Select Committee on Pension Policy

Month of Death (HB 1414/SB 5335)

Issue

Should the Department of Retirement Systems (DRS) pay a full month of benefits for the month in which a retiree dies?

Background

Retirement benefits are paid on a monthly basis, but annuitants (retirees and survivors) generally only receive benefits up to their date of death. If DRS is not notified of the death before the cut-off time for processing the payment, the estate will receive a payment for the full month. In these cases, DRS sends an invoice to the estate for repayment of any benefits paid beyond the date of death.

For example, if a retiree or survivor dies on day 25 of a 30-day month, they receive pro-rated benefits for only those 25 days. If they have already received a check for the full month, DRS will seek repayment of the remaining five days.

This is a longstanding administrative practice. While statute does not expressly state when benefits should cease after death, DRS has general authority (see e.g., RCW 41.50.130) to bill retirees and survivors for overpayments of benefits.

At retirement, members of the Plans 3 can purchase an annuity from the Total Allocation Portfolio (TAP). The same proration of benefits in the month of death applies to members who purchase a TAP annuity.

Highlights

- House Bill (HB) 1414/Senate Bill (SB) 5335 require DRS to pay a recipient for the full month of benefits in which the person dies.
  - This is prospective starting from the effective date.
  - Any benefits paid beyond the month of death must be refunded; same as under current law.
- This issue raises two fundamental questions for policymakers:
  - Should benefits be prorated in the month of death?
  - If benefits are not prorated, who should pay for the increased cost of providing benefits?
- Ending the practice of prorating in the month of death would result in fewer repayments, and DRS staff assigned to those repayments could be reassigned.

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- Ending the prorating would help avoid the possible negative impacts to families from having to pay back some benefits following a loved one's death; both emotional and financial.
- The Office of the State Actuary (OSA) recommends that if benefits are no longer being prorated, the administrative factors should be recalculated.
- OSA estimates that the bill would grant every eligible recipient, on average, an additional 15 days of benefits. There are over 500,000 members currently (active and retired).
- OSA[1] completed its initial analysis of the bill's impact on individuals who have purchased an annuity from the TAP.
  - ◊ The cost of additional benefits for these members is not expected to increase the rounded contribution rate impact already anticipated in the actuarial fiscal note, but will increase the long-term projected budget impacts.
  - ◊ This analysis was not included in the actuarial fiscal note for the 2019 Legislative Session, but will be included if the fiscal note is updated for the 2020 Legislative Session.

Committee Activity

During the 2018 Interim, the SCPP voted to jointly sponsor a proposal with the LEOFF 2 Board, resulting in HB 1414/SB 5335. In 2019, the Committee held a public hearing in October, and voted to endorse the bill again for the 2020 Legislative Session.

Recommendation to the 2020 Legislature

Enact HB 1414/SB 5335 for the 2020 Legislative Session.

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[1] *Michael T. Harbour (ASA, MAAA) served as the reviewing and responsible actuary for the analysis related to the TAP Annuities and its impact on the Month of Death proposal.*