

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS
PLAN 2 RETIREMENT BOARD**

AUDITED SCHEDULE OF EXPENDITURES

**For the Year Ended
June 30, 2006**

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS
PLAN 2 RETIREMENT BOARD
For the Year Ended June 30, 2006**

TABLE OF CONTENTS

Independent Auditor's Report	<u>Page</u> 1
Financial Statements:	
Schedule of Expenditures	2
Notes to Schedule of Expenditures	3 - 4

DAVIS ACCOUNTING TAX & AUDITING SERVICES
5934 Hansen St. SE
Olympia, WA 98513
(360) 493-0595 or (360) 556-7400

INDEPENDENT AUDITOR'S REPORT

To the Board
Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board
PO Box 40918
Olympia, WA 98504-0918

I have audited the accompanying schedule of expenditures of Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board for the year ended June 30, 2006. This schedule is the responsibility of the organization's management. My responsibility is to express an opinion on this schedule based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the schedule of expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule of expenditures presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the schedule of expenditures referred to above, present fairly, in all material respects, the expenditures of Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board for the year ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.



DAVIS ACCOUNTING TAX & AUDITING SERVICES

Olympia, Washington
January 18, 2007

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2006

Salaries & wages	\$	396,034
Employee benefits & payroll taxes		89,291
Personal Service Contracts		18,819
Goods & services - supplies & materials		3,051
Goods & services - communications		9,814
Goods & services - utilities		3,882
Goods & services - rentals & leases		44,590
Goods & Services - printing & reproduction		7,388
Goods & services - employee development		32,323
Goods & services - facilities & related services		3,903
Goods & services - data processing		8,694
Goods & services - Attorney General's Office		16,695
Goods & services - personnel services		146
Goods & services - insurance		25
Goods & services - other purchased services		123,703
Other goods & services		190
Travel, lodging & subsistence		28,371
Capital outlays		1,268
Grants, benefits & client		75
Total Expenditures	\$	<u>788,262</u>

The accompanying notes are an integral part of this schedule of expenditures.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board (the Board) was created through a taxpayer initiative approved by voters in November 2002. The schedule of expenditures of the Board has been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity, Background & Activities:

An eleven-member board, appointed by the Governor of the State of Washington, governs the Board. Board members are appointed from the following groups of individuals:

- Three must be active law enforcement officers who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired law enforcement officer who is a member of the plan).
- Three must be active fire fighters who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired fire fighter who is a member of the plan).
- Three must be representatives of employers
- One must be a member of the State House of Representatives
- One must be a member of the State Senate

The Board is empowered to oversee the Law Enforcement Officers & Fire Fighters Plan 2 Retirement system (LEOFF 2). They do not maintain custody or manage the investments of the plan. The custody and investment management function is the responsibility of the Washington State Investment Board (SIB). The Board is required to 1) adopt actuarial tables, assumptions and cost methodologies; 2) adopt contribution rates for LEOFF Plan 2; as well as other related duties. Some specific duties relating to the expenditures of the Board are;

Actuary:

- Consult with an enrolled actuary retained by the board (The state actuary shall provide assistance when the board requests.)
- The actuary used must provide the State Actuary with copies of its valuations, assumptions and cost methodology for a reasonableness review.
- If the two actuaries do not agree, a third actuary must be appointed by the board and state actuary.

Professionals & technical advisors:

- Retain Professionals & technical advisors necessary to accomplish the board's duties.

Other Costs:

- Engage administrative staff and acquire office space
- Board members shall be reimbursed for travel and education expenses as provided in RCW 43.03.050 and 43.03.060

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2006

Note 1 – Summary of Significant Accounting Policies, Continued

B. Basis Of Accounting And Reporting

All payroll, reporting and accounting functions are handled by the Office of Financial Management's Small Agency Client Services (SACS) and recorded in the State of Washington's Accounting & Financial Reporting System under Agency #341.

The Board uses the modified-accrual basis of accounting with a measurement focus on current financial resources. Therefore, the purchase of non-current assets such as property, plant and equipment is not deemed to be an asset for financial reporting purposes. Instead, these costs are reflected as an expenditure in the year they are incurred.

C. Budgetary Process:

The Board must develop an annual budget consistent with the requirements of chapter 43.88 RCW. This budget draws funding from the investment income of the LEOFF Trust fund held by the State Investment Board.

