BOARD MEETING AGENDA
June 22, 2016 - 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
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recep@leoff.wa.gov

1. Approval of Minutes	9:35 AM
2. Actuarial Valuation Audit Mark Olleman, Consulting Actuary, Milliman Nick Collier, Consulting Actuary, Milliman	9:40 AM
3. LEOFF 2 Preliminary Actuarial Valuation Results Lisa Won, Deputy State Actuary, Office of the State Actuary	10:10 AM
4. Contribution Rate Preview Ryan Frost, Research and Policy Manager	10:40 AM
5. Public Pension Administration Benchmarking Analysis Mark Feldhausen, Budget and Benchmarking Director, Department of Retirement Systems Mike Heale, Principle, CEM	11:10 AM
6. Volunteer Fire Fighters and Reserve Officers Briefing Brigette Smith, Executive Secretary, Board for Volunteer Fire Fighters and Reserve Officers	11:40 AM
7. Administrative Update	
• **Outreach Activities**	12:10 PM
• **SCPP Update**	
8. Plan Merger Steve Nelsen, Executive Director	12:30 PM
9. Draft Merger Study Work Plan Steve Nelsen, Executive Director	1:15 PM
10. Public Testimony	2:00 PM
11. Retiree Return to Work Paul Neal, Senior Research and Policy Manager	2:45 PM
12. Draft Interim Work Plan	3:15 PM

Steve Nelsen, Executive Director

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.

Actuarial Valuation Audit

Report Type:
Educational Briefing

Date Presented:
6/22/2016

Presenter Name and Title:
Mark Olleman, Consulting Actuary, Milliman
Nick Collier, Consulting Actuary, Milliman

Summary:
The independent actuary conducting the audit of the Actuarial Valuation will be introduced and provide an update on the status of the audit.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Maintain the financial integrity of the plan.

ATTACHMENTS:

Description	Type
Actuarial Audit Presentation	Presentation

LEOFF Plan 2 Retirement Board Actuarial Audit Meeting

Mark Olleman and Daniel Wade

June 22, 2016

Agenda

- Your Milliman Team
- History
- Our Approach
- Audit Process
- Reasonableness of Assumptions and Methodology
- Data and Assets
- Summary

Your Milliman Team

- Mark, Nick, and Daniel
  - Have worked for public plans for many years
  - Serve some of the nation’s largest public plans

Daniel Wade

Mark Olleman

Nick Collier

History

- Proud to be working for one of Milliman's two oldest clients
  - When Wendell Milliman founded our firm in Seattle in 1947 the Washington State Employees Retirement System was a client.
- Second biennial valuation audit in 2016
  - First biennial valuation audit and experience study audit in summer 2014
    - Milliman opined that actuarial work was reasonable and appropriate
      1. Good matches on liabilities and contribution rates
      2. Package of assumptions was reasonable
      3. Recommended no change to 2013 valuation, but had recommendations for minor changes in methodology for future valuations and experience studies
- Third biennial valuation audit scheduled for summer 2018

How will Milliman approach the audit?

- Identify any concerns the LEOFF 2 Board may have
- Verify results independently
- Work cooperatively with OSA to improve work product
- Thorough analysis and evaluation of all material information:
  - Data
  - Processes
  - Reports
- Conformance with Actuarial Standards of Practice (ASOP)
  - There have been updates to ASOPs 4, 27, and 35 effective since prior valuation

How will Milliman approach the audit? *(continued)*

- Identify issues which may:
  - Cause a material difference in results
  - Result in improved communications
- Resolve issues
  - Discuss findings with State Actuary
  - Work with State Actuary to understand “why”
- Recognize that differences of opinion may exist in certain areas, particularly with respect to actuarial assumptions
- Communicate clearly to the Board any material areas in which our judgment differs from the State Actuary and explain “why”

Audit Process

- Goals
  - Verify financial condition of Plan is accurately reported
  - Evaluate actuarial communication
- Replication audit
  - Most comprehensive approach
  - All calculations are independently replicated based on the same census data, assumptions, and methodology

Audit Process *(continued)*

- Preliminary discussions with OSA
- Gather Necessary Information
- Data
  - Assess accuracy
  - Test for missing elements
  - Compare data provided by DRS to data used by OSA
- Review assumptions and methodology
  - Full review of experience study performed in 2014
- Actuarial Assets - Independent Replication

Audit Process *(continued)*

- Valuation Liability Calculations
  - Check Individuals
  - Perform full parallel valuation
  - Compare results to OSA
  - Reconcile differences
- Valuation Funding Calculations
  - Independent reconciliation of contribution rates
- Review of reports
  - Appropriate information and scope?
  - Easy to understand and find information?
  - Consistent with Actuarial Standards of Practice?

Where Differences May Occur

- Types of differences
  - Objective
    - Data
    - Benefits not reflected correctly
    - Assumptions not applied correctly
    - Application of cost method or smoothing method
  - Subjective
    - Based on actuary's judgment
    - Most often regarding assumptions
    - Discuss with State Actuary to understand "why?"
    - Explain "why" to the Board and put it in perspective

Reasonableness of Assumptions and Methodology - Mortality

- Two parts
  - Base table: What is the probability today of living another year?
  - Improvement scale: People are living longer. How much longer will they live?
- Base table
  - Reviewed with experience study
  - Suggested benefit-weighted approach and other refinements to methodology to be incorporated with next experience study. Refinements were not expected to materially change recommendation for base table in 2014.
- Improvement scale
  - Fully generational Scale BB used
  - Scale BB was released in 2012, replacing Scale AA from 1995.
  - Scale BB is based on Social Security data from 1950 – 2007.
  - Scale BB was tested to be consistent with two large public plans.
  - Milliman believes this is reasonable and sees no need to update at this time.

Future Mortality Improvement *(additional detail)*

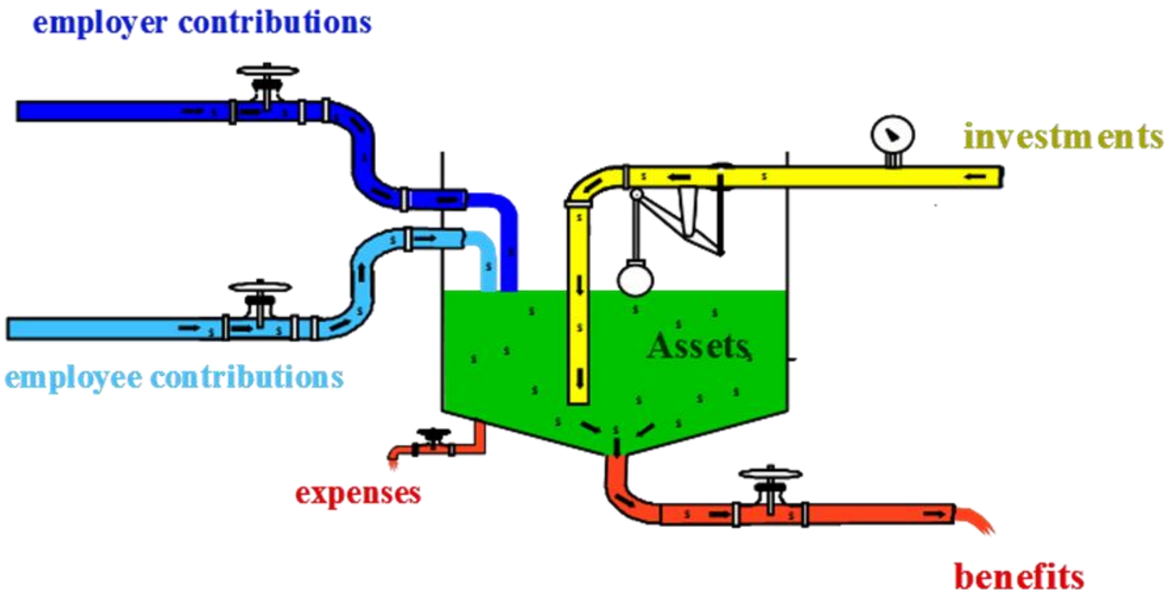
- No one knows how rapidly mortality will improve in the future
- There are many reasonable assumptions
- Retirement Plans Experience Committee (RPEC) of the Society of Actuaries (SoA)
  - Released Scale MP-2014 in October 2014, increased short-term mortality improvement
  - Released Scale MP-2015 in October 2015, pulled back on short-term mortality improvement
  - Two-dimensional to allow for disparate improvements by age and calendar year. Additional precision may not lead to additional accuracy.
- Research shows:
  - Scale BB is consistent with long-term national improvements
  - Compared to Milliman's calculations with Social Security Data Scale BB is generally:
    - lower than 1999 – 2009 improvement, and
    - higher than 1990 – 2000 improvement.
  - Scale BB is lower improvement than CalPERS experience from 1997 – 2011
  - Actual improvement lower in 2010 and 2011 vs. longer-term history
  - Preliminary data from Centers for Disease Control indicated an ***increase*** in death rates in 2015, i.e. negative mortality improvement.

Future Mortality Improvement *(additional detail)*

- Other Public Retirement Systems
  - Generational Mortality Projection
    - Full Scale AA generationally: Idaho, Seattle, Tacoma, Utah
    - Full Scale BB generationally: Oregon, Wyoming
  - Differing Static Mortality Projections
    - CalPERS, CalSTRS, Montana PERS, Montana TRS, Colorado
- Private Plans generally use IRS mandated static projections based on Scale AA for IRS requirements, but using MP-2015 for accounting purposes.

Reasonableness of Assumptions and Methodology – Actuarial Cost Method

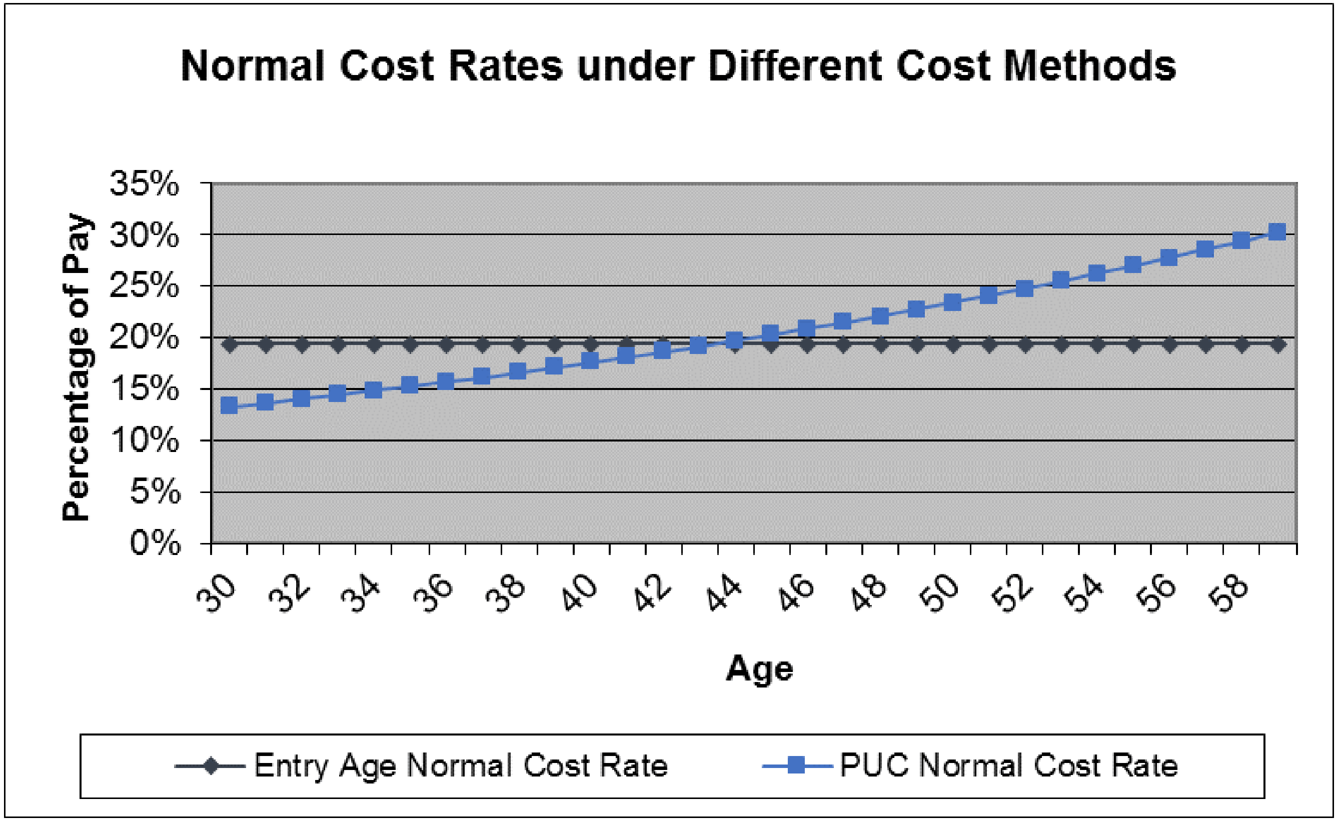
- **Aggregate Normal Cost** equals the level % of projected pay to fund the difference between the present value of projected benefits and the actuarial value of assets.
  - All projected contributions go in one bucket, and are
  - spread evenly over the projected value of future salaries.
  - There is no Unfunded Actuarial Accrued Liability (UAAL).
- Gains and losses cause the Aggregate Normal Cost to go up and down.



Reasonableness of Assumptions and Methodology – Actuarial Cost Method

- Aggregate NC spreads all future contributions evenly over projected salaries
  - Good for agency risk
    (cost of benefits is not pushed into the future)
  - Excellent for demographic matching
    (cost is matched to salaries of members earning benefits)
- No funded ratio is calculated under Aggregate Cost Method (no UAAL)
  - Entry Age actuarial cost method is used for calculating the funded ratio. Previously, Projected Unit Credit (PUC) actuarial cost method was used.
- Entry Age actuarial cost method
  - Entry Age Normal Cost is the **level % of pay** that will fund a member's benefit if paid over his or her **entire career**.
    - Equals expected annual cost (if all actuarial assumptions came true)
    - Very stable
  - Unfunded Actuarial Accrued Liability (UAAL) = future required contributions not the covered by future Normal Costs. All gains and losses go into the UAAL.
  - Entry Age is the most common method used in the public sector
  - Entry Age recently required for financial reporting.
  - Entry Age typically results in higher calculated liabilities compared to PUC.

Reasonableness of Assumptions and Methodology – Actuarial Cost Method General Illustration



LEOFF Plan 2 Funding Policy

- Currently paying fixed rates equal to 100% of the Entry Age Normal Cost
- Temporary funding policy through June 30, 2019
- Considerations
  - Increases short term rate stability (and possibly long term)
  - Provides some margin for adverse experience
  - Avoids contributions less than expected long term cost of benefits
  - Requires consistent monitoring to maintain proper funding since contributions do not automatically adjust to:
    - Experience different than assumed
    - Assumption changes

Reasonableness of Assumptions and Methodology – Investment Rate of Return

- Actuarial Standard of Practice requires not significantly optimistic or pessimistic
- Modeled expected return
  - Net of expenses
  - Used WSIB's target asset allocation
  - Based on Milliman's 12/31/2015 capital market assumptions, we projected a long-term median return of 6.90% per year (inflation assumption of 2.30%)
  - Other capital market assumptions could be used, including WSIB's from which OSA calculated a median 7.74% expectation (inflation assumption of 3.00%)
  - If Milliman's capital market assumptions are adjusted for an inflation assumption of 3.00% instead of 2.30%, the result is 7.60%
- Bottom Line
  - The 7.50% recommendation is reasonable

Interactions with OSA so Far

- Very professional
  - Open discussion of issues
  - Receptive to different ideas
  - Incorporating suggestions from 2014
  - Schedule set up by OSA and used to track progress
  - Advance notice of any changes
  - All requested information provided in a timely manner

Membership Data

- Reviewed data supplied by DRS
  - Reviewed for reasonableness
  - Confirmed that all necessary information was included
- Reviewed data used in OSA's valuation
  - Performed independent data editing
    - Edits made for outliers and salary adjustments made for members with less than one year of service.
    - Compared to preliminary participant data summary posted on OSA's website.
  - Conclusion
    - Data used by OSA in valuation looks very good.

Membership Data *(continued)*

LEOFF 2		OSA		Milliman	Ratio OSA/Milliman
Active Members					
Total Number		17,019		17,019	100.0%
Total Salaries (millions)	$	1,743	$	1,743	100.0%
Average Age		43.6		43.7	99.8%
Average Service		14.7		14.7	100.0%
Average Projected Compensation	$	102,411	$	102,434	100.0%
Retirees and Survivors					
Total Number		3,710		3,710	100.0%
Average Monthly Pension	$	3,529	$	3,529	100.0%
Terminated Members					
Total Number Vested		785		785	100.0%
Total Number Non-Vested		1,693		1,693	100.0%

Actuarial Value of Assets

- Smoothing method
  - Layered recognition of gains and losses, with length of recognition based on deviation from expectation (maximum of eight years)
  - Data provided by WSIB and DRS
    - Totals and breakdown by Plan taken from DRS data
    - Monthly cash flows taken from WSIB data.
- Independent calculation by Milliman based on sources of data
- Asset method and calculations are reasonable

Actuarial Value of Assets *(continued)*

AVA (millions)		OSA		Milliman	Ratio OSA/Milliman
LEOFF					
Plan 2	$	9,335	$	9,333	100.0%

Actuarial Liabilities

- In progress.

Summary

- Audit is in progress.
- Approach
  - Independent verification of results
  - Work cooperatively with OSA to improve work product
  - If any material differences exist, communicate “why” to the Board
- Positive interactions with OSA so far
- Does the Board have any specific issues Milliman should address?

Your Questions?

Caveats and Disclaimers

Milliman's work product was prepared exclusively for the LEOFF 2 Board for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning OSA and DRS operations, and uses DRS data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

Thank you

Contact information

LEOFF 2 Preliminary Actuarial Valuation Results

Report Type:
Educational Briefing

Date Presented:
6/22/2016

Presenter Name and Title:
Lisa Won, Deputy State Actuary, Office of the State Actuary

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Maintain the financial integrity of the plan.

ATTACHMENTS:

	Description	Type
🗋	LEOFF 2 Preliminary Actuarial Valuation Results	Presentation

LEOFF 2 Preliminary Actuarial Valuation Results

Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

June 22, 2016

Today's Presentation

- Purpose of an actuarial valuation
- Highlights from preliminary 2015 actuarial valuation report
- Updated contribution rates
- Mortality assumptions
- Informational – no Board action needed today

Purpose Of An Actuarial Valuation

- Estimate future benefits to be paid from the plan
  - How much will they be
  - When will they be paid and for how long
- Calculate contribution rates to adequately fund future benefits
  - Update data, assets, and new legislation (if applicable)
- Check funding progress
  - Are we on track with our systematic actuarial funding plan?
- Certify the underlying data, assumptions, and methods are reasonable and conform with current actuarial standards of practice

Summary Of The 2015 Preliminary Valuation Results

- 4.93 percent return on market value of assets
  - July 1, 2014, through June 30, 2015
- Deferred asset gains of $498 million
- Contribution rates under funding policy decreased
- Funded status decreased 2 percent from the 2014 valuation
  - Plan remains healthy
- Underlying data, assumptions, and methods remain reasonable

Change In Participant Data

Participant Data			
LEOFF 2	2014	2015	Difference
Number of Actives	16,773	17,019	246
Average Annual Salary	$99,048	$102,411	$3,363
Average Attained Age	44	44	0
Average Service	15	15	0
Number of Annuitants	3,235	3,710	475

Update Asset Values

- Market Value of Assets (MVA) reported by WSIB
- Calculate 2015 asset gain (or loss) based on 7.5 percent expected return
- Develop Actuarial Value of Assets (AVA) by smoothing past and current asset gains (or losses)
  - Smooth gain (or loss) over a period up to eight years
  - AVA limited to 30 percent "corridor" around MVA
  - Smoothing method reduces contribution rate and funded status volatility

Change In Assets From Last Valuation

LEOFF 2			
(Dollars in Millions)	2014	2015 Preliminary	Difference
Market Value (MV)	$9,251	$9,833	$582
Contributions Less Disbursements*	$157	$151	($6)
Investment Return	$1,456	$430	($1,026)
Return on Assets**	18.89%	4.93%	(13.96%)

*Includes transfers, restorations, and payables.

**Time-weighted return on market value of assets.

Actuarial Value Of Assets

Calculation of Actuarial Value of Assets				
(Dollars in Millions)				**LEOFF 2**
a.	Market Value at 6/30/2015*			$9,818
b.	Deferred Gains and (Losses)			
	Plan Year Ending	**Years Deferred**	**Years Remaining**	
	6/30/2015	3	2	(177)
	6/30/2014	8	6	658
	6/30/2013	5	2	129
	6/30/2012	7	3	(167)
	6/30/2011	5	0	262
	6/30/2010	5	0	0
	6/30/2009	8	1	(207)
	Total Deferral			$498
c.	Market Value less Deferral (a - b)			$9,320
d.	70% of Market Value of Assets			$6,873
e.	130% of Market Value of Assets			$12,763
f.	**Actuarial Value of Assets**			**$9,320**

Note: Totals may not agree due to rounding.

**Market Value of Assets reduced by a $15.799 million payable to the LEOFF 2 Benefit Improvement Account due by 6/30/2016, discounted to 6/30/2015 at 7.5% (C 4 L 15).*

Change In Liabilities From Last Valuation

LEOFF 2		
(Dollars in Millions)	**2014**	**2015 Preliminary**
Future Value of Fully Projected Benefits	$89,832	$95,769
Present Value of Fully Projected Benefits	$11,205	$12,152
Present Value of Accrued (Earned) Benefits*	$8,069	$8,838
Valuation Interest Rate	7.50%	7.50%

**Calculated using Entry Age Normal (EAN) cost method.*

Funded Status

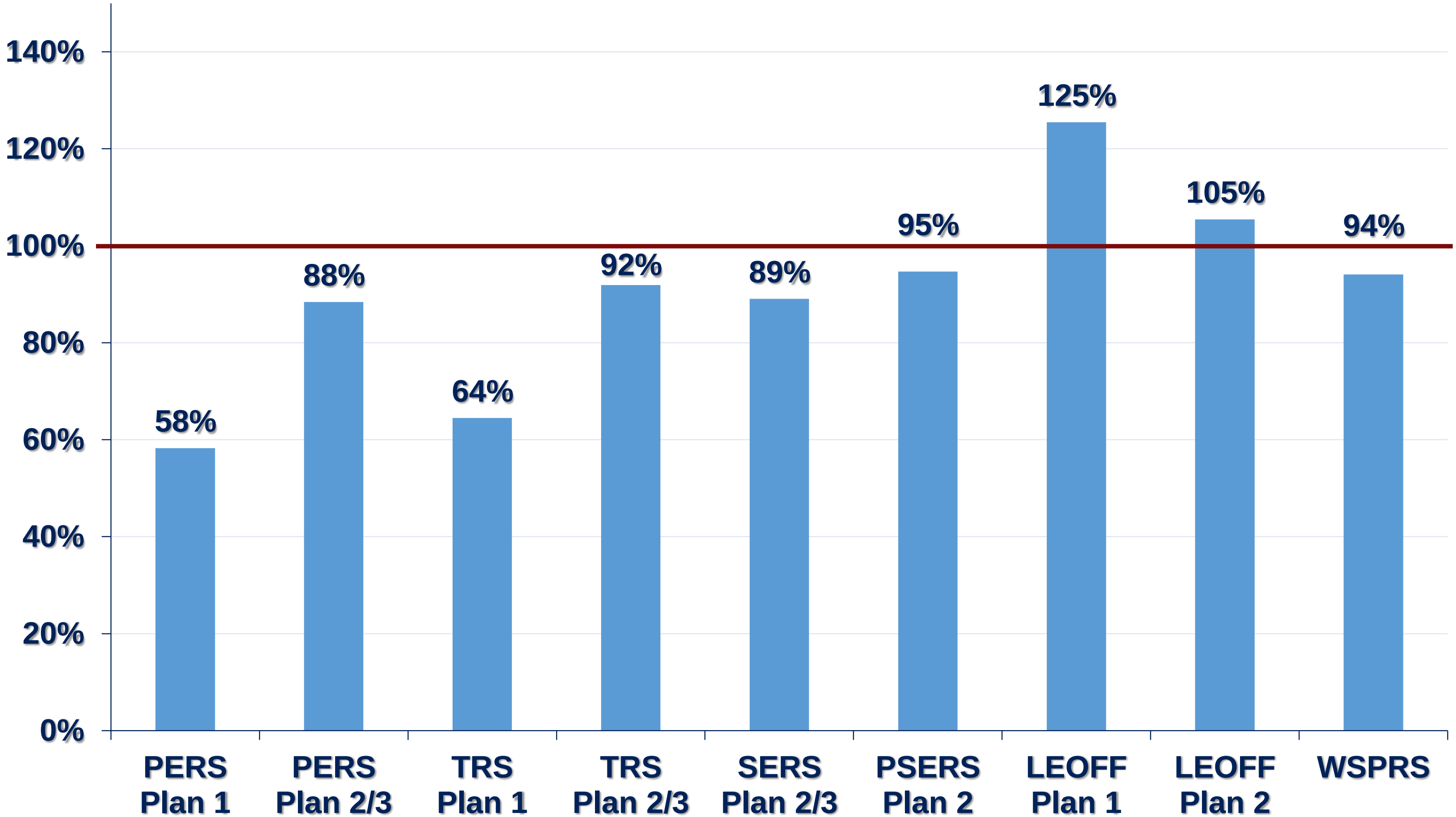
- Represents a measure of plan health
- Comparison of plan assets to today's value of earned pensions
  - Point-in-time measurement
- A funded status of at least 100 percent means a plan has at least $1 in assets for each $1 of earned pension liability
  - On track with systematic actuarial funding plan
- Plan more than 100 percent funded not necessarily over funded and may require on-going contributions

