

Supplemental Rate Adoption Preliminary Report

LEOFF Plan 2 Retirement Board

June 23, 2009

Key Issues

- Board must decide whether it is necessary to increase contribution rates due to the passage of the bill (SHB 1953) allowing Fish and Wildlife Enforcement Officers (FWEO) the opportunity to transfer their service credit earned in PERS as FWEO to LEOFF Plan 2.

Items to Consider

- Limited window to transfer
- Members with large service credit balances impact costs

Options

- Adopt supplemental rate effective 9/1/09
- Delay adoption of supplemental rate

Supplemental Rate Adoption

Questions?

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Supplemental Rate Adoption Preliminary Report

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1. Issue

The Board must decide whether it is necessary to increase contribution rates due to the passage of the bill (SHB 1953) allowing Fish and Wildlife Enforcement Officers (FWEO) the opportunity to transfer their service credit earned in PERS as FWEO to LEOFF Plan 2.

2. Staff

Greg Deam, Senior Research and Policy Manager
(360) 586-2325
greg.deam@leoff.wa.gov

3. Members Impacted

Based on the actuarial data as of June 30, 2007, there were 16,099 active LEOFF Plan 2 members. Adopting supplemental contribution rates impacts all of the active members, employers and in most cases the state.

4. Current Situation

One of the main goals of the Board is to insure the actuarial soundness of the plan. In order to maintain that goal, it may be necessary for the Board to pay for any benefit improvements via adoption of a supplemental contribution rate increase.

5. Background Information

When the Board was created with the passage of Initiative 790, one of the duties of the Board is to adopt contribution rates. The Board is required to use an accredited actuary using approved actuarial methods to determine the cost of the plan and to determine the cost of any benefit improvements. The statutes covering adoption of supplemental contribution rates for LEOFF Plan 2 include RCW 41.26.720, 41.45.0604 and 41.45.070. These statutes can be found in Appendix A.

Not all benefit improvements will have costs sufficient to increase contribution rates, but if they do then the Board has the task of adopting supplemental rate increase, usually effective September 1st following the effective date of the legislation.

During the 2009 Legislative session, a bill allowing Fish and Wildlife Enforcement Officers (FWEOS) members to transfer their service credit as FWEOS while member of the Public Employees' Retirement System (PERS) Plan 2 or 3 to LEOFF Plan 2 was passed. The Office of the State Actuary (OSA) provided a fiscal note indicating that the cost of that benefit enhancement would require a contribution rate increase of one basis point for the member (0.01%), one basis point for the employer and no increase for the state.

In order for the member to be able to transfer, they must make a request in writing electing to transfer their PERS service credit to the Department of Retirement Systems no later than December 31, 2009. The fiscal note provided by OSA based their cost on the assumption that 63 members would take advantage of this opportunity.

Policy Issues

The normal process for adopting a supplemental rate increase would be for the Board to take action effective September 1, 2009 based on the recommendation of the Office of the State Actuary and the assumptions used in their fiscal note. However, in this specific case, it may be appropriate to defer adoption of the supplemental rate until after December 31, 2009 and the conclusion of the period for members to request a transfer. The estimated cost of this benefit depends on which members transfer. If only the 14 most costly members transfer, the cost to LEOFF Plan 2 would be \$1 million. If 15-32 of the most expensive members transfer, the cost would be about \$2 million. If 33 or more of the most expensive members transfer, the cost would go to around \$3 million. OSA assumed 63 members would transfer and the cost would be about \$3.1 million [see OSA fiscal note p. 7-8].

By delaying the adoption of the supplemental rate until the conclusion of the transfer window, OSA could recalculate the cost based on actual member elections rather than assumptions. However, there is some reason to be cautious about the reliability of the member transfer election data. A member who indicates to DRS in writing that they intend to transfer their past service is under no obligation to actually complete the transfer. All the

members may indicate to DRS that they want to transfer their service simply to keep their options open even if they are undecided about transferring or they consider themselves unlikely to transfer.

