

BOARD MEETING AGENDA

May 28, 2014 - 9:30 AM



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

- | | |
|---|----------|
| 1. Approval of March 26, 2014 Minutes | 9:30 AM |
| 2. Demographic Experience Study Education
Lisa Won, Senior Actuary | 9:35 AM |
| 3. Local Government DCP Participation - Initial Consideration
Paul Neal, Senior Legal Counsel | 10:15 AM |
| 4. Final Average Salary Protection - Initial Consideration
Ryan Frost, Research Analyst | 11:00 AM |
| 5. Administrative Update <ul style="list-style-type: none">• SCPP Update and Coordination• Outreach Activities• NCPERS Life Insurance• October Off-site Meeting | 11:45 AM |
| 6. Alternate Revenue Update
Ryan Frost, Research Analyst | 12:15 PM |
| 7. Parliamentary Procedure Review
Dawn Cortez, Assistant Attorney General | 1:45 PM |
| 8. Annual Attorney General Training
Dawn Cortez, Assistant Attorney General | 1:00 PM |
| 9. Possible Executive Session - Executive Director's Evaluation | 2:15 PM |
| 10. Agenda Items for Future Meetings
Steve Nelsen, Executive Director | 2:30 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.



Demographic Experience Study Education

Report Type:

Educational Briefing

Presenter Name and Title:

Lisa Won, Senior Actuary

Summary:



Overview of Demographic Experience Study requirements and process.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Maintain the financial integrity of the plan., Inform the stakeholders.

ATTACHMENTS:

Description	Type
 Demographic Experience Study Powerpoint	Report
 Demographic Experience Study Preview	Report

Demographic Experience Study Preview

*Lisa Won, ASA, EA, MAAA
Senior Actuary*



Office of the State Actuary
"Securing tomorrow's pensions today."

May 28, 2014

Today's Presentation

- Background on experience studies
- Assumptions included in the Demographic Experience Study (DEXTER)
- Trends based on preliminary results
- Help prepare members to receive results in June
- No decisions required today



What Are Experience Studies?

- Important component of systematic actuarial funding
- Prefunding of benefits is based on future projections
 - Those projections are based on assumptions
- Need to look back every so often and review
 - How close were assumptions to actual experience?
- Ensure assumptions remain reasonable
 - Reasonable assumptions contribute to reasonable funding

Two Different Experience Studies Are Performed

- Economic Experience Studies (EES)
 - Focus is on economy
 - Mainly utilizes outside data sources, national trends, etc.
 - The Board sees results every two years
- DEXTER
 - Bigger than EES and with different emphasis and data
 - Largely plan-specific, looking at statistics of actual experience (people) in the plans
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Different Assumptions Are Reviewed Under Each Study

- Economic
 - Investment returns
 - Inflation
 - General salary growth
 - Growth in membership
- Demographic
 - Retirement rates
 - Mortality
 - Disability
 - Termination
 - Salary/merit scale
 - Several smaller (miscellaneous) assumptions

Currently Performing The Demographic Experience Study

- Study conducted every six years
 - As directed by statute
- Review and recalculate *demographic* assumptions underlying the plans based on
 - Actual experience
 - Likely future trends
 - Actuarial Standards of Practice (ASOPs)
 - Professional judgment



How Do We Perform An Experience Study?

- Data-driven, using 20+ years of experience in some cases
- Involves judgment
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What Data Do We Use?

- As much reliable data as we can get
 - For this report, typically around 16 years
- Use professional judgment when eliminating data
 - Outliers
 - Short/long valuation years
 - Great recession

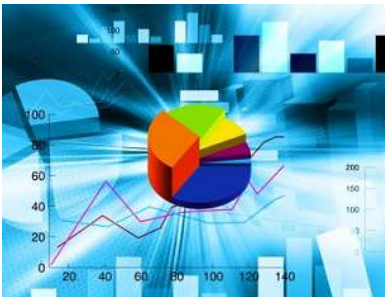


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How Will DEXTER Be Used?

- New assumptions calculated in DEXTER will become underpinnings for future valuations and rate setting
 - Starting with June 30, 2013, Actuarial Valuation
- Assumptions help us estimate
 - When benefits are paid
 - How much is paid
 - How long they're paid



Assumption Changes Impact Financing Costs

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 - Plan design, such as normal and early retirement eligibility
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National Studies Show People Are Living Longer

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Source: <http://www.census.gov/compendia/statab/2012/tables/12s0104.pdf>

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- We use this measure to determine who might receive various forms of termination benefits
 - Return of contributions
 - Deferred retirement benefit

We Model Two Types Of Salary Increases

- General salary increases
 - Inflation plus productivity
 - Same assumption for all service levels
 - Studied every two years as part of Economic Experience Study
- Service-based salary increases
 - All other forms of salary increases
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- Both assumptions together estimate total salary growth



Service-Based Salary/Merit Scale

- Used to estimate salary increases
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- The merit scale directly impacts
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Miscellaneous Assumptions

- Some miscellaneous assumptions impacting LEOFF 2 for this study include
 - Percent Vested
 - Ratio of Survivors Selecting Annuities
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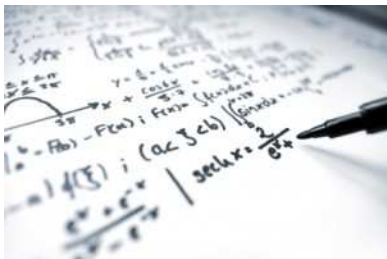


Current Progress

- Preliminary analysis sent to auditor
- Concurrent audit in progress
 - Demographic assumptions
 - June 30, 2013, Actuarial Valuation
- Drafting text of report

Retirement Rates – Preliminary Results

- Preliminary results show members are retiring later in life
- Delayed retirements generally decrease contribution rates
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Summary Of Preliminary Results

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Recap

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One Last Thing

- Members may want to review the [Funding Methods Presentation](#) from last year
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Next Steps

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Demographic Experience Study Preview

Lisa Won, ASA, EA, MAAA
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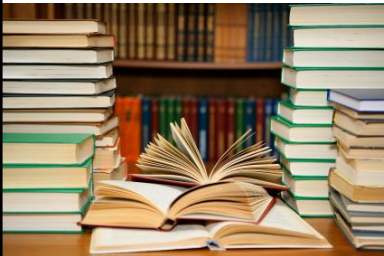


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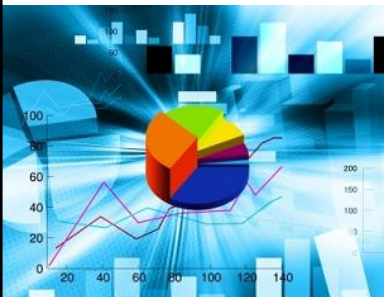


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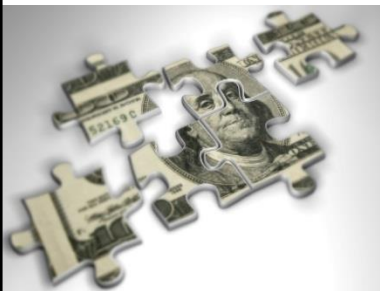


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Local Government DCP Participation - Initial Consideration

Report Type:

Initial Consideration

Date Presented:

5/28/2014

Presenter Name and Title:

Paul Neal, Senior Legal Counsel

Summary:

Builds on last year's board study of opportunities to encourage individual retirement savings. Revisits issue of requiring State DCP participation by local government employers; reviewing activities during session and providing additional data regarding participation.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Enhance the benefits for the members., Inform the stakeholders.

ATTACHMENTS:

Description	Type
📎 Local Government DCP Participation - report	Report
📎 Local Government DCP Participation - presentation	Presentation

LOCAL GOVERNMENT DCP PARTICIPATION

INITIAL CONSIDERATION

By Paul Neal
Senior Legal Counsel
360-586-2327
paul.neal@leoff.wa.gov

ISSUE

Many LEOFF Plan 2 members do not have access to the potentially lower-cost Department of Retirement Systems (DRS) Deferred Compensation Plan (State DCP).

MEMBERS IMPACTED

Sixty-four percent (or 10,655) of active LEOFF 2 members do not have access to the State DCP through their employers.

