

# BOARD MEETING AGENDA

July 26, 2017 - 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  
Fax: 360.586.2329  
recep@leoff.wa.gov

- |  |          |
|--|----------|
| <b>1. Approval of Minutes</b>  | 9:35 AM  |
| <b>2. Legislative Update</b><br>Paul Neal, Senior Research and Policy Manager  | 9:45 AM  |
| <b>3. Actuarial Valuation Report and Economic Assumptions</b><br>Lisa Won, ASA, FCA, MAAA, Deputy State Actuary, OSA   | 10:00 AM |
| <b>4. 2017 Interim Planning</b><br>Ryan Frost, Research and Policy Manager   | 10:30 AM |
| <b>5. Interruptive Military Service Credit</b><br>Ryan Frost, Research and Policy Manager  | 11:00 AM |
| <b>6. Executive Director COLA</b>  | 11:30 AM |
| <b>7. Administrative Update</b> <ul style="list-style-type: none"><li>• <b>Outreach Activities</b></li><li>• <b>Budget Update</b><br/>Steve Nelsen, Executive Director</li></ul> | 12:00 PM |
| <b>8. Agenda Items for Future Meetings</b>   | 12:30 PM |

**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.*



## Approval of Minutes

**Date Presented:**

7/26/2017

**Summary:**

Approval needed for meeting minutes from the months of December 2016 - June 2017

**ATTACHMENTS:**

Description	Type
❑ December 2016 Minutes	Report
❑ January 2017 Minutes	Report
❑ February 2017 Minutes	Report
❑ March 2017 Minutes	Report
❑ April 2017 Minutes	Report
❑ May 2017 Minutes	Report
❑ June 2017 Minutes	Report



## Legislative Update

**Report Type:**

Educational Briefing

**Date Presented:**

7/26/2017

**Presenter Name and Title:**

Paul Neal, Senior Research and Policy Manager

**Summary:**

Review of relevant acts and omissions of the 2017 Legislature

**Strategic Linkage:**

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

**ATTACHMENTS:**

Description	Type
▣ Legislative Update	Presentation
▣ Legislative Update	Report



# 2017 Legislative Update

July 26, 2017

# 2017-2019 Operating Budget (SSB 5883)

- Final Budget Passed on June 30
- Included in Budget:
  - Full funding of LEOFF Plan 2 contribution rates adopted by the Board
  - Deferral of LEOFF 2 benefit improvement account contribution
  - Employer contributes state share on officer special event compensation
- Proposals Not Included in Final Budget:
  - Eliminating state contribution to LEOFF
  - Eliminating employer contribution to DRS expense fund
  - Board study of tribal officers in LEOFF Plan 2
  - Merging LEOFF 1 with LEOFF 2 or TRS 1
  - Redistributing fire insurance premium tax

## **Bills Affecting LEOFF Plan 2 - *Passed***

- **Including Hospital District EMTs into LEOFF 2 (HB 2202)**
  - Clarifies eligibility for hospital district and ambulance authority EMTs
  - Past service credit option
- **Expanding Interruptive Military Service Credit Rights – Study (SB 5661)**
  - Board directed to study whether waiver of employee contributions interruptive military service credit should be expanded to include members without a campaign badge or medal
  - Report to Legislature by January 1, 2018
- **Expanding Definition of Veteran (HB 1369) –**
  - “Veteran” includes persons with specified documents showing honorable military service

## **Bills Affecting LEOFF Plan 2 – *Not Passed***

- **Providing Workers Compensation for PTSD (HB 1655)**
  - Would allow workers compensation multiple incident PTSD claims for LEOFF members
- **Property Tax Exemption for Survivors of Members Killed in the Line of Duty (SB 5104)**
- **Expanding Occupational Disease Presumptions for LEOFF Members (SB 5477)**

# SCPP Bills Passed

- **Washington State Patrol Retirement System (WSPRS) Voluntary Overtime (SB 5274)**
  - Up to 70 hours per year of voluntary overtime is included in Trooper compensation prospectively
  - The maximum member contribution rate is increased by 1.10 percent
- **Public Safety Employees' Retirement System (PSERS) Full Time Definition (HB 1709)**
  - Employees erroneously reported in PSERS may transfer PERS credit to PSERS if their employment contract defined full-time employment as at least 140 hours per month





# Questions?

**Paul Neal**

**Senior Research and Policy Manager**

**(360) 586-2327**

**[paul.neal@leoff.wa.gov](mailto:paul.neal@leoff.wa.gov)**



June 28, 2017

## 2017 Legislative Update

### EDUCATIONAL BRIEFING

By Paul Neal

Senior Research & Policy Manager

360-586-2327

paul.neal@leoff.wa.gov

### 2017-19 OPERATING BUDGET

Just before the end of the biennium the Legislature passed the operating budget for the 2017-2019 biennium (SSB 5883).

#### Budget Provisions Affecting LEOFF Plan 2:

- **Contribution rates:** Fully funds the LEOFF Plan 2 Retirement Board's (Board) employer and state contribution rates.
- **Benefit Improvement Account:** Postpones benefit improvement account contributions until 2019. Expresses intent that future contributions come from alternate source, possibly the LEOFF Plan 2 trust fund.
- **Special Event Contributions:** If an employer assigns an officers to work a public event and the employer recovers the costs from the event provider; the employer must cover both the employer and the state contributions during fiscal year 2018 and 2019.

