Multiple Agency Fiscal Note Summary

Bill Number: 2034 HB	Title: LEOFF 1 restatement

Estimated Cash Receipts

Agency Name	2025-27			2027-29			2029-31		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Office of State Treasurer	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total $	0	0	0	0	0	0	0	0	0

Agency Name	2025-27		2027-29		2029-31	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts	No fiscal impact					
Loc School dist-SPI						
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Administrative Office of the Courts	.0	0	0	0	.0	0	0	0	.0	0	0	0
Office of State Treasurer	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Retirement Systems	.4	0	0	208,000	.0	0	0	113,000	.0	0	0	0
State Investment Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Labor and Industries	.0	0	0	0	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total $	0.4	0	0	208,000	0.0	0	0	113,000	0.0	0	0	0

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts	No fiscal impact								
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	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Administrative Office of the Courts	.0	0	0	.0	0	0	.0	0	0
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
State Investment Board	.0	0	0	.0	0	0	.0	0	0
Department of Labor and Industries	.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**

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts	No fiscal impact								
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

Prepared by: Bryce Andersen, OFM	Phone: (564) 999-0536	Date Published: Final 4/14/2025

Judicial Impact Fiscal Note

Bill Number: 2034 HB	Title: LEOFF 1 restatement	Agency: 055-Administrative Office of the Courts

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Responsibility for expenditures may be subject to the provisions of RCW 43.135.060.

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 fo 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.

Legislative Contact	David Pringle	Phone: 360-786-7310	Date: 03/10/2025
Agency Preparation:	Chris Conn	Phone: 360-704-5512	Date: 03/12/2025
Agency Approval:	Chris Stanley	Phone: 360-357-2406	Date: 03/12/2025
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 03/13/2025

205,046.00 Request # 285-1

Part II: Narrative Explanation

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

Section 315 makes it a Class B felony to attempt to falsify or defraud the state retirement system.

II. B - Cash Receipts Impact

None

II. C - Expenditures

No fiscal impact to the Administrative Office of the Courts as this bill does not affect current AOC or court processes.

Part III: Expenditure Detail

III. A - Expenditure By Object or Purpose (State)

NONE

III. B - Expenditure By Object or Purpose (County)

NONE

III. C - Expenditure By Object or Purpose (City)

NONE

III. D - FTE Detail

NONE

III. E - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B1 - Expenditures by Object Or Purpose (State)

NONE

IV. B2 - Expenditures by Object Or Purpose (County)

NONE

IV. B3 - Expenditures by Object Or Purpose (City)

NONE

IV. C - Capital Budget Breakout

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

NONE

None

Individual State Agency Fiscal Note

Bill Number: 2034 HB	Title: LEOFF 1 restatement	Agency: 090-Office of State Treasurer

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

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

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:	David Pringle	Phone: 360-786-7310	Date: 03/10/2025
Agency Preparation:	Dan Mason	Phone: (360) 902-8990	Date: 03/17/2025
Agency Approval:	Dan Mason	Phone: (360) 902-8990	Date: 03/17/2025
OFM Review:	Megan Tudor	Phone: (360) 890-1722	Date: 03/17/2025

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.

HB 2034 relates to the termination and restatement of plan 1 of the law enforcement officers’ and firefighters’ retirement system.

Section 104,
• creates the restated law enforcement officers’ and firefighters’ defined benefit retirement fund.
• provides direction - at direction of the director of retirement systems, the state treasurer shall transfer to the restated law enforcement officers' and firefighters' defined benefit retirement fund an amount equal to 120 percent of the actuarial present value of the fully projected benefits of plan 1 of the Washington law enforcement officers' and firefighters' retirement system based on the most recent actuarial valuation projected to a measurement date of the effective date of this section.

Sections 102 and 451 abolishes the Washington law enforcement officers' and firefighters' system plan 1 retirement fund effective June 30, 2029.

Sections 463 and 464 allows the restated law enforcement officers’ and firefighters’ defined benefit retirement fund to retain its earnings from investments.

Section 505 gives the legislature authority during the 27-29 biennium to direct the state treasurer to transfer money in the pension funding stabilization account into the general fund.

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.

Prior to June 30, 2029, coordination will occur with the department of retirement systems, the office of the state actuary, the state investment board, and office of financial management relating to the transfer of assets and funds.

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

Bill Number: 2034 HB	Title: LEOFF 1 restatement	Agency: 124-Department of Retiremen Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.8	0.0	0.4	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	208,000	0	208,000	113,000	0
Total $	208,000	0	208,000	113,000	0

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:	David Pringle	Phone: 360-786-7310	Date: 03/10/2025
Agency Preparation:	Amy McMahan	Phone: 360-664-7307	Date: 03/13/2025
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 03/13/2025
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 03/13/2025

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 terminates and creates a restated Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 1.

Section 101 describes the history of LEOFF Plan 1 and its current membership, as well as the legislature's intention to terminate LEOFF Plan 1 in accordance with the federal Internal Revenue Code while recognizing the contract rights and actuarial health of LEOFF Plan 1 members' benefits. By dissolving LEOFF Plan 1, the legislature will restate the retirement plan and, to the best interest of all Washingtonians, revert all surplus assets from the LEOFF Plan 1 fund to the state.