Funded Status Declined From Last Report

Funded Status at June 30			
(Dollars in Millions)		**2014**	**2015**
a.	Accrued Liability*	$8,069	$8,838
b.	Market Value of Assets**	9,251	9,818
c.	Deferred Gains/(Losses)	613	498
d.	Actuarial Value of Assets (b-c)	8,638	9,320
e.	Unfunded Liability (a-d)	($569)	($482)
f.	Funded Ratio (d/a)	107%	105%

Note: Totals may not agree due to rounding.
**Liabilities valued using Entry Age Normal cost method.*
***2015 MVA reduced by $15.799 million payable to the LEOFF 2 Benefit Improvement Account by 6/30/2016, discounted to 6/30/2015 at 7.5% (C 4 L 15).*

Funded Status Below 100 Percent For Most Plans



PERS 1 And TRS 1 UAAL At June 30, 2015

Funded Status on an Actuarial Value Basis*										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2		
Accrued Liability	$12,553	$32,008	$9,107	$10,831	$4,381	$357	$4,307	$8,838	$1,134	$83,518
Valuation Assets	$7,315	$28,292	$5,870	$9,953	$3,901	$338	$5,404	$9,320	$1,067	$71,460
Unfunded Liability	$5,239	$3,715	$3,237	$879	$481	$19	($1,097)	($482)	$67	$12,058
Funded Ratio										
2015	**58%**	**88%**	**64%**	**92%**	**89%**	**95%**	**125%**	**105%**	**94%**	**86%**
2014	61%	90%	69%	94%	91%	96%	127%	107%	100%	87%

Note: Totals may not agree due to rounding.

**Liabilities valued using the EAN cost method at an interest rate of 7.7% (7.5% for LEOFF 2). All assets have been valued under the actuarial asset method.*

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Funded Status With Different Interest Rate Assumption

Funded Status at a 1% Lower Interest Rate Assumption*	
(Dollars in Millions)	**LEOFF Plan 2**
Accrued Liability	$10,299
Valuation Assets	$9,320
Unfunded Liability	$979
Funded Ratio	
2015	**90%**
2014	92%

Funded Status at a 1% Higher Interest Rate Assumption*	
(Dollars in Millions)	**LEOFF Plan 2**
Accrued Liability	$7,649
Valuation Assets	$9,320
Unfunded Liability	($1,671)
Funded Ratio	
2015	**122%**
2014	124%

Note: Totals may not agree due to rounding.

**Liabilities valued using the EAN cost method at an interest rate of 6.5% and 8.5%. All assets have been valued under the actuarial asset method.*

Preliminary Contribution Rates

- Concurrent outside audit in progress
  - Results may change
  - Final results expected in July
- Contribution rate-setting valuation
  - Board has adopted rates through June 30, 2019
  - Board can adopt new rates for 2017-19 Biennium

Preliminary 2017-19 Contribution Rates

Contribution Rates				
	2015-19	2017-19 Preliminary Contribution Rates		
	Adopted Rates*	Aggregate	90% EANC**	100% EANC**
Member	8.41%	7.46%	7.88%	8.75%
Employer***	5.05%	4.48%	4.73%	5.25%
State	3.36%	2.98%	3.15%	3.50%

*2017-19 rates increase to 100% EANC from 2013 AVR (8.85% Member, 5.31% Employer, 3.54% State).

**Normal cost rate under the Entry Age Normal cost method.

***Excludes current administrative expense rate of 0.18%.

Additional References

- Supporting exhibits available on OSA website
  - http://osa.leg.wa.gov/Actuarial_Services/Publications/Valuations.htm
- Staff at OSA
- Full and final actuarial valuation report available late September

Mortality Assumptions

- Background and history
- Developments since last demographic experience study

Mortality Improvement And Projection Scales

- Long history of continued improvement in lifespans and most experts expect the trend to continue
  - See June 2014 OSA presentation to the Board and OSA's last demographic experience study for further details
- Actuaries model these improvements by applying Mortality Projection Scales to current mortality tables
- Projection scales available from the Society of Actuaries (SOA)
  - Scale AA
  - Scale BB
  - MP-2014
  - MP-2015
- Represent rates of improvement (decreases) in future mortality rates
  - Separate rates by gender

Development And History Of Current Mortality Improvement Assumptions

- Not a new subject for Washington State
- Scale AA included in 2001-2006 Experience Study
  - 50 percent of Scale AA proposed in 2008
  - LEOFF 2 Board adopted 50 percent of Scale AA for 2009-2011 contribution rates
- Scale AA reviewed in 2007-2012 Experience Study
  - 100 percent of Scale BB proposed in 2014
  - LEOFF 2 Board adopted 100 percent of Scale BB for 2015-2017 contribution rates

Developments Since Last Demographic Experience Study

- SOA finalized MP-2014
  - Intended to replace Scale BB
  - MP-2014 was not final at our last demographic experience study
- SOA then released MP-2015 and announced plans to update the scale each year
  - MP-2015 represents the most current projection scale available
- Impact of moving from Scale BB to MP-2015
  - Less than a one percent initial drop in funded status
  - Estimated 2017-19 State budget impact of $0.4 million ($0.9 million total employer)
- Study on public plan mortality experience underway and may take several years for the final results to be available

OSA Thoughts On Mortality Assumptions

- Use of Scale BB reasonable and appropriate
- The use of MP-2015 would also be reasonable and appropriate
- Annual updates to long-term assumptions appear inconsistent with the nature and application of the assumptions
  - However, annual reviews required and ensure on-going reasonability of assumptions
- Additional information and insights will be gained when the results of the public plan mortality study become available
- OSA will continue to monitor developments and include in future experience studies and analysis

Questions

Contribution Rate Preview

Report Type:
Educational Briefing

Date Presented:
6/22/2016

Presenter Name and Title:
Ryan Frost, Research and Policy Manager

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
🗋	Contribution Rate Setting	Presentation

LEOFF

Plan 2 Retirement Board

Contribution Rate Setting

June 22, 2016

Discussion Points

- Statutory Duty to Set Rates
- Goals and Achievements
- Options

LEOFF
Plan 2 Retirement Board

Statutory Duty

- Board Authorized to Set Rates
  - RCW 41.26.725
- Set Rates in Even-numbered Years
  - RCW 41.45.0604

LEOFF
Plan 2 Retirement Board

Goals and Achievements

- Fully-funded Status
  - Maintain 100% or Better Funded Status
  - Projection of Fully-funded Status through 6/30/2019
- Stable Contribution Rates
  - Predictable Increases

LEOFF
Plan 2 Retirement Board

Options

1. Maintain Existing Adopted Contribution Rates for 2017-2019

- 100% of EANC based on 2013 Valuation Report
  - 8.85% Member, 5.31% Employer, 3.54% State

LEOFF
Plan 2 Retirement Board

Options

2. Adjust Contribution Rates to New 100% EANC

a. 100% of EANC based on 2015 Valuation Report

- 8.75% Member, 5.25% Employer, 3.50% State

Options

3. Adjust Contribution Rates to New 90% EANC

- 90% EANC from 2015 Valuation Report
  - 7.88% Member, 4.73% Employer, 3.15% State

Comparison

OPTION	MEMBER	EMPLOYER	STATE
Option 1: Maintain Existing Adopted Rates for 2017-2019	8.85%	5.31%	3.54%
Option 2a: 100% EANC from 2015 Valuation	8.75%	5.25%	3.50%
Option 3: 90% EANC from 2015 Valuation	7.88%	4.73%	3.15%

Any Questions?

- **Contact:**

  Ryan Frost

  Research and Policy Manager

  360.586.2325

  ryan.frost@leoff.wa.gov

Public Pension Administration Benchmarking Analysis

Date Presented:
6/22/2016

Presenter Name and Title:
Mark Feldhausen, Budget and Benchmarking Director, Department of Retirement Systems
Mike Heale, Principle, CEM

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

ATTACHMENTS:

	Description	Type
	Public Pension Administration Benchmarking Analysis	Presentation

Volunteer Fire Fighters and Reserve Officers Briefing

Report Type:
Educational Briefing

Date Presented:
6/22/2016

Presenter Name and Title:
Brigette Smith, Executive Secretary, Board for Volunteer Fire Fighters and Reserve Officers

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

ATTACHMENTS:

Description	Type
BVFF Handout Chapter 491-03 WAC	Presentation
Volunteer Fire Fighters and Reserve Officers	Appendix

Chapter 491-03 WAC

MEMBERSHIP AND PARTICIPATION REQUIREMENTS

WAC Sections

WAC 491-03-010

Purpose.

This chapter sets forth the qualifications necessary to be a participant/member in the volunteer firefighters' and reserve officers' relief and pension principal fund.

[Statutory Authority: RCW **41.24.290**. WSR 09-06-060, § 491-03-010, filed 2/27/09, effective 7/1/09.]

WAC 491-03-020

What duties within a municipality qualify me for participation/membership in the board for volunteer firefighters' and reserve officers' relief and pension principal fund?

If you are a member of a municipality as a volunteer firefighter or reserve officer who does not qualify for PERS or LEOFF (for their volunteer duties only), and if:

(1) **Reserve officers:**

(a) You are a reserve officer only if you are certified by the Washington state criminal justice training commission under chapter 43.101 RCW, and a commissioned member of a municipality as a:

(i) Reserve city police officer;

(ii) Reserve town or deputy marshal;

(iii) Reserve deputy sheriff.

(b) You are not a reserve officer if you volunteer in either:

(i) A position that is clerical or secretarial in nature;

(ii) You are not commissioned;

(iii) A corrections officer position.

(2) **Firefighter:**

(a) You are a firefighter only if you have the legal authority and responsibility to direct or perform fire protection activities that are required for and directly concerned with preventing, controlling, and extinguishing fires, or your primary duty is to serve as an emergency worker (see subsection (3) of this section).

"Fire protection activities" may include incidental functions such as housekeeping, equipment maintenance, grounds maintenance, fire safety inspections, lecturing, performing community fire drills and inspecting homes, businesses, and schools for fire hazards. These activities qualify as fire protection activities only if the primary duty of your position is preventing, controlling, and extinguishing fires.

(b) You are not a firefighter if you volunteer in:

(i) A position that is clerical or secretarial in nature;

(ii) A position where your primary duty is not preventing, controlling, and extinguishing fires;

(iii) A position that pays a wage which qualifies you for participation in either PERS or LEOFF;

(iv) A position that is only supervisory in nature and the primary duty is not preventing, controlling, and extinguishing fires.

(3) **Emergency worker:**

(a) You are an emergency worker only if you have the legal authority and responsibility to perform all aspects of medical assessment, treatment, and care for patients as outlined in state and county protocols for paramedics, emergency medical technicians, and first responders.

"Emergency activities" may include incidental functions such as housekeeping, equipment maintenance, grounds maintenance, home safety inspections, lecturing, and driving emergency vehicles. These activities qualify as emergency activities only if the primary duty of your position is to perform all aspects of medical assessment, treatment, and care for patients.

(b) You are not an emergency worker if you volunteer in:

(i) A position that is clerical or secretarial in nature;

(ii) A position where your primary duty is not to perform all aspects of medical assessment, treatment, and care for patients;

(iii) A position that pays a wage that qualifies you for participation in either PERS or LEOFF;

(iv) A position that is only supervisory in nature and the primary duty is not to perform all aspects of medical assessment, treatment, and care for patients.

[Statutory Authority: RCW 41.24.290. WSR 09-06-060, § 491-03-020, filed 2/27/09, effective 7/1/09.]

WAC 491-03-030

What level of activities do I have to participate in to be eligible for participation/membership in the volunteer firefighters' and reserve officers' pension?

All departments are required to develop volunteer participation requirements that meet or exceed the participation requirements as set by the state board. If a department does not develop their own requirements, the board requirements will be in effect.