#### Proposals Not Included in Final Budget:

- **Rate Formula:** The Senate's proposal to eliminate State LEOFF contributions and increase employer contribution to 50% of pension cost was not in the final budget.
- **Elimination of expense fund contribution:** The Senate's proposal terminating employer contributions to the DRS expense fund was not in the final budget.
- **Tribal officers in LEOFF 2 Study:** The House proposal to fund a Board study of allowing Tribal police officers in LEOFF Plan 2 was not in the final budget.
- **Fire Insurance Premium Tax Redistribution:** The Senate proposal to reallocate proceeds from the fire insurance premium tax was not in the final budget.
- **Merger:** A merger of LEOFF Plan 1 with either TRS Plan 1 or LEOFF Plan 2 was neither proposed by either house nor included in the final budget.

## **BILLS AFFECTING LEOFF PLAN 2 - PASSED**

### **Including Hospital District EMTs into LEOFF 2 (HB 2202)**

Clarifies LEOFF Plan 2 status of Emergency Medical Technicians (EMTs) who:

- Are employed by hospital districts or public corporations created by a city, town, or county; and
- Provide medical treatment at the scene of a medical emergency, or while transporting a patient to a medical facility.

These EMTs are mandated into LEOFF plan 2 prospectively with an option to establish LEOFF 2 credit for past EMT service back to July 24, 2005 – the date EMTs were first included in the LEOFF definition of firefighter.

### **Expanding Interruptive Military Service Credit Rights – Study (SB 5661)**

Under current law, member contributions for interruptive military service credit are waived for members serving during specified conflicts, but only if they earn a campaign badge or medal. The LEOFF 2 Retirement Board (Board) is directed to study expanding this waiver to all members serving during the specified conflict whether or not they earn a campaign badge or medal. The Board must report the findings of the study to the Legislature by January 1, 2018.

### **Expanding Definition of Veteran (HB 1369)**

The definition of "veteran" used to qualify persons for particular benefits, including interruptive LEOFF Plan 2 service credit, is expanded to include a person who, at the time he or she seeks the benefits, is in receipt of certain documents that characterize his or her service as honorable.

## **BILLS AFFECTING LEOFF PLAN 2 – NOT PASSED**

### **PTSD from multiple events defined as occupational disease (HB 1655)**

*Passed House, died in Senate*

The exclusion of workers' compensation occupational disease claims for stress-caused mental conditions or disabilities would not have applied to LEOFF member claims.

### **Lifetime property tax exemption for survivors of members killed in the line of duty (SB 5104)**

*Introduced but not heard*

Proposed a lifetime property tax exemption for residences owned by persons whose spouses were killed in the line of duty, either in the military or as a first responder. Exemption would continue if surviving spouse remarries.

### **Expanding Occupational Disease Presumptions (SB 5477)**

*Introduced but not heard*

Proposed: 1) occupational disease presumptions for fire investigators; 2) adding strokes and additional types of cancers to the presumptions; and 3) including heart problems, strokes, and infectious diseases as occupational disease presumptions for certain law enforcement officers.

## **SCPP BILLS PASSED**

### **Washington State Patrol Retirement System (WSPRS) Voluntary Overtime (SB 5274)**

Up to 70 hours of Voluntary overtime earned after July 1, 2017, is included in the WSPRS definition of salary. The maximum member contribution rate is increased by 1.10 percent of pay.

### **Public Safety Employees' Retirement System (PSERS) Full Time Definition (HB 1709)**

Employees considered part-time by DRS who were otherwise eligible for PSERS may transfer their PERS service credit to PSERS if their employment contract defined fulltime as at least 140 hours per month. In order to be eligible, the employee must have been incorrectly reported in PSERS.



## **Actuarial Valuation Report and Economic Assumptions**

**Report Type:**

Initial Consideration

**Date Presented:**

7/26/2017

**Presenter Name and Title:**

Lisa Won, ASA, FCA, MAAA, Deputy State Actuary, OSA

**Summary:**

Review of the Actuary's upcoming actuarial valuation report and assumption review

**Strategic Linkage:**

This item supports the following Strategic Priority Goals:

Provide the stakeholders with a voice in plan governance., Maintain the financial integrity of the plan., Inform the stakeholders.

**ATTACHMENTS:**

Description	Type
▣ Actuarial Valuation Report and Economic Assumptions	Presentation
▣ LEOFF 2 Actuarial Valuation and Economic Assumptions	Report

# LEOFF 2 Actuarial Valuation and Economic Experience Study Preview

Lisa Won, ASA, FCA, MAAA  
Deputy State Actuary

Presentation to:  
LEOFF 2 Board



# Today's Presentation

- Purpose of actuarial valuation
  - Preliminary results for membership data and plan assets
- Purpose of an economic experience study
  - Determine whether assumptions remain reasonable or should be changed
  - Analyze past experience, future expectations, and conditions that led to certain experience
- No action required today - informational only



## Purpose Of An Actuarial Valuation

- Update contribution rates based on new data, assets, and legislation
- 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
- *June 30, 2016, Actuarial Valuation Report* still preliminary
  - “Off-cycle” valuation - not used for contribution rate-setting
  - Current rates adopted through 2017-19 Biennium



## Change In Participant Data From Last Valuation

LEOFF 2			
	2015	2016 Preliminary	Difference
<b>Number of Actives</b>	17,019	17,186	167
<b>Average Annual Salary</b>	\$102,411	\$103,947	\$1,536
<b>Average Attained Age</b>	43.6	43.5	(0.1)
<b>Average Service</b>	14.7	14.5	(0.2)
<b>Number of Annuitants</b>	3,710	4,259	549

## Change In Assets From Last Valuation

- Market Value of Assets (MVA) reported by WSIB
- Calculate 2016 asset gain (or loss) based on 7.5% expected return

LEOFF 2			
		2016	
<i>(Dollars in Millions)</i>	2015	Preliminary	Difference
<b>Market Value (MV)</b>	\$9,833	\$10,194	\$361
<b>Contributions Less Disbursements*</b>	\$151	\$118	(\$33)
<b>Investment Return</b>	\$430	\$244	(\$186)
<b>Investment Gain/(Loss)**</b>	(\$266)	(\$497)	(\$231)
<b>Return on Assets***</b>	4.93%	2.65%	(2.29%)

\*Includes transfers, restorations, and payables.