OVERVIEW

A secure retirement rests on the “three-legged stool” of retirement preparation: 1) Employer-sponsored pension; 2) Social Security; and 3) individual retirement savings. For many LEOFF 2 members it is actually a two-legged stool as some LEOFF employers do not provide social security¹. This makes individual retirement savings even more crucial. Tax-qualified individual savings plans available through LEOFF employers (457² plans) are a primary vehicle for employee retirement savings.

This report Reviews: 1) history of policies/studies considered by the Board targeting increasing individual retirement savings; 2) legislative policy and issues from the 2014 session; and 3) comparative fees and availability of the State DCP to LEOFF Plan 2 members.

POLICY HISTORY

The LEOFF Plan 2 Retirement Board began studying vehicles for increasing retirement savings during the 2004 interim, recommending legislation allowing purchase of up to five years of service credit. The Legislature passed that recommendation in 2005 (HB 1269). The Board studied the Purchase of Annuity topic in 2006, 2007, 2008 and 2009, reaching the Final Proposal stage in 2006, 2008 and 2009, without recommending legislation. The topic was deferred for joint consideration with the Select Committee on Pension Policy (SCPP) for the 2009 Interim. No further action was taken at that time.

¹ Based on the 2005 Employer Survey conducted by the LEOFF Plan 2 Board, 41.47% of Law Enforcement Officers, and 93.52% of Fire Fighters are not covered by Social Security.

² Named for the IRS code section authorizing employers to offer this plans: 26 U.S.C. §457

The Board took up the issue again in 2013, recommending legislation authorizing LEOFF Plan 2 to annuitize roll-overs of tax deferred savings. The Board also voted to ask DRS to offer a Roth option for the State DCP.

The Board discussed but did not approve legislation requiring LEOFF employers to offer the State DCP to LEOFF Members. Some Board members favored the proposal, while others were concerned about administrative impacts to employers.

RECENT LEGISLATIVE ACTIVITY

The 2014 Legislature passed Board proposed legislation authorizing DRS to convert employee savings into an annuity payable from the LEOFF Plan 2 trust fund, SB 6201. A LEOFF Plan 2 member can now roll-over funds at the time of retirement and convert those funds to a lifetime annuity, provided the funds came from a public employer-provided tax-qualified plan.

During the 2014 session Representative Sullivan introduced HB 2736 to require all public employers participating in a DRS-administered retirement plan to offer the State DCP. HB 2736 received a public hearing but was not brought up for a vote in committee.

Public testimony on HB 2736 brought forward several questions on mandatory employer participation in the State DCP.

- The Association of Washington Cities (AWC) and the Washington State Association of Counties (WSAC) testified some employers who did not offer the State DCP had exclusivity agreements, i.e. offering a plan only from that provider, resulting in lower fees. They expressed concern that requiring employers to offer the State DCP might increase current provider fees. Both suggested more background research, with AWC encouraging the House Committee to investigate why some employers did not offer the State DCP, and WSAC suggesting referring the issue to the SCPP for study.
- The International Association of Firefighters (IAFF) testified in support of HB 2736, advocating the benefit of lower fees to their members. In response to AWC's question why some employers do not offer the State DCP, the IAFF representative suggested some employers may receive "kick-backs" from private 457 providers in exchange for exclusivity agreements.

457 PROVIDER FEES

The lack of Social Security places a premium on member personal retirement savings. Net return (i.e. the return after deduction of fees), significantly effects accumulation of savings. The lower the fees, higher the net return.

The State DCP charges a flat 0.13% of account balance annually to cover administrative costs. Private administrative fees are more complex, using variable fee schedules that change based upon the individual's portfolio. Staff constructed an average of the variable fees in Appendix A to facilitate comparison of public and private fees.

The averaged net annual fee of the private 457 plans in Appendix A is 1.29%, nearly 10 times the .13% charged by DRS. DRS's lower fees allow a larger accumulation contributions³:

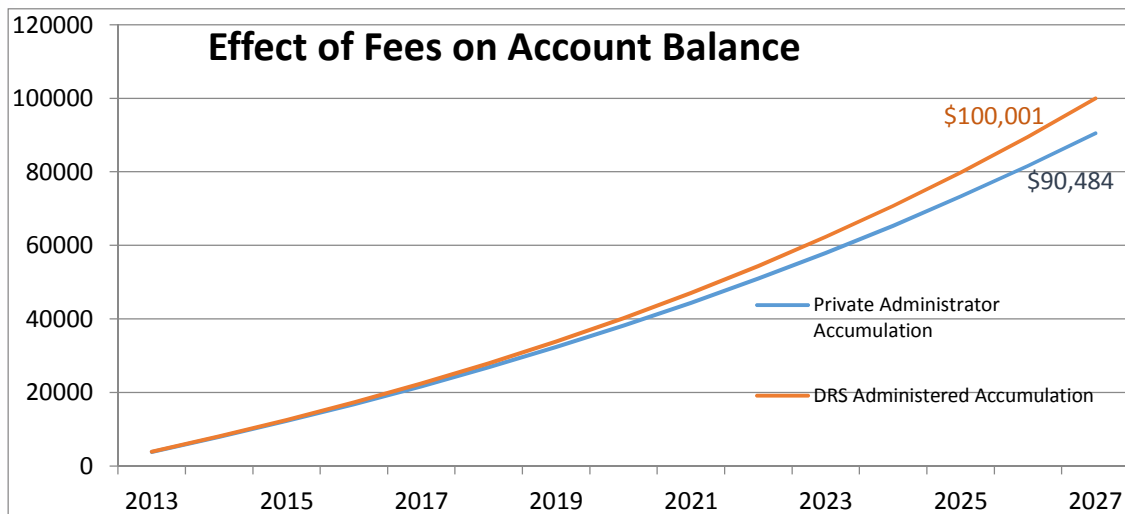
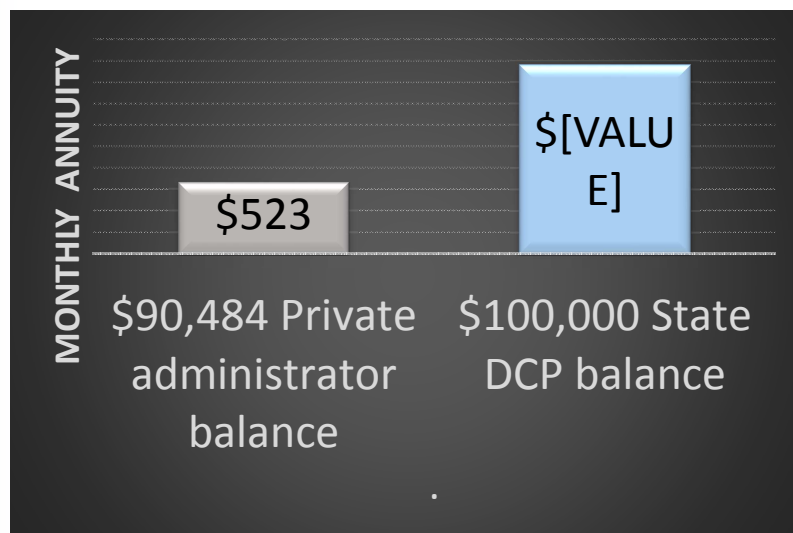


Figure 1



The larger nest-egg accumulated in figure 1 utilizing the lower cost state DCP yields a larger annuity at retirement.

Figure 2

³ The comparison assumes \$3,602 per year contribution for 15 years, earning interest at LEOFF PLAN 2's assumed rate of 7.5%, less annual fees.

LEOFF EMPLOYER PARTICIPATION IN STATE DCP

Participation in the State DCP is mandatory for State agencies. Washington's political subdivisions *may* participate in DRS's 457 Plan, or use another administrator, such as ICMA-RC. Staff research on LEOFF employer participation DCP participation reveals that, while most LEOFF employers offer a 457 option to their employees, some do not offer the State DCP plan.

