treasury income accounts.

Sec. 11 and 12: Adds new sections establishing an expiration date of July 1, 2024, for Sec. 9 and an effective date of July 1, 2024, for Sec. 10.

Sec. 13: Adds a new section establishing an effective date of December 1, 2023, or the date that the state board receives notice from the internal revenue service that the plan is a qualified employee benefit plan under federal law.

## **B. SUMMARY OF EXPENDITURE IMPACTS**

*Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.*

This bill would not impact local government expenditures. This bill provides the authority to separate the volunteer firefighters' and reserve officers' relief and pension principal fund into two accounts in order to comply with federal internal revenue service requirements.

## **C. SUMMARY OF REVENUE IMPACTS**

*Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.*

This legislation would not impact local government revenues.

### **SOURCES:**

Board for Volunteer Firefighters and Reserve Officers



# Multiple Agency Ten-Year Analysis Summary

<b>Bill Number</b> 5567 SB	<b>Title</b> Vol. firefighter pensions
-------------------------------	---

This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

## Estimated Cash Receipts

	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	2024-33 TOTAL
State Investment Board	0	0	0	0	0	0	0	0	0	0	0
Board for Volunteer Firefighters and Reserve Officers Partially Indeterminate Impact	450,000	445,000	440,000	435,000	430,000	425,000	420,000	415,000	410,000	405,000	4,275,000
Actuarial Fiscal Note - State Actuary	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>450,000</b>	<b>445,000</b>	<b>440,000</b>	<b>435,000</b>	<b>430,000</b>	<b>425,000</b>	<b>420,000</b>	<b>415,000</b>	<b>410,000</b>	<b>405,000</b>	<b>4,275,000</b>



# Ten-Year Analysis

<b>Bill Number</b> 5567 SB	<b>Title</b> Vol. firefighter pensions	<b>Agency</b> 126 State Investment Board
-------------------------------	---	---

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

**No Cash Receipts**                       **Partially Indeterminate Cash Receipts**                       **Indeterminate Cash Receipts**

<b>Name of Tax or Fee</b>	<b>Acct Code</b>												
---------------------------	------------------	--	--	--	--	--	--	--	--	--	--	--	--

Agency Preparation: Celina Verme	Phone: (360) 956-4740	Date: 2/1/2023 2:21:55 pm
Agency Approval: Allyson Tucker	Phone: 360-956-4710	Date: 2/1/2023 2:21:55 pm
OFM Review:	Phone:	Date:



# Ten-Year Analysis

<b>Bill Number</b> 5567 SB	<b>Title</b> Vol. firefighter pensions	<b>Agency</b> 220 Board for Volunteer Firefighters and Reserve Officers
-------------------------------	---	--

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

No Cash Receipts
  Partially Indeterminate Cash Receipts
  Indeterminate Cash Receipts

## Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	2024-33 TOTAL
Annual Reserve Law Enforcement Relief/Pension Fees	614	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	105,000
Annual Vol FF Relief/Pension Fees	614	426,500	421,500	416,500	411,500	406,500	401,500	396,500	391,500	386,500	381,500	4,040,000
Emergency Medical District Relief/Pension Fees	614	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	130,000
<b>Total</b>		<b>450,000</b>	<b>445,000</b>	<b>440,000</b>	<b>435,000</b>	<b>430,000</b>	<b>425,000</b>	<b>420,000</b>	<b>415,000</b>	<b>410,000</b>	<b>405,000</b>	<b>4,275,000</b>
<b>Biennial Totals</b>		<b>895,000</b>		<b>875,000</b>		<b>855,000</b>		<b>835,000</b>		<b>815,000</b>		<b>4,275,000</b>

## Narrative Explanation (Required for Indeterminate Cash Receipts)

In 2020 SSB 5829 was passed effectively increasing the annual fees paid by city and county municipalities for their volunteer firefighters' and reserve officers' relief and pension benefit enrollment. Prior being able to implement those changes the agency had to verify tax status of the plan with the Internal Revenue Service. This bill proposes the needed changes to meet IRS plan qualification and with passage allows the agency to implement the increase in annual fees paid per member by city and county municipalities for Relief and Pension benefits administered under Chapter 41.24 RCW Volunteer Firefighters and Reserve Officers Relief and Pension Act.

The annual fees are expected to increase from \$30 to \$50 for Volunteer Firefighter required relief coverage and \$60 to \$90 for the optional pension enrollment. The estimated impact is based on enrollment trends.

The cash receipts are partially indeterminate because the annual fees paid for city and county reserve law enforcement officers as well as emergency medical service districts are set each October by the Board.



# Ten-Year Analysis

<b>Bill Number</b> 5567 SB	<b>Title</b> Vol. firefighter pensions	<b>Agency</b> 220 Board for Volunteer Firefighters and Reserve Officers
-------------------------------	---	--

Agency Preparation: Hailey Bryant	Phone: (360) 753-7318	Date: 1/25/2023 7:42:43 pm
Agency Approval: Hailey Bryant	Phone: (360) 753-7318	Date: 1/25/2023 7:42:43 pm
OFM Review:	Phone:	Date:



# Ten-Year Analysis

<b>Bill Number</b> 5567 SB	<b>Title</b> Vol. firefighter pensions	<b>Agency</b> AFN Actuarial Fiscal Note - State Actuary
-------------------------------	---	--

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

## Estimates

**No Cash Receipts**
                         
  **Partially Indeterminate Cash Receipts**
                         
  **Indeterminate Cash Receipts**

<b>Name of Tax or Fee</b>	<b>Acct Code</b>												
---------------------------	------------------	--	--	--	--	--	--	--	--	--	--	--	--

Agency Preparation: Aaron Gutierrez	Phone: 360-786-6152	Date: 1/25/2023 2:37:31 pm
Agency Approval: Michael Harbour	Phone: 360-786-6151	Date: 1/25/2023 2:37:31 pm
OFM Review:	Phone:	Date: