

BOARD MEETING AGENDA

MAY 27, 2015 • 9:30AM TO 1:30PM



LOCATION

STATE INVESTMENT BOARD
Large Conference Room, STE 100
2100 Evergreen Park Drive S.W.
Olympia, WA 98502
Phone: 360.586.2320
Fax: 360.586.2329
recep@leoff.wa.gov

TRUSTEES

KELLY FOX, *CHAIR*
Olympia Fire Department

JACK SIMINGTON, *VICE CHAIR*
Kennewick Police Department

REPRESENTATIVE JEFF HOLY
Spokane Police Department (Ret)

MARK JOHNSTON
Vancouver Fire Department

PAT HEPLER
Snohomish County Fire District 1

PAUL GOLNIK
WA Fire Commissioners Association

WALLY LOUCKS
Spokane County Sheriff's Office

DAVID CLINE
City of Tukwila Administrator

REPRESENTATIVE KEVIN VAN DE WEGE
WA State Representative

COUNCILMEMBER DAVE UPTHEGROVE
King County Council District 5

STAFF

Steve Nelsen, Executive Director
Tim Valencia, Deputy Director
Jessie Jackson, Executive Assistant
Jessica Burkhart, Administrative Services Mgr
Ryan Frost, Research Analyst
Paul Neal, Sr. Research and Policy Mgr
Tammy Harman, Ombudsman
Dawn Cortez, Assistant Attorney General

**THEY KEEP US SAFE,
WE KEEP THEM SECURE.**

- | | | |
|----|--|----------|
| 1. | Approval of Minutes
January – April 2015 | 9:35 AM |
| 2. | 2015 Legislative Review
Paul Neal, Senior Research & Policy Manager | 9:45 AM |
| 3. | Interim Planning
Ryan Frost, Research Analyst | 10:45 AM |
| 4. | Supplemental Rate Adoption
Ryan Frost, Research Analyst | 11:15 AM |
| 5. | Administrative Update <ul style="list-style-type: none">• Outreach Activities | 11:45 AM |
| 6. | Agenda Items for Future Meetings | 12:15 PM |

**Lunch is served as an integral part of the meeting.*

In accordance with RCW 42.30.110, the Board may call an Executive Session for the purpose of deliberating such matters as provided by law. Final actions contemplated by the Board in Executive Session will be taken in open session. The Board may elect to take action on any item appearing on this agenda.



2015 Legislative Update

May 27, 2015

Overview

- **Key Issues**
- **Legislation Passed Affecting LEOFF 2**
- **Legislation Not Passed That Would Have Affected LEOFF 2**
- **Other Pension Legislation**

Funding & Budget

Budget Bill

Final budget not yet passed; Governor, House, and Senate each have proposed budgets

- Contribution Rates unchanged in proposed budgets
- Benefit Enhancement Account Payment
 - Governor proposes \$10 million
 - House proposes cancelling 2015 payment
 - Senate proposes cancelling 2015 and 2017 payments

Legislation Passed Affecting LEOFF 2

Board Requested Bill

Rescinding L&I Remarriage Penalty (HB 1194)

- Requires LEOFF Plan 2 to assume payment of worker's compensation duty death benefit when surviving spouses remarry
 - Applies retroactively to spouses who remarried prior to effective date
 - Future payments actuarially reduced if surviving spouse took cash out at time of remarriage
 - OSA fiscal note estimated cost of \$2.9 million; may require supplemental rate adoption

Legislation Not Passed That Would Have Affected LEOFF 2

- Garnishing public pensions to pay for incarceration of public employees (SB 6076)
- Forfeiting public pension if member convicted of a felony connected to their public service (SB 6077)
- Increasing retirement age to 55 (SB 5982)
- Authorizing health care benefit accounts for LEOFF Plan 2 members (SB 6071)
- Requiring all DRS Employers to participate in the state Deferred Compensation Program (HB 5434)

Other Pension Legislation

Passed

- **PEBB Request Bill – Endorsed by Board**
 - Technical corrections bill reconciling conflicting amendments (SB 5466)
- **DRS & SCPP Request Bill**
 - Correcting PERS Retiree Return to Work Restrictions (HB 1168)
 - Allowing State Patrol Troopers to purchase an annuity at time of retirement (SB 5210)

Questions?