LEOFF 2 Members without State DCP Access

Grouped by number of employees per employer

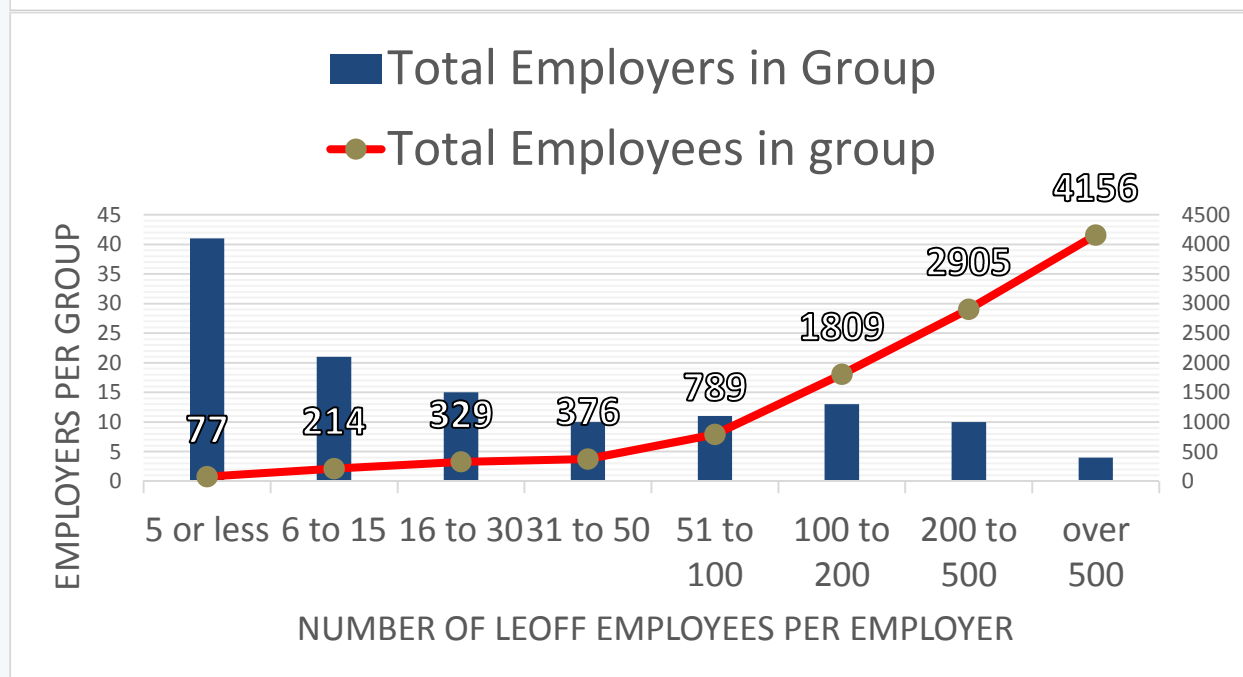


Figure 3

125 LEOFF employers do not participate in the State DCP, including the state's largest LEOFF employers (see Appendix B). Because of the concentration of larger employers, 64% of LEOFF members or 10,655 employees, do not have access to the State DCP.

SUPPORTING INFORMATION

Appendix A: Deferred Compensation Fee Comparison

Appendix B: LEOFF employers that do not offer the State DCP

APPENDIX A – DEFERRED COMPENSATION FEE ANALYSIS

An approximation of annual fees for private administration of a 457 deferred compensation plan was derived by working from a 2013 table developed by The City of Duluth to allow employees to compare costs of 4 different 457 Plan administrators. Fees were highly variable. Board staff averaged the fees of each provider and then averaged those to derive a net average estimated annual fee. Given the small sample and the assumptions that had to be made in averaging, this is a “ball park” figure provided solely for purposes of comparison.

	Hartford Life Deferred Compensation Plan		ICMA Retirement Corporation Deferred Compensation Plan		Minnesota State Deferred Compensation Plan MNDCP – (Great West)		NationwideDeferred Compensation Program	
	Original data	Averag e fee	Original data	Averag e fee	Original data	Averag e fee	Original data	Averag e fee
Annual Account Fees	No	0 %	No.	0%	No	0%	No.	0%
Daily Asset- Based Charges	75 - 90 bps	.825 %	0.55% administratio n fees on all assets; additional 0.15% fee on assets in non- proprietary funds.	.55%	0.10% annual administrativ e fee, charged only on the first \$100,000 in an individual account.	.1%	0.50% annual administrativ e fee on all variable fund assets. 0.25% annual administrativ e fee on fixed account option.	.375%
Fund Operatin g Expenses	Varies by investmen t option, from 0.0%	1.21%	Fund expenses range from 0.46% to	.93%	Fund expenses range from 0.01% to	.47%	Fund expenses range from 0.00% to	.7%
Net fee estimate	2.035%		1.48%		.57%		1.075%	
Average for all plans	1.29%							

APPENDIX B – LEOFF EMPLOYERS NOT PARTICIPATING IN STATE DCP

Employers Not Participating in Washington State's Deferred Compensation Program (DCP) and Number of Employees they represent As of October 24, 2013⁴

Employer	# LEOFF 2 Employees
SEATTLE	2229
KING COUNTY	710
TACOMA	675
SPOKANE	542
BELLEVUE	367
VANCOUVER	367
SNOHOMISH COUNTY	365
EVERETT	343
PIERCE COUNTY	303
RENTON	251
PIERCE COUNTY FPD 06	248
REDMOND	224
SPOKANE COUNTY	221
YAKIMA	216
KIRKLAND	192
SNOHOMISH COUNTY FPD 01	182
KENNEWICK	167
SEATTLE PORT	162
OLYMPIA	143
KENT	137
TUKWILA	131
CLARK COUNTY	129
PASCO	125
BOTHELL	114
LYNNWOOD	114
RICHLAND	108
LONGVIEW	105
SNOHOMISH COUNTY FPD 07	94
SOUTH KITSAP FIRE & RESCUE	88
THURSTON COUNTY	85

⁴ Source: DRS

Employer	# LEOFF 2 Employees
MARYSVILLE FIRE DISTRICT 12	84
WHATCOM COUNTY	80
TUMWATER	67
PIERCE COUNTY FPD 21	64
MERCER ISLAND	61
BENTON COUNTY	59
PORT ANGELES	54
CLARK COUNTY FPD 06	53
GRANT COUNTY	50
SUNNYSIDE	45
KING COUNTY FPD 16	42
COWLITZ COUNTY	38
GRAYS HARBOR COUNTY	36
BURLINGTON	35
ISSAQUAH	34
CLALLAM COUNTY	33
DES MOINES	32
FIFE	31
BONNEY LAKE	27
PIERCE COUNTY FPD 16	27
MOUNTLAKE TERRACE	26
WALLA WALLA COUNTY	26
LYNDEN	25
KELSO	24
NORTH HIGHLINE FIRE DISTRICT	24
TOPPENISH	23
UNION GAP	23
SOUTHEAST THURSTON FIRE AUTHORITY	22
ENUMCLAW	17
LAKE FOREST PARK	17
GIG HARBOR	16
KING COUNTY FPD 28	16
PIERCE COUNTY FPD 18	16
LINCOLN COUNTY	14
MONTESANO	14
YAKIMA COUNTY FPD 05	14
COLLEGE PLACE	13
WEST RICHLAND	13
SAN JUAN COUNTY FPD 02	12

Employer	# LEOFF 2 Employees
SNOHOMISH COUNTY AIRPORT	12
WAPATO	12
GRAYS HARBOR COUNTY FPD 05	11
DOUGLAS COUNTY FPD 02	10
LIBERTY LAKE	10
FIRCREST	9
KING COUNTY FPD 20	9
SNOHOMISH COUNTY FPD 17	9
SPOKANE COUNTY FPD 04	9
SPOKANE COUNTY FPD 10	9
CLYDE HILL	7
MEDINA	7
STEILACOOM	7
WAHKIAKUM COUNTY	7
BREWSTER	6
COSMOPOLIS	4
COWLITZ COUNTY FPD 06	4
MABTON	4
RUSTON	4
SAN JUAN COUNTY FPD 04	4
ADAMS COUNTY FPD 05	3
BENTON COUNTY FPD 06	3
COLUMBIA COUNTY FPD 03	3
GRANT COUNTY FPD 10	3
JEFFERSON COUNTY FPD 04	3
PALOUSE	3
ASOTIN COUNTY FPD 01	2
KITTITAS	2
LEWIS COUNTY FPD 03	2
LEWIS COUNTY FPD 15	2
ROY	2
SNOHOMISH COUNTY FPD 26	2
WHATCOM COUNTY FPD 01	2
WHATCOM COUNTY FPD 14	2
WILBUR	2
CHELAN COUNTY FPD 06	1
CLALLAM COUNTY FPD 05	1
CLARK COUNTY FPD 10	1
COWLITZ-SKAMANIA COUNTY FPD 07	1

