

Individual State Agency Fiscal Note

Bill Number: 2034 2S HB PL	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:	Phone:	Date: 04/03/2026
Agency Preparation: Darren Painter	Phone: 360-786-6155	Date: 04/03/2026
Agency Approval: Michael Harbour	Phone: 360-786-6151	Date: 04/03/2026
OFM Review: Scott Hancock	Phone: (360) 890-2518	Date: 04/16/2026

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 the Restated LEOFF Plan 1, for members of LEOFF 1 with essentially identical benefits and fewer assets.

COST SUMMARY

This bill is expected to result in an asset transfer from the LEOFF 1 trust fund on June 30, 2029, of an estimated \$3.9 billion to the Pension Surplus Holding Account (PSHA), if all our assumptions are realized. This is expected to decrease the LEOFF 1 funded status as of this measurement date from above 200% down to 110%, per the requirements of the bill.

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 a portion of the LEOFF 1 assets are transferred to the PSHA under the bill and then are eligible to be used by the state's general fund; we assume those savings will be captured through a separate fiscal note or the state's biennial budgeting process.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ The expected transfer amount to the PSHA can materially change under a different set of assumptions and/or experience.
 - For example, if investment earnings are annually 5% higher/lower than assumed over the next 4 years, we estimate the PSHA amount will be approximately \$1.6 billion higher/lower than our best estimate. Please see **How the Results Change When the Assumptions Change** section for additional details.
- ❖ This bill also increases the potential of future state contributions if adverse experience occurs because, after the asset transfer to the PSHA, there will be fewer assets in the Restated LEOFF 1 Fund.
 - Within our 2,000 economic simulations that vary investment returns, we found the portion of scenarios where a UAAL emerges by Fiscal Year (FY) 2045 increased from 5% to 40% as a result of this bill; this represents the risk of required UAAL payments by the state increasing by a factor of roughly 8 (or eightfold) over this 20-year timeframe. Please see the **Comments on Risk** section for additional details.

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 system:

- ❖ 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 one exception) and guarantees members' benefits will continue during the transition to the restated plan. The exception is non-vested members are immediately vested in the restated plan and eligible for a monthly retirement benefit.

The bill creates the Restated LEOFF 1 Fund and the PSHA in the state treasury. These funds are administered by the Department of Retirement Systems (DRS) and invested by the Washington State Investment Board (WSIB), which may commingle their assets with other funds for investment purposes. Money in the Restated LEOFF 1 Fund may only be used for the administration of the Restated LEOFF 1. Money in the PSHA may be spent only after appropriation and may only be used for expenditures related to implementation of this bill.

The bill transfers the assets of LEOFF 1 to the Restated LEOFF 1 Fund and the PSHA. These transfers take place on June 30, 2029, as follows:

1. An amount equal to 110% 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.
2. Any remaining assets are transferred to the PSHA.

Once deposited, money in the PSHA may be transferred to the state general fund during the 2027-29 Biennium at the direction of the Legislature.

The bill creates a new funding policy requirement for the Restated LEOFF 1. If the state actuary determines an Unfunded Actuarial Accrued Liability (UAAL) exists in the Restated LEOFF 1, the Pension Funding Council (PFC) is required to adopt a state contribution for the plan. The state contribution must be based on a systematic actuarial funding policy that would fully amortize the UAAL over reasonable periods using reasonable assumptions and methods as determined by the state actuary.

The bill also directs the Select Committee on Pension Policy (SCPP) to perform 2 studies related to the Restated LEOFF 1 by 2028: A study of plan oversight and another study of pension boards and medical liabilities.

Effective Date: Most sections of the bill take effect on June 30, 2029.

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

How the Bill That Passed the Legislature Differs from the Engrossed Bill

The following list includes only the changes that impact the pricing of the bill. For a complete list of changes to the current version of the bill, please refer to the bill reports prepared by legislative staff.