Section 102 declares LEOFF Plan 1 terminated as of June 30, 2029. Between the termination of this plan and the creation of the restated version of said plan, all LEOFF Plan 1 benefits will continue to be administered without interruption.

Section 103 creates the restated LEOFF Plan 1. In statute and rule, this new restated system and plan will be referred to as LEOFF Plan 1 and does not create or change any benefits for members and beneficiaries of this plan, with the exception of vesting benefits for members who are not currently vested upon the closure of the current LEOFF Plan 1, and the establishing of the restated LEOFF Plan 1.

Section 104 creates the restated LEOFF Plan 1 defined benefit retirement fund in the custody of the State Treasurer, which will consist of assets moved from the current LEOFF Plan 1 retirement fund, any investment earnings, and other amounts that are deposited into said fund. At the behest of the director of the Department of Retirement Systems (DRS), the State Treasurer will transfer 120% of the actuarial present value of the fully projected benefits of LEOFF Plan 1 into the restated LEOFF Plan 1 defined benefit retirement fund based on the actuarial valuation projected on the effective date of this provision. In support of this, the Pension Funding Council (PFC) must conduct an independent audit to calculate the present value determined by the State Actuary. The transfer of the assets must occur on the effective date of this section (June 30, 2029, as stated in section 506) and any excess assets must be deposited into the pension funding stabilization account and continue to be invested by the Washington State Investment Board (WSIB). This section also mentions that any expenditure from the restated LEOFF Plan 1 defined benefit retirement fund can only be used for the purposes of this chapter, and only the director of DRS or the director's designee can authorize expenditures from the fund with no appropriations necessary. The director of DRS can also direct the State Treasurer to make additional transfers as needed to reconcile any amounts transferred and the provisions listed in sections 101 through 105 of this legislation.

Section 105 grants the WSIB full power to invest, reinvest, manage, contract, sell or exchange investment monies placed in the restated LEOFF Plan 1 defined benefit retirement fund as well as the pension funding stabilization account.

Section 106 states that the legislature reserves the right to make any amendments or modifications in the future to achieve the goals of section 101 through 108 without any reductions of the rights and benefits of LEOFF Plan 1 members, retirees, and surviving spouses that existed prior to this provision's effective date.

Section 107 declares a statute of limitations on any claim filed that challenges the validity of sections 101 through 108. Any claims of this nature that are submitted after June 30, 2027 are forever barred. On the effective date of this act (June 30, 2029, as stated in section 506), DRS must send notification of the provisions of this legislation and any limitations in this specific section to the last known address of every LEOFF Plan 1 member, retiree and survivor via first-class mail.

Section 108 states that all remaining active LEOFF Plan 1 members have achieved the normal retirement age under federal law. These members may begin receiving their retirement benefit even if they continue employment with their employer. To support the LEOFF Plan 1's prompt and orderly transition to a fully retired plan, members in this plan had to have been actively employed by a LEOFF employer on February 1, 2025 and remained continuously employed in a LEOFF Plan 1 position since that time, and must notify DRS in writing that they elect to begin their retirement benefit payments by no later than January 1, 2026. Additionally, with the commencement of their retirement by January 1, 2026, a member will receive an additional five years of service credit that is to be included in the calculation of their retirement benefit, as well as a one-time lump sum benefit of $25,000.

Section 109 directs DRS to obtain guidance from the Internal Revenue Service (IRS) to ensure that the closure of LEOFF Plan 1 and the creation of the restated LEOFF Plan 1 are in continuous compliance with the Internal Revenue Code. Should the IRS find that legislative changes are necessary for the closure and restatement of LEOFF Plan 1 by June 30, 2029, DRS will submit their findings to the governor and the appropriate committees in both the House of Representatives and the Senate.

Part II, Sections 201 through 204 removes the current LEOFF chapter RCW 41.26 and any mention of LEOFF Plan 1 members and renames this chapter to be the LEOFF Plan 2 Act.

Part III, Sections 301 through 348 creates the Restated LEOFF Retirement System chapter, moving all LEOFF Plan 1 contents in RCW 41.26 into this new chapter. Subsection 318(2) declares that four months after the effective date of this section (October 30, 2029), a member with less than five years of service credit will receive a monthly retirement benefit of 1/12th of one percent of their final average salary for each month of service they accumulated, with the intent to fully vest all LEOFF Plan 1 members.

Part IV, Sections 401 through 471 amends various statutes within RCW 41.26 that previously referred to LEOFF Plan 1 to now reference the newly established Restated LEOFF Retirement System chapter. Notable sections within Part IV include section 448 states that the DRS must administer the restate LEOFF retirement system under chapter 41, and section 451 which grants DRS administrative responsibility for the restated LEOFF fund and the pension funding stabilization account.

Section 501 repeals various sections around LEOFF Plan 1 minimum and health standards, funding total liability of Plan 1 system, retirement for service, and more.