The supplemental rate is intended to begin prefunding the cost of the benefit improvement rather than waiting until the next actuarial valuation when the benefit liability will be rolled into the base rate. The consequence of delaying the adoption of a supplemental rate is the loss of earnings on the contributions that would be made. In this case, a delay in adoption of a supplemental rate will not create any significant risk of underfunding the plan due to the relatively modest cost of the benefit improvement and the accordingly small proposed rate increase.

6. Policy Options

Policy Option 1: Adopt Supplemental Rate Effective 9/1/09

Under this option the Board would need to adopt the supplemental contribution rate at the July 22, 2009 Board meeting.

Policy Option 2: Delay Adoption of Supplemental Rate

Under this option the Board would wait until after the transfer window closes and the actuary can reevaluate the cost of FWEO transfers.

7. Appendix A – Supplemental Contribution Rate Statutes

Appendix B – FWEO Service Credit Transfer OSA Fiscal Note – SHB 1953

APPENDIX A – Contribution Rate Statutes

RCW 41.26.720 Board of trustees — Powers — Meeting procedures — Quorum — Judicial review — Budget.

1) The board of trustees have the following powers and duties and shall:

(a) Adopt actuarial tables, assumptions, and cost methodologies in consultation with an enrolled actuary retained by the board. The state actuary shall provide assistance when the board requests. The actuary retained by the board shall utilize the aggregate actuarial cost method, or other recognized actuarial cost method based on a level percentage of payroll, as that term is employed by the American academy of actuaries. The actuary retained by the board shall adjust the actuarial cost method to recognize the actuarial present value of future revenue that will be included in the calculation of the market value of assets pursuant to RCW [41.26.805](#)(2), using the methods and assumptions employed by the state actuary in RCW [41.26.805](#)(9). In determining the reasonableness of actuarial valuations, assumptions, and cost methodologies, the actuary retained by the board shall provide a copy of all such calculations to the state actuary. If the two actuaries concur on the calculations, contributions shall be made as set forth in the report of the board's actuary. If the two actuaries cannot agree, they shall appoint a third, independent, enrolled actuary who shall review the calculations of the actuary retained by the board and the state actuary. Thereafter, contributions shall be based on the methodology most closely following that of the third actuary;

(b)(i) Provide for the design and implementation of increased benefits for members and beneficiaries of the plan, subject to the contribution limitations under RCW [41.26.725](#). An increased benefit may not be approved by the board until an actuarial cost of the benefit has been determined by the actuary and contribution rates adjusted as may be required to maintain the plan on a sound actuarial basis. Increased benefits as approved by the board shall be presented to the legislature on January 1st of each year. The increased benefits as approved by the board shall become effective within ninety days unless a bill is enacted in the next ensuing session of the legislature, by majority vote of each house of the legislature, repealing the action of the board;

(ii) As an alternative to the procedure in (b)(i) of this subsection, recommend to the legislature changes in the benefits for members and beneficiaries, without regard to the cost limitations in RCW [41.26.725](#)(3). Benefits adopted in this manner shall have the same contractual protections as the minimum benefits in the plan. The recommendations of the board shall be presented to the legislature on January 1st of each year. These measures shall take precedence over all other measures in the legislature, except appropriations bills, and shall be either enacted or rejected without change or amendment by the legislature before the end of such regular session;

(c) Retain professional and technical advisors necessary for the accomplishment of its duties. The cost of these services may be withdrawn from the trust;

(d) Consult with the department for the purpose of improving benefit administration and member services;

(e) Provide an annual report to the governor and the legislature setting forth the actuarial funding status of the plan and making recommendations for improvements in those aspects of retirement administration directed by the legislature or administered by the department;

(f) Establish uniform administrative rules and operating policies in the manner prescribed by law;

(g) Engage administrative staff and acquire office space independent of, or in conjunction with, the department. The department shall provide funding from its budget for these purposes;

(h) Publish on an annual basis a schedule of increased benefits together with a summary of the minimum benefits as established by the legislature which shall constitute the official plan document; and

(i) Be the fiduciary of the plan and discharge the board's duties solely in the interest of the members and beneficiaries of the plan.