Employer	# LEOFF 2 Employees
GARFIELD COUNTY FPD 01	1
Klickitat County FPD 07	1
LEWIS COUNTY FPD 10	1
LEWIS COUNTY FPD 14	1
MASON COUNTY FPD 03	1
MASON COUNTY FPD 13	1
NAPAVINE	1
PE ELL	1
PEND OREILLE FPD 04	1
SAN JUAN COUNTY FPD 05	1
SKAGIT COUNTY FPD 08	1
SNOHOMISH COUNTY FPD 22	1
SOUTH PEND OREILLE FIRE & RESCUE	1
SPOKANE COUNTY FPD 13	1
SPRINGDALE	1
THURSTON COUNTY FPD 17	1
WHATCOM COUNTY FPD 17	1
Total Employees	10,665



Local Government DCP Participation

Initial Consideration
May 28, 2014

Board Action

Final proposal November 18, 2013:

- Purchasing annuity through LEOFF Plan 2. SB 6201 enacted on 3/6/13;
- Requested DRS to develop Roth option for Deferred Compensation Program (DCP);
- Requiring the DCP option for LEOFF members was not voted out by Board.

Mandatory DCP Option Bill

HB 2736

- HB 2736, not sponsored by the Board, but included LEOFF.
- Would have required all DRS retirement system employers to offer State DCP.
- Public hearing in the House, no committee vote.

Issues Raised at HB 2736 Hearing

County and City Associations concerns:

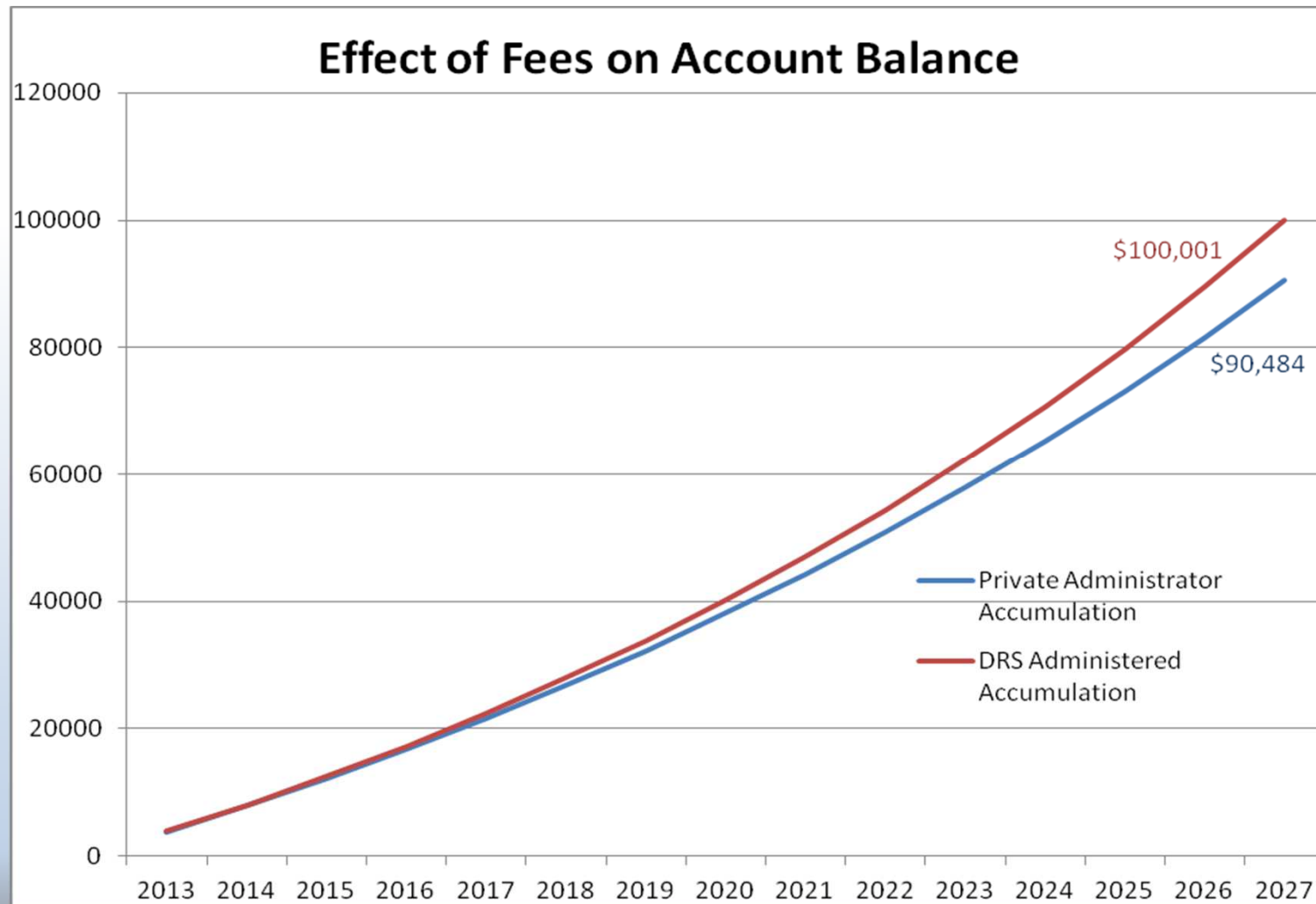
- Fees for existing program may go up without exclusivity agreements;
- Should find out why local jurisdictions don't participate;
- Possible administrative issues: should refer to SCPP.

Employee concerns:

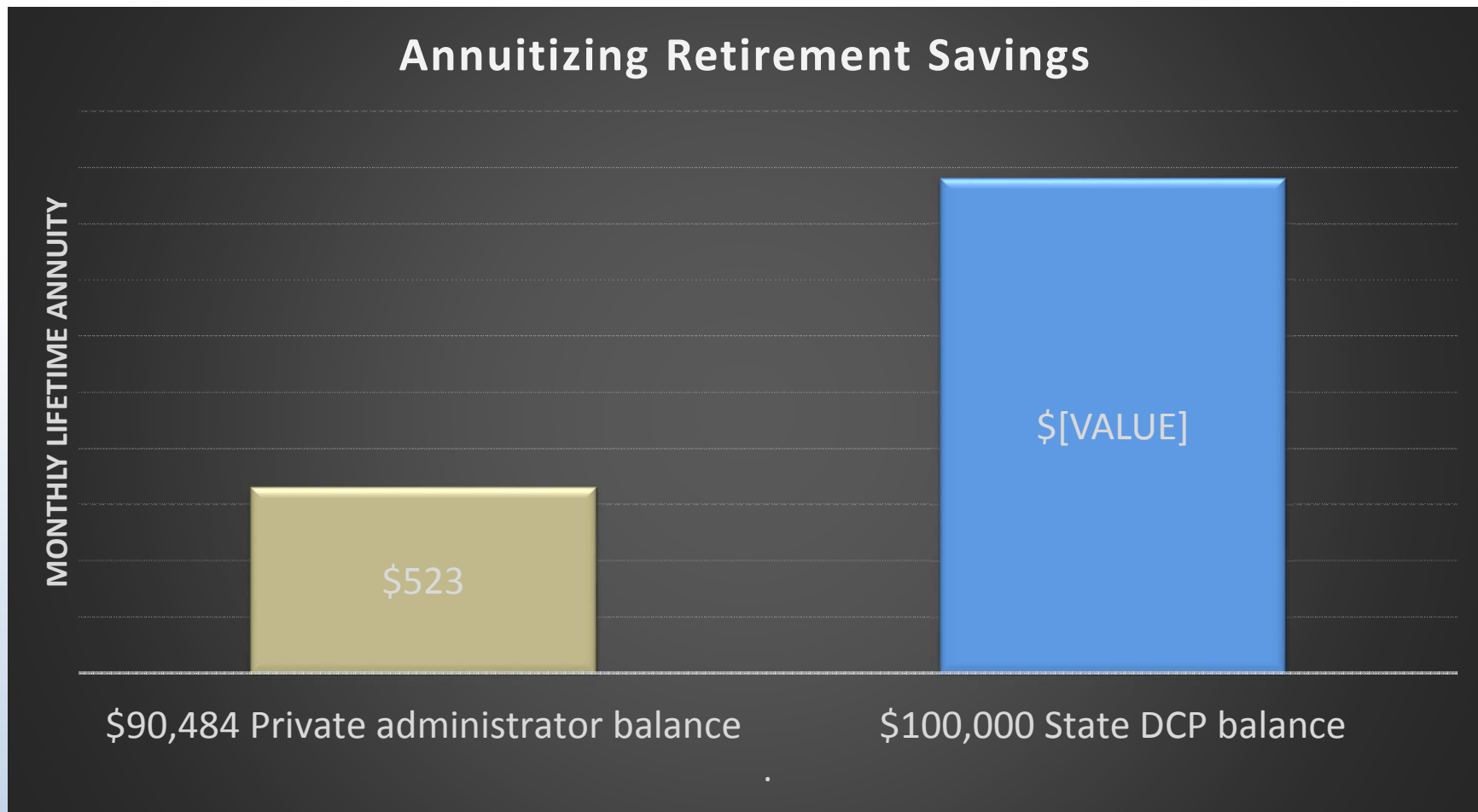
- Employees could pay lower fees, save more;
- Exclusivity agreements supported by “kickbacks”.