Section 502 states that any repeals in section 501 do not affect any already existing rights acquired, as well as any obligations or liabilities incurred. Any rules adopted by DRS related to LEOFF Plan 1 under RCW 41.26 will remain in effect and apply to the restated LEOFF Plan 1 system unless it is found explicitly inconsistent with this legislation, and it is repealed or superseded.

Section 503 states that sections 101 through 108 are not severable, and if any provisions in these sections are found invalid by a court of competent jurisdiction, this entire act is null and void.

Section 505 amends language to state that the legislature can direct the State Treasurer to make transfers of monies in the pension funding stabilization account into the state general fund during the 2027 to 2029 fiscal biennium.

Section 506 sets an effective date of June 30, 2029 for all sections except 108, 109, and 464 of this act, as they have separately declared effective dates.

Section 507 declares that section 463 regarding the State Treasurer’s management of accounts and funds to now include the restated LEOFF defined benefit retirement fund expires July 1, 2030.

Section 508 declares that section 464, also regarding the State Treasurer’s management of accounts and funds to now include the restated LEOFF defined benefit retirement fund, is effective July 1, 2030.

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.

ADMINISTRATIVE ASSUMPTIONS:

- Benefits will continue to be paid from the LEOFF 1 Trust Fund through June 30, 2029.
- The WSIB will maintain investment authority for the restated LEOFF Plan 1 fund. They will also have investment authority for the pension funding stabilization account.
- Employers will continue to pay the DRS administrative fee based on the compensation of active LEOFF Plan 1 members.
- Any future funding needs, should they occur, would be met by monthly or quarterly transfers from the State General Fund to the restated L1 fund.
- A new retirement trust fund will be created for the LEOFF 1 restated plan. DRS must coordinate with the Office of the State Treasurer (OST), the WSIB, and the Office of Financial Management (OFM) on the transfer of 120% of the actuarial present value of the benefits from the previous LEOFF Plan 1 fund to the new fund. This is so that investments will not be required to be liquidated to affect the transfer on June 30, 2029. DRS will also coordinate with our partners on the transfer of the remaining funds into the pension funding stabilization account on June 30, 2029.
- LEOFF Plan 1 beneficiaries are not subject to receiving notification of the provisions of this legislation—only members, retirees and survivors as stated in section 107.
- Active LEOFF Plan 1 members must also be notified of the retirement incentive, as per section 108, via first-class mail in addition to the other provisions of this bill.
- Active LEOFF Plan 1 members who commence their retirement by January 1, 2026 can still purchase an additional annuity for their benefit.
- DRS will obtain guidance from the IRS in the form of a private letter ruling and prepare the required termination paperwork for the IRS.
- For active LEOFF Plan 1 members who elect to retire while working for a LEOFF employer, DRS will use the end of the month prior to their declared retirement date as their separation date.
- Once an active LEOFF Plan 1 member enters annuitant status as per section 108 while still working for their LEOFF employer, they will not earn service credit and will no longer be considered active in their plan.
    - For any LEOFF Plan 1 retirees who retired prior to February 1, 2025, should they return to work for a LEOFF employer, they are still subject to "return to membership" rules as outlined in RCW 41.26.100.

To implement the provisions of this bill in 2026, DRS will:

- Confirm project scope, timeline and conduct project implementation tasks.
- Conduct legal analysis, business analysis, and business process design.
- Complete systems changes, which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes.
- Revise system programming in our pension administration modernization project to accommodate this policy change through a change order.
- Identify and communicate to impacted members by mail.
- Update agency WACs.
- Update financial reporting publications, coordinate with OFM, OSA, and the State Auditor's Office (SAO) on updates to the Annual Comprehensive Financial Report (ACFR) and Participating Employer Financial Information (PEFI).
- Update plan guides and the DRS administrative manual, and train team members.
- Coordinate the private letter ruling process.

To support this implementation, DRS will form a project team that will include a project manager, management analyst, business analyst, communication consultant, rules coordinator, and retirement specialist. DRS will also partner with our vendor to create and implement these updates in our new system.

In addition, DRS will hire a contractor to implement changes to Linux applications and seek legal advice from outside legal counsel. This is to ensure IRS compliance and prepare materials to submit for the IRS private letter ruling.

To implement the provisions of the bill in 2029, DRS will:
- Update our pension administration system for the new LEOFF system.
- Coordinate the required audit for the pension funding council.
- Complete all required termination paperwork for the IRS.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2026	FY 2027	2025-27	2027-29	2029-31
600-1	Department of Retirement Systems Expense Account	State	208,000	0	208,000	113,000	0
		Total $	208,000	0	208,000	113,000	0

III. B - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.8		0.4		
A-Salaries and Wages	80,000		80,000		
B-Employee Benefits	26,000		26,000		
C-Professional Service Contracts	102,000		102,000	110,000	
E-Goods and Other Services				3,000	
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 $	208,000	0	208,000	113,000	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 2026	FY 2027	2025-27	2027-29	2029-31
Communications Consultant 5	93,348	0.0		0.0		
IT Applications Develop-Journey	107,148	0.1		0.1		
IT Business Analyst-Journey	107,148	0.2		0.1		
IT Project Management-Mgr	136,752	0.1		0.1		
Legal Services Program Mgr	116,124	0.0		0.0		
Management Analyst 5	88,800	0.1		0.1		
Retirement Specialist 3	74,724	0.2		0.1		
Total FTEs		0.8		0.4		0.0

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.