(1) The board requires that all volunteers:

(a) Attend a minimum of ten percent, or twenty hours, of all drills and/or training annually, whichever is less.

(b) Respond to a minimum of ten percent of all calls at the member's assigned station or twenty-four calls annually, whichever is less; or ninety-six hours of standby time annually.

For the purposes of this section, standby time means time that the volunteer is assigned to be near at hand and ready to respond to emergency calls immediately. A volunteer who merely carries a cellular telephone, pager, or similar device is not considered to be in standby status.

(c) Meet the requirements to be a qualified member under WAC **491-03-020**.

(d) Be certified as having met the standards by the local board chair and by the fire chief, police chief, or sheriff annually on the board for volunteer firefighters and reserve officers provided forms.

(2) An exemption of up to twelve weeks in a twelve-month period may be granted for:

(a) A participant's serious health condition;

(b) A participant to care for a parent, spouse, or minor/dependent child who has a serious health condition;

(c) The birth of and to provide care to a participant's newborn, adopted, or foster child as provided in WAC **357-31-460**.

For the purposes of this section, "serious health condition" means an illness, injury, impairment, or physical or mental condition that involves any period of incapacity or treatment connected with inpatient care (i.e., an overnight stay) in a hospital, hospice, or residential medical care facility, and any period of incapacity or subsequent treatment or recovery in connection with such inpatient care; or that involves continuing treatment by or under the supervision of a health care provider or a provider of health care services and which includes any period of incapacity (i.e., inability to work, attend school, or perform other regular daily activities).

(3) An exemption of up to twenty-six weeks in a twelve-month period may be granted for: A participant who is the spouse, son, daughter, parent, or next of kin of a covered service member who is suffering from a serious health condition incurred in the line of duty. The leave described in this subsection shall only be available during a single twelve-month period.

For the purposes of this section, "covered service member" is a member of the armed forces, including the National Guard or reserves, who is undergoing medical treatment, recuperation, or therapy, is otherwise in outpatient status, or is otherwise on a temporary disability retired list for a serious health condition.

(4) An exemption of up to one year may be granted for injuries covered under chapter **41.24** RCW; or up to one year for reserve officers injured in the line of duty and covered under Title **51** RCW.

(5) Departments granting exemptions shall submit written documentation on the board for volunteer firefighters and reserve officers provided forms for state board review.

(6) Members joining service after January 1st, or separating from service before December 31st, will have their requirements prorated for the calendar year.

[Statutory Authority: RCW **41.24.290**. WSR 09-06-060, § 491-03-030, filed 2/27/09, effective 7/1/09.]

Board for Volunteer Firefighters and Reserve Officers

Brigette Smith – Executive Secretary

Just Who is the Board for Volunteer Firefighters and Reserve Officers?

- State agency
- Directed by a 5 person state board
- Only have 4 staff members
- Supervise and control the administration of RCW 41.24
- Oversee LODD benefits
- Provide worker's compensation coverage
- Manage a small pension
- "Volunteer" firefighters, EMT's, and reserve police officers

Worker's Compensation

- Departments only pay $30 per year per firefighter
- Audit according to L&I guidelines and payment amounts
- No presumptives
- Volunteer firefighters and EMT's are required to be reported
- Optional for Reserve Officers

Retirement

- $60 per year per firefighter
- $300 a month maximum after 25 years of service and 25 payments
- Can draw as early as age 60, with reductions
- Joint survivor option, with pop-up provision
- Must retire unless eligible for Retire/Rehire program
- Optional program for all volunteers

Retire/Rehire

- Must be at least 65
- Have to retire for 3 months
- Must pass all new firefighter requirements
- Must be able to pass an annual physical
- BVFF can charge a surcharge
- No dis. comp. benefits
- Cannot increase pension with additional service

Definition of Firefighter

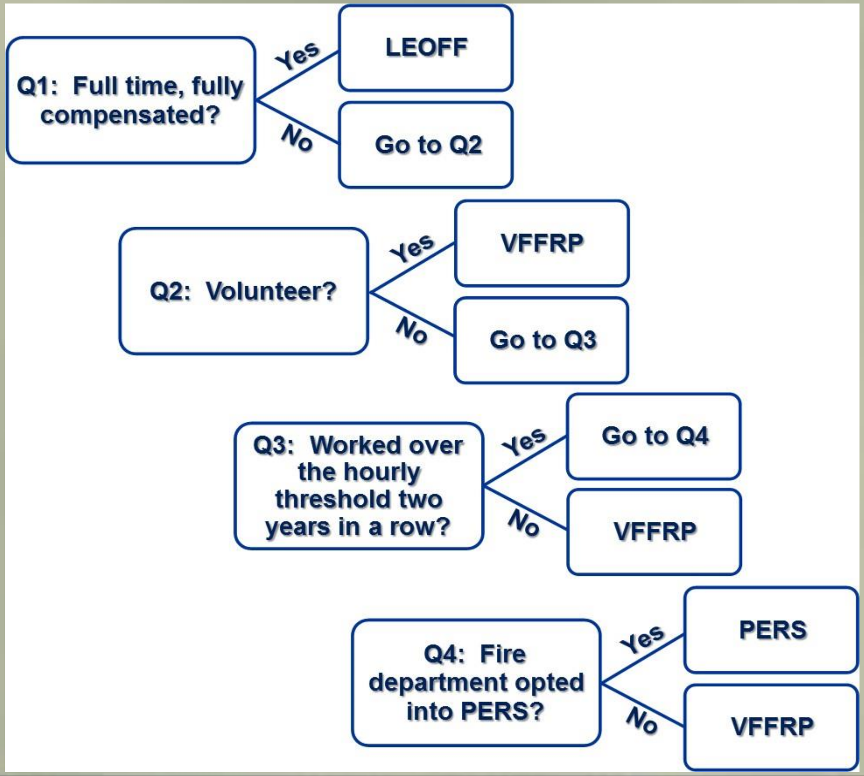
- Not required to be combat firefighters, but must have firefighter or EMT duties
- “Support personnel” only covered if they have duties on-scene that directly contribute to putting out the fire or involve patient care
- Departments with questions should refer to WAC 491-03
- Members can be firefighters and not qualify for the pension

Pension Participation Requirements

- All departments required to set participation requirements that meet or exceed those set by state board
- Departments that do not set requirements default to state minimum
- Meeting minimum pension requirements does not ensure compliance with L&I, OSHA, or WSHA rules and regulations
- **Response**: lesser of 10% of all calls or 24 calls a year, or 96 hours of stand-by time
- **Drill/Training**: lesser of 10% of all non-duplicated drills or 20 hours
- Board strongly encourages stronger requirements than the minimum

Part-time Employee vs. Volunteer

- Consistent with current law, part-time employees are handled in this manner:



Recent Legislative Issues

- Part-time firefighters and mobilizations
  - WSP fires – two ways volunteers can be paid:
    - Fire department “hires” volunteers and sends them to mobe
    - Volunteers are hired as temp employees of WSP
  - DNR fires – DNR requires departments to hire and pay volunteers
  - Hiring volunteers for mobe fires could be a potential DOL violation…some departments are creating separate job descriptions for structural and wildland firefighters
  - Main reasons departments want to hire volunteers
    - LODD disparity
    - They can control pay rates
    - Keeps volunteers under BVFF worker’s compensation
    - Paychecks come in a more timely fashion

Recent Legislative Issues, cont.

- Main reasons departments want other agencies to hire volunteers
  - They are not set up to do payroll
  - They do not have to worry about potential DOL violations
  - “Employer” responsibilities shift to agency from the municipality

- Exempting mobe hours from counting toward PERS eligibility
  - Concern is that some departments are holding volunteers back from mobe responses because they are close to PERS eligibility
  - Perception that PERS retirements will be less than BVFF
    - True in a few cases, but the majority will receive a larger PERS retirement…needs education
    - PERS LODD is less than BVFF
    - Perception that PERS participation with the department hurts PERS participation with regular employment
  - Perception that L&I is a difficult system to maneuver

Recent Legislative Issues, cont.

  - L&I and PERS are more expensive than BVFF
  - Exempting mobe hours from counting toward PERS won't solve potential DOL violations
  - Exempting could prevent possible audit findings, L&I violations, and PERS issues
- Expanding definition of "firefighter"
  - To include chaplains, PIO's, fire investigators, and possibly videographers, etc.
- Expanding BVFF coverage to administrative personnel
  - To cover any member of the fire department…perhaps as a stand-alone RCW with different rates and benefits
- Adding non-profit private ambulance companies to eligible employers
  - Hospital districts
  - Misc. ambulance services. Under the most recent proposal, it could even extend to Airlift NW and other fixed wing and rotary ambulance services, not just traditional ambulance services

Recent Legislative Issues, cont.

- Adding tribal fire departments and ambulance services
  - Currently we only can cover municipalities and EMSD's
- Stipends vs. wages
  - All money paid to volunteers should be paid and reported with a W-2 vs. a 1099 because firefighters are not contract employees per IRS rules
  - Some departments pay stipends based on points or percentages or flat rates
  - Some departments simply pay an hourly rate
  - DOL issued the "20% Rule" for stipends to be FSLA compliant
  - BVFF looks at the totality of the situation
    - Does this look like a living wage
    - Do they make more than minimum wage

Take Aways

- BVFF struggles with many of the same issues as LEOFF, just from a volunteer perspective
- Challenge is to meet the needs of the changing fire service to best help all firefighters…which is the same challenge LEOFF faces as well
- More needs to be done to educate about facts vs. perceptions
- Looking forward to coordinating, supporting, and consulting on issues

Questions??

- brigettes@bvff.wa.gov
- 1-877-753-7318
- www.bvff.wa.gov

SCPP Update

Date Presented:
6/22/2016

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

ATTACHMENTS:

Description	Type
SCPP Meeting Agenda June 21	Report

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

Select Committee on Pension Policy

Regular Committee Meeting

June 21, 2016
10:00 a.m. – 1:00 p.m.*
House Hearing Room B
Olympia

AGENDA

10:00 a.m. **1. Approval of Minutes**

10:05 a.m. **2. DRS CEM Benchmarking Update** – Mark Feldhausen, Budget and Benchmarking Director, Department of Retirement Systems, and Mike Heale, Principal, CEM Benchmarking

10:35 a.m. **3. Preliminary Valuation Results** – Matt Smith, State Actuary, and Lisa Won, Deputy State Actuary

Work Session

11:10 a.m. **4a. WSPRS Study: Background and Staff Work Plan** – Lauren Rafanelli, Associate Policy Analyst

4b. WSPRS Study: Other Agency Activity

- Jay Balasbas, Senior Budget Assistant on Transportation, Office of Financial Management
- Captain Monica Alexander, Office of Government and Media Relations, Washington State Patrol

12:10 p.m. **5. Merger Study: Staff Work Plan** – Aaron Gutierrez, Senior Policy Analyst

12:30 p.m. **6. HERP Supplemental Valuation** – Luke Masselink, Actuary

These times are estimates and are subject to change depending on the needs of the Committee.
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(360) 786-6140
Fax: (360) 586-8135
TDD: 711
leg.wa.gov/SCPP.htm

Plan Merger

Report Type:
Educational Briefing

Date Presented:
6/22/2016

Presenter Name and Title:
Steve Nelsen, Executive Director

Summary:
The merger of two separate retirement plans into one plan creates a number of legal, policy, and financial issues for plan beneficiaries and sponsors that must be considered by trustees of each plan.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Maintain the financial integrity of the plan., Inform the stakeholders.

ATTACHMENTS:

Description	Type
Plan Merger	Report
Plan Merger	Presentation

June 22, 2016

Plan Merger

EDUCATIONAL BRIEFING

By Steve Nelsen
Executive Director
360-586-2320
steve.nelsen@leoff.wa.gov

ISSUE STATEMENT

The merger of two separate retirement plans into one plan creates a number of legal, policy, and financial issues for plan beneficiaries and sponsors that must be considered by trustees of each plan.

OVERVIEW

There have been several legislative proposals since 2010 to merge State public pension plans, including the law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF Plan 2), in order to save the State money by reducing State contributions to the new plan. The debate over these proposals has raised questions of whether the proposals are legal under state or federal law; how the merger impacts the State budget; and how the merger affects member benefits, plan governance and plan funding.

This report will provide an explanation of the issues raised by plan mergers. The analysis of these issues will not be specific to any past legislative proposal. Rather, the goal of this report is to increase understanding of the general principles that underlie all mergers which will serve as the foundation for a follow-up report specific to LEOFF Plan 2.

BACKGROUND

The Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System was created in 1970 by merging a number of separate city and county retirement plans into one state-wide plan. The administration of the plan and the investment of fund assets was the responsibility of the Public Employees' Retirement System (PERS) Board.