\*\*Amount by which actual differs from assumed investment returns for LEOFF 2 Trust Fund. Source WSIB.

\*\*\*Time-weighted return on MVA.

## Next Steps For The 2016 Actuarial Valuation

- Finalize plan liabilities, funded status, and contribution rates
- Present results at future Board meeting
- Provide final report to Board members and LEOFF 2 staff
- No Board action required



## Purpose Of Experience Studies

- Determine whether assumptions remain reasonable or should be changed
- Actuarial services must satisfy applicable ASOPs
- ASOPs require that assumptions
  - Take into account relevant historical and current economic data
  - Reflect the actuary's best estimate of future expectations
- Reasonable assumptions contribute to reasonable funding
- Appropriate funding levels help manage risks
  - Insufficient accumulation of assets increases risk of additional funding requirements — intergenerational “inequity”

# Managing Risk

- Pensions are promises to pay future lifetime benefits
- Assumptions used to project future outcomes
  - Involve uncertainty/risk
- When assumptions are wrong, plan may be underfunded
  - Want to be on the “right side” of risk (reasonable conservatism)
- Risk isn't symmetrical
  - Best estimate assumption may not fall in the mean (50<sup>th</sup> percentile)
- Balance risk management with other stakeholder needs
  - State and local budgets
  - Member take-home pay
  - Benefit/plan security



# OSA Performs Economic And Demographic Experience Studies

- Economic Experience Studies are performed every 2 years
  - Required in statute 41.45.030 for reporting to the PFC (all plans except LEOFF 2)
    - LEOFF 2 Board typically follows the PFC timeline
  - Includes some plan-specific data as well as national and regional economic data
- Demographic Experience Studies are performed at least every 6 years
  - More focus is placed on historical experience at a plan-specific level
  - Covers assumptions such as termination, mortality, retirement, disability
  - Next study scheduled to be completed in 2019 for the period 2013-2018

# Experience Studies Consider Past And Future Experience

- Analyze historical data and experience
  - Plan or system experience
  - National or regional experience
- Review projections for future expectations
  - Collaborate with other state agencies
- Analyze conditions that created certain experience
  - Are they outliers – highly unlikely to occur again?
    - May remove or limit reliance on those data points
  - Are they within range of expected outcomes?
    - Keep the data points and comment on the conditions and likelihood they occur again
  - Did they occur because of policy or plan changes?
    - Data points may require adjustment





## Past And Future Experience Is Blended Together

- Develop single point best estimate assumption
- Actuaries follow guidance in ASOPs
  - ASOPs no longer support a “best estimate range”
- Requires professional judgment
  - Past is not always the best predictor of the future
  - Part of actuary’s training and development
- Mix of art and science





## Three Economic Assumptions Applicable To LEOFF 2

- Rate of inflation
- Rate of general salary increases
- Rate of investment return
- Help us estimate
  - Future benefits payable from the plans
  - Today's value of future benefits and salary
  - Funding requirements (contribution rates) needed to secure those benefits

## Rate Of Inflation

- Inflation assumption used in our valuation model to estimate the amount of post-retirement Cost-of-Living Adjustments (COLAs) provided under the plan
- LEOFF 2 COLAs are based on Regional CPI (Seattle, Tacoma, Bremerton)
- Current assumption: 3.00%
- Includes
  - National inflation
  - Adjustments for regional inflation



## Rate Of General Salary Increases

- Represents a portion of the rate of change in an individual's salary
- Future salary levels impact an individual's benefit and contributions to the plan
- Current assumption: 3.75% annual salary growth
- Includes
  - Total inflation
  - Productivity growth
- Excludes promotions or merit/step increases that are included in plan-specific demographic assumptions