Lower Fees = Larger Accumulation

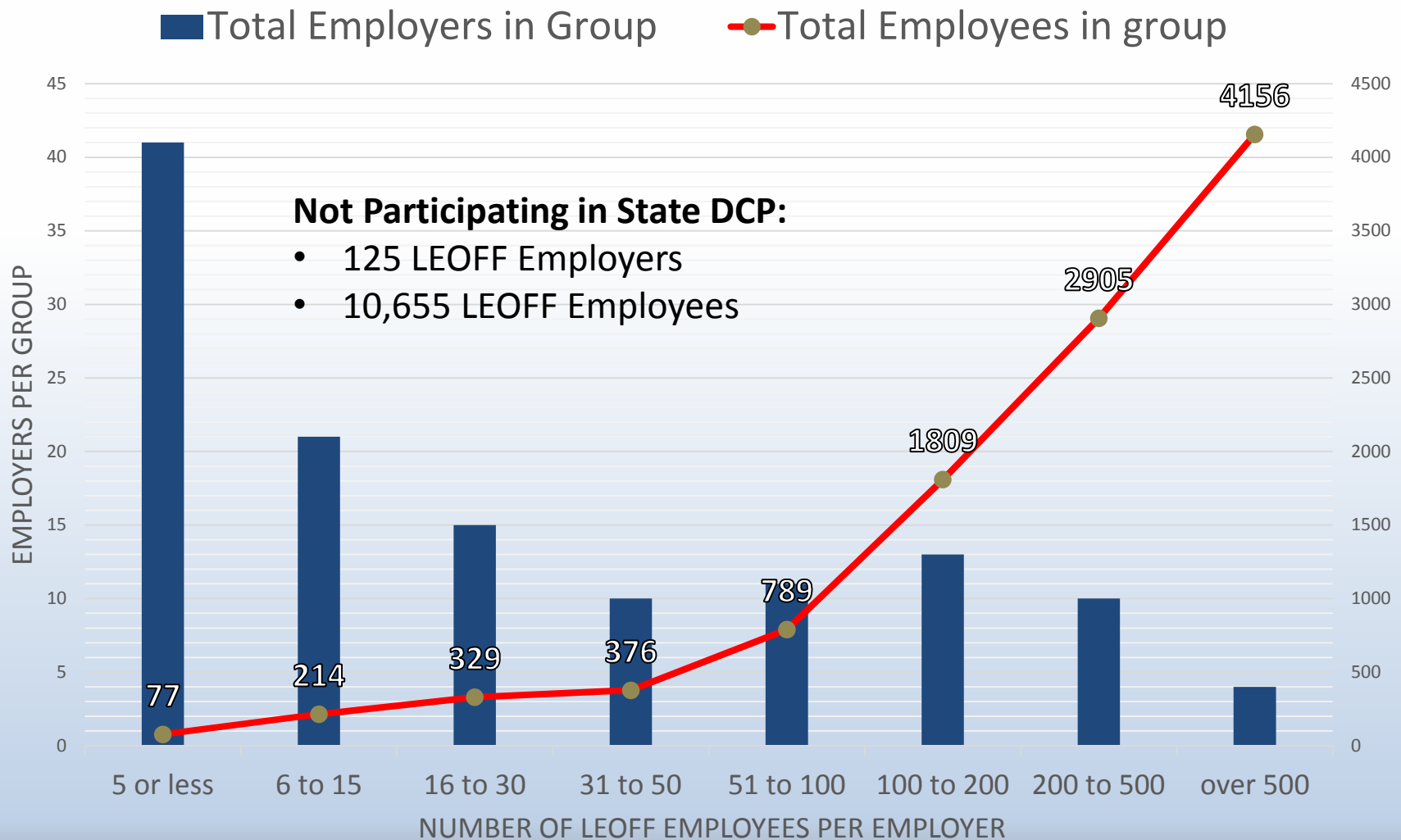
Lower State DCP fees, generate higher accumulations:



Larger Accumulations = Larger Annuity



LEOFF 2 Members Without State DCP Access



Large Employers Not Participating

64% of LEOFF 2 members work for non-participating employers.

Largest Non-participating Employers	LEOFF 2 Employee Count
SEATTLE	2229
KING COUNTY	710
TACOMA	675
SPOKANE	542
BELLEVUE	367
VANCOUVER	367
SNOHOMISH COUNTY	365
EVERETT	343
PIERCE COUNTY	303
RENTON	251
PIERCE COUNTY FPD 06	248
REDMOND	224
SPOKANE COUNTY	221
YAKIMA	216

Next Steps?



- Request staff to develop options for Board consideration.
- Take no further action.

Any Questions?

- **Contact:**

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Senior Legal Counsel

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Final Average Salary Protection - Initial Consideration

Report Type:

Initial Consideration

Presenter Name and Title:

Ryan Frost, Research Analyst

Summary:

Review of policy of adjusting Final Average Salary calculation so that retiring members required to take furlough or other salary reductions during their FAS period do not suffer a pension reduction.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Enhance the benefits for the members., Maintain the financial integrity of the plan.

ATTACHMENTS:

Description	Type
 FAS Protection Report	Report
 FAS Protection Presentation	Presentation



May 28th, 2014

FINAL AVERAGE SALARY PROTECTION

INITIAL CONSIDERATION

By Ryan Frost
Research Analyst
360-586-2325
ryan.frost@leoff.wa.gov

ISSUE STATEMENT

Members' retirement benefits will be reduced if "temporary salary reductions" after July 1, 2013 occur during their Final Average Salary (FAS) period.

OVERVIEW

During the recent economic downturn employers have reduced salaries to help balance their budgets. These reductions include voluntarily or involuntarily unpaid leave (furlough), a temporary reduction in salary, or the loss of previously negotiated raises.

There are 16,805 active members in LEOFF Plan 2 according to the *2011 Actuarial Valuation Report*. FAS protection affects only those members furloughed during their FAS period.

Members earn a benefit equal to 2 percent, times FAS times years of service (YOS). A salary reduction during a member's FAS period, lowers FAS, thus lowering the benefit. The Legislature adjusted FAS calculations to prevent reduction due to furloughs for 2009-2011 and 2011-2013. That protection ended July 1, 2013. Board staff has since learned that some LEOFF 2 members suffered temporary salary reductions after July 1, 2013.

This report: 1) defines furloughs, why they were enacted, and their impact on employees' pension; 2) reviews the legislative history of recent furlough protections; and 3) reviews the lifetime impacts if the Legislature does not extend these protections for 2013-2015.

BACKGROUND & POLICY ISSUES

In today's economic environment many local and state governments are facing revenue shortfalls. Budget restrictions have caused discontinuance or restriction of some public service programs and some employee layoffs. Many state and local governments have implemented other ways to decrease costs.