The Board's budget is subject to the OFM allotment process but is not subject to legislative appropriation. Allotments may be adjusted on a quarterly basis. Monthly allotments are not binding but are used as a tool to ensure the total biennium budget is not exceeded.

The Board's operating expenses are paid from a sub-account of the LEOFF Plan 2 Retirement Fund (the expense fund).

D. Expenditure Authority (RCW 41.26.732):

The authority to establish all policies relating to the expense fund, other than the investment policies of the SIB, resides with the Board. With the exception of investments by, and expenses of, the SIB, disbursements from the expense fund may be made only on the authorization of the board.

The expense fund may be spent only for the purposes of defraying the expenses of the Board. Expenses include, but are not limited to:

- Salaries and expenses of personnel
- Lease payments
- Travel
- Goods & services
- Audits
- Other general costs of conducting board business

DUAL RESPONSE

2007 Legislative Session Update

Here is a recap of the 2007 Legislative Session. There were a total of eight bills recommended by the Board to the 2007 Legislature. Five of the bills passed as recommended; one passed, but amended out the section pertaining to LEOFF Plan 2 members, and two did not pass. Below is a description of each bill.

Bills that Passed

Temporary Duty Disability (SHB 1261)

This bill allows LEOFF Plan 2 members to purchase up to twenty-four consecutive months of service credit for each temporary duty disability without any requirement for the employer to provide a disability leave supplement.

Previously, members who were temporarily disabled in the line-of-duty could only purchase up to six months of service credit, and only if their employer provided a disability leave supplement.

Service Credit Transfer Waiting Period (HB 1680)

Emergency Medical Technicians, who became members of LEOFF Plan 2 due to legislation in 2004 & 2006, were provided with the option to transfer their past PERS service credit to LEOFF Plan 2. However, the legislation provided that the transfer of service was delayed until five years after the member elected to transfer. This five-year waiting period requirement created unintended consequences for members who died or became disabled before their service had transferred.

HB 1680 creates an exception to the five-year waiting period for members who die or retire due to disability. The member's past PERS service will now immediately be transferred to LEOFF Plan 2 and used to calculate their LEOFF Plan 2 pension.

Dual Membership (SHB 1264)

Members who belong to more than one state-administered pension plan during their public service career can combine their service credit in multiple plans, and use salary earned while a member of one plan for calculating their benefit from another plan. However, certain inconsistencies existed in applying these laws.

SHB 1264 addresses the inconsistencies by changing the definition of base salary to include payments that are reportable in both systems and were previously excluded, such as overtime.

The bill also removed the "maximum benefit rule" (a rule designed to protect Plan 1 benefit caps) for members with less than 15 years of service in a capped plan and service in an uncapped plan.

In addition, the bill adds LEOFF Plan 2 to the list of retirement plans whose members can combine service credit for improved benefits tied to length of service. *(continued inside)*

Message from the Chair



Kelly Fox

Brothers & Sisters,

Thank you for taking the time to read this season's edition of *Dual Response*. Please read it from front to back and ask questions of the leaders of your fraternal organizations or from your LEOFF Plan 2 Retirement Board trustees. It is our objective that the plan members receive as much information as possible about their retirement plan.

Having said that, I would like to acknowledge the work of the Law Enforcement and Fire Service members and their respective associations for their advocacy and support of the legislation forwarded by the Board. It is truly gratifying to see the cooperation between the different LEOFF disciplines and how they bring their goals to fruition. In this edition you will see that we were successful with many of our legislative priorities, moving the agenda of the Board forward. Unfortunately, this year we were somewhat disappointed by our inability to accomplish movement with very valid, justifiable proposals. *(continued on pg. 3)*

www.leoff.wa.gov

IN THIS ISSUE

Message from the Chair	1
2007 Legislative Session Update	1
2006 Pension Protection Act	2
Are You Eligible for a \$3,000 Federal Tax Exclusion on Your Health Care Premiums?	3
What's Up with Contribution Rates?	3
Contact Information	4
2007 Board Meeting Schedule	4
Board Members	4

Board Membership (SHB 1679)

Initiative 790 created the LEOFF Plan 2 Retirement Board and provided for an eleven-member board of trustees, consisting of three employer representatives and two legislators who would serve four-year terms beginning in July 2003; three active fire fighters and three active law enforcement officers, where one fire fighter and one law enforcement officer position would initially serve two, four and six-year terms beginning in July 2003, with each subsequent term being six years, thus creating a staggering of the member representatives. Beginning in July 2007, one of the law enforcement and one of the fire fighter representatives was required to be a retired member.

