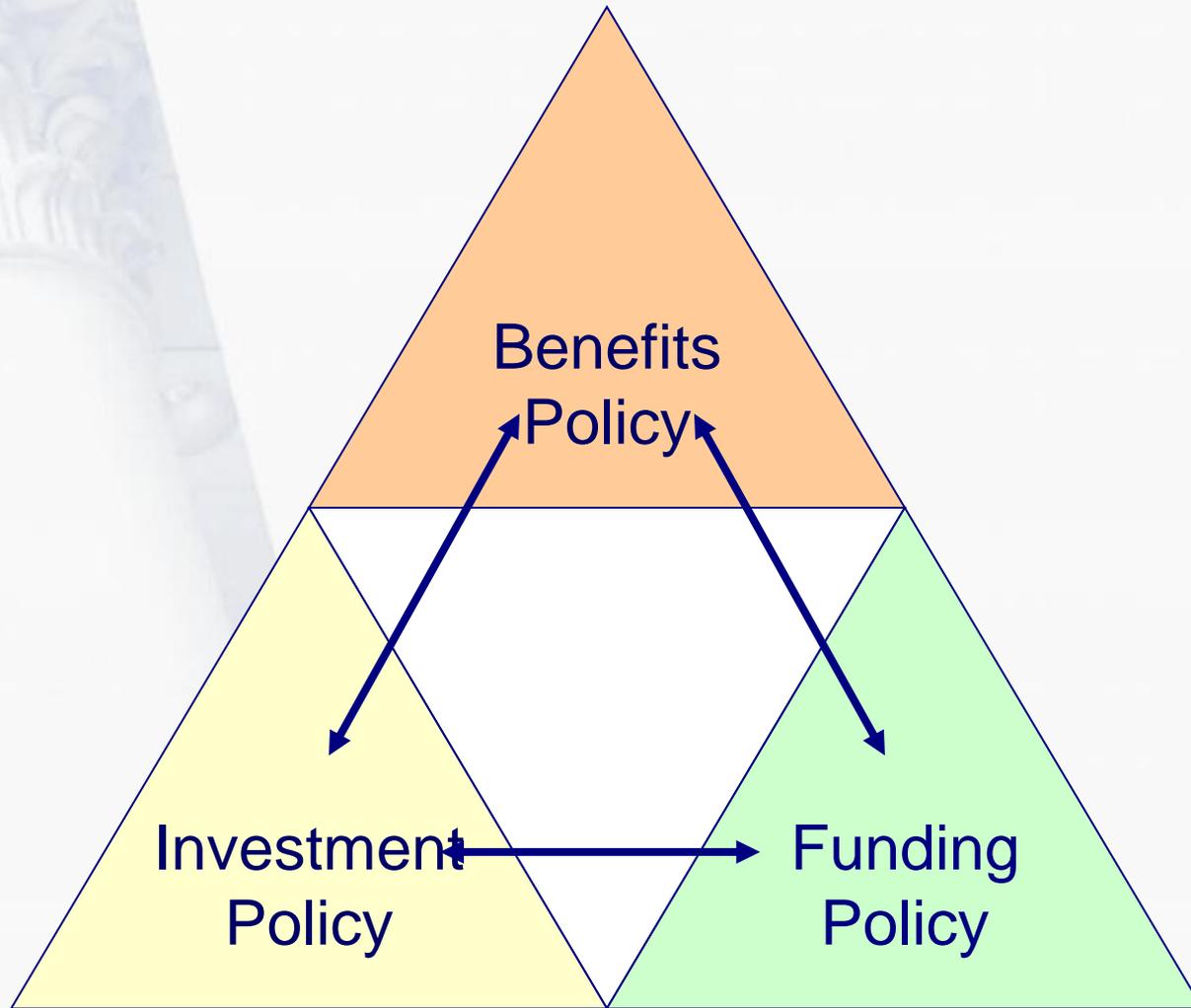


# **Understanding the Interactions between Investment, Funding & Benefit Policies**

Steve Nelsen, Executive Director  
Washington State Law Enforcement Officers' and Fire  
Fighters' Plan 2 Retirement Board

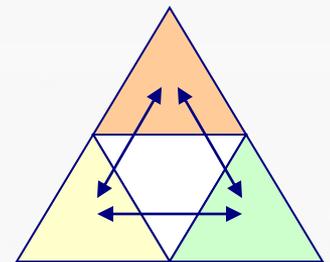
December 2009

# The Pension Policy Triangle



# Understanding the Policy Triangle

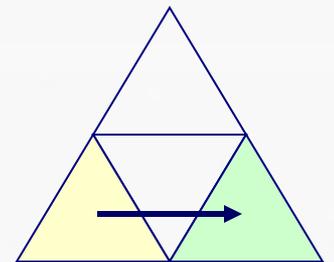
- If you make a change to one policy area, you will affect the other policy areas
- The interactions may require coordination with other policy-setting bodies.