The responsibility for administering the LEOFF Retirement System benefits was transferred from the PERS Board to the newly-created Department of Retirement Systems (DRS) in 1977. DRS continues to administer LEOFF member benefits to this day. A new tier of benefits, LEOFF Plan 2, was also created in 1977 for all members hired on or after October 1, 1977. The PERS Board continued to invest the LEOFF Retirement Systems fund, which included assets and liabilities of both LEOFF Plan 1 and LEOFF Plan 2, until 1981 when the Board was abolished and investment authority for the fund was transferred to the newly-created State Investment Board (SIB) where it remains today.

The Pension Funding Act of 1989 (c. 272, laws of 1989) split the assets and liabilities of the LEOFF Retirement System into separate funds for LEOFF Plan 1 and LEOFF Plan 2. Both funds are commingled for investment purposes as part of the Commingled Trust Fund administered by the SIB but assets and liabilities are accounted for separately.

Initiative 790 in 2003 (C. 2, laws of 2004) created the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board. Board members are fiduciaries to LEOFF Plan 2 and their duties include: adopting member, employer and state contribution rates for the plan; adopting the actuarial assumptions for the plan; and, recommending policy changes regarding the plan to the Legislature. LEOFF Plan 2 is currently the only state-administered retirement plan with a fiduciary oversight board.

The Select Committee on Pension Policy (SCPP) recommends policy changes for the other state retirement plans. The Pension Funding Council adopts contribution rates for the other state retirement plans. The Office of the State Actuary (OSA) provides actuarial services for all the state retirement plans including LEOFF Plan 2. The SIB invests the assets of all the state retirement plans including LEOFF Plan 2. DRS administers all the state retirement plans including LEOFF Plan 2.

Legislative History

Senate Bill 6166 in 2001 proposed terminating LEOFF Plan 1 and using some of the assets of the fund for state purposes as well as for the cost to "restate" the plan and pay for a one-time payment to LEOFF Plan 1 beneficiaries. The bill did not pass the legislature.

House Bill 2350/Senate Bill 6563 in 2012 proposed merging LEOFF Plan 1 with LEOFF Plan 2 and reducing the State contribution to the merged plan. That bill was recommended by the LEOFF Plan 2 Retirement Board did not pass the legislature.

Senate Bill 6668 in 2016 proposed merging LEOFF Plan 1 with the Teachers' Retirement System (TRS) Plan 1 and reducing the State contributions to pay the unfunded liability in TRS Plan 1.

The Supplemental Operating Budget passed by the Legislature in 2016 included a proviso (2ESHB 2376, sec. 106) for the SCPP to work with the LEOFF Plan 2 Board, DRS, and OSA to study the legal, financial and policy issues raised by merging the LEOFF Plan 1 Retirement Fund with the LEOFF Plan 2 Retirement Fund and the Teachers' Retirement System (TRS) Plan 1 Retirement Fund.

POLICY ISSUES

What is a "merger" of retirement plans?

A merger of two separate retirement plans combines all of the assets and liabilities of each plan into one new plan. In its simplest terms, a merger is a purely financial transaction.

Why would anyone want to merge retirement plans?

This combination of assets and liabilities can offer advantages to both plans related to investment opportunities, liability management and funding improvements. The member demographics of the plans may also present an opportunity for risk mitigation. But, a merger also comes with risks so it is prudent for any trustee or fiduciary of a plan considering a merger to inform themselves of these risks and take steps to mitigate those risks as part of any merger.

What is the history of plan mergers in Washington?

Plan mergers are more common in the context of private sector Taft-Hartley pension plans but there have been several mergers of public pension plans in the State of Washington. The Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System was originally created in 1970 by merging the assets and most of the liabilities of separate retirement plans administered by city and county employers throughout the State. In 1972, the Statewide City Employers' Retirement System was merged into the Public Employers' Retirement System (PERS).

How does a merger affect plan benefits?

A merger does not require that all members of the new plan receive the same benefits. Typically, the new plan continues the same benefits previously provided to members and beneficiaries as separate tiers of benefits.

State law prohibits a merger from reducing benefits provided to members. Benefits can be increased in the same piece of legislation that merges plans but any benefit increase is separate and distinct from the merger itself.

How does a merger impact the State budget?

Public pension plans in Washington all receive some state funding, either as a percentage of salary for active employees or as an appropriation to reduce the unfunded liability of the plan (or both). Any significant impact to the State budget from a merger will be a key issue for state policy makers in considering a merger.

Past merger proposals involving LEOFF Plan 1 have included reductions in state funding to the newly created plan in consideration of the very healthy funding status of LEOFF Plan 1. Any long-term state budget risks or benefits created by a merger should also be evaluated.

What legal issues are raised by plan mergers?

A merger of public retirement plans raises questions of both federal and state law.

Public pension plans must be qualified under federal law in order for members and plan sponsors to receive favorable tax treatment for their contributions and earnings. So, when a merger creates a new plan, that new plan must be reviewed by the Internal Revenue Service to determine if it is qualified. The Internal Revenue Service recently issued notice that they will cease doing plan determination letters for existing plans. However, they will continue to issue plan qualification determinations for new plans including a new plan created by a merger. The current estimated turnaround time for a determination is six months.

One of the key requirements for a retirement plan to be qualified is that assets must be held in trust for the exclusive benefit of the plan beneficiaries. Some of the additional criteria used to evaluate a proposed merger include: are the plans open or closed to new members; do the plans have similar employers; are the plans over-funded or under-funded; and, are the plans demographics compatible?

Washington case law on pensions is based on the principle that pension benefits are part of a contract between the employer and employee which cannot be diminished by state law. So, a merger cannot reduce benefits. Similarly, the courts have held that the funding which underlies the benefit promise is also subject to protection. So, a merger that diminishes current or future plan funding needs to be evaluated according to these protections.

How does a merger affect plan governance?

The Pension Funding Council adopts contribution rates for LEOFF Plan 1. The Select Committee on Pension Policy studies policy issues related to LEOFF Plan 1 benefits and recommends any changes to the Legislature.

The LEOFF Plan 2 Retirement Board adopts contribution rates for LEOFF Plan 2, studies policy issues related to the plan and recommends any changes to the Legislature.

Any changes to the governance of the plans being merged requires careful consideration. Some state courts have held that the right of plan members to have their plan governed by an independent board of trustees who owe a fiduciary duty to the plan is a benefit of plan subject to the same legal protections as other plan benefits. That question has not been decided by Washington courts.

Mergers in the private sector are typically arm's length transactions between two different plans with separate governing bodies and separate plan sponsors. The trustees of each plan have a fiduciary responsibility to ensure that a proposed merger is in the best interest of their plan's members and negotiate the terms of the merger accordingly. But, there are no governing boards for any of the state-administered public pension plans in Washington other than LEOFF Plan 2. If the State is the plan sponsor for both plans in a merger and if there are no fiduciaries responsible for looking out for the interests of the plan members, then there is a risk that only the State's interests will be represented.

How does a merger affect plan funding?

When the assets and liabilities of two separate retirement plans are merged, the funding ratio of the newly created plan is certain to be different from the prior funding ratios of the merged plans. The funding ratio of a plan plays an important part in determining the ongoing funding policies of that plan so the impact of a merger on the funding ratios and ongoing funding policies of the merged plans becomes an important consideration.

No State, member or employer contributions for LEOFF Plan 1 have been required since 2001 because of the positive funding status of the plan. Contributions to LEOFF Plan 1 could be reinstated if the plan's funding status decreased due to adverse investment or actuarial experience. Any potential future member contributions would not be significant due to the low number of members currently active in the plan so the responsibility for any potential future funding requirements would fall on LEOFF employers and the State.

The funding ratio of the new plan will be lower than the funding status of LEOFF Plan 1 because LEOFF Plan 1 currently has the highest funding ratio in the State.

How does a merger affect investment policy?

All the assets of State-administered pension plans in Washington are currently part of the Commingled Trust Fund (CTF) invested by the Washington State Investment Board. The CTF uses the same investment policy for all plans regardless of the plan's funded status or beneficiary demographics.

All of the merger proposals regarding LEOFF Plan 1 have included keeping the new fund in the CTF so that there would be no change in investment policy. A merger of two plans within the CTF into a new plan that remains in the CTF would not require any sale of assets that could create transactions costs for the new plan or other plans in the CTF.

What is a plan termination and how does it apply to a plan merger?

One question that often arises when discussing merger is what happens to any remaining assets in a fund when it closes? Federal case law has said that when a plan is terminated and all the liabilities to beneficiaries have been satisfied, any remaining assets revert to the plan sponsor. Both LEOFF employers and the State contributed to LEOFF Plan 1 so both would have a sponsorship claim to any remaining assets when there are no more beneficiaries. However, the office of the State Actuary estimates that there will continue to be some LEOFF 1 beneficiaries for more than 40 years.

This holding is sometimes oversimplified and stated as a principle that all surplus assets in a fund belong to the fund sponsor(s). But, that is not accurate for several reasons. First, a plan "termination" is a separate process under federal law from merger and different legal requirements apply. A merger does not allow for fund assets to be distributed to the plan sponsors. Second, while a plan exists, all assets in the plan are held in trust for the exclusive benefit of the plan's beneficiaries. The possible disposition of any potential remaining assets if the plan is terminated in the future is not relevant to the legal status of those assets today.

SUPPORTING INFORMATION

Appendix A: Merger Study Budget Proviso (2015 3rd sp.s. c 4 s 106)

During the 2016 legislative interim, the select committee on pension policy shall study Senate Bill No. 6668 (LEOFF 1 & TRS 1 merger) and report on the tax, legal, fiscal, policy, and administrative implications. In conducting the study, the select committee on pension policy shall also update its 2011 study of law enforcement officers' and firefighters' retirement system plans 1 and 2. In preparing this study, the department of retirement systems, the attorney general's office, the law enforcement officers' and firefighters' retirement system plan 2 board, and the office of the state actuary shall provide the select committee on pension policy with any information or assistance the committee requests. The committee shall also receive stakeholder input on the bill as part of its deliberation. The select committee on pension policy shall submit this report to the legislature by January 9, 2017.

LEOFF

Plan 2 Retirement Board

Plan Merger

EDUCATIONAL BRIEFING

June 22, 2016

PRESENTATION GOALS

- General Principles of Plan Mergers
  - Not specific to any proposals
    - Background & History
  - Frequently Asked Questions
  - Question & Answer format
  - Conversational Style

WHAT IS A "MERGER"

- One of two ways that a plan can end
  - Financial transaction with legal consequences
    - Plan assets are combined
    - Plan liabilities are combined
    - Plan benefits are unchanged
    - Analogous to a "marriage" of plans

WHAT IS A PLAN TERMINATION?

- One of two ways that a plan can end
  - Winding up of obligations
    - Any remaining liabilities are annuitized
    - Any remaining assets revert to the plan sponsor
    - Analogous to a “death” of a plan
  - Merger and termination are very different concepts

WHAT IS THE PURPOSE OF A MERGER?

- “Win-Win”
  - Investment Opportunities
  - Risk Mitigation
  - Funding Improvements

HAVE MERGERS HAPPENED BEFORE?

- Yes, plan mergers have happened in Washington
  - Private sector Taft-Hartley plans
  - Public sector plans
    - LEOFF Plan 1 creation
    - State-Wide City Employees Retirement System

HOW DOES A MERGER AFFECT BENEFITS?

- A plan merger does not affect benefits
  - State law prevents reduction in benefits
  - The merger legislation may have additional sections that affect benefits

STATE LAW ISSUES

- Benefits are protected
  - Benefit reduction protections – Bakenhus
  - Plan funding protections - Weaver

FEDERAL LAW ISSUES

- Public plans must be "qualified" in order to receive favorable tax treatment
  - Contributions are made on a pre-tax basis, earnings are not taxed
  - Assets held in trust – Exclusive Benefit rule
  - Restrictions on contributions – CODA, deferral limits
  - Requirements for payouts – mandatory distributions

HOW DOES A MERGER AFFECT THE STATE BUDGET?

- A plan merger can reduce required State contributions to the new plan
  - Base contributions
  - Supplemental contributions to reduce a plan's unfunded liability

DOES A MERGER AFFECT PLAN GOVERNANCE?

- A merger may affect plan governance
  - In a private-sector merger, the governing bodies of the merged plans are replaced by a new governing body
  - Not all public plans in Washington have a governing body
    - LEOFF Plan Retirement 2 Board

HOW DOES A MERGER AFFECT PLAN FUNDING?

- A merger may change both the short-term and long-term needs of the plan
  - The Funding Ratio of the merged plan may differ from the original plans
    - Required contributions may change
  - The Normal Cost of the benefits in the merged plan is not different
    - Payout schedule may change

HOW DOES A MERGER AFFECT INVESTMENT POLICY?