Relevant WACs will be edited to align with the provisions of this bill.

Individual State Agency Fiscal Note

Bill Number: 2034 HB	Title: LEOFF 1 restatement	Agency: 126-State Investment Board

Part I: Estimates

- [X] **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:	David Pringle	Phone: 360-786-7310	Date: 03/10/2025
Agency Preparation:	Cliff Hicks	Phone: (360) 956-4761	Date: 04/09/2025
Agency Approval:	Cliff Hicks	Phone: (360) 956-4761	Date: 04/09/2025
OFM Review:	Bryce Andersen	Phone: (564) 999-0536	Date: 04/14/2025

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.

Section 102:

> Terminates the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF 1) effective June 30, 2029.

Section 103:

> Establishes the Restated LEOFF system on June 30, 2029, to replace LEOFF 1.

> Provides that the Restated system does not create benefits different than, or in addition to, the original plan.

Section 104:

> Establishes an account for the Restated system to consist of assets transferred from LEOFF 1.

> Directs the State Treasurer, at the direction of the Department of Retirement Systems (DRS), to transfer to the Restated LEOFF account 120 percent of the actuarial net present value of the fully projected benefits of LEOFF 1 based on the most recent actuarial valuation projected to June 30, 2029. This transfer is to occur on June 30, 2029.

> Provides that remaining assets in LEOFF 1 be deposited in the Pension Funding Stabilization Account and continue to be invested by the Washington State Investment Board (WSIB) until otherwise directed by law.

Section 105:

> Gives the WSIB full investment authority over the Restated LEOFF system and Pension Funding Stabilization Account.

> Authorizes payment of the WSIB's investment and operating costs.

> Directs that investments are be made with the degree of judgment and care required by the WSIB's authorizing statute (RCW 43.33A.140) and the WSIB's investment policy.

> Allows moneys in the funds to be commingled.

Sec. 505. Amends the Pension Funding Stabilization Account to allow the Legislature to direct funds in the account to the General Fund during the 2027-29 biennium.

Fiscal Impact Assumption:

For purposes of this fiscal note, the WSIB assumes that the transfers to the Restated LEOFF system, Pension Funding Stabilization Account, and General Fund would each occur on June 30, 2029. Restated LEOFF system balances are assumed to remain in the Comingled Trust Fund. As such, the WSIB assumes no long-term investment planning, investment policy, or asset allocation would be required for the Pension Funding Stabilization Account. The bill will impact cash flows associated with the LEOFF system but will not create a fiscal impact for the agency's budget.

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

Bill Number: 2034 HB	Title: LEOFF 1 restatement	Agency: 235-Department of Labor and Industries

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:	David Pringle	Phone: 360-786-7310	Date: 03/10/2025
Agency Preparation:	Allison Kaech	Phone: 000-000-0000	Date: 03/13/2025
Agency Approval:	Trent Howard	Phone: 360-902-6698	Date: 03/13/2025
OFM Review:	Courtney Kinney	Phone: 360 584 5705	Date: 03/14/2025

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 relates to termination and restatement of plan 1 of the law enforcement officers' and firefighters' retirement system.

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.

None

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.

This bill creates the Restated Law Enforcement Officers' and Firefighters' Retirement System (Restated LEOFF). Labor & Industries (L&I) does not work within the these retirement systems. This bill does not have fiscal impact for L&I.

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

Bill Number: 2034 HB	Title: LEOFF 1 restatement	Agency: AFN-Actuarial Fiscal Note - State Actuary

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:	David Pringle	Phone: 360-786-7310	Date: 03/10/2025
Agency Preparation:	Darren Painter	Phone: 360-786-6155	Date: 03/12/2025
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 03/12/2025
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 03/13/2025

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.

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.

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.

SUMMARY OF RESULTS

BRIEF SUMMARY OF Bill: This bill terminates LEOFF Plan 1 and creates a new retirement system, referred to as Restated LEOFF 1, for members of LEOFF 1 with similar benefits and fewer assets.

