

## LEOFF Plan 2 Retirement Board Contribution Rate-Setting Schedule for 2006

### 1. Current Rate Schedule

The LEOFF Plan 2 Retirement Board adopted a four-year plan for contribution rates in 2004. The following rates, taken from the plan, will become effective unless the Board takes further action:

Effective Date	Member	Employer	State
Current	6.99%	4.20%	2.79%
July 1, 2006	7.79%	4.68%	3.11%
July 1, 2007	8.54%	5.13%	3.41%
July 1, 2008	8.73%	5.24%	3.48%

This interim, the Board must decide whether to keep the current schedule or adjust it according to the results of the 2005 Actuarial Valuation, currently underway by the Office of the State Actuary (OSA).

### 2. 2007-2009 Biennial Rates

OSA is currently performing their 2005 Actuarial Valuation, which will include projected 2007-09 contribution rates for all the State's public pension plans, including LEOFF Plan 2. The recommended contribution rates may be different from the rates in the Board's current schedule. The Board will then need to decide whether to adjust the rate schedule according to the new valuation results.

Draft valuation results are expected to be available in late June/early July. By statute, biennial contribution rates must be adopted no later than September 30, 2006. The Pension Funding Council and the LEOFF 2 Board will hire an independent actuary to audit the OSA valuation results. The Board partnered with the Pension Funding Council for the 2004 audit.

### 3. Supplemental Rates for 2006 Legislation

Three bills passed during the 2006 Legislative Session that increased liabilities for the LEOFF Plan 2 Retirement System. The Office of the State Actuary estimates the necessary contribution rate increases for the three bills as follows:

Benefit Improvement	Member	Employer	State
Catastrophic Disability	0.02%	0.01%	0.01%
Survivor Medical Insurance	0.03%	0.02%	0.01%
Occupational Disease \$150,000	0.01%	0.01%	0.00%
<b>TOTAL:</b>	<b>0.06%</b>	<b>0.04%</b>	<b>0.02%</b>

These projected rate increases were audited and validated by an independent actuary retained by the Board. The supplemental contribution rates will become effective September 1, 2006 and must be adopted at least 30-days prior to September 1, 2006, to provide the required statutory notice to employers. The latest regular Board meeting in which action can be taken to adopt the supplemental rates is July 26, 2006.

The Board may want to consider merging the supplemental rate costs with any changes to the Board's contribution rate schedule for the 2007-09 biennium, to decrease the number of rate changes for employers and plan members in the next year.

# LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

## 2004 – 2009 STRATEGIC PLAN

*Adopted: July 28, 2004*

### **Guiding Principles**

*Who We Are*

- Mission
- Organizational Values

### **Priority Goals**

*What We Want to Accomplish*

- Major tasks to be accomplished during the 3 – 5 years

### **Primary Strategies**

*How We Will Achieve the Goals*

- Performance Objectives
- Key Tactics
- Action Plans

### **Performance Measures**

*How We Measure Success*

- Objective measurements of performance

# **Guiding Principles**

## *Who We Are*

### **Mission**

- The mission of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board is to responsibly govern the pension plan for the benefit of the members.

### **Organizational Values**

- We will treat those we serve and each other with respect, fairness, and honesty.
- We will communicate openly and professionally.
- We will foster a climate of innovation, integrity, accountability, and excellence.
- We will work with those we serve to meet their needs.

## **Priority Goals 2004 – 2009**

### *What We Want to Accomplish*

- Enhance the benefits for the members.
- Provide the stakeholders with a voice in plan governance.
- Maintain the financial integrity of the plan.
- Stabilize contribution rates.

# Primary Strategies

## *What We Will Do To Achieve Our Goals*

***Goal: Enhance the benefits for the members.***

■ **Performance Objectives**

- Add benefits that are affordable for stakeholders
- Increase benefits for workers injured in the line of duty

■ **Key Tactics**

- Propose legislation that improves the plan for the stakeholders
- Compare plans from other states and relevant organizations
- Identify potential revenue sources for benefit enhancements
- Obtain stakeholder input for needed changes in the plan
- Research and monitor Federal pension and tax laws

■ **Action Plans**

Action	Lead(s)	Schedule	Status

***Goal: Provide the stakeholders with a voice in plan governance.***

■ **Performance Objectives**

- Develop communication media for the stakeholders
- Maintain stakeholder confidence in the integrity of the plan

■ **Key Tactics**

- Provide opportunities for member communication/feedback
- Make presentations to stakeholder groups
- Solicit information about stakeholder priorities and issues
- Make presentations at public hearings
- Develop a wide range of communication media such as Web site, newsletter and e-mail
- Inform stakeholders about opportunities for communication/feedback

■ **Action Plans**

Action	Lead(s)	Schedule	Status

# Primary Strategies, cont.

## *What We Will Do To Achieve Our Goals*

### ***Goal: Maintain the financial integrity of the plan.***

#### ■ Performance Objectives

- Establish prudent financial policies
- Identify additional funding mechanisms

#### ■ Key Tactics

- Adopt adequate contribution rates
- Adopt financially sustainable budget for board operations
- Adopt economic assumptions, actuarial tables and cost methodologies
- Commission independent audits
- Research other options for revenue

#### ■ Action Plans

Action	Lead(s)	Schedule	Status

### ***Goal: Stabilize contribution rates.***

#### ■ Performance Objectives

- Reduce rate volatility
- Increase the reliability and duration of rate projections