(2) Meetings of the board of trustees shall be conducted as follows:

- (a) All board meetings are open to the public, preceded by timely public notice;
 - (b) All actions of the board shall be taken in open public session, except for those matters which may be considered in executive session as provided by law;
 - (c) The board shall retain minutes of each meeting setting forth the names of those board members present and absent, and their voting record on any voted issue; and
 - (d) The board may establish, with the assistance of the appropriate office of state government, an internet web site providing for interactive communication with state government, members and beneficiaries of the plan, and the public.
- (3) A quorum of the board is six board members. All board actions require six concurring votes.
- (4) The decisions of the board shall be made in good faith and are final, binding, and conclusive on all parties. The decisions of the board shall be subject to judicial review as provided by law.
- (5) A law enforcement officers' and firefighters' retirement system plan 2 expense fund is established for the purpose of defraying the expenses of the board. The board shall cause an annual budget to be prepared consistent with the requirements of chapter [43.88](#) RCW and shall draw the funding for the budget from the investment income of the trust. Board members shall be reimbursed for travel and education expenses as provided in RCW [43.03.050](#) and [43.03.060](#). The board shall make an annual report to the governor, legislature, and state auditor setting forth a summary of the costs and expenditures of the plan for the preceding year. The board shall also retain the services of an independent, certified public accountant who shall annually audit the expenses of the fund and whose report shall be included in the board's annual report.

[2008 c 99 § 5; 2003 c 2 § 5 (Initiative Measure No. 790, approved November 5, 2002).]

Notes:

Findings -- Purpose -- 2008 c 99: See note following RCW [41.26.800](#).

RCW 41.45.0604 Contribution rates — Law enforcement officers' and firefighters' retirement system plan 2.

(1) Not later than July 31, 2008, and every even-numbered year thereafter, the law enforcement officers' and firefighters' plan 2 retirement board shall adopt contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 as provided in RCW [41.26.720\(1\)\(a\)](#).

(2) The law enforcement officers' and firefighters' plan 2 retirement board shall immediately notify the directors of the office of financial management and department of retirement systems of the state, employer, and employee rates adopted. Thereafter, the director shall collect those rates adopted by the board. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

[2007 c 280 § 3; 2003 c 92 § 4.]

Notes:

Severability -- Effective date -- 2003 c 92: See RCW [41.26.905](#) and [41.26.906](#).

RCW 41.45.070 Supplemental rate.

*** CHANGE IN 2009 *** (SEE [6161-S.SL](#)) ***

(1) In addition to the basic employer contribution rate established in RCW [41.45.060](#) or [*41.45.054](#), the department shall also charge employers of public employees' retirement system, teachers' retirement system, school employees' retirement system, public safety employees' retirement system, or Washington state patrol retirement system members an additional supplemental rate to pay for the cost of additional benefits, if any, granted to members of those systems. Except as provided in subsections (6), (7), and (9) of this section, the supplemental contribution rates required by this section shall be calculated by the state actuary and shall be charged regardless of language to the contrary contained in the statute which authorizes additional benefits.

(2) In addition to the basic member, employer, and state contribution rate established in RCW [41.45.0604](#) for the law enforcement officers' and firefighters' retirement system plan 2, the department shall also establish supplemental rates to pay for the cost of additional benefits, if any, granted to members of the law enforcement officers' and firefighters' retirement system plan 2. Except as provided in subsection (6) of this section, these supplemental rates shall be calculated by the actuary retained by the law enforcement officers' and firefighters' board and the state actuary through the process provided in RCW [41.26.720](#)(1)(a) and the state treasurer shall transfer the additional required contributions regardless of language to the contrary contained in the statute which authorizes the additional benefits.

(3) The supplemental rate charged under this section to fund benefit increases provided to active members of the public employees' retirement system plan 1, the teachers' retirement system plan 1, and Washington state patrol retirement system, shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit not later than June 30, 2024.

