

# Annuity Purchase

## Issue

Members of certain plans in the state's retirement systems have the option to purchase an expanded actuarially equivalent annuity at the time of retirement in order to supplement their normal retirement benefit.

The issue raises the following key policy questions.

- ❖ Are the existing annuity purchase options sufficient?
- ❖ Should an expanded annuity purchase option be extended to all members of the state's retirement systems?

## Background

An annuity is a one-time, lump sum payment made by an employee in exchange for a guaranteed fixed monthly benefit payment for the rest of their life. All retirement system members have the option of purchasing up to five years of additional service credit at the time of retirement as a way to increase their lifetime benefit payment. All members may also purchase an annuity from the private market. Only Teachers' Retirement System (TRS) and the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 members have the option of purchasing an expanded annuity from the retirement system. Expanded annuities allow for larger benefits than additional service credit purchases.

## Highlights Of Analysis

- ❖ Allowing members to purchase an optional annuity from the retirement system can support many potential policy goals such as member flexibility, benefit portability, adequacy of benefits, and retirement security.
- ❖ Retirement systems can typically provide annuities at a lower cost than the private market.
- ❖ Data suggests a small percentage of members would likely take advantage of an expanded annuity purchase option, and that these members will tend to be higher-income.
- ❖ The cost of an actuarially equivalent annuity is expected to be borne by the purchaser. However, costs to the system can arise if members live longer than expected or investment returns are not as high as expected.

- ❖ Limiting liability exposure and managing pricing risk can reduce the risk that the retirement systems will experience a loss on annuity purchases, while still providing a valuable benefit to members.

## Options

- ❖ **Option 1:** Do not provide an expanded annuity to additional groups.
- ❖ **Option 2:** Provide the TRS expanded annuity to additional groups.
- ❖ **Option 3:** Provide the LEOFF 2 expanded annuity to additional groups.
- ❖ **Option 4:** Develop a new expanded annuity option.

Expanded annuity purchases could be extended to all members in all retirement systems, all police officers and fire fighters, the Washington State Patrol Retirement System (WSPRS) members only, or other groups.

Option 3 was requested by WSPRS stakeholders.

## Committee Activity

The committee considered this issue at the September, October, November, and December meetings. At the December meeting, the committee voted to recommend the legislation detailed below.

## Recommendation To Legislature

Provide the LEOFF 2 expanded annuity purchase option in WSPRS.

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