#### ■ Key Tactics

- Consult with strategic partners to develop tools to increase rate stability
- Identify best practices from other states and organizations
- Examine opportunities to re-structure the plan to stabilize contributions rates

#### ■ Action Plans

Action	Lead(s)	Schedule	Status

# Performance Measures

## *How We Will Measure Our Success*

1. Enhance the benefits for the members
2. Provide the stakeholders with a voice in plan governance
3. Maintain the financial integrity of the plan
4. Stabilize contribution rates

Goal	Method of Measurement	Target	Actual
1	Increased benefits for employees disabled in the line of duty	70% of salary prior to disability	
1	Board proposals that are approved by the Legislature	100% approval rate	
1 & 2	Research supporting proposals	Every proposal includes a research component	
2	Comprehensive communication program with targets and schedule	Plan presented by December 31, 2004	
2	Feedback from the membership	Establish process for gathering input by December 31, 2004 Perform baseline surveying by March 31, 2005	
2 & 3	Independent audits: <ul style="list-style-type: none"> <li>• Board member expenses</li> <li>• Actuary's assumptions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Board expenses—no findings</li> <li>▪ Actuary's assumptions—performed on timely basis</li> </ul>	
3	Deviation from the expected long term cost of the plan	<ul style="list-style-type: none"> <li>▪ Decrease deviation over next two biennium</li> <li>▪ Maintain deviation within 10% of long term cost</li> </ul>	
3	Current and appropriate funding policies	Review, revise and adopt funding policies for LEOFF Plan 2 by December 31, 2005	
3	Funded ratio under actuarial standards	At least 100%	
4	Actual performance vs. projections in key planning areas	Actual expenditures will not exceed projected expenditures	



STATE OF WASHINGTON  
DEPARTMENT OF RETIREMENT SYSTEMS  
*P.O. Box 48380~ Olympia, WA 98504-8380 ~ (360) 664-7000 ~ Toll Free 1-800-547-6657*

March 22, 2006

TO: Steve Nelsen, Executive Director  
Law Enforcement Officers and Firefighters' Plan 2 Board

Shawn Merchant, Deputy Director  
Law Enforcement Officers and Firefighters' Plan 2 Board

FROM: Marcie Frost, Senior Assistant Director for Operations  
Department of Retirement Systems

SUBJECT: LEOFF 2 Statement of Benefits

Thank you for the invitation to meet and visit your offices. Peter and I enjoyed the opportunity and hope we were able to provide you with the information you needed. I have summarized our Monday meeting, highlighting options that address your request to include supplemental information on the annual statements provided to Law Enforcement Officers' and Firefighters (LEOFF) Plan 2 members by the Department of Retirement Systems (DRS).

We used the following assumptions when preparing our analysis and cost estimates. I organized the information based on the three possible options we discussed:

1. Include beneficiary designations and instructions on how to designate or change an existing beneficiary.
2. Include a total of the reported salary for the past calendar year.
3. Include a projected Final Average Salary (FAS) calculated by using the total of the reported salary for the past calendar year OR Include a projected Final Average Salary (FAS) calculated using the highest consecutive 60 months.
4. Include a projected service credit total. Current service credit will be increased by 1 for each month until age 53.
5. Include a projected monthly retirement benefit including survivor reductions if the member has a beneficiary designation.
6. Include a 150% withdrawal amount if the member is eligible.
7. Delivery of statements would remain through the employers.

Option 1

This option includes the *actual* salary for the past calendar year and *projects* the FAS. One potential drawback to this option is that it may produce different results from our new online service for estimates. Since Defined Benefit Account Access (DB Access) uses actual reported salary to calculate the FAS, the projected amount and the actual amount may be different. Anticipated costs with resources from information systems, retirement services and communications are estimated at \$99,502 with an annual maintenance cost of \$6,000. The estimated length of the project is 21 weeks.

Option 2

This option would use the *actual* salary reported by employers to calculate the highest consecutive 60 months (retrieved from the DRS archive databases.) Anticipated costs with resources from information services, retirement services and communications are estimated at \$173,908 with an annual maintenance cost of \$10,500. The estimated length of the project is 36 weeks.

Option 3

This option would refer members to the services offered through DB Access. This application provides beneficiary information as well as prior years' annual statements through a web interface. The ability to create an on-line estimate using actual member specific data is also available. Members can create multiple estimates using a variety of scenarios unique to their situation. Work under this option may include additional communication to LEOFF 2 members announcing this service. I have included your current enrollment numbers for LEOFF 2 members in the table below:

	<b>Actives &amp; Inactives</b>	<b>Annuitants</b>	<b>Total</b>	<b>DB Access Registrations</b>	<b>DB Access Estimates</b>	<b>Percent Registered</b>	<b>Percent Estimates</b>
<b>LEOFF 2</b>	15,855	630	16,485	4,278	1,748	26.0%	10.6%

DRS initiated on-line services starting in 2001 as a way of addressing a growing desire expressed by our customers to have retirement information accessible 7X24 through self-service options. Although this didn't replace other more high touch services we offer, it did provide new options for individuals who have grown accustomed to getting information through the web. We have received very positive remarks from members and retirees regarding these services and our future service delivery and technology focus will rely heavily on the steps we have already taken with on-line services.

Please let me know if this information adequately addresses your request. The anticipated costs outlined above are estimates based on assumptions related to the development cycle discussed in our meeting. A final estimate will be prepared prior to your April Board meeting. We will be available, at your request, for your April Board meeting to address any questions.

cc: Peter Tamayo, Assistant Director  
Information Services Division