- ❖ Removes the transfer of \$569 million from the LEOFF 1 trust fund to the Climate Commitment Account.
- ❖ Creates the PSHA, and allocates all remaining assets above 110% of the actuarial present value of the fully projected benefits of LEOFF 1 to the PSHA.
- ❖ Leaves policy oversight of the Restated LEOFF 1 with the SCPP.
- ❖ Directs the SCPP to perform 2 studies related to the Restated LEOFF 1.

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 5 years of service in the plan. The LEOFF Plan 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, 2024, AVR](#) – LEOFF 1 has a 160% funded status. Given nearly all remaining members of the plan are now retired, this means the plan has more assets on hand than expected to 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 current funding policy for LEOFF 1 requires the total cost of the plan to be amortized no later than June 30, 2024. Under current funding policy, no member or employer contributions have been required for LEOFF 1 since 1999.

Who Is Impacted and How?

Based on data from DRS, we estimate this bill could affect 7 inactive, non-vested members of LEOFF 1. 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 funded status exceeds 100% and thus there is no UAAL to pay for. Employers and their Plan 1 employees do not contribute to LEOFF 1 under current funding policy. Under this bill, the state is responsible for funding in the event of a UAAL emergence.

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 non-vested members. We expect the cost of this benefit enhancement is immaterial given their limited accrued service and number of impacted members.

Based on the projected funding ratios of the Restated 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.

Who Will Pay for These Costs?

Under this bill, the state is responsible for making contributions if a UAAL emerges; if needed, the funding policy will be defined in the future by the PFC in consultation with the state actuary. Per the bill language, the PFC must adopt a state contribution based on a systematic actuarial funding policy that would fully amortize the UAAL over a reasonable period.

HOW WE VALUED THESE COSTS

We modeled the current law cost of the plan using our 2024 AVR and our [2024 Valuation Projections Model](#). To analyze the impact of this bill and identify the expected transfer amount to the PSHA, we adjusted the following assumptions, methods, or data.

Special Data Needed

As of the 2026 Legislative Session, DRS expects 7 inactive, non-vested LEOFF 1 members 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.

We also relied on input from WSIB regarding impacts of the original bill to the Commingled Trust Fund (CTF). Specifically, Attachment 4 of the [LEOFF 1 Study letter dated November 18, 2025](#), provided to the Senate Ways and Means Committee and House Appropriations Committee by the SCPP.

Assumptions We Made

During the 2025 Legislative Interim as part of a study through the SCPP, WSIB shared that the investment return impacts associated with preparing for and executing a transfer under the original version of this bill would likely be relatively minor given the total size of the CTF, but some degree of short-term impact to investment earnings is to be expected. Given their input, we assumed this bill would not change WSIB's long-term asset allocation, and thus no change in our long-term 7.25% annual investment rate of return assumption for the CTF. We also assume the Restated LEOFF 1 Fund created under this bill will be invested in the CTF.

We expect the benefit enhancement for inactive, non-vested members is not material and therefore we did not quantify the increase in liability for this population. As of the 2024 AVR, these members had an average accrued service of approximately 0.3 years and average age of 75. In terms of counts, DRS expects that, at most, 7 of these inactive members are eligible for an annual retirement benefit under this bill.

How We Applied These Assumptions

Under current law, LEOFF 1 is expected to exceed 200% funded status (defined as assets relative to plan obligations) as of the June 30, 2029, measurement date. This bill transfers the projected assets that exceed 110% of expected LEOFF 1 obligations to the PSHA, which is an estimated \$3.9 billion. We removed that asset amount from our projections model on June 30, 2029, to assess future measurements of the Restated LEOFF 1. The following table

displays how the LEOFF 1 assets, liabilities, funded status, and excess assets (assets that exceed liabilities) are expected to change annually under this bill from our June 30, 2024, AVR through the June 30, 2029, transfer date.

