



LEOFF 1 Bill Review (E2SHB 2034)

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Select Committee on Pension Policy

How Did This Come Before the Committee?

- Follow up from April SCPP meeting.
 - Staff gave high-level overview of LEOFF 1 restatement and termination bill that passed in 2026 (E2SHB 2034).
 - Executive Committee asked for a more in-depth review of bill provisions.
- Informational only—no action required.

Today's Presentation

- Part One – Bill Review.
- Part Two – Actuarial Fiscal Note Review.
- Next Steps.

Part One

Bill Review

Part One: Bill Review

- Bill history.
- Key provisions.
- Agency duties.
- Implementation timeline.
- Recap.

Bill History

- HB 2034 introduced in 2025 Session.
 - Restatement and termination of LEOFF 1.
 - Did not pass.
- 2025 Legislature directed SSCP to study HB 2034 as well as a separate Plans 1 merger bill (SB 5085).
 - SSCP performed study during 2025 Interim.
 - Made no recommendation regarding merits of either bill.
- Re-introduced in 2026 and saw multiple revisions.
- Passed Legislature and enacted as 2026 C 261.

Key Provisions of Bill

- Restating and terminating LEOFF 1.
- Transferring LEOFF 1 assets.
- Ensuring IRS compliance.
- Creating a funding policy framework.
- Requiring SCPP studies.

Restating and Terminating LEOFF 1

- Creates Restated LEOFF 1 in new chapter of RCW.
 - Has same members and keeps existing benefits.
 - Funded through a transfer of LEOFF 1 assets.
- Terminates LEOFF 1.
 - Immediately vests non-vested members.
 - Guarantees benefits continue during transition.
 - Removes LEOFF 1 provisions from RCW 41.26 and updates references to LEOFF 1 in RCW.
- Restatement and termination occur on June 30, 2029.

Transferring LEOFF 1 Assets

- Creates Restated LEOFF 1 Fund (RLF) and the Pension Surplus Holding Account (PSHA) in the state treasury.
 - Funds in RLF can only be used for administration of plan.
 - Funds in PSHA may be transferred to the state general fund during the 2027-29 Biennium.
- Directs transfer of LEOFF 1 assets to RLF and PSHA.
 - RLF: An amount equal to 110% of the actuarial present value of the fully projected benefits of LEOFF 1.
 - PSHA: Any remaining LEOFF 1 assets.
 - Transfers take place on June 30, 2029.

Ensuring IRS Compliance

- DRS to seek guidance from IRS on compliance with federal tax requirements for LEOFF 1 and Restated LEOFF 1.
- Submit any recommended legislative changes to ensure compliance to the Governor and Legislature.
- If IRS requires withdrawn funds to be returned to LEOFF 1, funds must be reverted with interest.

Creating a Funding Policy Framework

- State contribution required for Restated LEOFF 1 if an unfunded liability emerges.
- State contribution must be based on a systematic actuarial funding policy that:
 - Fully amortizes the unfunded liability over reasonable periods.
 - Uses reasonable assumptions and methods as determined by the state actuary.
- PFC adopts state contribution, if required.

Requiring SCPP Studies

- Study options for the state to assume LEOFF 1 pension board administration and medical benefit liabilities.
 - Consider which state agency could assume pension board administration.
- Study the appropriate entity to study issues, develop policies, and make recommendations to the Legislature for Restated LEOFF 1.
 - Consider both SCPP and LEOFF 2 Board.
- Report to Legislature by December 31, 2028.

Agency Duties

- DRS.
- OSA.
- SCPP.
- PFC.
- WSIB.
- OST.

DRS Duties

- Send notification to LEOFF 1 members of the provisions of the bill by June 11, 2026.
- Implement the restatement and termination of LEOFF 1.
- Administer RLF and PSHA.
 - Direct state treasurer to make necessary transfers.
- Seek guidance from IRS on compliance with federal tax law.
 - DRS requesting a private letter ruling.
- Serve as plan administrator for Restated LEOFF 1.