COST SUMMARY

No expected impact to the contribution rates or fiscal impacts to the state retirement systems.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- This bill reallocates assets from the LEOFF 1 trust fund to the Pension Funding Stabilization Account (PFSA), on June 30, 2029. We estimate the amount transferred to be approximately $3.3 billion. We expect this transfer of assets will decrease the LEOFF 1 funded status from above 200% to 120% as of the June 30, 2029, measurement date.
- Our AFN does not identify any budget impacts since there is no expected change to contribution rates for any of the state retirement plans. We note that assets are transferred to the PFSA and the bill allows those assets to then be used by the state's general fund; we assume those savings will be captured through a separate fiscal note.
- This bill provides a benefit enhancement for eligible remaining actives. Based on data from DRS, we assume 3 actives will have an estimated liability increase of approximately $200,000 per person.
- In terms of risk, this bill could impact liquidity of the Commingled Trust Fund (CTF) or the total assets remaining in the CTF. As a result, the asset allocation and long-term expected return on investments for all retirement plans in the CTF may change. If the expected return on investments is lower than under current law, the expected obligations of the plans will increase, and higher contributions for most plans may be required. The higher plan obligations are not expected to result in contributions for the Restated LEOFF 1; however, this bill increases the potential of future contributions if adverse experience occurs because there will be fewer assets in the Restated LEOFF 1 Fund, after the asset transfer to the PFSA.
- The expected transfer amount to the PFSA can materially change under a different set of assumptions and/or experience. We provide some scenarios below, but caution that the actual amount transferred to the PFSA could be higher or lower.
  - If, for example, annual inflation or investment earnings prior to June 30, 2029, differ from our long-term expectations by 0.75% or 1.00%, respectively, we estimate the PFSA amount will change by $0.2 billion and $0.4 billion, respectively. Please see **How the Results Change When the Assumptions Change** section for additional detail.
  - If the Restated LEOFF 1 assets are invested differently than the current CTF, that asset allocation may have a lower expected rate of return. If, for example, the expected return is 5.0% compared to the current CTF expected return of 7.0%, we expect the PFSA will drop from $3.3 billion to $2.0 billion.

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

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

This bill impacts the following systems:

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1.

The bill terminates LEOFF 1 and creates a new retirement system known as the Restated LEOFF 1 on June 30, 2029. The restated plan has the same members and benefits as existed prior to termination (with a couple exceptions) and guarantees members' benefits will continue during the transition to the restated plan.

The exceptions include:

1. Non-vested members are immediately vested in the restated plan, and
2. A retirement incentive for the remaining active members of LEOFF 1; specifically, an extra five years of service credit for the pension calculation and a lump sum payment of $25,000. The incentive is provided to LEOFF 1 members who have been continuously employed since February 1, 2025, and who retire by January 1, 2026.

The bill also creates the Restated LEOFF 1 Defined Benefit Retirement Fund (Restated LEOFF 1 Fund) in the state treasury. The fund is administered by the Department of Retirement Systems (DRS), and expenditures from the fund may only be used for the administration of the Restated LEOFF 1 Retirement System. The Washington State Investment Board (WSIB) is charged with investing the fund and may commingle the assets in the fund with other funds for investment purposes.

The bill transfers the assets of LEOFF 1 to the Restated LEOFF 1 Fund and the PFSA. The transfer takes place on June 30, 2029. On that date, an amount equal to 120% of the actuarial present value of the fully projected benefits of LEOFF 1, as determined by the state actuary, is transferred to the Restated LEOFF 1 Fund. The transfer amount is based on an actuarial valuation projected to June 30, 2029. Any remaining LEOFF 1 assets are transferred to the PFSA. Monies in the PFSA are invested by WSIB and may be transferred to the state general fund during the 2027-29 Biennium at the direction of the Legislature.

Effective Date: Most sections of the bill take effect on June 30, 2029. The retirement incentive is effective 90 days after session.

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

What Is the Current Situation?

The LEOFF 1 is a state-administered, defined-benefit retirement plan that provides retirement, disability, and death benefits to law enforcement officers and firefighters hired before October 1, 1977. Members of LEOFF 1 vest after five years of service in the plan. The LEOFF 1 was closed to new members on October 1, 1977, and nearly all remaining members of the plan are now retired.

As of our most recent Actuarial Valuation Report (AVR) – the June 30, 2023, AVR, LEOFF 1 has a surplus funded status. This means the plan has more assets on hand than would be needed to cover the expected future costs of the plan if all actuarial assumptions are realized. The assets of LEOFF 1 are managed by WSIB and invested in a commingled fund along with assets from other state retirement systems.

The PFSA exists in the state treasury. Monies in the account may be spent only after appropriation and may be used only for payment of state government employer contributions for the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, and the Public Safety Employees' Retirement System.

Who Is Impacted and How?

Based on data from DRS, we estimate this bill could affect 3 active and 14 inactive, non-vested members of LEOFF 1 through benefit enhancements.

We estimate this bill will increase the future annual retirement benefits for impacted active members by increasing their accrued service by five years. For example, an eligible active member with an Average Final Salary of $125,000 and 45 years of service under current law will receive an annual benefit of $112,500 in their first year after retirement. If the same member increased their accrued service by five years, as provided under this bill, then their annual benefit at retirement would be $125,000 (approximately 10% larger). An eligible active member would also receive a $25,000 lump sum.

Inactive, non-vested LEOFF 1 members would be eligible for an annual retirement benefit under this bill. Under current law, these members are only eligible for a return of their member contributions (plus interest).

This bill does not impact LEOFF 1 contribution rates because the calculated Unfunded Actuarial Accrued Liability (UAAL) rate remains below 0.00%. Employers and their Plan 1 employees do not contribute to LEOFF 1 under current funding policy. This bill does not change funding policy for the Restated LEOFF 1 Retirement System.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has a Cost

This bill increases retirement benefits for eligible LEOFF 1 active and non-vested members.

