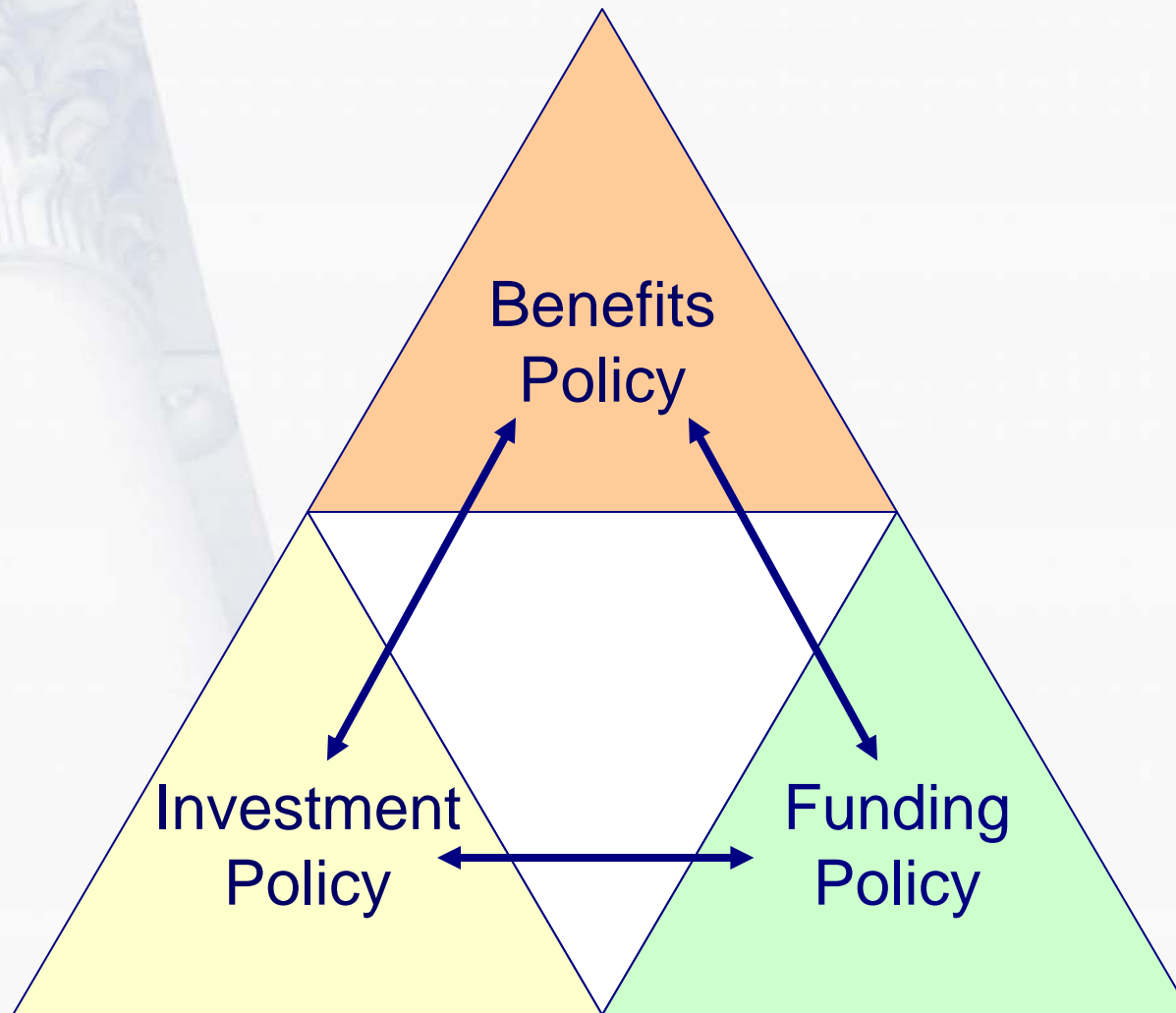




**Don't Be Surprised:  
Understanding the Hidden Interactions between  
Investment, Funding & Benefit Policies**

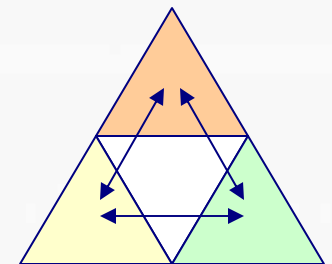
Steve Nelsen, Executive Director  
Washington State Law Enforcement Officers' and Fire  
Fighters' Plan 2 Retirement Board