## Rate Of Investment Return

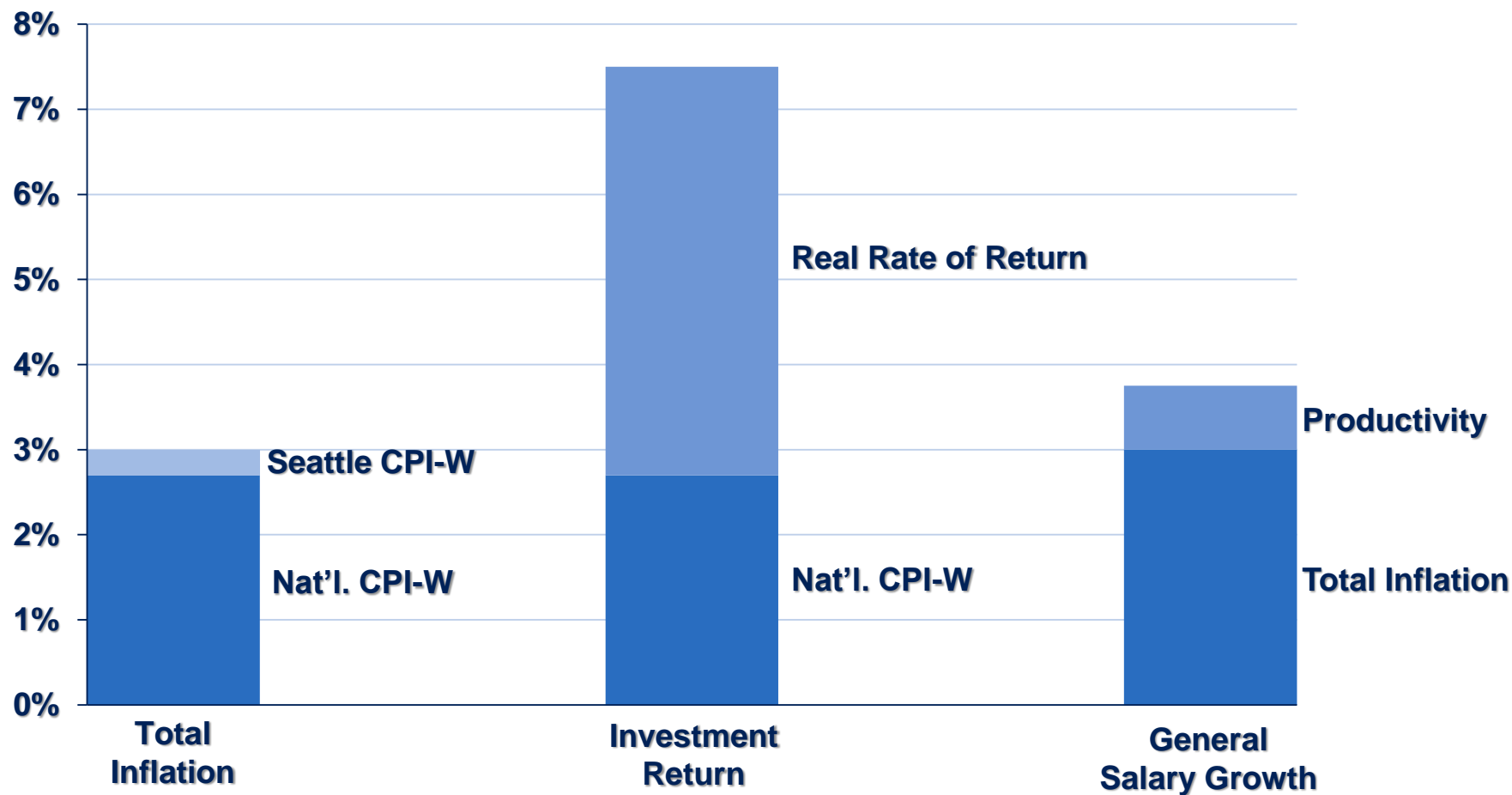
- Reflects anticipated returns on plan's current and future assets
- Assumption used to determine today's value of future benefit payments and salaries
- Key assumption for determining contribution requirements
- Current assumption: 7.50% annual asset growth
- Includes
  - National inflation
  - Real rate of return



## How The Assumptions Interact

- Entire set of economic assumptions should be consistent
- Developed using the building block method
  - Accepted approach under Actuarial Standards Board guidelines
  - Inflation component is the base for salary growth and investment return assumptions

## Building Block Example



## Recommended Assumptions Presented For Adoption

- Entire set of economic assumptions should be consistent
- If no changes are recommended
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- If changes are recommended for one or all assumptions
  - Actuary's best estimate is materially different from the current assumptions to support a change
    - Fiscal impact will likely result
    - Important to maintain appropriate funding levels and manage risks
  - Actuary will comment on whether current assumptions remain reasonable
- Adoption of new assumptions incorporated in the next rate-setting valuation

## What's Next For The Board?

- OSA finalizes actuarial valuation and economic experience study
- Actuarial valuation results presented to the Board at future meeting
  - No Board action required
- Recommendations for economic assumptions presented to the Board in September
  - Supporting analysis provided with the recommendations
  - Board action required to adopt any changes to economic assumptions





# Questions?



## Data Sources By Assumption

	Inflation	Investment Return	General Salary Growth
<b>DRS</b>			<b>X</b>
<b>WSIB</b>	<b>X</b>	<b>X</b>	
<b>Social Security Administration</b>	<b>X</b>		<b>X</b>
<b>Congressional Budget Office</b>	<b>X</b>		<b>X</b>
<b>Economic and Revenue Forecast Council</b>	<b>X</b>		
<b>Global Insight</b>	<b>X</b>		
<b>Bureau of Economic Analysis</b>			<b>X</b>
<b>Bureau of Labor and Statistics</b>	<b>X</b>		<b>X</b>

# LEOFF 2 Actuarial Valuation and Economic Experience Study Preview

*Lisa Won, ASA, FCA, MAAA  
Deputy State Actuary*

*Presentation to:  
LEOFF 2 Board*



Office of the State Actuary  
"Supporting financial security for generations."

**July 26, 2017**

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## Rate Of Investment Return