Furloughs

Many public employers have used furloughs, i.e. a leave of absence without pay, allowing them to save money without terminating employees, saving employee jobs, and preserving employer investments in the training of the current workforce.

However, a furlough causes a long-term detriment to employees if it falls during the FAS period. It lowers the FAS, thus lowering the member's lifetime pension. Recognizing this, the

Legislature enacted FAS protection to avoid punishing public employees who assisted during the period of economic difficulty by agreeing to furloughs.

Implementing those protections for local government is complicated by the varying use of 'Fiscal Year' versus 'Calendar Year' at different levels of government. The State Legislature budgets on a July 1 to June 30 fiscal year while local governments use a calendar year or annual basis. The Legislature's FAS protections expired at the end of the 2011-13 biennium, June 30, 2013. Extending protection through the 2013-15 biennium is necessary to protect retiree employees' pension benefits.

Policy Development

The LEOFF 2 Board has studied this issue in the 2005, 2009, 2010, and 2013 interims but has not made any legislative recommendations. During the 2013 interim, the Board held hearings on the furlough issue on August 28 (Initial Consideration) and November 20 (Comprehensive Report). The issue was tabled during the November 20 meeting pending discovery of any actual impact on membership due to being subjected to furloughs.

Legislative History

The Legislature has FAS protections enacted by the Legislature are currently limited to past biennia:

2009 Session – PERS Provided Protection for 2009-2011

During the 2009 Legislative Session, the Legislature recognized the potential impacts furloughs to a member's pension benefit. SB 6157 allowed adjustment of the pension benefit calculation if the furlough occurred during the member's FAS period. SB 6157 only included the Public Employees' Retirement System (PERS) pension system. Members of the other retirement systems, including LEOFF Plan 2, were not entitled to the adjustment. Seeking the same protection for its members, the Board sent a letter to the Select Committee on Pension Policy (SCPP) to extend protection to LEOFF 2.

2010 Session – State Employees Provided Protection for 2009-2011

State agencies were directed to achieve a \$69.154 million reduction in general fund employee compensation using mandatory and voluntary furloughs, leave without pay, reduced work hours, voluntary retirements and separations, layoffs, and other methods. (SSB 6503 – 2010). The legislation directed that temporary layoffs and reduction in compensation not affect employee seniority, vacation and sick leave accrual, or retirement benefits.

In a December 2010 Special Session I, the Legislature passed HB 3225 which extended FAS protection to employees subjected to "temporary reduction in pay implemented prior to the effective date of this section" However, like the previous bill (SB 6503) this change also only includes members employed by a state agency or institution which excludes most of the LEOFF Plan 2 membership.

2011 – State Employee and Local Government Provided Protection for 2011-2013

The 2011 added protection for local government employees in HB 2070. The final bill report summarized that "Pensions from specified Washington retirement systems based on salaries earned during the 2011-13 biennium will not be reduced by compensation forgone by a

member employed by either the state or local governments due to reduced work hours, mandatory leave without pay, temporary layoffs, or reductions to current pay if the measures are an integral part of a state or local government employer's expenditure reduction efforts.”

Current Impact of Furloughs on LEOFF Membership

During the 2013 Interim it was unknown if there were any LEOFF employers/employees that were being subjected to furloughs. As a result, the issue was tabled pending the discovery of any impact from furloughs.

Since that time, there has been anecdotal evidence provided to the Board that at least three different employers are currently using unpaid furloughs which are impacting LEOFF members.



Final Average Salary Protection

**Initial Consideration
May 28, 2014**

Issue

- Members' retirement benefits will be reduced if "temporary salary reductions" after July 1, 2013 occur during their Final Average Salary (FAS) period

Background

- FAS protection expired July 1st of this year
- Furloughs are methods for handling a short-term economic or budget problem
- Furloughs create the potential for a reduction in a member's lifetime pension benefit
- Previously studied by Board

Legislative History

- 2009: PERS protected 2009-2011
- 2010: State employees protected 2009-2011
- 2011: State employee and local government protected for 2011-2013
- 2013: Extension for 2013-15 did not pass



FAS Today

- Anecdotal evidence of members still being impacted by these furloughs exists
- Additional research would reveal how far the issue has spread

Next Steps

1. Do not pursue the issue at this time
2. Provide Comprehensive Report with background on members still affected

Any Questions?

- **Contact:**

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Alternate Revenue Update

Report Type:

Educational Briefing

Date Presented:

5/28/2014

Presenter Name and Title:

Ryan Frost, Research Analyst

Summary:

Review of Alternate Revenue Statute including recent Legislative actions.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Enhance the benefits for the members., Inform the stakeholders.

ATTACHMENTS:

Description		Type
	Alternate Revenue Report	Report
	Alternate Revenue Presentation	Presentation

EDUCATIONAL BRIEFING

By Ryan Frost
Research Analyst
360-586-2325
ryan.frost@leoff.wa.gov

ISSUE STATEMENT

Board members and Legislators may not have a full understanding of Alternate Revenue. Several current Board members were not on the Board at the time Alternate Revenue was studied and passed. Many current Legislators were also not in office when the legislature passed Alternate Revenue.

OVERVIEW

LEOFF Plan 2 historically had two sources of revenue to fund plan benefits; contributions and investment earnings. Any benefit improvement must be paid for by an increase in contributions by plan members, employers, and the State.

During a three year period¹, the Board researched other public safety retirement plans around the country that had developed alternate revenue sources as a means of funding improved plan benefits without raising contribution rates.

The 2008 Legislature passed a bill providing additional revenue to LEOFF Plan 2 for benefit improvements and to local government for defined public safety purposes.

BACKGROUND

Alternate Revenue Legislation

The 2008 Legislature passed Engrossed Substitute Senate Bill 6573 providing local government public safety employers and the law enforcement officers' and firefighters' plan 2 pension plan with additional shared revenues.

Legislative Intent

The intent of the legislation recognized the need for additional revenue to provide for public safety and protection. The legislature also recognized the physical and challenging demands of fire fighters and law enforcement officers, effect on the length of working careers, and impact on earning adequate pension benefits. Section 1 of the legislation reads, in part:

"The legislature finds that local governments need additional revenues to provide public safety resources in order to protect the citizens of Washington

¹ 2006, 2007, 2008

from fire and crime. The legislature finds that the current benefit formula and contributions for the law enforcement officers' and firefighters' plan 2 are inadequate to modify that formula in recognition of the shorter working careers for firefighters and police officers. The legislature recognizes that although some officers and firefighters are able to work comfortably beyond twenty-five years, the combat nature of fire suppression and law enforcement generally require earlier retirement ages. In recognition of the physical demands of the professions and the inherent risks faced by law enforcement officers and firefighters, eligibility for retirement in the law enforcement officers' and firefighters' plan 2 system has been set at age fifty-three. However, the benefit formula is designed for careers of thirty-five to forty years, making retirement at age fifty-three an unrealistic option for many."

Vote Count

The Alternate Revenue bill was strongly supported by the 2008 Legislature. The bill was amended in the Senate Ways and Means Committee and passed by the full Senate by a vote of 48-1. The legislation was further amended on the House floor and then passed by a vote of 82-12, with 4 excused. Then Senate concurred in the House amendments and passed the legislation on final passage by a vote of 45-2, with 2 excused.

Alternate Revenue Trigger and Payment Schedule

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer is required to transfer, subject to appropriation, prescribed funds to the Local Public Safety Enhancement Account (LPSEA). The amounts that would be transferred to the LPSEA if the Alternate Revenue trigger is met are shown in the following schedule:

- \$5 million for 2011
- \$10 million in 2013
- \$20 million in 2015
- \$50 million in 2017

In subsequent fiscal biennia's after 2017, the amount eligible for transfer is the lesser of one-third of the general revenue increase amount or \$50 million. General state revenues mean total revenues to the General Fund-State less state revenues from property taxes.

Benefits Improvement Account

After a transfer to the LPSEA, one-half of the funds transferred into the LPSEA would then be transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF Plan 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes.

Money transferred to the Benefits Improvement Account can only be used to fund benefits adopted by the Legislature. Benefits may be funded from the Benefits Improvement Account if the State Actuary determines that the actuarial present value of the proposed and existing benefit obligations is met or exceeded by the actuarial present value of the projected revenues to the account. The Washington State Investment Board (WSIB) is authorized to adopt investment policies and invest the money in the Benefits Improvement Account.