Contact:

Paul Neal

Senior Research and Policy Analyst

(360) 586-2327

paul.neal@leoff.wa.gov

Benefits

1. Social Security Bridge

- i. The Social Security Bridge option would allow retirees to take an increased retirement benefit from the LEOFF 2 Trust until the member reaches the Social Security Full Retirement Age.

2. Retiree Annuity Purchase

- i. Allowing retired members of LEOFF 2 a one-time option to purchase an annuity out of the LEOFF Plan 2 fund.

3. Individual Healthcare Savings Accounts (SB 6071)

- i. Requires employers to set up tax appropriate flexible spending accounts or voluntary employee benefit accounts that allow employees to contribute and accrue savings for retiree medical premiums.

4. Pension Garnishment (SB 6076)

- i. For felonies committed after July 1, 2015, if the felony was the result of misconduct associated with the person's service as a public employee, up to 50 percent of the monthly retirement benefit can be garnished for the costs of incarceration, probation, parole, or restitution resulting from the crime.

5. Pension Forfeiture (SB 6077/2015)

- i. If a felony crime is committed in the course of public employment by a public official or employee after the effective date of the act, the person's membership in a state retirement plan is terminated and any retirement benefit is forfeited.

6. Increasing Retirement Age (SB 5982)

- i. The normal retirement ages for PERS 2 & 3, TRS 2 & 3, SERS 2 & 3, PSERS 2, LEOFF 2, and WSPRS members are each increased by two years for persons who first become members of the retirement plan on or after July 1, 2015.

7. Military Reserve/National Guard Response to Disasters

- i. Members who are called up in either the Reserves or National Guard to respond to natural disasters, such as the Oso mudslide or the Chelan wild fires, are not eligible for the same death and disability benefits as National Guardsman or Reservists who are called up for military service in a time of war.

2015 Interim Planning



8. Career Extension (Tabled in 2014)

- i. The Board proposed curtailing the ability of a LEOFF Plan 2 retiree to draw a pension and work in a historically LEOFF position.
- ii. The Board's proposal was introduced in 2014 as HB 2479.
- iii. The Legislative debate revealed tension between the Board's original policy goal and the goal of allowing smaller jurisdictions to compete for law enforcement officers and fire fighters they would not otherwise be able to afford.

Actuarial

1. Experience Study Timing

- i. Every 6 years, the demographic experience study and economic experience study are presented during the same interim. This presentation from OSA will look at moving the demographic experience to an off year cycle so that the two studies no longer overlap.

2. MP 2014 Mortality/Life Expectancy

- i. A presentation from OSA on the new mortality tables, and what this could mean for future contribution rates.

3. Funding Ratio Corridor/Funding Method Options

4. Economic Experience Study

Organizational/Administrative

1. Board Officer Elections

2. Board Expectation Review

3. 2015 Off-site Work Session

4. DRS/CEM Benchmarking

5. DRS Administrative Update

6. WSIB Update

7. Annual Attorney General training



2015 Interim Planning

May 27, 2015

Benefits

- Social Security Bridge
- Retiree Annuity
- Individual Healthcare Savings Account
- Pension Garnishment
- Pension Forfeiture
- Increasing Retirement Age
- Military Reserve/National Guard Response to Disasters
- Career Extension

Actuarial

- Economic Experience Study
- MP 2014 Mortality/Life Expectancy
- Funding Ratio Corridor/Funding Method Options
- Experience Study Timing

Organizational/Administrative

- Board Officer Elections
- Board Expectation Review
- 2015 Off-Site Work Session
- DRS/CEM Benchmarking
- DRS Administrative Update
- WSIB Update
- Annual AG Training

Questions?