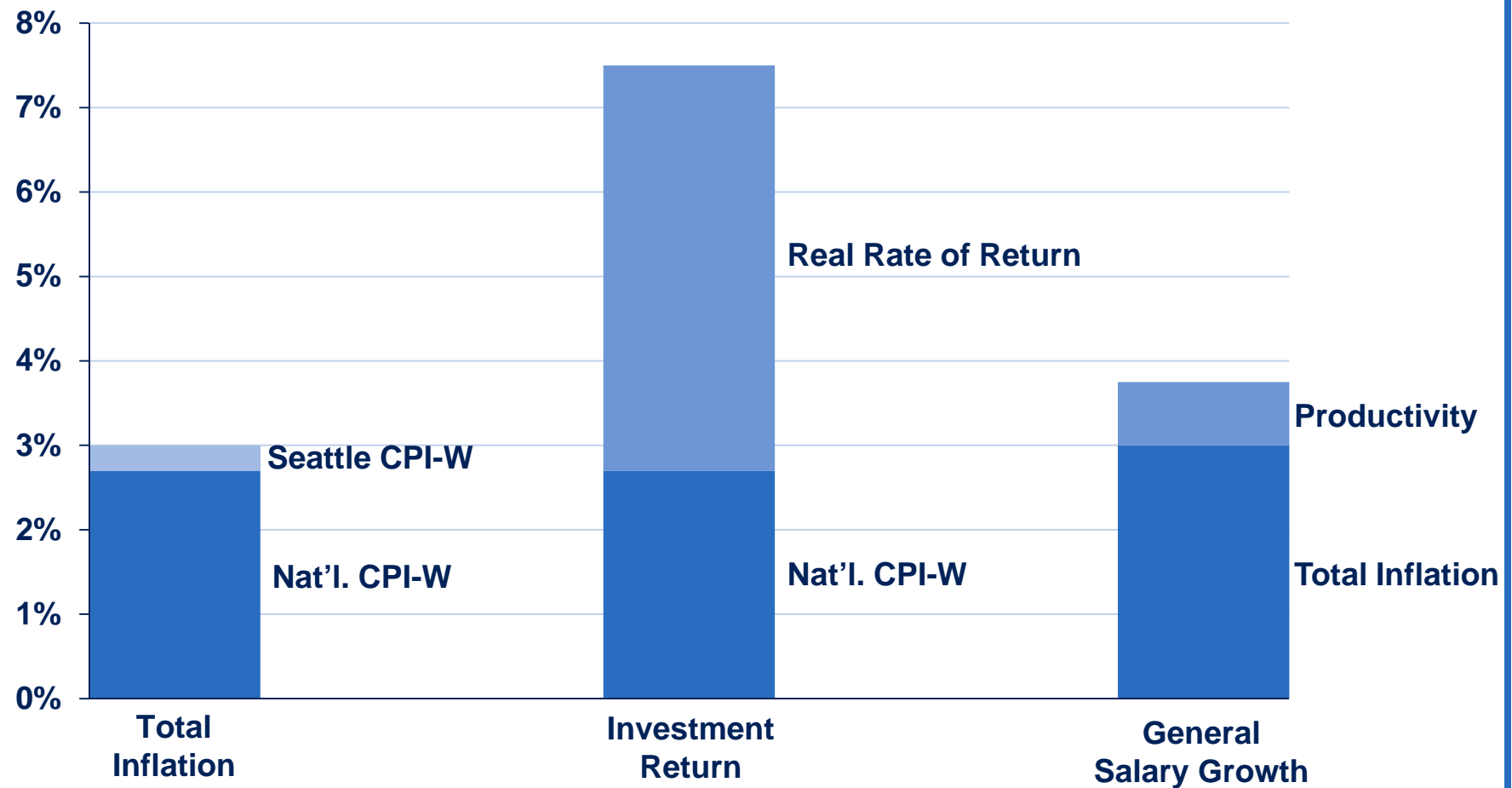
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## Building Block Example



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- Adoption of new assumptions incorporated in the next rate-setting valuation

## What's Next For The Board?

- OSA finalizes actuarial valuation and economic experience study
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  - Supporting analysis provided with the recommendations
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## Questions?



## Data Sources By Assumption

	Inflation	Investment Return	General Salary Growth
DRS			X
WSIB	X	X	
Social Security Administration	X		X
Congressional Budget Office	X		X
Economic and Revenue Forecast Council	X		
Global Insight	X		
Bureau of Economic Analysis			X
Bureau of Labor and Statistics	X		X



## 2017 Interim Planning

**Report Type:**

Initial Consideration

**Date Presented:**

7/26/2017

**Presenter Name and Title:**

Ryan Frost, Research and Policy Manager

**Summary:**

Review of possible topics to aid Board in setting 2017 interim agenda

**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
▣ 2017 Interim Planning	Presentation
▣ 2017 Interim Planning	Report





# 2017 Interim Planning

July 26, 2017

# Actuarial

- LEOFF 2 Actuarial Valuation
- Update on Cost of Benefit Improvements
- Economic Assumptions Adoption

# Potential Topics

- Presumption for PTSD
- Catastrophic Retiree Healthcare
- Retirees Recovering from Disabilities
- Retiree Return to Work

# Administrative

- DRS Rulemaking
- Financial Audit
- DRS/SIB Presentations
- October Offsite Planning Meeting
- Annual AG Training

# Questions?

Ryan Frost

Research and Policy Manager

[ryan.frost@leoff.wa.gov](mailto:ryan.frost@leoff.wa.gov)

360-586-2325



*July 26, 2017*  
**2017 Interim Planning**

By Ryan Frost  
Research and Policy Manager  
360-586-2325  
[ryan.frost@leoff.wa.gov](mailto:ryan.frost@leoff.wa.gov)

## **OVERVIEW**

### **Actuarial**

1. LEOFF 2 Actuarial Valuation
2. Update on Cost of Benefit Improvements
3. Economic Assumptions Adoption

### **Potential Topics**

1. Presumption for PTSD
2. Catastrophic Retiree Healthcare
3. Retirees Recovering from Disabilities
4. Retiree Return to Work

### **Administrative**

1. DRS Rulemaking
2. Financial Audit
3. DRS/SIB Presentations
4. October Offsite Planning Meeting
5. Annual AG Training



## **Interruptive Military Service Credit**

**Report Type:**

Initial Consideration

**Date Presented:**

7/26/2017

**Presenter Name and Title:**

Ryan Frost, Research and Policy Manager

**Summary:**

Commencement of Legislative directed Board review of requirements for member contributions for interruptive service credit.