OSA Duties

- Calculate amount of LEOFF 1 assets transferred to RLF.
 - Based on an actuarial valuation projected to June 30, 2029.
- Determine if a UAAL exists in the Restated LEOFF 1.
- Serve as plan actuary for Restated LEOFF 1.

SCPP Duties

- Conduct studies of LEOFF 1 medical benefits and Restated LEOFF 1 policy oversight.
 - Report to Legislature by December 31, 2028.
- Study issues and develop policies for Restated LEOFF 1.
 - Could change depending on outcome of policy oversight study.

PFC Duties

- May solicit and administer an independent actuarial audit of the valuation used to determine transfer amount.
- Adopt a state contribution to Restated LEOFF 1, if required.
- Adopt economic assumptions for Restated LEOFF 1.

WSIB and OST Duties

• WSIB:

- Invest the funds in RLF and PSHA.
- May commingle funds in RLF and PSHA with other funds for investment purposes.

• OST:

- Custodian of the RLF and PSHA.
- Manage and process transactions.
- Transfers funds from LEOFF 1 to RLF and PSHA.

Implementation Timeline

- 2026: DRS notifies members and requests PLR.
- 2028: OSA determines RLF transfer amount.
 - SCPP concludes LEOFF 1 studies and reports to Legislature.
- 2029: Restated LEOFF 1 created.
 - Assets transferred from LEOFF 1.
 - LEOFF 1 terminated.
 - Possible transfer from PSHA to state general fund.
- Possible Legislative changes in 2027, 2028, 2029 Sessions.

Recap of Part One

- E2SHB 2034 restates and terminates LEOFF 1.
 - Creates Restated LEOFF 1 with same members, keeping existing benefits, funded by existing assets.
 - Transfers some LEOFF 1 assets to a holding account for possible use by the state general fund.
 - Requires DRS to seek guidance from IRS.
 - Creates funding policy framework for Restated LEOFF 1.
 - Requires SCPP to conduct two LEOFF 1 studies.
- Multiple entities involved in implementation.
- Implementation will span the next 3 years.

Part Two

Actuarial Fiscal Note Review

Part Two:

Actuarial Fiscal Note Review

- Analysis Highlights.
- Examples of How Results May Vary.
- Commentary on Risk.
- Serves as a recap of information provided in the actuarial fiscal note — we did not prepare any new analysis.

Analysis Highlights

- Bill expected to reduce LEOFF 1 funded ratio on June 30, 2029, from above 200% down to 110%.
- An estimated \$3.9 billion in assets will be transferred to PSHA, if all assumptions are realized.
- See [AFN](#) for details.

Projection of LEOFF 1 Under Bill			
FY End	Actuarial Assets	Accrued Liabilities	Funded Ratio*
2024	\$6.6	\$4.1	160%
2025	\$6.8	\$4.0	171%
2026	\$7.1	\$3.9	183%
2027	\$7.3	\$3.7	197%
2028	\$7.6	\$3.6	212%
2029 (Before Transfer)	\$7.7	\$3.4	226%
2029 (After Transfer)	\$3.8	\$3.4	110%

**Funded Ratio = Actuarial Assets divided by Accrued Liabilities.
Note: Totals may not agree due to rounding. Dollars in billions.*

Examples of How Results May Vary

Estimated Transfer Amount to the PSHA on 6/30/2029	
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

Note: Dollars in billions.

- Over the next few years, actual experience could materially impact the resulting transfer amount; e.g., through inflation or investment returns that vary from assumed.
- Per OSA duties, we will update calculation for amount of LEOFF 1 assets transferred to RLF.

Commentary on Risk

Chance of UAAL Occurring in the Restated LEOFF 1	
Current Law	5%
<u>Under This Bill</u>	<u>40%</u>

- Based on 2,000 economic simulations that vary investment returns, the likelihood of a UAAL emergence in the Restated LEOFF 1 by FY 2045 increases compared to current law.

Next Steps

- Informational briefing.
- No further action required.

Thank You

The Select Committee on Pension Policy is staffed by the Office of the State Actuary.

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