# Investment and Funding Policy

- Divestment/Targeted Investments
- Commingled Trust Fund

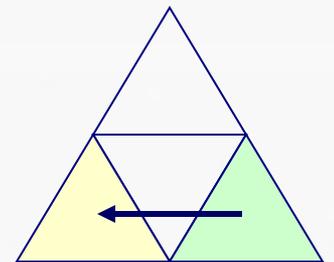
**Investment Return Impact**  
**Contribution Rate Impact**



# Investment and Funding Policy

- Assumed Rate of Return
  - Benchmark for projecting liabilities

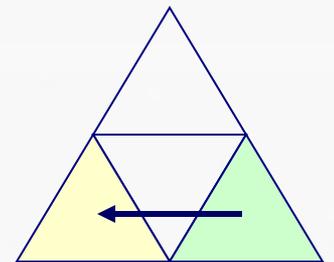
**Effect on asset allocation decisions**



# Investment and Funding Policy

- Aggregate Funding Method
  - Contribution rates adjust to maintain 100% funding ratio

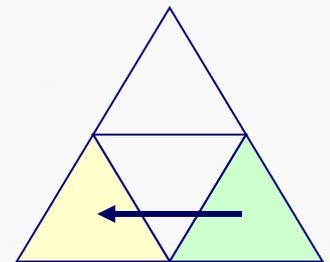
**Contribution rates vulnerable to investment volatility.**



# Investment and Funding Policy

- Cash Flow
  - SIB required to manage assets to insure sufficient cash is available to pay required benefits.

**Unexpected funding changes may require undesirable investment decisions.**

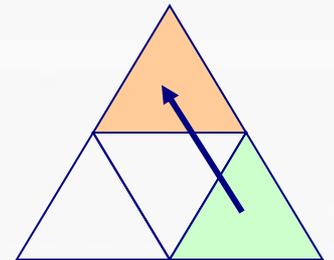


# Funding and Benefit Policy

- Plan Funding Ratio

- A funding ratio below 100% may require “unaffordable” contribution rate increases.
- A poor funding ratio may create the perception that a plan is poorly managed.

**Reduced funding ratio limits benefit improvements.**

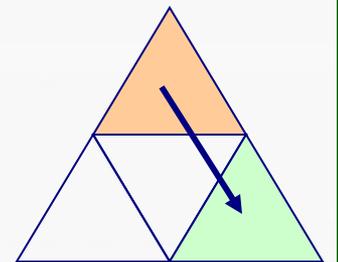


# Funding and Benefit Policy

- Benefit Improvements

**Benefit Cost**

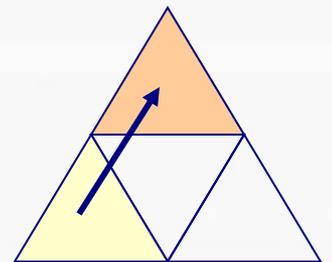
**Change in Behavior**



# Investment and Benefits Policy

- Gain Sharing Benefit

Legal protections regarding legislative repeal



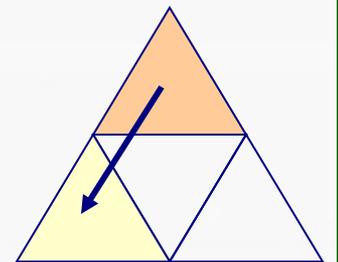
# Investment and Benefits Policy

- Member accounts

**Cash requirements**

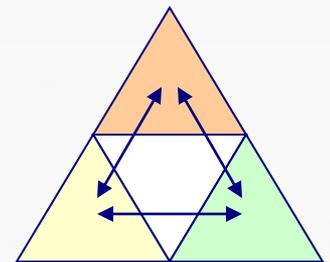
**Pressure to provide options**

- Socially responsible funds
- Age-based or life cycle fund



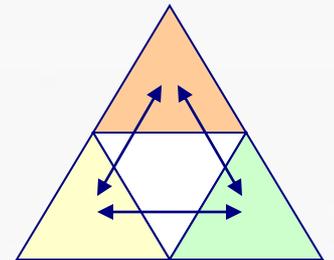
# Strategic Risk Assessment

- Growing political pressure on DB plans
- Link between economy & contribution rates
- SIB “risk” policies



# Tactics to Consider

- ✓ Participate in actuarial risk assessment study
- ✓ Legislation for 2011
- ✓ Update strategic plan
- ✓ Develop strategic communication plan
- ✓ Develop SIB coordination plan



# Questions