- A merger of state-administered public plans in Washington does not affect investment policy
  - All plans are administered by the Washington State Investment Board
    - All plans are currently invested in the Commingled Trust Fund

NEXT STEPS

- The next presentation is scheduled for July 27, 2016
  - The presentation will cover the same topic areas as this presentation
  - Specific information and analysis will be provided related to LEOFF Plan 2

QUESTIONS

Steve Nelsen

Executive Director

steve.nelsen@leoff.wa.gov

(360) 586-2320

Draft Merger Study Work Plan

Date Presented:
6/22/2016

Presenter Name and Title:
Steve Nelsen, Executive Director

ATTACHMENTS:

Description	Type
Draft Merger Study Work Plan	Report
Draft Merger Study Work Plan	Presentation

LEOFF
Plan 2 Retirement Board

DRAFT Plan Merger Study W

June 22, 2016

Goals

1. Provide education about pension plan Mergers
2. Provide information enabling a comparison of a LEOFF Plan 1 & 2 merger including identification of legal issues, fiscal impacts, and administrative complexities.
3. Provide the opportunity for stakeholder input
    - LEOFF Plan 1 member and retirees
    - LEOFF Plan 1 and 2 employers
    - LEOFF Plan 2 member and retiree
    - Coordination with the SCPP
4. Produce a written report with a full analysis of a LEOFF Plan 1/LEOFF Plan 2 Merger

Work Schedule

MEETING	ACTIONS
June 22	*Approve work plan* *Educational Briefing* *Public Testimony*
July 27	*Initial Consideration Report* *Public Testimony*
August 24	
September 21	*Comprehensive Report* *Public Testimony*
October 18	
November 23	*Comprehensive Report Follow-Up (as needed)* *Legal briefing from outside legal counsel* *OSA Presentation – Update of 2011 Merger Study* *Public Testimony*
December 7	*Final Proposal Report* *Public Testimony*

LEOFF
Plan 2 Retirement Board

DRAFT Plan Merger Study Work Plan

June 22 , 2016

GOALS

- Provide education about pension plan Mergers
- Provide information enabling a comparison of a LEOFF Plan 1 & 2 merger including identification of legal issues, fiscal impacts, and administrative complexities.

GOALS

- Provide the opportunity for stakeholder input
  - LEOFF Plan 1 member and retirees
  - LEOFF Plan 1 and 2 employers
  - LEOFF Plan 2 member and retiree
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- Produce a written report with a full analysis of a LEOFF Plan 1/LEOFF Plan 2 Merger

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September 21	*Comprehensive Report* *Public Testimony*
October 18	
November 23	*Comprehensive Report Follow-Up (as needed)* *Legal briefing from outside legal counsel* *OSA Presentation – Update of 2011 Merger Study* *Public Testimony*
December 7	*Final Proposal Report* *Public Testimony*

CONTACT

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Retiree Return to Work

Report Type:
Initial Consideration

Date Presented:
6/22/2016

Presenter Name and Title:
Paul Neal, Senior Research and Policy Manager

Summary:
Some employers are looking for ways to hire experienced, i.e. retired, law enforcement officers and fire fighters. Some LEOFF 2 members, in turn, are interested in returning to work in historically LEOFF positions. Current rules do not allow this.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Enhance the benefits for the members., Maintain the financial integrity of the plan., Inform the stakeholders.

ATTACHMENTS:

	Description	Type
🗋	Retiree Return to Work	Report
🗋	Retiree Return to Work	Presentation

LEOFF Plan 2 Retirement Board

June 22, 2016

Retiree Return to Work

INITIAL CONSIDERATION
By Paul Neal
Senior Research & Policy Manager
360-586-2327
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ISSUE STATEMENT

LEOFF Plan 2 retirees cannot work any amount of time in a LEOFF position without suspension of their pension.

OVERVIEW

The LEOFF Plan 2 membership is aging, with 28% currently eligible to retire. This leads to employer recruitment issues, with some feeling their pool of available talent is diminishing. Some employers are looking for ways to hire experienced, i.e. retired, law enforcement officers and fire fighters. Some LEOFF 2 members, in turn, are interested in returning to work in historically LEOFF positions.

Current rules do not allow this. While LEOFF Plan 2 retirees can work full time in a Public Employees' Retirement System (PERS) and draw a pension, that pension is suspended while working in a LEOFF position. The tension between that prohibition and the desire to employ LEOFF Plan 2 retirees in LEOFF positions has led some to redefine positions to avoid the restrictions. Some of those efforts have been successful, while some have not.

Past Board studies on retiree return to work focused on chiefs and other high level positions. Employers and employees have recently expressed interest in employing retirees at all levels, including line positions.

MEMBERS IMPACTED

There are currently 3,710 LEOFF Plan 2 retirees. Two hundred sixty-five of those retirees utilized the provisions of the career change law between 2005 and 2013[1]. Over the next 10 years the retiree population is projected to more than double to 8,910[2]. At current rates, an estimated 640 retirees would return to work in the next 10 years. Tightening return-to-work restrictions would reduce that number, relaxing restrictions would increase them.

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[1] Data from November 2013 on career change usage report produced by the Department of Retirement Systems (DRS).

[2] The Office of the State Actuary relied on participant data provided by DRS through June 30, 2015 to project future retirements. These projections rely upon assumptions and are not a guarantee of future events.

BACKGROUND & POLICY ISSUES

Prior Board Studies

The Board studied return to work issues extensively in 2005 when it proposed the current career change law. The issue has been revisited during each of the last three interims:

- During the 2013 interim the Board learned some LEOFF Plan 2 retirees used the 2005 career change law to work as law enforcement officers or fire fighters while drawing their pensions. Some employers facilitated this expansion of the law's original intent by reorganizing historically LEOFF positions to avoid LEOFF eligibility.
- In the 2014 Legislative session the Board proposed curtailing retirees' ability to draw a LEOFF Plan 2 pension and work in a historically LEOFF position (HB 2479). The Legislative debate revealed tension between the Board's original policy goal and the goal of allowing smaller jurisdictions to compete for law enforcement officers and fire fighters they could not otherwise afford. HB 2479 did not pass.
- The Board revisited this issue during 2014 and 2015 but did not take action.

This report builds on prior presentations without repeating them. A full discussion of the broader background of this issue can be found in the December 2015 report presented to the Board, attached as Appendix A.

Expanding Interest in Retiree Return to Work

At the time of the 2013, 2014, and 2015 reports the primary return-to-work issue was LEOFF Plan 2 retirees drawing their pension while working as a chief. Since that time the issue has arisen from the other side of the staffing pool with LEOFF Plan 2 retirees interested in coming back as law enforcement officers or fire fighters in line positions.

Employer Interest

One explanation for this new interest is shifting workforce demographics. As discussed in the Workforce Retirement Trends & Statistics presentation[3], LEOFF Plan 2 members' average age is increasing with 28% of members currently eligible to retire. Some employers facing recruitment issues see employing LEOFF Plan 2 retirees at all levels as a way to meet that need.

Employee Interest

As the retiree population and retirement eligibility grows, LEOFF Plan 2 retiree interest in post-retirement employment has increased. The Board recently received a letter from Joe Gagner from the Kent Police Department, attached as Appendix B. Officer Gagner, who at age 55 has 31 years of experience, is one of the 28% of LEOFF 2 members eligible to retire. In asking that LEOFF Plan 2 members be allowed to retire and come back to work for 5 years while drawing a pension, he made the following assertions:

- The pool of eligible recruits cannot keep up with the increased rate of retirement.

[3] May 25, 2016

- LEOFF 2 retirees, particularly chiefs, can work similar jobs in another state without losing their pension. This causes highly trained and experienced members to retire in Washington and take their skills elsewhere.
- Employers are spending significant additional funds on overtime due to staff shortages. He noted increased overtime pay increases pension costs.
- He claimed teachers had been able to come back to work for 5 years after retiring. It should be noted that assertion is not accurate[4].

Current Post-retirement employment rules

The detailed current retirement and return to work restrictions for retirees from LEOFF Plan 2, WSPRS, TRS, SERS PERS, and PSERS[5] were presented at the Board's April 2016 meeting. The essential differences between provisions covering uniformed and civilian employees are:

- **Uniformed Employees[6]:**
    - No effect on pension if retiree's job is covered by a different retirement system
    - Pension suspended immediately if retiree takes job covered by the system they retired from
- **Civilian Employees**:[7] A retiree may work up to 867 hours per year regardless of system. For instance, a PERS retiree can work up to 867 hours per year in a PERS, TRS, SERS, or LEOFF position before his or her pension is stopped.

The detailed statutory provisions for each system are provided in the following table:

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[4] Between 2001 and 2011 PERS and TRS retirees could work up to 1500 hours per year (about 8.6 months) while drawing their pension. This ability was limited to a lifetime maximum of 1900 hours (about 11 months).

[5] Respectively: the Law Enforcement Officers' and Firefighters' Retirement System Plan 2 (LEOFF Plan 2), The Washington State Patrol Retirement System (WSPRS) The Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), the Public Employees' Retirement System (PERS), and the Public Safety Employees' Retirement System (PSERS).

[6] LEOFF Plan 2 and WSPRS

[7] PERS, TRS, and SERS. PSERS has a mixture of the provisions governing uniformed and civilian employees by requiring a retiree back into membership if returning to a PSERS position but limiting work in another system's position to 867 hours per year.

Return to Work Restrictions by System

System	Qualified Full Retiree if:	Return to Work Restrictions	
		Employed in position eligible for system retired from	Employed in position eligible for other system
LEOFF 2	Receive at least one retirement check[8]	Mandatory return to membership – pension stopped.	Option to: • Join new system and have LEOFF pension suspended; or • Stay out of new system and continue LEOFF pension.[9]
WSPRS	Receive at least one retirement check[10]	Mandatory return to membership – pension stopped[11].	Retiree continues to receive pension; prohibited from establishing membership in second system[12].
TRS, SERS and PERS	Remain absent for at least one full calendar month[13]	Optional return to membership. • If retiree returns to membership, pension stops[14]. • If retiree does not return to membership – same restrictions as if he or she was employed in position eligible for other system.	• Prohibited from membership in second system[7] • May work up to 867 hours (5 months) per calendar year • If retiree exceeds 867 hours pension stopped for remainder of year • Clock starts over with new calendar year[9]
PSERS	Remain absent for at least one full calendar month[8]	Mandatory return to membership, pension stops[15].	If retiree works in non-PSERS position, same return to work rules as TRS, SERS, and PERS.

Whether employing LEOFF retirees as chiefs or as line officers, the primary determination governing continued pension payments is: Is it a LEOFF position? To qualify for LEOFF, a position must be "full time fully compensated[16]."

- Full-time = 160 or more hours per month: Only full-time positions qualify for LEOFF[17]. A part-time position is not a LEOFF position, regardless of duties. A LEOFF Plan 2 retiree in a bona fide part-time position still draws a pension.

[8] RCW 41.26.030(25)
[9] RCW 41.26.500
[10] RCW 43.43.120(4)
[11] RCW 43.43.130
[12] RCW 41.04.270
[13] TRS 1: RCW 41.32.570; TRS 2 41.32.802; SERS: 41.35.060; PSERS: 41.37.050; PERS 41.40.037
[14] TRS 1: RCW 41.32.570; TRS 2: 41.32.802; SERS: 41.35.060; PERS RCW 41.40.037
[15] RCW 41.37.180
[16] RCW 41.26.030(16), (18)
[17] WAC 415-104-011(4)

- Fully compensated = at least $1547.20 per month. DRS recently amended WAC 415-104-011(5) to define fully compensated as: “an employee who is normally expected to earn a basic monthly salary no less than one hundred sixty times the state minimum hourly wage.” It is unlikely a LEOFF Plan 2 retiree performing law enforcement or firefighting duties would be less than fully compensated.

Positions have been redefined to avoid these restrictions with mixed success.

Avoiding the Restrictions

Issues arise when an employer represents a position as part-time when, in fact, it is full time. Tenino recently hired a LEOFF Plan 2 retiree as police chief, officially scheduled him to work 159 hours per month, and classified him as part-time. DRS's audit found the chief was actually full time and assessed the city $82,462 in overpaid pension benefits.

This would not happen to a LEOFF Plan 2 retiree in a bona fide part-time position. If, for instance, two LEOFF Plan 2 retirees job shared a position such that each actually worked part-time, those retirees could work and continue to draw their pension[18]. This would be true for both line positions and higher ranking positions.

NEXT STEPS

1. Direct staff to proceed to Comprehensive Report including options based on Board direction
2. Take no further action

[18] An ongoing half-time position would qualify for PERS, so the LEOFF Plan 2 retiree would have to opt out of PERS membership to continue to draw their pension.