# The Pension Policy Triangle



# Navigating the Policy Triangle

- If you make a change to one policy area, you will affect the other policy areas
- The **interactions** may be subtle or hidden and create “trustee traps”

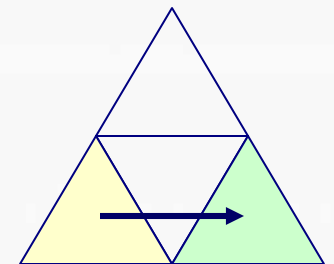


# Investment and Funding Policy

- Divestment
- Investment in local economy

Investment Return Impact

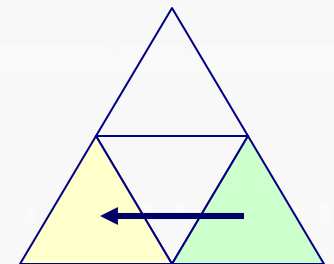
Contribution Rate Impact



# Investment and Funding Policy

- Assumed Rate of Return
  - Benchmark for projecting liabilities

Effect on investment/allocation decisions

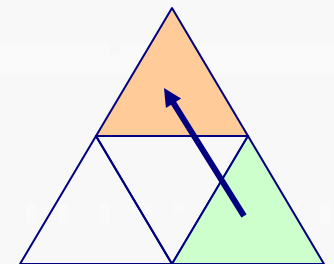


# Funding and Benefit Policy

- Projected Improvements in life expectancies

Increased liability/reduced funding ratio

Off-set gains that could have been used for improved benefits

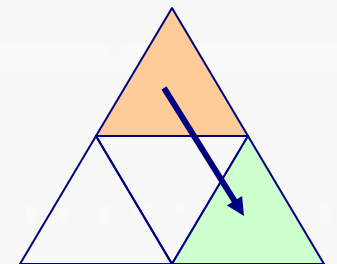


# Funding and Benefit Policy

- Deferred Retirement Option Plan

Benefit Cost

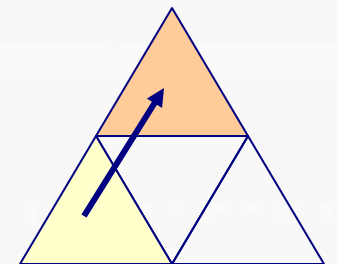
Change in Behavior



# Investment and Benefits Policy

- Gain Sharing Benefit

Legal protections regarding legislative repeal



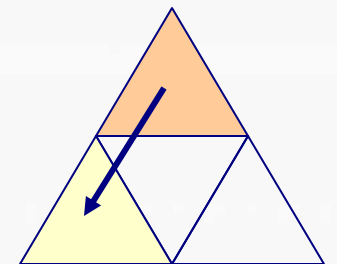


# Investment and Benefits Policy

- Defined Contribution Plans

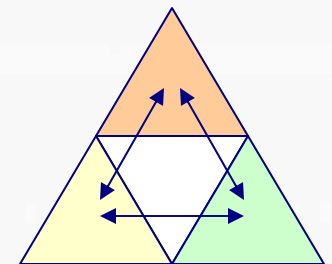
## Pressure to provide options

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



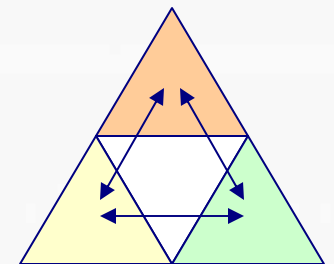
# Don't Be Surprised

- Remember your legal duties as a trustee
- Know what your actuary is doing
- Always look for policy impacts in other areas when considering changes



# Tips

- ✓ Have your trustee duties in writing
- ✓ Get legal advice and actuarial costs before acting on divestment
- ✓ Audit actuarial costs of benefit improvements
- ✓ Know when your next Actuarial Valuation will be done
- ✓ Audit actuarial valuation



# Questions