The Board has the sole authority to authorize disbursements from the Benefits Improvement Account, and to establish all other policies relating to the Benefits Improvement Account, which must be administered in an actuarially sound manner. Funds in the Benefits Improvement Account may not be considered assets of the plan and are not included in contribution rate calculations by the State Actuary until directed by the Board for purposes of financing benefits adopted by the Board. The LEOFF Plan 2 Board is required to include sufficient funds from the account in the LEOFF Plan 2 Fund to meet benefit obligations within 90 days of the fund's transfer into the account.

Local Public Safety Enhancement Account (LPSEA)

The State Treasurer is responsible for the distribution of the funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF Plan 2 membership that it employs, as determined by the Department of Retirement Systems. In the event that two jurisdictions have a contract for the provision of law enforcement or fire protection services, the two parties must agree on a revenue sharing arrangement before funds will be distributed. The LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at risk or runaway youth, or other public safety purposes, and may not replace existing expenditures by local jurisdictions for those purposes.

Disbursement History

The 5% required revenue growth necessary to trigger the 2011 alternate revenue payment of \$5 million was not met. The 5% revenue growth trigger was met for the 2013 alternate revenue payment. However, the \$10 million transfer was not appropriated by the legislature in the budget so there was no transfer to the LPSEA nor the Benefit Improvement Account. The table below shows the alternate revenue trigger calculations for 2011 and 2013.

Fiscal Year	Annual General State Revenues²	Biennial General State Revenues	Difference from Previous Biennium	% Change from previous biennium	Statutory Transfer Date	Transfer Amount
2010	11,795,190,922					
2011	12,828,012,979	24,623,203,901	(110,068,281)	(0.45%)	9/30/2011	none
2012	12,995,711,687					
2013	13,742,785,039	26,738,496,726	2,115,292,825	8.59%	9/30/2013 (FY 14)	\$10 million ³

² The definition in RCW 41.26.802 is general state revenues; Amounts determined by the capital budget, not the operating budget.

³ The 2011 scheduled payment was not appropriated in the Legislature's budget and not transferred to the LPSEA.



Alternate Revenue

**Educational Briefing
May 28th, 2014**

Presentation Overview

- Background
- Alternate Revenue Legislation
 - Intent
 - Voting
- Components
 - Trigger and Payment Schedule
 - Local Public Safety Enhancement Account
 - Benefit Improvement Account
- Disbursement History

Background

- Two sources to fund benefits
- Board studied for 3 years (2006-2008)
- Legislation Proposed in 2008

Legislation

- Intent
 - Provide revenue for public safety and protection
 - Recognize risk and physical/challenging demands
 - Negative impacts on career and accrual on adequate pension benefits
- Purpose
 - Provide local government public safety employers and the LEOFF Plan 2 with additional shared revenues when general state revenues exceed by more than five percent the previous fiscal biennium's revenue.

Legislation

- Vote Count
 - Senate 48-1
 - House 82-12
 - Senate 45-2 (Final Passage/Concurrence)

Components

- Trigger
 - 5% Biennial growth in general state revenue
- Payment Schedule
 - 2011 - \$5 Million
 - 2013 - \$10 Million
 - 2015 - \$20 Million
 - 2017 - \$50 Million
 - Subsequent Biennia – lesser of 1/3 of biennial revenue increase or \$50 Million

Components

- **Accounts**
 - Local Public Safety Enhancement Account (LPSEA)
 - Benefit Improvement Account (BIA)

How it works



1. Revenue growth trigger met
2. Payment appropriated by Legislature

\$10 million transferred to LPSEA

Local Public Safety
Enhancement Account
(LPSEA)

\$5 million distributed
to local government

\$5 Million (50%) transferred from LPSEA to BIA

Benefit
Improvement
Account



Local Public Safety Enhancement Account

- Alternate revenue payment transferred to LPSEA
- 50% distributed to local governments
- Based on proportionate share of LEOFF Plan 2 members employed
- LPSEA funds may only be used for certain purposes
 - Enhancement of criminal justice services
 - Programs for at risk or runaway youth
 - Other public safety purposes
 - May not replace existing expenditures for these purposes

Benefit Improvement Account

- 50% transferred from LPSEA to BIA
 - Sub-account created in LEOFF Plan 2 fund
 - Not included in plan assets
 - Only used for benefits adopted by Legislature
 - Value of account must meet/exceed value of benefit
 - Board has sole disbursement authority

Disbursement History

- 2011 – Trigger not met
- 2013 – Trigger met, funds not appropriated

Fiscal Year	Annual General State Revenues	Biennial General State Revenues	Difference from Previous Biennium	% Change from previous	Statutory Transfer Date	Transfer Amount
2010	11,795,190,922					
2011	12,828,012,979	24,623,203,901	(110,068,281)	(0.45%)	9/30/2011	none
2012	12,995,711,687					
2013	13,742,785,039	26,738,496,726	2,115,292,825	8.59%	9/30/2013 (FY 14)	\$10 million*

Questions?

Contact:

Ryan Frost

Research Analyst

(360) 586-2325

ryan.frost@leoff.wa.gov



Parliamentary Procedure Review

Report Type:

Educational Briefing

Presenter Name and Title:

Dawn Cortez, Assistant Attorney General


Summary:

Review and comparison of Reeds Rules of Parliamentary Procedure, the system used by the LEOFF 2 Board, with Roberts Rules of Parliamentary Procedure, the system used by many other state boards.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Provide the stakeholders with a voice in plan governance.

ATTACHMENTS:

Description	Type
 Roberts vs. Reeds	Report

Robert vs. Reed



DAWN C. CORTEZ
ASSISTANT ATTORNEY GENERAL
WASHINGTON ATTORNEY
GENERAL'S OFFICE



Parliamentarian Jim Slaughter took a poll asking which parliamentary authority clients were using. Slaughter's findings were:

- 90% - "Robert's Rules of Order Newly Revised"
- 8% - "The Standard Code of Parliamentary Procedure"
- 3% - some other parliamentary authority

Jim Slaughter, "Parliamentary Practices of CPP's in 2000,"
Parliamentary Journal, XLII (Jan. 2001), 1-11. Article.



Henry Martyn Robert

Board of Engineers
from 1895 to 1901.

Made Brigadier General
on April 30, 1901

Chief of Engineers



Origin of Robert's Rules



First published in 1876.

It was the result of Robert's running of an unsuccessful church meeting and a desire to learn parliamentary procedure.

He later discovered there was no uniform procedure available to non-legislative bodies

So he wrote the book.



Thomas Brackett Reed

38th Speaker of the
United States House of
Representatives

1889-1891

and

1895-1899



Origin of Reed's Rules



First published in 1894.

Reed was Speaker of the House in the late 1800's. The House operates under rules that it adopts each session and Jefferson's manual until they are adopted.

Reed is famous for changing the Quorum rule to avoid filibusters. He wrote his parliamentary rules to "assist deliberative bodies," but he had the House of Representatives in mind.

On Wikipedia it only mentions the Washington Legislature as currently using Reed's.

Most Legislative bodies now use Mason's Manual.
<http://www.ncsl.org/research/about-state-legislatures/2010-masons-manual.aspx>

Considerations



The Washington Legislature uses Reed's.

People who have worked in or with the Legislature are familiar with Reed's.

Most other bodies use Robert's.

More people are familiar with Robert's.

Robert's Rule are less complex and designed for smaller, less complex bodies.

There are significantly more resources relating to Robert's Rules.



Annual Attorney General Training

Report Type:

Educational Briefing

Presenter Name and Title:

Dawn Cortez, Assistant Attorney General

Summary:

Annual training from Assistant Attorney General assigned to the board outlining application of state ethics laws, open public meetings law, and public disclosure law on the board.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Inform the stakeholders.