APPENDIX A: RETIREE RETURN TO WORK REPORT; DECEMBER 16, 2015

FINAL PROPOSAL

By Paul Neal
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ISSUE STATEMENT

The LEOFF Plan 2 Board's (Board) 2014 proposal to tighten the career change law revealed tension between the policies of: 1) Maintaining public confidence that LEOFF Plan 2 is well designed and professionally managed; and 2) Facilitating smaller jurisdictions' access to highly trained and experienced LEOFF Plan 2 retirees.

PROPOSAL SUMMARY

Reintroduce 2014 Legislation (HB 2479) preventing LEOFF 2 retirees from drawing their pension while working in positions historically included in LEOFF such as police or fire chief even if those positions:

- are not full time;
- are not fully compensated;
- are not fully commissioned;
- include PERS duties; or
- purportedly filled by an independent contractor

OVERVIEW

During the 2013 interim the Board learned some LEOFF Plan 2 retirees were using the 2005 career change law to work as law enforcement officers or fire fighters while drawing their pensions. Some employers facilitated this expansion of the law's original intent by redefining historically LEOFF positions to avoid LEOFF eligibility. Some felt this was inappropriate.

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

The Board revisited this issue during 2014 but voted to table it until the 2015 interim. At the November meeting, the Board directed staff to prepare and present a final proposal.

MEMBERS IMPACTED

Two hundred sixty-five LEOFF Plan 2 retirees have utilized the provisions of the career change law since its inception in 2005[19]. A similar number of members would be impacted by any

[19] Data from November 2013 on career change usage report produced by the Department of Retirement Systems (DRS).

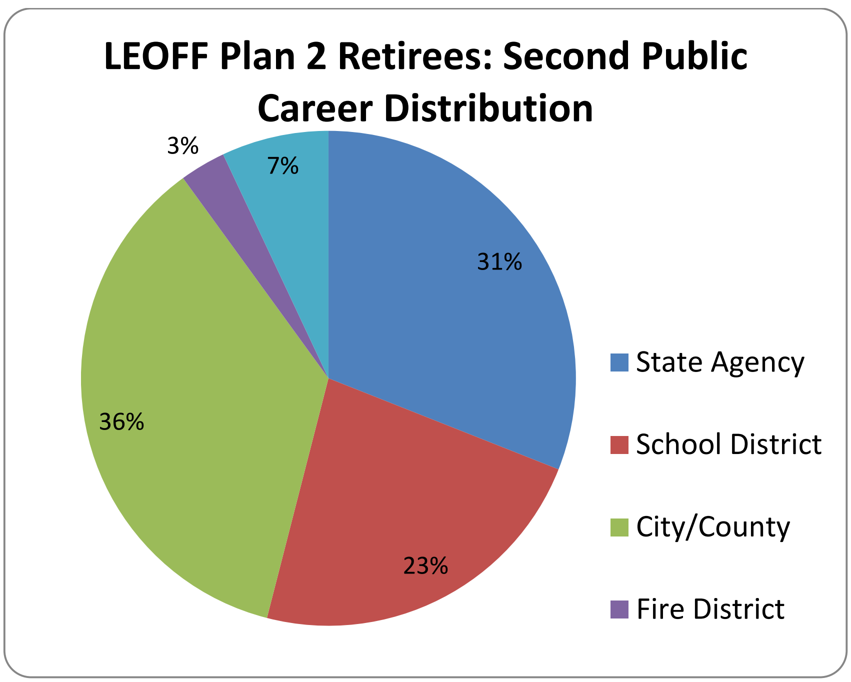
changes to the law if those utilization numbers remain constant. Additionally, there are public trust issues addressed by the original bill that impact all LEOFF Plan 2 members.

BACKGROUND & POLICY ISSUES

Before 2005 a LEOFF Plan 2 retiree's pension stopped if they worked in a job covered by any state-wide public retirement system. The Board recognized member's may no longer be able to fulfill the physical demands of law enforcement or firefighting before they were ready, or could afford to stop working. The Legislature passed the Board's proposed Career Change legislation in 2005 enabling retired LEOFF Plan 2 retirees to start a second career in non-LEOFF public employment. A retiree accepting such a job can either establish membership in another public system, thus suspending their LEOFF Plan 2 pension, or waive membership in the new system and continue receiving their pension.

The Board intended to facilitate transition from a physically demanding profession to a second less strenuous career. The Board did not contemplate enabling retirees to continue working as a law enforcement officer or fire fighter while receiving their pension.

The vast majority of participating retirees use Career Change as intended: to facilitate public employment as something other than a law enforcement officer or fire fighter. Recent DRS data shows 265 LEOFF Plan 2 retirees working in public employment with an average annual salary of $28,268. Sixty-one percent work for non-LEOFF employers. Most of those retirees working for LEOFF employers do not work in historically LEOFF positions:



As discussed during the 2013 Career Change briefings, some employers seeking the benefit of the years of training and experience possessed by LEOFF Plan 2 retirees have redefined LEOFF positions as PERS positions. For instance, some employers have redefined full-time police chief and fire chief positions as “part-time.” This allows LEOFF Plan 2 retirees to hold those positions without losing receipt of their pensions.

An example of this appeared in 2015 involving the Tenino Chief of Police. He retired under LEOFF Plan 2 and subsequently went to work as the Tenino Police Chief. His contract required him to work 159 hours per month, one hour below the threshold of 160 hours which would have made him full-time, requiring reentry into LEOFF Plan 2 and suspension of his pension. DRS found that the chief was working additional hours such that he qualified as a full time employee. It stopped his pension and billed the City for $82,462 in pension overpayments.

Proposal to Curtail Abuse

The Board proposed curtailing the ability of a LEOFF Plan 2 retiree to draw a pension and work in a historically LEOFF position. The proposal was introduced in 2014 as HB 2479. After passing the House, the bill failed to pass the Senate, in part because of concerns raised by stakeholder groups about the desirability of providing smaller jurisdictions access to highly trained and experienced fire chiefs and police chiefs they could not otherwise afford.

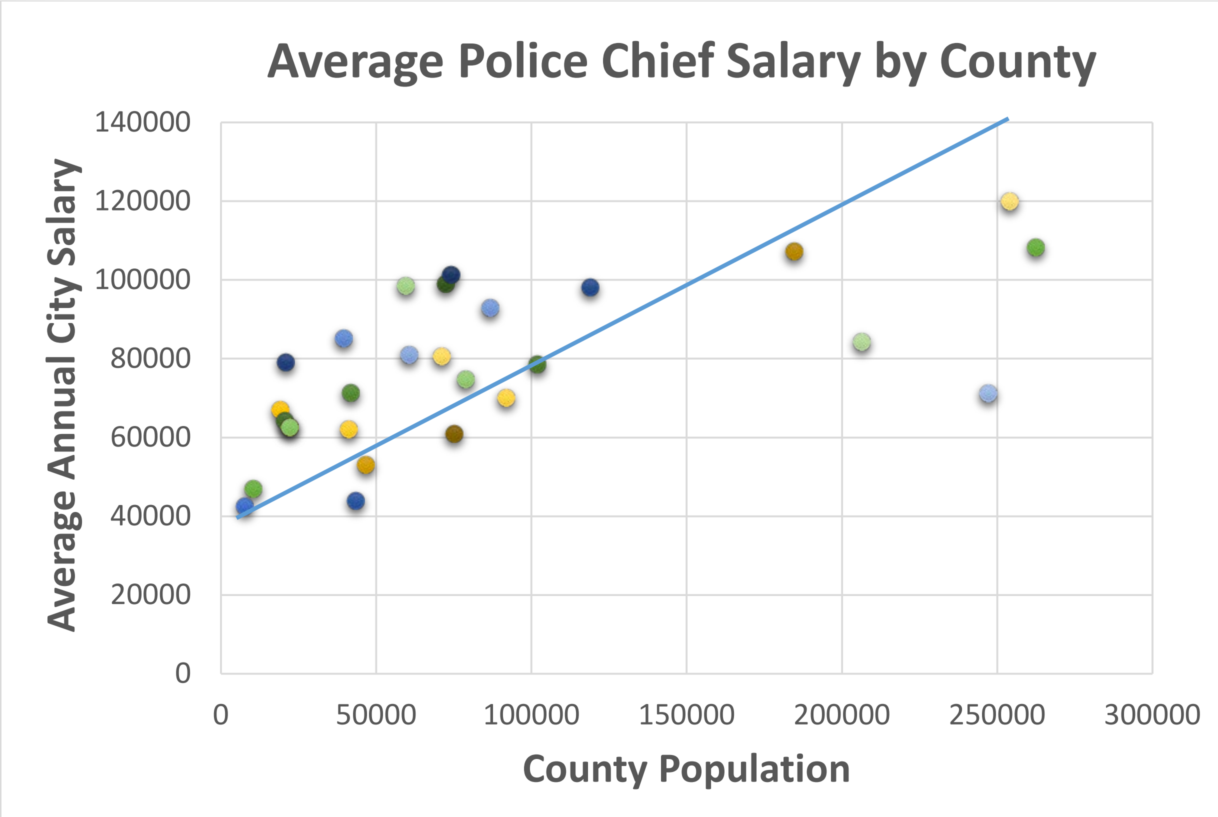
THE VALUE OF EXPERIENCE

Perhaps more than other public professions, law enforcement and firefighting require continuous, specific training. Over the course of a 25 year career a fire fighter’s employer spends approximately $142,500 on training[20]. Law enforcement employers also incur significant training costs. In addition to specific training, the years of field experience possessed by LEOFF Plan 2 retirees has great potential value to employers.

LEOFF employers are, by definition, mostly political subdivisions. Local government budgets, and hence public safety salaries, vary widely across Washington depending in large part on the tax base. The 2014 career change analysis looked at chief salaries by employer population. While salary ranged significantly between many small jurisdictions and large jurisdictions, a better predictor of salary range was a city’s location, i.e. urban vs. rural.

In an effort to examine the urban vs rural distinction, the data is sorted below by population of the county the city is in, rather than the city itself.

[20] The South King County Fire Training Coalition, which provides training to fire fighters from 8 different jurisdictions, charges employers $5700 per year per fire fighter. $5700 x 25 years = $142,500.



While there is not a one-to-one correlation, the overall trend is that cities in counties with higher populations tend to pay higher salaries. This lends some support to the idea that allowing LEOFF Plan 2 retirees some ability to work while receiving their pensions could help lower paying jurisdictions compete for highly trained and experienced law enforcement officers and fire fighters.

IMPORTANCE OF A WELL DESIGNED AND PROFESSIONALLY MANAGED PLAN

Public perception of pension abuse can be exacerbated when benefits appear to flow disproportionately to highly placed employees. Public displeasure over perceived abuses undermines public confidence in the retirement system as a whole.

Uninterrupted Employment

If an employee appears to retire, then comes back to work in the same or similar position with their former employer, it raises questions whether the person ever actually retired. Both state retirement law and the Internal Revenue Code require a full separation from service before qualifying for a retirement allowance. These requirements exist to guard against pseudo-retirements, where a person goes through the process of retiring in order to qualify for their pension, but has only briefly, or in some cases never, left their employer.

Public Pension + Public Salary

Receiving both a public pension and a public salary at the same time is a common hot-button with the general public.

Newspaper articles have featured the total compensation received by LEOFF Plan 2 retirees who return to law enforcement officer or fire fighter employment. A recent Seattle Times report on LEOFF Plan 2 retirees working as police chiefs and fire chiefs described a LEOFF Plan 2 retiree working a fire chief collecting a $100,000 a year pension and a $90,000 a year salary. See Appendix A.

One could argue adding together pensions for previous service and the salaries earned for current service is mixing apples and oranges. LEOFF Plan 2 pensions, unlike salaries for current service, are not paid out of current revenues. Those pensions are fully funded at retirement by employer and employee contributions paid over the course of the employee's career, plus earnings on those contributions[21].

When a public employee retires and goes to work in the private sector or for a public entity in another state, no objections are heard. Some question why the result is different if that same public retiree goes to work in the public sector. Judging from the comments posted in response to recent newspaper articles, many members of the public do not find this analysis persuasive.

Perceived Favoritism

Some of the public anger over allegations of abuse flow from a perceived misuse of authority. Articles often feature persons working in upper management negotiating with the mayor and/or city council to create a position description allowing them to earn a salary as a law enforcement officer or fire fighter while drawing a LEOFF pension.

The vast majority of LEOFF Plan 2 retirees utilizing the career change law do not work as law enforcement officers or fire fighters and make less than in their first careers. For example, a retired police officer providing part-time security at a middle school. These are not the cases reported in the paper.

