

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

Regular Committee Meeting

June 19, 2007
10:00 a.m. - 12:00 p.m.
Senate Hearing Room 4
Olympia

AGENDA

- | | | |
|------------|-----|---|
| 10:00 a.m. | (1) | Approval of Minutes |
| 10:05 a.m. | (2) | Proposed Rules of Procedure , Darren Painter,
Research Analyst |
| 10:15 a.m. | (3) | Washington State Investment Board Update ,
Gary Bruebaker, Chief Investment Officer |
| 10:45 a.m. | (4) | Contribution Rates , Matthew M. Smith, State
Actuary |
| 11:00 a.m. | (5) | Disability Retirement , Robert Wm. Baker,
Senior Research Analyst |
| 11:30 a.m. | (6) | 2007 Interim Issues <ul style="list-style-type: none">• Public Testimony |
| 12:00 p.m. | (7) | Adjourn |

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

***Representative Steve Conway,**
Chair

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

***Randy Davis**
TRS Actives

Senator Karen Fraser

Representative Bill Fromhold

Senator Janea Holmquist

Robert Keller
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

***Glenn Olson**
PERS Employers

Senator Craig Pridemore

***Senator Mark Schoesler,**
Vice Chair

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

*** Executive Committee**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 786-6140. TDD 1-800-635-9993.

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
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Regular Executive Committee Meeting

June 19, 2007

9:00 a.m. - 10:00 a.m.

12:30 p.m. - 2:30 p.m.

Senate Conference Rooms A,B,C
Olympia

AGENDA

9:00 a.m. - 10:00 a.m.

- 9:00 a.m. (A) Approval of Minutes
- 9:05 a.m. (B) Proposed Rules of Procedure
- 9:30 a.m. (C) 2007-08 Actuarial Work
- 9:45 a.m. (D) Today's Full Committee Agenda
- 10:00 a.m. (E) Adjourn

12:30 p.m. - 2:30 p.m.

- 12:30 p.m. (F) Constituent Correspondence
- 12:45 p.m. (G) State Actuary Appointment Committee
- 1:00 p.m. (H) 2007 Interim Issues
- 2:00 p.m. (I) July Meeting Agenda
- 2:30 p.m. (J) Adjourn

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June 5, 2007

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to thank you for all of your help during 2006.

I want to bring several topics to your attention as you begin preparations for the 2007 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. I have provided a brief summary of each topic for your reference:

Deferred Compensation

The Board studied the need for a clear definition of what is included in "basic salary" in regard to employer contributions to 457 Deferred Compensation Plans.

Under current law, member contributions to 401(a) defined benefit plan such as LEOFF Plan 2 are includable in basic salary and are mandatory. Employer contributions are also mandatory, but are not included in basic salary. Member contributions to a 457 Deferred Compensation Plan are included in basic salary, however, employer contributions to a 457 Deferred Compensation Plan are not always treated the same. The Board will be further studying under what circumstances employer contributions to deferred compensation plans should be considered "basic salary".

Purchase of Annuity

The Board studied whether to permit LEOFF Plan 2 retirees to purchase an actuarially equivalent life annuity from the LEOFF Plan 2 retirement fund. Currently, Federal law provides that defined contribution assets can be used to purchase increased defined benefits. The following questions will need to be explored further:

- Can defined contribution assets be used to purchase additional defined benefits that would exceed the equivalent value of purchasing five years of service credit?
- Should all other Washington State pension plans be provided a similar enhancement?

Inflationary Adjustment for \$150,000 Death Benefit

As you may be aware, the Board endorsed legislation recommended by the SCPP on this topic (SHB 1266 - Addressing death benefits for public employees), which was passed with an amendment removing the annual inflation increase. The Board is interested in working with the SCPP to further study the effect of adding this inflationary adjustment to all the state retirement plans which provide the \$150,000 death benefit.

Military Service Death Benefit

The Legislature passed a bill in the 2007 session (SHB 1266 - Addressing death benefits for public employees), which included an amendment providing the survivor of a Public Employees' Retirement System Plan 2 member that left public employment and died while serving in the uniformed services in Operation Enduring Freedom (Afghanistan) or Persian Gulf, Operation Iraqi Freedom after January 1, 2007, a withdrawal benefit of 200 percent of accumulated member's contributions. The Board would like to study extending a military service death benefit to the other pension plans, including LEOFF Plan 2.

Fish and Wildlife Enforcement Officer Service Credit Transfer

The Board has studied permitting Department of Fish and Wildlife Enforcement Officers to transfer service credit earned in the Public Employees' Retirement System (PERS) Plan 2 as enforcement officers prior to July 2003 into the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. Prior groups that have been allowed membership to LEOFF Plan 2 have had the option of transferring their previous service credit. Other systems have also had the opportunity to make similar transfers when changing systems.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,

Kelly Fox, Chair

cc: Matt Smith, State Actuary

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

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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