**Strategic Linkage:**

This item supports the following Strategic Priority Goals:

Enhance the benefits for the members.

**ATTACHMENTS:**

Description	Type
▢ Interruptive Military Service Credit	Presentation
▢ Interruptive Military Service Credit	Report



# Interruptive Military Service Credit

Initial Consideration – July 26, 2017



# Issue

- Veterans who served during a designated conflict period but did not earn a campaign badge or medal must pay member contributions to receive LEOFF Plan 2 credit for periods of interruptive military service credit.

# Overview

- LEOFF Plan 2 members may establish up to 5 years of service credit for military service interrupting their LEOFF service.
- Member contributions are waived for LEOFF 2 members who served in the military:
  - 1) during wartime; or
  - 2) during a specified conflict for which they earned a campaign badge or medal.
- SB 5661
  - Should members of LEOFF 2 who are veterans of specified conflicts not during a period of war, and where they were not awarded a campaign badge or medal, also receive up to 5 years of free service credit?

# Background

- **Eligibility Requirements for Purchasing Military Service Credit**
  - **Qualified Military Service**
  - **Initiation of Reemployment**
  - **Required Contributions**

# Background

## **Waiver of Employee Contributions for Purchasing Military Service Credit**

- **Period of War**
- **Specified Military Operations**

# Policy Issues

SB 5661 directs the Board to study the following questions:

- Should member contributions for interruptive military service be waived for members who served during a specified conflict but did not earn a campaign badge or medal?
- If the waiver of member contributions were expanded:
  - How many additional members would become eligible for the waiver?
  - How many members who already paid contributions for these periods would be eligible for a refund?
  - What will be the cost to LEOFF Plan 2?

# Questions?

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## Interruptive Military Service Credit

### INITIAL CONSIDERATION

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### ISSUE STATEMENT

Veterans who served during a designated conflict period but did not earn a campaign badge or medal must pay member contributions to receive LEOFF<sup>1</sup> Plan 2 credit for periods of interruptive military service credit.

### OVERVIEW

LEOFF Plan 2 members may establish up to 5 years<sup>2</sup> of service credit for military service interrupting their LEOFF service. To establish service credit, many LEOFF Plan 2 members must submit the member contributions that would have been paid during that period. However, member contributions are waived for LEOFF 2 members who served in the military: 1) during wartime; or 2) during a specified conflict for which they earned a campaign badge or medal.

The Legislature directed the LEOFF Plan 2 Retirement Board (SB 5661, ch. 188, Laws of 2017) to study the current law requiring members who left employment to serve in the military during a specified conflict, but did not earn a campaign badge or medal, to pay member contributions for interruptive military service credit.

### BACKGROUND

Service credit is one of the factors used in computing your retirement benefit, so increasing your service credit would increase your future monthly benefit.

A member can purchase interruptive military service credit if:

- The member leaves LEOFF Plan 2 covered employment to render military service in one of the armed or uniformed services of the United States;

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<sup>1</sup> Law enforcement and firefighters' retirement system, chapter 41.26 RCW.

<sup>2</sup> Exceptions to the 5 year limit are listed in Appendix A under the subheading "maximum service credit".

- Upon termination of military service, the member initiates LEOFF Plan 2 covered reemployment within defined time limits, usually 90 days; and
- The member pays the required member contributions within the required timeframe.

The qualified military service credit and initiation of reemployment requirements are discussed in Appendix A. The contribution requirement is discussed in further detail below.

## **Required Contributions**

The member and employer contributions that would have been paid had the member not gone on military leave must be paid to establish service credit for the period of leave. Contributions are based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to the military leave. See RCW 41.26.520(7)(c).

The member must make the required payment within five years of resuming employment or prior to retirement, whichever comes first. Once the member pays their member contribution, the employer and the state are billed for their share of the total required contribution. Members who miss the deadline can purchase service credit prior to retirement by paying the full actuarial value of the additional benefit. This is significantly more expensive.

Responsibility for payment varies by the dates of service. If the military service was completed:

- Between October 1, 1977, and March 31, 1992, the member pays both the employer and member contributions plus interest;
- After March 31, 1992, and before October 6, 1994, the member pays the member contributions plus interest and the employer and state pay their contributions plus interest;
- After October 6, 1994, a member pays the member contributions (no interest) and the employer and state pay their contribution plus interest.

## **Waiver of Member Contributions**

Member contributions are waived if the member is a “veteran” under RCW 41.04.005. The statute limits veterans to persons serving during a “period of war” defined as:



- World War I, World War II, the Korean conflict, the Vietnam era, the Persian Gulf War, and any future period of war declared by Congress, See RCW 41.04.005. Any service during one of these conflicts specified above qualifies one as a veteran.
- Specified military operations where the member earned a campaign badge or medal<sup>3</sup>. The department of defense awards a campaign badge or medal to service members who:
  - Served during a specified conflict<sup>4</sup> ; and
  - Were stationed in a designated war zone.

Members who served during a specified operation but were not stationed in a war zone did not earn a campaign badge or medal. Because they do not meet the definition of “veteran” those members must pay member contributions for LEOFF Plan 2 interruptive military service credit.

## POLICY ISSUES

SB 5661 directs the Board to study extending the waiver of member contributions to LEOFF plan 2 members whose interruptive military service occurred during a specified military operation but who did not earn a campaign badge or medal.

- Should member contributions for interruptive military service be waived those members?
- If the waiver of member contributions were expanded:
  - How many additional members would become eligible for the waiver?
  - How many members who already paid contributions for these periods would be eligible for a refund?
  - What will be the cost to LEOFF Plan 2?