Not staggering employer terms created the potential for employer representative positions to expire simultaneously, creating a loss of employer representative continuity. There was also the potential for a gap in legislative representation, since legislative terms run from January through December, not July through June. Additionally, retirees comprise about 3.5% of the total LEOFF Plan 2 population, but would have represented 33% of the Board membership beginning July 2007.

SHB 1679 amends when employer, legislative and retiree representatives join the Board. Employer terms are now staggered. Legislative terms will be two years and run from January through December. The one fire fighter and one law enforcement positions scheduled to be filled by retirees beginning in July 2007, can now be filled by either active or retired members, but at least one LEOFF Plan 2 retiree must be on the Board beginning January 2008.

Contribution Rate Adoption Process (SB 5014)

SB 5014 amends the contribution rate adoption process so that contribution rate-setting will now occur two months earlier than it currently does. This will allow use of audited, fiscal year-end numbers to prepare the *Annual LEOFF Plan 2 Valuation*.

Bills That Did Not Pass or Were Amended

Retiree Health Care Insurance Access (HB 1678 - SB 5589)

Forty-six percent of LEOFF Plan 2 members lose access to health insurance from their local government employers when they retire. The state of Washington, through the Public Employees Benefits Board (PEBB) program, provides state-wide coverage through private insurance plans to eligible groups and individuals.

This bill would have provided all LEOFF Plan 2 retirees with the option to purchase health insurance coverage through the State PEBB program. LEOFF Plan 2 retirees would have paid the full cost of the insurance premiums had the bill passed.

\$150,000 Death Benefit Inflation Adjustment (SHB 1266) - Amended

SHB 1266 expands the eligibility for the \$150,000 death benefit to include death from duty-related illness in all plans where it was not already provided.

The original bill contained a section with an annual inflation index, but was amended out of the bill as passed.

Fish and Wildlife Service Credit Transfer (HB 1687 - SB 5588)

Enforcement Officers with the State Department of Fish & Wildlife became members of LEOFF Plan 2 in 2003. Enforcement Officers were previously members of the Public Employees' Retirement System (PERS). Enforcement Officers were not provided with an option in 2003 to transfer any past PERS service to LEOFF Plan 2. All other groups of employees whose membership changed from PERS to LEOFF Plan 2 in the past, such as port police and fire fighters, higher education police and fire fighters, and emergency medical technicians were provided with an option to transfer their past LEOFF Plan 2 eligible service from PERS to LEOFF Plan 2.

This bill would have provided Enforcement Officers at the State Department of Fish & Wildlife the opportunity to transfer their past service as Enforcement Officers from PERS Plan 2 to LEOFF Plan 2. Transferring members would have paid the difference between the contribution rate they paid in PERS Plan 2 and the rate they would have paid in LEOFF Plan 2, plus interest.

For more detailed information regarding any of these bills, please visit the "Legislation" page at www.leoff.wa.gov.

2006 Pension Protection Act

The Pension Protection Act of 2006 (PPA) was signed into law on August 17, 2006. Although the primary focus of the PPA is the funding of private sector defined benefit plans, it has many provisions that affect governmental retirement plans. Some provisions apply specifically to public safety officers. The following is an overview of the PPA provisions that specifically affect public safety employees.

Retiree Medical Premiums for Public Safety Officers

Public safety officers, who separate from service at the plan's normal retirement age or due to a disability, can elect to exclude up to \$3,000 of their annual retirement benefit from their federal taxable income to pay for retiree medical or long-term care insurance premiums on a pre-tax basis. This provision is effective for distributions in taxable years beginning in 2007.

(See Page 3: Are You Eligible for a \$3,000 Federal Tax Exclusion on Your Qualified Health Care Premiums?)

Distributions to Public Safety Employees Over Age 50

Distributions from a governmental defined benefit plan made after August 17, 2006 to qualified public safety employees who separate from service after attaining age 50, will not be subject to the 10% early distribution penalty tax.

Are You Eligible for a \$3,000 Federal Tax Exclusion on Your Health Care Premiums?