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)
2024	\$6.6	\$4.1	160%	\$2.5
2025	\$6.8	\$4.0	171%	\$2.8
2026	\$7.1	\$3.9	183%	\$3.2
2027	\$7.3	\$3.7	197%	\$3.6
2028	\$7.6	\$3.6	212%	\$4.0
2029 (Before Transfer)	\$7.7	\$3.4	226%	\$4.3
2029 (After Transfer)	\$3.8	\$3.4	110%	\$0.3

Note: Totals may not agree due to rounding. Additionally, under this analysis the Actuarial Value of Assets equals the projected Market Value of Assets as of FY 2029.

ACTUARIAL RESULTS

How the Liabilities Changed

This bill is not expected to materially impact LEOFF 1 liabilities, as noted in the **Assumptions We Made** section above. We therefore did not quantify any impact.

How the Assets Changed

This bill will impact LEOFF 1 by decreasing trust fund assets available to pay plan benefits. The transfer of assets to the PSHA, on June 30, 2029, is expected to be approximately \$3.9 billion.

How the Present Value of Future Salaries (PVFS) Changed

This bill does not change the PVFS of the remaining LEOFF 1 active members, so there is no impact on the actuarial funding of the affected plan due to PVFS changes.

How Contribution Rates Changed

Following the transfer of assets to the PSHA, we expect the Restated LEOFF 1 to remain fully funded if all our assumptions are realized; UAAL contributions are not required when the funded status exceeds 100%. In other words, no UAAL is expected to emerge 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. We assume the asset transfer to the PSHA will be captured through separate state budgeting processes and did not include it in this AFN.

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 future adverse experience of the plan. However, the Restated LEOFF 1 is expected to have some buffer to absorb unexpected adverse experience since it begins with a projected funded status of 110% on June 30, 2029.

To help quantify risks under current law and under this bill, we produced 2,000 randomly simulated economic scenarios using a distribution of variable annual investment returns as disclosed on [our website](#). We then identified the portion of those scenarios that result in a UAAL emerging by FY 2045 – see the following table for the results. Consistent with this bill, we assumed the Restated LEOFF 1 110% target funded ratio on June 30, 2029, is realized for each economic scenario; this approach results in each simulation having a unique asset transfer amount to the PSHA that may vary from our best estimate.

Portion of Economic Scenarios that Result in UAAL Emergence by FY 2045	
Current Law	5%
Under This Bill	40%

As noted in the table above, over the next 20 years roughly 800 of the 2,000 economic scenarios resulted in the emergence of a UAAL under this bill; whereas under current law, about 100 scenarios resulted in a UAAL. When a UAAL was simulated to occur under the bill, it was on average about \$0.6 billion at June 30, 2045, assuming no state payments are made before that point in time.

UAAL amounts later in the plan’s life cycle may not represent a significant concern when you consider the UAAL relative to the size of the state budget at that time. For our risk analysis in this area, we intended to capture UAAL occurrences that would be considered substantial to the state’s budget. Based on input from legislative staff, we selected risk measures that capture UAAL occurrences over the next 20 years only.

For context, under current assumptions:

- ❖ Liabilities are expected to decline from roughly \$4 billion as of June 30, 2025, down to \$0.8 billion as of June 30, 2045.
- ❖ Annual benefit payments are expected to decline from about \$400 million in FY 2025, down to \$180 million in FY 2045.

Two variables we did not account for in our stochastic modeling are inflation and demographic experience varying from our assumptions. For example, higher-than-expected inflation would lead to larger Cost-of-Living Adjustments (COLAs) for LEOFF 1 retirees since they are fully-indexed, while longer-than-expected lifespans would lead to paying pension benefits over longer period of time. We did not quantify the potential impact of these stochastic model limitations, but qualitatively can share that if we were to include these

additional variables in our analysis we would expect to see a higher number of scenarios resulting in a UAAL under both current law and this bill.