<sup>3</sup> Approved campaign badges or medals include: the Afghanistan Campaign Medal, Southwest Asia Service Medal, Armed Forces Expeditionary Medal, Iraq Campaign Medal, Vietnam Service Medal and Kosovo Campaign Medal.

<sup>4</sup> Defined conflicts include: the crisis in Lebanon, the invasion of Grenada, Operation Just Cause in Panama, Operation Restore Hope in Somalia, Operation Uphold Democracy in Haiti, Operation Joint Endeavor in Bosnia, Operation Noble Eagle, Operation Enduring Freedom in Southern or Central Asia, Operation Iraqi Freedom.

## APPENDIX A

### **Additional Background Information on Interruptive Military Service Credit**

The federal Uniform Services Employment and Re-employment Rights Act (USERRA) requires State retirement systems to allow members to establish service credit for interruptive military service. USERRA sets baseline requirements, some of which Washington State law exceeds. The state law requires the Department of Retirement Systems to administer the state interruptive military service credit law consistent with USERRA.

#### **1. Qualifying for Interruptive Military Service Credit**

In order to earn LEOFF Plan 2 credit for periods of interruptive military service credit, the member must perform qualifying military service, reenter public employment within a specified time following military discharge, and make required member contributions. The contribution requirement is discussed in the body of the report. The two remaining requirements are discussed below:

##### **a. Qualified Military Service**

Nearly all types of military service qualify as service in either an armed force or in a uniformed service for the purposes of interruptive military service credit. The following types of military service qualify:

- Service in the army, navy, air force, marine corps, or their reserve units (including two-week annual training for reservists);
- Full-time service in the United States Coast Guard;
- Service in the Public Health Service; and
- Service in the Army or Air National Guard provided to the federal government, but not including service provided to a state.

##### **b. Initiation of Reemployment**

Upon termination of military service, a member must initiate reemployment within certain defined time limits. The member must also be reemployed in a position covered by the retirement system the member was participating in at the time of interruption.

USERRA provides varying reemployment timeframes which are determined by the duration or type of military service that the person was engaged in. However, the state law generally is

longer than the provisions in USERRA. State law provides that a member must initiate reemployment within ninety days to qualify for interruptive military service credit.

There are two notable exceptions to the ninety day reemployment requirement that would allow a member to still purchase service credit. The state law provides that if a person fails to initiate reemployment within the required timeframe, that person can still purchase the service credit by paying the full actuarial value of the increase to their benefit from the additional service credit.

USERRA provides that the timeframe for initiation of reemployment can be extended for up to two years for a person who is hospitalized or convalescing because of a disability incurred or aggravated during the period of military service. The two year period can be further extended by the minimum time required to accommodate a circumstance beyond an individual's control that would make reporting within the two-year period impossible or unreasonable. Employers are required under USERRA to make reasonable efforts to accommodate reemployment of a person with a disability incurred or aggravated while in Military Service. However, employers are exempt from such efforts if such accommodation would be of such difficulty or expenses as to cause "undue hardship".

## **2. Maximum Service Credit**

USERRA provides for a maximum of five years of interruptive military service credit. The state law matches this maximum. There are some exceptions to the five-year maximum that are provided by USERRA as describe in 38 USC, 4312. These exceptions include:

- Obligated services incurred beyond five years, usually by individuals with special skills, (such as an electronics expert)
- Inability to obtain release (needs to be documented on a case by case basis)
- Training requirements
- Specific active duty provisions
- War or a declared national emergency
- Certain operational missions
- Critical missions or requirements (such as Grenada or Panama in the 1980's, when provisions for involuntary activation of Reserves were not exercised)
- Specific National Guard provisions

If a member has over five years of interruptive military service and the excess falls into one of these exceptions then the member may be entitled to additional military service credit.

### 3. Comparison to Other Washington State Systems

The following plans allow members to purchase retirement service credit for interruptive military service in the same manner as allowed for LEOFF Plan 2:

- Washington State Patrol Retirement System (WSPRS) Plan 2,
- Public Employees' Retirement System (PERS) Plan 2,
- School Employees' Retirement System (SERS) Plan 2, and
- Teachers' Retirement System (TRS) Plan 2.

While the **Plan 1** systems allow interruptive military service credit, the members in PERS Plan 1, LEOFF Plan 1, and WSPRS Plan 1 are not required to pay any cost for the service credit. A TRS Plan 1 member is required to pay the contributions that would have been paid had the member not gone on a military leave of absence.

## LEOFF Plan 2 Retirement Board

## Agency Summary BITD as of June 2017

Category	BI Allotment	BITD Allotment	BITD Expenditures	BITD Variance	BI Variance
Salaries and Wages	1,213,076	1,213,076	1,213,070	6	6
Employee Benefits	348,445	348,445	347,583	862	862
Goods and Other Services	604,745	604,745	603,277	1,468	1,468
Travel	104,901	104,901	101,626	3,275	3,275
Capital Outlays	5,604	5,604	4,614	990	990
Professional Service Contracts	89,229	89,229	68,031	21,198	21,198
Interagency Reimbursements	0	0	(0)	0	0
Grants, Benefits & Client Services	0	0	200	(200)	(200)
<b>Sum:</b>	<b>2,366,000</b>	<b>2,366,000</b>	<b>2,338,402</b>	<b>27,598</b>	<b>27,598</b>