Who Will Pay for These Costs?

Based on the projected funding ratios of LEOFF 1 and the assumptions used for the best estimate analysis, we do not expect a UAAL to emerge under this bill. However, a UAAL could emerge in the future if experience does not align with our assumptions. Under current law and this bill, a funding policy has not been defined for LEOFF 1 UAAL payments if a UAAL re-emerges.

HOW WE VALUED THESE COSTS

We modeled the current law cost of the plan using our 2023 AVR and our 2023 Valuation Projections Model. To analyze the impact of this bill, we then adjusted the following assumptions, methods, or data.

Assumptions We Made

We assume the PFSA and the new trust fund created under this bill, the Restated LEOFF 1 Fund, will be invested in the CTF. Based on this, our analysis assumes this bill will not change WSIB's asset allocation, and thus, no change in the 7.00% annual investment rate of return assumption. If the assets in either of these two funds are held separate from the CTF, the CTF may require a different asset allocation and our expectations for future returns on assets may change. Please see **How the Results Change When Assumptions Change** section for additional information.

We expect the benefit enhancement for inactive, non-vested members is not material and did not quantify the increase in liability for this population. As of the 2023 AVR, these members had an average accrued service of approximately 0.3 years and average age of 73. In terms of counts, DRS expects that, at most, 14 of these inactive members are eligible for an annual retirement benefit under this bill.

How We Applied These Assumptions

To estimate the costs of the benefit enhancement, we increased the accrued service by five years for the three impacted active members and ran our valuation software (ProVal) consistent with our AVR. We estimate this increase in plan obligations is less than $1 million. The output from ProVal was used in our 2023 Valuation Projections Model, along with a $75,000 (three recipients of the lump sum benefit) reduction of assets on June 30, 2025, to estimate assets and plan obligations in future valuations.

Under current law, LEOFF 1 is expected to exceed 200% funded status (also known as assets relative to plan obligations) as of the June 30, 2029, measurement date. This bill moves the expected assets that exceed 120% of expected plan obligations to the PFSA, which we estimate to be approximately $3.3 billion. We removed that asset amount from our projections model on June 30, 2029, to assess future measurements. The following table displays how the projected assets, liabilities, funded status, and excess assets (assets that exceed liabilities) change annually under this bill.

Projection of LEOFF 1 Under Bill
(Dollars in Billions)

FY End	Actuarial Value of Assets (1)	Accrued Liabilities (2)	Funded Status (1/2)	Excess Assets (1-2)
2023	$6.4	$4.3	149%	$2.1
2024	$6.6	$4.2	159%	$2.4
2025	$6.8	$4.0	168%	$2.7
2026	$6.9	$3.9	179%	$3.1
2027	$7.1	$3.7	191%	$3.4
2028	$7.3	$3.6	205%	$3.7
2029 (Before Transfer)	$7.4	$3.4	217%	$4.0
2029 (After Transfer)	$4.1	$3.4	120%	$0.7

Note: Totals may not agree due to rounding.

We assessed the reasonableness of our Valuation Projections Model as part of our annual update, and we compared the results of this model to simplified estimates made by hand as part of individual pricings.

Special Data Needed

We relied on DRS to identify the remaining LEOFF 1 active members. As of February 1, 2025, DRS expects three LEOFF 1 members remain actively employed in LEOFF 1.

We did not ask for demographics of inactive, non-vested LEOFF 1 members, but DRS expects 14, or fewer, would be impacted under this bill.

We checked this data for reasonableness, but did not audit the data. We believe it is adequate for purposes of this pricing.

ACTUARIAL RESULTS

How the Liabilities Changed

This bill will impact LEOFF 1 by increasing the present value of future benefits payable to eligible members. We expect the benefit enhancement for remaining actives who retire under this bill would increase pension plan obligations by less than $1 million as discussed in the **How We Valued These Costs** section.

How the Assets Changed

This bill will impact LEOFF 1 by decreasing trust fund assets available to pay plan benefits. The lump sum payments to active members are expected to be $75,000 and estimated to be paid on June 30, 2025. The transfer of assets to the PFSA, on June 30, 2029, is expected to be approximately $3.3 billion.

How the Present Value of Future Salaries (PVFS) Changed

We do not expect the change in PVFS for remaining actives will impact the results of this bill since they do not contribute to the plan under current law.

How Contribution Rates Changed

Following the transfer of assets to the PFSA, we expect the Restated LEOFF 1 to remain fully funded and UAAL contributions are not required to maintain a funded status that exceeds 100%. In other words, no UAAL is expected as a result of this bill.

How This Impacts Budgets and Employees

There is no expected fiscal impact to the state retirement systems since the contributions are not expected to change under this bill.

Please note: The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

Comments on Risk

Our office performs risk analysis to help us demonstrate and assess the effect of unexpected experience on pension plans. Our analysis allows us to measure how certain plan health and pension risk metrics can change if actual experience varies from our assumptions. For more information, please see our Risk Assessment, Commentary on Risk, and Glossary webpages.