ATTACHMENTS:

Description	Type
 Annual AAG Training	Report

Role of the Attorney General and Assistant Attorneys General



DAWN C. CORTEZ
ASSISTANT ATTORNEY GENERAL
WASHINGTON ATTORNEY GENERAL'S
OFFICE



ROLE OF THE AAG

Role of the Attorney General

RCW 43.10.030



Attorney General shall:

- (1) Appear in all appeals in which the state is interested;
- (2) Institute and prosecute all cases which may be necessary in the execution of the duties of any state officer;
- (3) Defend all actions and proceedings against any state officer or employee acting in his or her official capacity, in any of the courts of this state or the United States; ...
- (5) Consult with and advise ... state officers, and when requested, give written opinions upon all constitutional or legal questions relating to the duties of such officers;
- (6) Prepare proper drafts of contracts and other instruments relating to subjects in which the state is interested; ...

Representation of Boards, Commissions, and Agencies



RCW 43.10.040

The attorney general shall also represent ... all ...boards ... of the state in the courts, and before all administrative tribunals or bodies of any nature, in all legal or quasi legal matters, hearings, or proceedings, and advise all ... boards ... of the state in all matters involving legal or quasi legal questions...

Impact of Consulting With Non-AG Attorneys



- **No attorney–client privilege exists**
 - Statements/advice in public records are not exempt – emails, advice, letters;
 - No privilege in a deposition or court testimony.
- **Not an official legal opinion**
 - May not be argued in court the way the Board was told;
 - The opinion advice may be very different from what other agencies receive.
- **AAGs give objective advice, since they are not employed by the Board**
- **AAGs have approx. 500 other AAGs to consult on an issue**

Ethics in Public Service



Fundamental Ethics Principles:



When serving as a Board member you are required to act solely in the interest of the Plan membership and the trust funds



May not use your position to obtain (or *attempt* to gain) gifts, rewards, special benefits, or privileges for yourself or others

May not use trust resources for personal benefit or to benefit other personal interests

Board members have a duty to diligently protect the trust from actual and potential conflicts of interest

Use of Trust Resources



May not use trust resources for personal benefit



Trust “resources” include, among other things, its funds, office space, staff time, computers, iPads, cell phones, data and intellectual property

Categorically prohibited uses of Trust resources include:

- Any use for the purpose of promoting or benefiting an outside business, group, or financial interest;
- any lobbying or campaign purpose;
- any illegal conduct or any use that is contrary to agency policy.

De minimis use of Trust resources may be permitted only if:

- The use is not prohibited (see above);
- there is no or negligible cost to the Trust.

Prohibitions Apply to Specific Activities



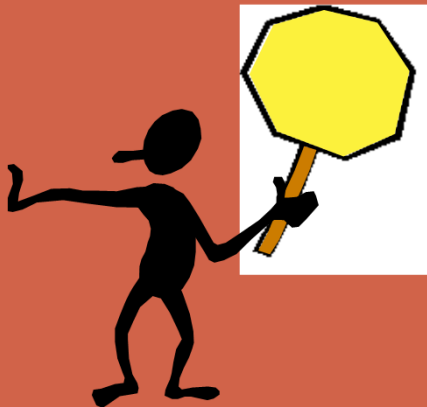
- Receipt of gifts
- Disclosure of confidential information
- Concealment of information when required to disclose
- Use of state resources for private gain or benefit
- Use of state resources for political campaigns
- Financial interest in transactions involving the state
- Outside financial interests, including compensation from outside activities
- Honoraria
- Employment of former employees
- Assisting persons in transactions involving the state

Gifts – Generally



- Cannot accept a gift if it could reasonably be expected to influence the performance or nonperformance of an officer's official duties
- Cannot accept a gift from any one source with a value in excess of \$50 a year
- Does not include:
 - items related to outside business that are customary and not related to official duties
 - gifts from friends & family
 - items donated or returned

Gifts – Caution!



- Different and more restrictive standards apply when employee is involved in regulation or acquiring goods and services
- Referred to as “Section 4” restrictions (RCW 42.52.150(4))
- Section 4 applies when the WSHS approves contracts for goods or services

Not OK Under Section 4



- Flowers
- Gifts from dignitaries
- Food and beverages
 - Even on infrequent occasions in the ordinary course of meals when related to official duties, except at a hosted reception
- Expenses (travel, room, & meals) for speech or seminar, even if reasonable
- Other gifts, even those valued at less than \$50

Meals and Travel



Trust employee and officer travel governed by rules in OFM SAAM manual;

Travel and meeting attendance must be approved in advance;

Check with Jessica Burkhart;

Request should identify any anticipated entertainment in request;

Cannot accept entertainment paid by Trust partners or contractors. Can pay your own way if no “special access” involved. Should get receipt or some other form of documentation.

Board's Confidential Information



Confidential materials and information must be used solely for authorized LEOFF 2 Plan purposes;

Information is confidential if: (1) not available to the public on request (*i.e.*, information subject to confidentiality agreement) or (2) if made confidential by law (*personal information*);

Confidential information may not be disclosed to an unauthorized person;

Confidential information includes protected attorney client privileged material.

Recusal from Board/Staff Action/Deliberation/Discussion



Board members and staff owe an absolute duty of loyalty to the Board and beneficiaries of the funds and must recuse from participation if:

- Beneficially interested, directly or indirectly, in the decision or action or the entity involved
- Accepted compensation or reward from those beneficially interested in the Board decision or action
- Motivated by other than the best interests of the Board or beneficiaries
- Soliciting, or being recruited for, employment by entity doing business with the Board

But, my position requires me to have an interest in the Plan?



RCW 42.26.715 acknowledges and requires that the LEOFF Plan 2 Board consist of members who have an interest in the Plan, but as trustees of the fund, must still act in the best interests of the Plan as a whole and not your individual interest or the group from which you are selected.

Sanctions for Ethics Violations:



Damages suffered by the state



Civil penalties of up to \$5,000 per violation or 3 times value received or sought in violation of laws or rules

May be barred from or limited in doing business with the Board

May be subject to official reprimand by Board

May be removed from Board or terminated from office or position

Contract may be rescinded without any liability to the state

Where can I find these rules?



State regulations:



WAC 292-110 (Executive Ethics);
WAC 390 (Public Disclosure Commission [PDC]);
State Agency Accounting Manual (Office of Financial Management).

Administrative guidance or decisions (Executive and Legislative Ethics Boards and PDC)

State statutes (primarily RCW 41.04.300, 42.17A, 42.20, & 42.52) and case law on fiduciary principles

OPEN GOVERNMENT



PUBLIC RECORDS ACT
RCW 42.56

OPEN PUBLIC MEETINGS ACT
RCW 42.30

OPEN GOVERNMENT TRAINING ACT
ESB 5964

New Training Rules



- On July 1, 2014, the Open Government Training Act (ESB 5964) requires many public officials and all agency records officers to receive training.
- Required training must be completed within 90 days of July 1, 2014.
- <http://www.atg.wa.gov/OpenGovernmentTraining.aspx>



<http://www.youtube.com/watch?v=38k1XPpT9Po>



Agenda Items for Future Meetings

Date Presented:

5/28/2014

Presenter Name and Title:

Steve Nelsen, Executive Director

Summary:

Review of agenda items for future meetings.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Inform the stakeholders.

ATTACHMENTS:

Description	Type
 Agenda Items Calendar	Report



2014

AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
January 22, 2014	2014 Legislative Update
February 26, 2014	2014 Legislative Update
March 26, 2014	2014 Legislative Update 2014 Interim Planning
April 16, 2014	Meeting Cancelled
May 28, 2014	Local Government DCP Participation, Initial Consideration Final Average Salary Protection, Initial Consideration Alternate Revenue Update SCPP Coordination Demographic Experience Study Education – OSA Annual Attorney General Training – Dawn Cortez, AAG Parliamentary Procedure Review – Dawn Cortez, AAG
June 18, 2014	Contribution Rate Preview Demographic Experience Study Recommendation – OSA DRS Benchmarking Presentation Actuarial Audit Presentation – Milliman
July 23, 2014	Contribution Rate Adoption Actuarial Audit Presentation – Milliman
August 27, 2014	Washington State Investment Board Annual Update Comparing Deferred Benefit and Defined Benefit Contribution Plans
September 24, 2014	Demographic Experience Study, Final Report – OSA LEOFF 2 Actuarial Valuation – OSA FY14 Independent Audit Results, Steve Davis Department of Retirement Systems Annual Administrative Update
October 22, 2014	2015 Proposed Meeting Calendar
November 19, 2014	2015 Meeting Calendar Adoption
December 17, 2014	