Contact:

Ryan Frost

Research Analyst

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May 27, 2015

Supplemental Rate Adoption

COMPREHENSIVE REPORT

By Ryan Frost

Research Analyst

360-586-2325

ryan.frost@leoff.wa.gov

ISSUE STATEMENT

The Board must decide whether it is necessary to increase contribution rates due to the passage of Substitute House Bill 1194, providing surviving spouses of members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) and Washington State Patrol Retirement System (WSPRS) monthly survivor benefits regardless of remarriage.

OVERVIEW

Based on the preliminary actuarial data as of May 18, 2015, there were 16,773 active LEOFF Plan 2 members. Adopting supplemental contribution rates impacts all active LEOFF Plan 2 members, employers, and the state.

One of the Board's strategic goals is to ensure the financial integrity of the plan. In order to maintain that goal, it may be necessary for the Board to pay for benefit improvements. Not all benefit improvements will have costs necessitating an increase in contribution rates, but if they do, the Board has the option of adopting a supplemental rate increase. Changes are usually effective September 1 following the effective date of the legislation.

BACKGROUND & POLICY ISSUES

The Office of the State Actuary (OSA) provided a fiscal note on March 2nd, 2015 indicating the cost of this benefit enhancement would require a contribution rate increase of seven basis points for the member (0.07%), four basis points for the employer (0.04%), and three basis points for the state (0.03%). The House and Senate have funded this bill in their preliminary budgets.

Just last year, the Board decided to leave contribution rates at their current levels for the upcoming biennium. With the addition of this new bill, there is potentially a larger gap between actual rates and what the normal cost of the plan is projected to be.

However, the vast majority of the costs of this bill are related to the assumptions of remarriage among current widows. With limited information and experience about this matter, it may be the Board's decision to let experience play out before assuming changes to the normal cost of

the plan. The actuary's fiscal note and assumptions are currently under audit by an outside actuary, with the results of that audit to come soon.

The Board will be studying its funding policy this interim. Adopting a rate change now when you may be changing the funding policy in the near future, which could involve another change in rates, could lead to rate volatility in the short term. The Board could discuss its funding policy first, then come back later in the interim to review supplemental rate adoption.

Lastly, the Board could decide to adopt the full entry age normal cost (EANC) of the plan now. The majority of the rate increases were tied to mortality improvements among the population. The Board elected to leave rates at their current levels through the 2015-2017 biennium, then adopt the full normal cost rates for the 2017-2019 biennium.

POLICY OPTIONS

Option 1: Adopt no supplemental rate

Under this option, the Board would recommend no increase in contribution rates. This would leave rates at:

Member	8.41%
Employer	5.05%
State	3.36%

Option 2: Adopt OSA's recommended supplemental rates

Under this option, the Board would recommend to adopt an increase in contribution rates of 0.07% for members, 0.04% for employers, and 0.03% for the state. This would increase rates to:

Member	8.48%
Employer	5.09%
State	3.39%

Option 3: Adopt the full normal cost

Under the option, the Board would adopt the full normal cost of the plan as presented by OSA last interim, with the addition of the cost of the new benefit. This would increase rates to:

Member	8.92%
Employer	5.35%
State	3.57%



Supplemental Rate Adoption

Comprehensive Report
May 27, 2015

Issue

A supplemental rate change may be necessary due to the passage of SHB 1194.

Overview

- Impacts
 - Member
 - Employee
 - State
- Ensuring Actuarial Soundness

Background

- Rate Adoption History
- Fiscal Note Assumptions
- Funding Policy Changes
- Full Normal Cost of the Plan

Options

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Options

	Option 1 – Adopt no supplemental rate	Option 2- Adopt OSA’s recommended supplemental rates	Option 3- Adopt the full normal cost
Member	8.41%	8.48%	8.92%
Employer	5.05%	5.09%	5.35%
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