In terms of risk, this bill would reduce the funded status of the Restated LEOFF 1, and as a result, fewer assets will be available to offset potential negative experience for the plan. However, the Restated LEOFF 1 is expected to have some buffer for unexpected experience since it begins with a projected funded status of 120% on June 30, 2029.

We do not expect this bill's benefit enhancement will materially impact the risks to the plan given the limited number of eligible members.

This bill may impact the liquidity risks of the CTF. We assume both the Restated LEOFF 1 trust fund and the PFSA will be invested in the CTF. If this occurs, then we do not expect a change in WSIB's asset allocation or the assumed investment rate of return. However, if the assets within the CTF decrease, either via PFSA funds being withdrawn or a determination is made that the Restated LEOFF 1 (and PFSA) cannot be commingled with other funds, then WSIB may choose a different asset allocation for both the Restated LEOFF 1 and the remaining CTF assets. A different asset allocation could result in potentially lowering the assumed investment rate of return, which increases the expected value of pension obligations for retirement plans whose asset allocation changed. In other words, this bill could result in a lower assumed investment rate of return for all retirement systems and potentially increase contribution requirements. In addition, changing the asset allocation for the Restated LEOFF 1 may decrease the amount transferred to the PFSA.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results can vary under a different set of assumptions or if experience occurs different than those assumptions. Under this bill, we expect approximately $3.3 billion in assets will transfer from the LEOFF 1 trust fund to the PFSA on June 30, 2029, if all assumptions are realized; however, the future asset returns, inflation, and member longevity experience can impact the transfer amount. In addition, a change in asset allocation by WSIB, as discussed in the **Comments on Risk** section, may change the assumed investment rate of return assumption, and thus the expected transfer amount to the PFSA.

By June 30, 2029, the assumptions we used for this analysis may be different resulting from an updated Demographic Experience Study and Economic Experience Studies. Updated assumptions can impact the expected plan obligations due to new expectations on demographic experience (primarily longevity of LEOFF 1 retirees and their survivors) and economic experience (investment return and inflation assumptions).

Unless noted otherwise, each sensitivity or stress test outlined below was performed using data, assets, assumptions, and methods consistent with those disclosed in the **How We Valued These Costs** section of this AFN.

How the Amount Transferred to the PFSA Could Change

To test how different future experience can impact our best estimate for the transfer amount to the PFSA (approximately $3.3 billion), we varied short-term assumed inflation and investment returns. We also considered how the estimated transfer amount would change under a different asset allocation with a lower assumed investment rate of return.

The table below summarizes the estimated transfer to the PFSA under various sensitivity tests. All three sets of sensitivity tests examine the impact of experience that differs from expectations for Fiscal Years (FY) 2025 through 2029. In other words, experience that leads up to the transfer of assets from LEOFF 1 to the PFSA.

- **Inflation Sensitivity**: Examines how the transfer to the PFSA changes when future annual COLAs are lower (2.00% Inflation sensitivity) or higher (3.50% Inflation sensitivity) than expected (2.75%). If annual COLAs are lower than anticipated, then smaller pension payments are distributed, and thus, more assets are available to transfer to the PFSA. The opposite would happen if COLAs are higher than expected.
- **Future Earnings Sensitivity:** Examines how the transfer to the PFSA changes when future annual investment earnings are lower (6.00% Return sensitivity) or higher (8.00% Return sensitivity) than expected (7.00%). If annual future investment earnings are lower than anticipated, then less assets are available to transfer to the PFSA. The opposite would happen if investment earnings are higher than expected. In this sensitivity we are not changing the discount rate so there's no impact to expected liabilities; only projected asset values are impacted.
- **Asset Allocation Sensitivity:** As mentioned in the **Comments on Risk** section, the Restated LEOFF 1 assets could be invested differently, via a new asset allocation, as a result of this bill. We have not discussed with WSIB how this could potentially look, so we analyzed how the results would change under an asset allocation that assumes a 5% annual investment return assumption. The lower discount rate and return on earnings assumption under this sensitivity test, both 5% annually, results in higher expected plan obligations and lower expected assets than anticipated under current law.

Estimated Transfer to the PFSA on 6/30/2029 *(Dollars in Billions)*	
Best Estimate	
2.75% Inflation and 7.00% Return	$3.3
Inflation Sensitivity	
2.00% Inflation	$3.5
3.50% Inflation	$3.1
Future Earnings Sensitivity	
6.00% Return	$2.9
8.00% Return	$3.7
Asset Allocation Sensitivity	
5.00% Return	$2.0

Chance of UAAL Following the Asset Transfer to the PFSA

Following the asset transfer to the PFSA, the Restated LEOFF 1 has fewer assets available to offset adverse experience. We performed sensitivity to estimate what average annual future return on earnings would result in a UAAL emerging within ten years following the transfer. We estimate that an average annual return of approximately 3.50% (or lower), beginning FY 2030, would result in a UAAL by the end of FY 2040.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, and data used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods, and data may also be reasonable and might produce different results.
2. Unless noted otherwise in this AFN, the disclosures included in the 2023 AVR regarding the methods used to determine a plan's actuarially determined contribution, and the expected outcome of those methods, apply to this pricing exercise and remain unchanged.
3. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment. We believe that the assumptions, methods, and data used in our risk assessment model are reasonable for the purposes of this pricing exercise. However, the use of another set of assumptions, methods, and data could also be reasonable and could produce different results.
4. The models used are appropriate for the purpose of this pricing. We are not aware of any known weaknesses or limitations of the models that have a material impact on the results.
5. 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 results of a future AFN based on those changes may vary. Additionally, the results presented here may change after our next annual update of the underlying actuarial measurements.
6. 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.