Unless noted otherwise, we used the same methods and assumptions to prepare this stochastic analysis as disclosed on our [2024 Valuation Projections Model webpage](#).

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results can vary under a different set of assumptions or if experience occurs differently than those assumptions. Under this bill, we expect approximately \$3.9 billion in assets will transfer from the LEOFF 1 trust fund to the PSHA on June 30, 2029, if all assumptions are realized; however, the future investment returns, inflation, and member longevity experience can impact the PSHA transfer amount.

By June 30, 2029, the assumptions we used for this analysis may be different resulting from updated demographic and economic experience studies. Updated assumptions can impact the calculated 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 PSHA Could Change

To test how different future experience can impact our best estimate for the transfer amount to the PSHA (approximately \$3.9 billion), we varied short-term assumed inflation and investment returns. The table below summarizes the estimated transfer to the PSHA under various sensitivity tests. These 2 sets of sensitivity tests examine the impact of experience that differs from expectations for FY 2026 through 2029; in other words, the 4 years of experience that leads up to the transfer of assets from LEOFF 1.

- ❖ **Inflation Sensitivity:** Examines how the transfer to the PSHA changes when future annual COLAs are lower (1.75% Inflation sensitivity) or higher (3.75% Inflation sensitivity) than expected (2.75%).
 - If annual future COLAs are lower than anticipated, then smaller pension payments are distributed and liabilities will be smaller than projected; thus, more assets are available to transfer to the PSHA. The opposite would occur if COLAs are higher than expected.
- ❖ **Investment Return Sensitivity:** Examines how the transfer to the PSHA changes when future annual investment earnings are lower (2.25% Return sensitivity) or higher (12.25% Return sensitivity) than expected (7.25%). Based on a distribution of returns provided by WSIB, this range captures approximately 50% of hypothetical outcomes (with the other 50% falling outside this range).
 - If annual future investment returns are lower than anticipated, then less assets are available to transfer to the PSHA. The opposite would occur 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.

Estimated Transfer to the PSHA on 6/30/2029 (Dollars in Billions)	
Best Estimate	
2.75% Inflation and 7.25% Investment Return	\$3.9
Inflation Sensitivity	
1.75% Inflation	\$4.2
3.75% Inflation	\$3.7
Investment Return Sensitivity	
2.25% Return	\$2.5
12.25% Return	\$5.7

The ranges we selected for these sensitivity tests were informed by the historical variability of inflation and investment returns. Over the last 25 years, we observed the 4-year rolling averages ranged from 1.6% to 5.7% for annual [inflation](#) and 0.9% to 16.9% for annual [investment returns](#).

We caution that the actual transfer to the PSHA could fall outside of these ranges provided above. Actual inflation and investment returns (along with demographic experience) will determine the final transfer amount to the PSHA; the impacts of actual experience could be compounding (for example, high inflation and low investment returns would both reduce the amount transferred to the PSHA).

UAAL Following the Asset Transfer to the PSHA

Following the asset transfer to the PSHA, the Restated LEOFF 1 has fewer assets available to offset adverse experience. We performed a stress test to estimate what average annual future investment return would result in a UAAL emerging within about a decade following the transfer. We estimate that an average annual return of approximately 5.5% (or lower), beginning FY 2030, would result in a UAAL by the end of FY 2040. Under current law, that average annual return would need to be closer to -6% per year to result in a UAAL over the same time frame.

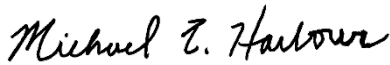
ACTUARY'S CERTIFICATION

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 2024 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. Unless otherwise noted, we are not aware of any known weaknesses or limitations of the models that have a material impact on the best estimate results or sensitivity/risk analysis.
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 2026 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.


Michael T. Harbour, ASA, MAAA
Actuary

O:\Legislature\Session\2026\FiscalNotes\2034.E2SHB.PL.docx