A provision in the Pension Protection Act of 2006 may allow you, as a LEOFF Plan 2 retiree, to exclude up to \$3,000 of your annual retirement benefit from your federal taxable income.

The exclusion applies to the purchase of qualified health, accident and long-term care insurance premiums that are deducted from your Department of Retirement Systems (DRS) benefit.

To help you find out if you're eligible for this tax savings program, visit www.drs.wa.gov/retiree where you will find the following:

A quick three-question qualification checklist: *Public safety officers' tax savings on health insurance premiums*

A form to elect into the program: *Public Safety Officers' Health Insurance Premiums Exclusion Election*

A Q&A detailing qualifications and how the program works: *Public safety officers' tax savings on health insurance premiums—Commonly asked questions and answers*

If you would like more information or copies of the publications, call DRS at 1-800-547-6657 (toll-free) or 360-664-7000 (Olympia area).

Message from the Chair *(continued from cover)*

There is no reason to seek culpability with this regrettable indifference, for there are many reasons that bills fail to garner sufficient support. It has only strengthened our resolve to regroup, research more intently and resubmit these reasonable and acceptable improvements.

One bill from the 2007 Legislative Session I would like to highlight is HB 2381. In the last edition of *Dual Response*, I addressed the concept of "alternative revenue." HB 2381 is a bill that uses the voluntary compliance revenue generated under the streamlined sales and use tax agreement and dedicates a portion of that revenue to local government public safety obligations. This bill will allow the Board to consider long-term plan improvements that we have contemplated and researched since our inception. The bill is accessible for viewing through the Board's Web site listed in this publication.

As a LEOFF Plan 2 member, your help is essential to the success of legislation vital to the interests of law enforcement officers and fire fighters throughout Washington State. Contact your elected representatives at local and state levels to ask them to support additional revenue for public safety, police and fire obligations. It will offer assistance to your communities and to your peers.

Finally, I would like to acknowledge the staff of the LEOFF Plan 2 Retirement Board. They have done a tremendous job on our behalf and this is clearly reinforced by the third straight year of clean financial audits of the agency. It is also noteworthy to remark upon the sheer magnitude of the work that this small agency completes and the quality of that work. One need only look at the "Board Studies" section of the LEOFF 2 Web site: www.leoff.wa.gov to recognize the vast amount of research the staff has accomplished, in addition to the overall success of the Board's legislative proposals since our establishment.

Utilize the tools that are provided for you when planning for your separation from public safety service. We exist to improve your pension benefits and maintain a cost-efficient plan. Thank you for your service to the citizens of Washington State.

Stay Safe,
Kelly Fox, Chair

What's Up with Contribution Rates?

A question the Board commonly receives is "Why is my contribution rate increasing?" The purpose of this article is to provide you with a more detailed explanation of the increased rates to pay for the costs of current and additional benefits.

The LEOFF Plan 2 Retirement Board identified the proper funding of LEOFF Plan 2 as one of the top-priority issues when the Board was formed in 2003. In 2004, the Board adopted a four-year plan to raise rates back to the level they needed to be in order to properly fund the current plan benefits. A smaller part of increases are due to the passage of new benefits approved by the Legislature.

The total cost for current LEOFF Plan 2 benefits is approximately 17.5% of pay; or roughly 8.75% for members, 5.25% for employers, and 3.5% for the State. Historically, your LEOFF Plan 2 member contribution rate has always been between 8% - 8.5% of pay.

This July marked the third step in the four-year plan adopted by the Board. On July 1, 2007 the member contribution rate increased from 7.85% to 8.60%. In September 2007, member rates will increase by .04% to 8.64%, related to the passage of an expansion to the occupational disease provisions in the 2007 Legislative Session. In July 2008, the last step in the Board's four-year plan will take affect and member rates will increase to 8.83%. Again, these rates are simply to pay for current benefits and new LEOFF Plan 2 benefits approved by the Legislature.

Reminder:

Beginning September 1, 2007 contribution rates will increase slightly.

	Current	Sept. 1, 2007
Members	8.60%	8.64%
Employers	5.17%	*5.19%
State	3.43%	3.45%

*Employer rate does not include DRS administrative rate of 0.16%.