BALANCING OPTIONS

During Board discussions in 2014, many Board members saw the value of allowing LEOFF Plan 2 retirees to share the value of their experience with smaller employers, but were uncomfortable with the current situation where position descriptions for LEOFF positions were modified to facilitate employment of LEOFF retirees.

The Board directed staff to develop options which maintain LEOFF Plan 2 as a well-designed and professionally managed plan while providing a "bright line" defining when a LEOFF Plan 2 retiree could work in a historically LEOFF position without suspension of their entire pension.

Make Benefit Generally Available

An issue with the current situation is the appearance of a "work around" where an employer takes specific action to accommodate a specific employee. This perceived dynamic appears where the employee continues with the same employer. It also appears when the benefit appears limited to persons with a motivated prospective employer.

[21] According to the Washington State Investment Board, 86% of every dollar paid out in LEOFF Plan 2 pension benefits comes from investment earnings.

These issues could be addressed by:

- Requiring the LEOFF Plan 2 retiree work for a different employer than they retired from;
- Openly provide the benefit so specific employer action would no longer be required. This could be done by:
    - making the benefit available to a specific class of employees (i.e. chiefs); or
    - making the benefit generally available to all LEOFF Plan 2 retirees

Not Encouraging Earlier Retirement

Making the benefit generally available could incentivize employees to retire earlier to utilize the new standard. This could negatively impact the original employer and create an actuarial cost. The Actuary bases future costs in part by projecting when people will retire, i.e. how long they will draw a benefit. If the new standard creates enough incentive to retire earlier, this could create an actuarial cost.

A minimum service credit requirement, possibly 20 or 25 years, could help address this issue and ensure that persons eligible for LEOFF reemployment were highly experienced employees.

Limiting Total of Pension plus Salary

The public shows concern when a retiree's total income, pension plus salary, appears excessive. Concern is especially likely if the combination doubles or nearly doubles the person's compensation. While the objection is debatable, it is clearly an area of public concern.

This issue could be addressed by limiting the combined amount of a LEOFF Plan 2 retiree's salary and pension. Possible alternatives include:

- <u>Limiting total compensation to a percentage of Final Average Salary</u>: Limiting total pension and salary to a set percentage of Final Average Salary (FAS) would ensure that the retiree's total compensation would be similar to what he or she earned prior to retirement. This could address perceptions of abuse. On the other hand, requiring DRS to develop and track a new, LEOFF Plan 2 specific, post-retirement employment standard could generate an administrative cost.

- <u>Limit the Timeframe for Collecting Both Pension and Salary:</u> The State's other Plan 2 systems allow retirees to work in a system-covered position for up to 867 hours per year (approximately 5 months). Once a retiree reaches that point, their pension stops for the remainder of the calendar year. It restarts at the beginning of the next year, stopping again if the retiree works another 867 hours. DRS has systems and reporting requirements in place to track the 867 hour rule for the State's other Plan 2 systems.

  Adopting this same standard for LEOFF Plan 2 retirees working in historically LEOFF positions would effectively limit the combined salary and pension, thus mitigating the "double-dipping" issue. It would be consistent with current policy in the State's other plan 2 systems. Finally, it would be easier for DRS than administering a new standard.

NEXT STEPS – OPTIONS

Pursuant to the Board's direction, a draft bill updating HB 2479 for introduction in 2016 is attached as Appendix B. The fiscal note for HB 2479 prepared by the State Actuary is attached as Appendix C. Because the current bill is identical to HB 2479, the prior fiscal note is still valid.

Option 1: Vote to submit bill draft to Legislature for passage

Option 2: Take no further action

SUPPORTING INFORMATION

Note: Original appendices to December 16, 2016 report deleted in the interest of space. Available upon request.

APPENDIX B: LETTER FROM OFFICER JOE GAGNER TO THE BOARD

Dear Mr. Fox and Board Members:

My name is Sgt Joe Gagner; I have worked for the Kent Police Department for the last 31 years. I am 55 years old and I am getting close to the time when it will no longer make any financial sense to continue working as a Leoff 2 member. I will be able to collect more money on retirement then my current "net" take home check. I still enjoy my job and have no real desire to retire this early in my life. This state and my city have invested a lot of money into me, for me to just quit and move out of state to find another law enforcement job. How many out of state retirees are we already starting to see in our own ranks?

I would like to socialize the idea of retirees being able to retire, collect their retirements and then still be allowed to work up to five years before they leave. I know this idea is not new. Teachers were able to do it a few years back. As a state we are suffering terribly when it comes to recruiting and training new officers. No one what's to be an officer these days. I believe we are all aware of the challenges facing the entire nation when it comes to hiring qualified officers to work this job. My own agency is struggling trying to keep up with retirees and young candidates that don't make probation. I know this is happening throughout the state. I just read in New Mexico they are trying to pass a "return to work" Bill (171) so retired officers can come back to work as patrol officers only. This still allows the newer officer to promote and to use the older officers as mentors and resources to handle calls for service. How many times have we seen qualified upper command staff retire and then have to move out of state to be hired as a Chief? We don't have a process to allow our brightness and best leaders an opportunity to stick around in this state, without being penalized when it comes to collect their pensions. Case in point, an Assistant Chief in Kent makes 140,000 plus in a year. He can't become a Chief in a smaller Washington city because he will make less money. It makes more sense for him to retire and move out of state. As a state we just lost a lot of experience and knowledge from a very qualified Chief candidate.

I know some will say we can't afford to allow officers to "double dip". I would argue that most agencies in this state are so short staffed; they are paying thousands in overtime. I spoke to a King County Deputy last week, he said if he could work 24 hours in a day he could. There is so much overtime available, don't you think many of us are "packing the five" trying to get our high five years as high as possible. I know the overtime is so prevalent I can pick and choose to work anytime I want to.

I think this means we are going to see several officers retiring in the near future with much larger high five year totals then we have ever seen in the history of LEOFF 2.

I think this means we are going to see several officers retiring in the near future with much larger high five year totals then we have ever seen in the history of LEOFF 2. I would think paying out to retirees who continued to work for five years and still paid into LEOFF 2 retirement outweighs the costs of what we will be paying out for the number of officers "packing the five" and then retiring.

By allowing us to work longer and collect our retirement the state and the citizens will benefit. This is not a challenge facing the fire department. They still have candidates camping out at the City halls waiting for the few hundred applications that will be handed out in two days.

I know this is a long process to make changes. I just hope we start to have the hard conversations and start to think ahead for the future. Things are not suddenly going to get better for cops in this state. We need our more seasoned officers who have years of experience to teach and mentor this new generation of officers.

My idea might be the best, but I know there are a lot of good ideas out there. In California there are several different types of retirement programs, so officer can retire from one agencies and go to work for another agency under a different program. In Washington State I cannot go to work for another Law Enforcement Municipality agency, without taking a pay cut.

Thank you for your time on this matter.

Joe Gagner

City of Kent Police Department

If you have any questions I can be reached at the following.

JGagner@kentwa.gov or 253 266-6886 after 9am.

LEOFF
Plan 2 Retirement Board

Retiree Return to Work

INITIAL CONSIDERATION

June 22, 2016

ISSUE

- LEOFF 2 retirees cannot work any amount of time in a LEOFF position without having their pension suspended

BOARD HISTORY WITH ISSUE

- Studied in each of last 3 interims
  - Proposed legislation in 2014 (HB 2479)
  - Studied in 2014 and 2015 interim – no action
- Prior work focused on LEOFF Plan 2 retirees working as chief or other high level position
- New interest in retirees returning to line positions

INTEREST IN RETIREES WORKING IN LEOFF POSITIONS

- Demographic shift
- Perceived shrinking of recruit pool
- Members retire and take jobs in other states
- Lean staffing necessitates higher overtime costs
- Retirees from other systems can work part-time in system retired from

RETURN TO WORK LAW SUMMARY

	Retiree's Job Covered by new system	Retiree's Job Covered by system retired from
LEOFF Plan 2 and WSPRS	No effect on pension	Pension stopped - Retiree mandated back into membership
PERS, TRS, and SERS	Retiree may work 867 hours per year before pension stopped	

WHEN THE PENSION STOPS

- LEOFF Plan 2 pension stops if retiree enters a LEOFF position
- LEOFF position = full-time fully compensated
  - Full-time = 160 hours per month or more
  - Fully compensated = 160 x minimum wage or more

PART-TIME POSITION ISSUES

- Misclassifying position as part-time
  - Tenino classified 159 hour per month chief position as “part-time”
  - DRS audit reached opposite conclusion - $82,462 cost to city
- Bona fide part-time:
  - Must <u>actually</u> be part time
  - The closer to the line, the more risk
  - Job share could possibly meet standard

NEXT STEPS

- Direct staff to prepare comprehensive report
- Take no further action

CONTACT

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Senior Research and Policy Manager

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Draft Interim Work Plan

Date Presented:
6/22/2016

Presenter Name and Title:
Steve Nelsen, Executive Director

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Enhance the benefits for the members., Provide the stakeholders with a voice in plan governance., Maintain the financial integrity of the plan., Inform the stakeholders.

ATTACHMENTS:

	Description	Type
	Draft Interim Work Plan	Report
	Draft Interim Work Plan	Presentation

DRAFT **Interim Work Plan**

June 22, 2016

MEETING	AGENDA ITEMS
June 22	Volunteer Fire Fighters and Reserve Officers – Brigette Smith, BVFF Contribution Rate Preview – Lisa Won, OSA Valuation Audit Preview – Mark Olleman & Nick Collier, Milliman CEM Benchmarking Update – Mike Heale, CEM & Mark Feldhausen, DRS Plan Merger - Educational Briefing Public Testimony Retiree Return to Work – Initial Consideration Draft Merger Study Work Plan Draft Interim Work Plan
July 27	DRS Annual Administrative Update – Marcie Frost, DRS Valuation Audit Results – Nick Collier, Milliman Contribution Rate Adoption Plan Merger – Initial Consideration Public Testimony Retiree Medical – Initial Consideration Presumptive Medical – Initial Consideration Standby Pay as Compensation Earnable – Initial Consideration LEOFF Plan 2 Comparison Report – Educational Briefing
August 24	
September 21	Plan Merger – Comprehensive Report Public Testimony Financial Audit Results, Davis Accounting WSIB Annual Update Board Member Annual Training – Tor Jernudd, AAG
October 18	Offsite Meeting - Strategic Planning Proposed 2017 Meeting Calendar
November 23	Plan Merger – Comprehensive Report Follow-Up Public Testimony Plan Merger Legal Briefing from Outside Legal Counsel Update of 2011 Merger Study - OSA Retiree Annuity Purchase Administrative Factors 2015 LEOFF Actuarial Valuation Report
December 7	Plan Merger – Final Proposal Public Testimony Risk Assessment Briefing – OSA 2017 Meeting Calendar Adoption

LEOFF
Plan 2 Retirement Board

DRAFT Interim Work Plan

June 22, 2016

CALENDAR ITEMS

MEETING	AGENDA ITEMS
June 22	Volunteer Fire Fighters and Reserve Officers – Brigette Smith, BVFF Contribution Rate Preview – Lisa Won, OSA Valuation Audit Preview – Mark Olleman & Nick Collier, Milliman CEM Benchmarking Update – Mike Heale, CEM & Mark Feldhausen, DRS Plan Merger – Educational Briefing Public Testimony Retiree Return to Work – Initial Consideration Draft Merger Study Work Plan Draft Interim Work Plan

CALENDAR ITEMS

MEETING	AGENDA ITEMS
July 27	DRS Annual Administrative Update – Marcie Frost, DRS Valuation Audit Results – Nick Collier, Milliman Contribution Rate Adoption Plan Merger – Initial Consideration Public Testimony Retiree Medical – Initial Consideration Presumptive Medical – Initial Consideration Standby Pay as Compensation Earnable – Initial Consideration LEOFF Plan 2 Comparison Report – Educational Briefing

CALENDAR ITEMS

MEETING	AGENDA ITEMS
August 24	
September 21	Plan Merger – Comprehensive Report Public Testimony Financial Audit Results, Davis Accounting WSIB Annual Update Board Member Annual Training – Tor Jernudd, AAG

CALENDAR ITEMS

MEETING	AGENDA ITEMS
October 18	Offsite Meeting – Strategic Planning Proposed 2017 Meeting Calendar
November 23	Plan Merger – Comprehensive Report Follow-Up Public Testimony Update of 2011 Merger Study - OSA Retiree Annuity Purchase Administrative Factors– OSA 2015 LEOFF Actuarial Valuation Report
December 7	Plan Merger – Final Proposal Risk Assessment Briefing – OSA 2017 Meeting Calendar Adoption Public Testimony

CONTACT

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