(4) The supplemental rate charged under this section to fund benefit increases provided to active and retired members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, the public safety employees' retirement system plan 2, or the school employees' retirement system plan 2 and plan 3 shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit, as calculated under RCW [41.45.060](#), [41.45.061](#), or [41.45.067](#).

(5) The supplemental rate charged under this section to fund postretirement adjustments which are provided on a nonautomatic basis to current retirees shall be calculated as the percentage of pay needed to fund the adjustments as they are paid to the retirees. The supplemental rate charged under this section to fund automatic postretirement adjustments for active or retired members of the public employees' retirement system plan 1 and the teachers' retirement system plan 1 shall be calculated as the level percentage of pay needed to fund the cost of the automatic adjustments not later than June 30, 2024.

(6) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to chapter 340, Laws of 1998.

(7) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to **chapter [41.31A](#) RCW; section 309, chapter 341, Laws of 1998; or section 701, chapter 341, Laws of 1998.

(8) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members and survivors pursuant to chapter 94, Laws of 2006.

(9) A supplemental rate shall not be charged to pay for the cost of the additional benefits granted to members of the teachers' retirement system and the school employees' retirement system plans 2 and 3 in sections 2, 4, 6, and 8, chapter 491, Laws of 2007 until September 1, 2008. A supplemental rate shall not be charged to pay for the cost of

the additional benefits granted to members of the public employees' retirement system plans 2 and 3 under sections 9 and 10, chapter 491, Laws of 2007 until July 1, 2008.

[2007 c 491 § 12; 2006 c 94 § 3; (2005 c 327 § 10 expired July 1, 2006); 2004 c 242 § 41. Prior: (2003 1st sp.s. c 11 § 3 repealed by 2005 c 327 § 11); 2003 c 92 § 5; prior: 2001 2nd sp.s. c 11 § 16; 2001 2nd sp.s. c 11 § 15; 2000 c 247 § 505; 1998 c 340 § 10; 1995 c 239 § 310; 1990 c 18 § 2; 1989 1st ex.s. c 1 § 1; 1989 c 273 § 7.]

Notes:

Reviser's note: *(1) RCW [41.45.054](#) was decodified by 2005 c 370 § 5, effective September 1, 2005.

**(2) Chapter [41.31A](#) RCW was repealed by 2007 c 491 § 13, effective January 2, 2008, however, RCW [41.31A.020](#) was also amended by 2007 c 491 § 1 and 2007 c 492 § 10. For rule of construction, see RCW [1.12.025](#)(1).

Severability -- Conflict with federal requirements -- 2007 c 491: See notes following RCW [41.32.765](#).

Effective date -- 2006 c 94 § 3: "Section 3 of this act takes effect July 1, 2006." [2006 c 94 § 4.]

Expiration date -- 2005 c 327 § 10: "Section 10 of this act expires July 1, 2006." [2005 c 327 § 13.]

Effective date -- 2004 c 242: See RCW [41.37.901](#).

Effective date -- 2003 1st sp.s. c 11: See note following RCW [41.45.035](#).

Severability -- Effective date -- 2003 c 92: See RCW [41.26.905](#) and [41.26.906](#).

Effective date -- 2001 2nd sp.s. c 11: See note following RCW [41.45.010](#).

Effective date -- 2001 2nd sp.s. c 11: See note following RCW [41.45.030](#).

Effective dates -- Subchapter headings not law -- 2000 c 247: See RCW [41.40.931](#) and [41.40.932](#).

Effective date -- 1998 c 341: See RCW [41.35.901](#).

Effective date -- 1998 c 340: See note following RCW [2.10.146](#).

Intent -- Purpose -- 1995 c 239: See note following RCW [41.32.831](#).

Effective date -- Part and subchapter headings not law -- 1995 c 239: See notes following RCW [41.32.005](#).

Effective date -- 1990 c 18: See note following RCW [41.45.060](#).

Benefits not contractual right until date specified: RCW [41.34.100](#).