Contact Information

Contact the **LEOFF Plan 2 Retirement Board** if you have questions or comments regarding LEOFF Plan 2 pension policy, the Board's legislative activities or the status of Board-sponsored bills.

LEOFF Plan 2 Retirement Board
P.O. Box 40918
Olympia, WA 98504-0918
E-mail: reception@leoff.wa.gov
Web site: www.leoff.wa.gov
Phone: (360) 586-2320

For questions regarding your personal retirement account, contact the **Department of Retirement Systems**, which continues to administer the LEOFF 2 plan.

Department of Retirement Systems
P.O. Box 48380
Olympia, WA 98504-8380
E-mail: recep@drs.wa.gov
Web site: www.drs.wa.gov
Phone: (360) 664-9700
Toll-free: (800) 547-6657

Remaining 2007 Board Meeting Schedule

Board meetings are open to the public and take place in the Boardroom of the Washington State Investment Board, located at 2100 Evergreen Park Drive SW, Suite 100 in Olympia, Washington from 9:30 am - 3:00 pm, unless otherwise noted.

- Wednesday, August 22, 2007
- Wednesday, September 26, 2007
- Wednesday, October 24, 2007
- Wednesday, November 28, 2007
- Tuesday, December 18, 2007

For the most up-to-date information and schedules, please visit www.leoff.wa.gov and click on the "Board Meetings" link.

Board Members

Law Enforcement Representatives

Jack Simington, Vice Chair
Kennewick Police Department

Ryan Martin
Vancouver Police Department

Jeff Holy
Spokane Police Department

Fire Fighter Representatives

Kelly Fox, Chair
Olympia Fire Department

Patrick Hepler
Edmonds Fire Department

Mark Johnston
Vancouver Fire Department

Employer Representatives

Greg Cuoio
City of Lacey

Clinton C. Olson
Washington Fire
Commissioners Association

Glenn Olson
Washington Association of Counties

Legislative Representatives

Senator Linda Evans Parlette
Washington State Senate

Representative Geoff Simpson
Washington State
House of Representatives



WASHINGTON STATE LEGISLATURE

Office of the State Actuary

May 24, 2007

Mr. Steve Nelsen, Executive Director
LEOFF Plan 2 Retirement Board
P.O. Box 40918
Olympia, Washington 98504-0918

Dear Steve:

RE: 2007 SUPPLEMENTAL RATES

As required under RCW 41.45.070, we are forwarding preliminary LEOFF 2 supplemental rate increases, effective September 1, 2007, for the following bill that passed during the 2007 legislative session:

	Members	Employers	State
ESHB 1833 (C 490, L 07)	0.03%	0.02%	0.01%

We have not identified any additional legislation that requires a supplemental rate increase for LEOFF 2 at this time.

With the passage of Initiative Measure No. 790 and the corresponding implementing legislation (SHB 2197, Chapter 92, Laws of 2003), the primary responsibility to calculate supplemental rate increases for LEOFF 2 rests with the LEOFF 2 Board. As a result, supplemental rates for LEOFF 2 are calculated by the actuary retained by the board and the state actuary through the process provided in RCW 41.26.720(1)(a).

As you recall, RCW 41.45.067(2) requires that DRS provide a thirty-day notice to affected employers prior to the effective date of any rate change. We have assumed that a September 1, 2007, effective date will provide sufficient time for the board to audit and adopt supplemental rates prior to the thirty-day notice period. The rates provided above are appropriate for an earlier effective date should the board adopt rates sooner.

2100 Evergreen Park Drive SW, Suite 150
PO Box 40914
Olympia, WA 98504-0914
360.786.6140

Fax: 360.586.8135
TDD: 1.800.635.9993

E-Mail: actuary.state@leg.wa.gov

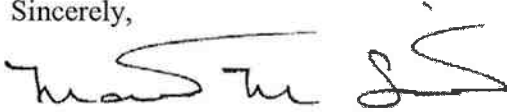
Mr. Steve Nelsen

May 24, 2007

Page 2

Please feel free to contact me directly should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew M. Smith". The signature is fluid and cursive, with a large initial "M" and a stylized "S".

Matthew M. Smith

State Actuary

cc: Ms. Sandra Matheson, Director
Department of Retirement Systems
Mr. Dave Nelsen
Department of Retirement Systems

N:\OSA\Contribution rate letters\Nelsen-2007_supplemental_rates.doc