We prepared this AFN to support legislative deliberations during the 2025 Legislative Session and it 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.

Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

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LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 2034 HB	**Title:** LEOFF 1 restatement

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

Legislation Impacts:

- [X] Cities: Transfer of assets from current LEOFF 1 retirement fund; increase in costs for lifetime medical coverage for limited number of currently nonvested LEOFF 1 members who will now become vested.
- [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:
- [ ] Legislation provides local option:
- [X] Key variables cannot be estimated with certainty at this time: Amounts contributed to LEOFF 1 by government type; ongoing medical costs for vested LEOFF 1 members.

Estimated revenue impacts to:

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

Estimated expenditure impacts to:

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

Part III: Preparation and Approval

Fiscal Note Analyst: Alice Zillah	Phone: 360-725-5035	Date: 03/17/2025
Leg. Committee Contact: David Pringle	Phone: 360-786-7310	Date: 03/10/2025
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 03/17/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 03/17/2025

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill terminates and creates a restated Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 1.

Section 102 declares LEOFF Plan 1 terminated as of June 30, 2029. Between the termination of this plan and the creation of the restated version of said plan, all LEOFF Plan 1 benefits will continue to be administered without interruption.

Section 103 creates the restated LEOFF Plan 1. In statute and rule, this new restated system and plan will be referred to as LEOFF Plan 1 and does not create or change any benefits for members and beneficiaries of this plan, with the exception of vesting benefits for members who are not currently vested upon the closure of the current LEOFF Plan 1, and the establishing of the restated LEOFF Plan 1.

Section 104 creates the restated LEOFF Plan 1 defined benefit retirement fund in the custody of the State Treasurer, which will consist of assets moved from the current LEOFF Plan 1 retirement fund, any investment earnings, and other amounts that are deposited into said fund. At the behest of the director of the Department of Retirement Systems (DRS), the State Treasurer will transfer 120% of the actuarial present value of the fully projected benefits of LEOFF Plan 1 into the restated LEOFF Plan 1 defined benefit retirement fund based on the actuarial valuation projected on the effective date of this provision.

Section 106 states that the legislature reserves the right to make any amendments or modifications in the future to achieve the goals of section 101 through 108 without any reductions of the rights and benefits of LEOFF Plan 1 members, retirees, and surviving spouses that existed prior to this provision's effective date.

Section 108 establishes that with the commencement of their retirement by January 1, 2026, a member will receive an additional five years of service credit that is to be included in the calculation of their retirement benefit, as well as a one-time lump sum benefit of $25,000.

Section 506 sets an effective date of June 30, 2029 for all sections except 108, 109, and 464 of this act, as they have separately declared effective dates.

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.

The legislation would have indeterminate expenditure impacts for local governments.

The LEOFF Plan 2 Retirement Board indicated that the 14 nonvested members of LEOFF 1 will now become vested. LEOFF 1 retirees receive lifetime medical coverage from their employers. As a result, there will be an increase in costs for those local governments and special districts that employ these members. The costs cannot be accurately estimated.

The Department of Retirement Systems assumes that any future funding needs would be met by monthly or quarterly transfers from the State General Fund to the restated LEOFF 1 fund.

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.

The legislation would have indeterminate impacts on cities, counties and special districts. Law enforcement and firefighting agencies have contributed to the LEOFF 1 trust fund since its creation in 1969. It is not possible to disaggregate the amounts contributed by type of local government, and as a result the impacts are indeterminate.

LEOFF 1 provides defined retirement benefits to law enforcement officers and firefighters employed by the state, cities, counties, and special districts.

As a result of the legislation, the State Actuary estimates the amount transferred from the LEOFF 1 trust fund to be approximately $3.3 billion, on June 30, 2029. The Actuary expects the transfer of assets will decrease the LEOFF 1 funded status from above 200% to 120% as of that measurement date.

The bill would transfer non-vested members to become vested in the restated plan. A retirement incentive for the remaining active members of LEOFF 1 would provide an extra five years of service credit for the pension calculation and a lump sum payment of $25,000 for those members who have been continuously employed since February 1, 2025, and who retire by January 1, 2026. DRS and the Actuary estimate that the bill could affect three active and 14 inactive, non-vested members of LEOFF 1 through benefit enhancements.

This bill does not impact LEOFF 1 contribution rates.

SOURCES:
Department of Retirement Systems
Office of the State Actuary
LEOFF Plan 2 Retirement Board