Category	FM Allotment	FM Expenditure	FM Variance	BITD Allotment	BITD Expenditures	BITD Variance
<b>Salaries and Wages</b>	<b>51,789</b>	<b>51,789</b>	<b>0</b>	<b>1,213,076</b>	<b>1,213,070</b>	<b>6</b>
AA State Classified	35,183	35,183	0	821,597	821,591	6
AC State Exempt	16,606	16,606	0	390,014	390,014	0
AS Sick Leave Buy-Out	0	0	0	1,465	1,465	(0)
<b>Employee Benefits</b>	<b>16,325</b>	<b>16,259</b>	<b>66</b>	<b>348,445</b>	<b>347,583</b>	<b>862</b>
BA Old Age and Survivors Insurance	3,211	3,143	68	72,764	72,233	531
BB Retirement and Pensions	5,790	5,790	(0)	135,464	135,464	(0)
BC Medical Aid & Industrial Insurance	282	282	(0)	6,724	6,718	6
BD Health, Life & Disability Insurance	6,216	6,216	0	145,255	145,285	(30)
BE Allowances	75	92	(17)	622	692	(70)
BH Hospital Insurance (Medicare)	751	735	16	17,310	17,175	135
BT Shared Leave Provided Sick Leave	0	0	0	0	4,781	(4,781)
BU Shared Leave Provided Per Holiday	0	0	0	0	1,426	(1,426)
BV Shared Leave Provided Annual Leave	0	0	0	0	8,819	(8,819)
BW Shared Leave Received	0	0	0	0	(45,060)	45,060
BZ Other Employee Benefits	0	0	0	(29,694)	50	(29,744)
<b>Professional Service Contracts</b>	<b>0</b>	<b>303</b>	<b>(303)</b>	<b>89,229</b>	<b>68,031</b>	<b>21,198</b>
CA Management and Organizational Services	0	0	0	4,000	0	4,000
CB Legal/Expert Witness Services	0	303	(303)	60,229	46,401	13,828
CC Financial Services	0	0	0	20,000	17,630	2,370
CD Computer/Information Services	0	0	0	5,000	4,000	1,000
<b>Goods and Other Services</b>	<b>20,974</b>	<b>21,648</b>	<b>(674)</b>	<b>604,745</b>	<b>603,277</b>	<b>1,468</b>
EA Supplies and Materials	(325)	168	(493)	(400)	(618)	218
EB Communications/Telecommunications	765	343	422	31,779	31,324	455
EC Utilities	520	802	(282)	12,372	12,277	95
ED Rentals and Leases - Land & Buildings	3,830	3,830	1	91,920	91,908	12
EE Repairs, Alterations & Maintenance	0	0	0	0	795	(795)
EF Printing and Reproduction	60	232	(172)	35,732	34,395	1,337
EG Employee Prof Dev & Training	895	983	(88)	52,165	60,242	(8,077)
EH Rental & Leases - Furn & Equipment	307	324	(17)	8,647	8,636	11
EJ Subscriptions	125	380	(255)	2,817	2,441	376
EK Facilities and Services	256	382	(126)	8,013	7,989	24
EL Data Processing Services (Interagency)	700	540	160	16,939	14,899	2,040
EM Attorney General Services	1,833	215	1,618	46,050	38,337	7,713
EN Personnel Services	431	435	(4)	7,374	7,369	5
EP Insurance	0	0	0	115	115	0
ER Other Contractual Services	11,099	11,630	(531)	279,232	279,340	(108)
EW Archives & Records Management Svcs	0	0	0	296	300	(4)
EY Software Licenses and Maintenance	408	1,385	(977)	10,434	12,827	(2,393)
EZ Other Goods and Services	70	0	70	1,260	702	558
<b>Travel</b>	<b>4,702</b>	<b>9,253</b>	<b>(4,551)</b>	<b>104,901</b>	<b>101,626</b>	<b>3,275</b>
GA In-State Subsistence & Lodging	2,176	6,219	(4,043)	22,194	22,484	(290)
GB In-State Air Transportation	0	0	0	2,126	2,611	(485)
GC Private Automobile Mileage	337	1,565	(1,228)	18,089	18,123	(34)
GD Other Travel Expenses	410	797	(387)	10,698	10,113	585
GF Out-of-State Subsistence & Lodging	1,279	672	607	36,524	31,544	4,980
GG Out-of-State Air Transportation	500	0	500	15,270	16,752	(1,482)
<b>Capital Outlays</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,604</b>	<b>4,614</b>	<b>990</b>
JA Noncapitalized Assets	0	0	0	5,004	4,614	390
JB Noncapitalized Software	0	0	0	600	0	600
<b>Grants, Benefits &amp; Client Services</b>	<b>0</b>	<b>200</b>	<b>(200)</b>	<b>0</b>	<b>200</b>	<b>(200)</b>
NZ Other Grants and Benefits	0	200	(200)	0	200	(200)
<b>Interagency Reimbursements</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
SA Salaries and Wages	0	0	0	0	0	0
SB Employee Benefits	0	0	0	0	0	0
<b>Total Dollars</b>	<b>93,790</b>	<b>99,452</b>	<b>(5,662)</b>	<b>2,366,000</b>	<b>2,338,402</b>	<b>27,598</b>

MEETING DATE	AGENDA ITEMS
<b>January 25</b>	Legislative Update
<b>February 22</b>	Legislative Update
<b>March 22</b>	Legislative Update
<b>April 19</b>	Legislative Update
<b>May 31</b>	Legislative Update
<b>June 28</b>	Legislative Update
<b>July 26</b>	Legislative Update Actuarial Valuation and Economic Experience Study Preview – Lisa Won, OSA 2017 Interim Planning Interruptive Military Service Credit Executive Director COLA Budget Update
<b>August 23</b>	
<b>September 27</b>	Board Member Annual Training – Tor Jernudd, AGO
<b>October 18</b>	<i>Proposed 2017 Meeting Calendar</i>
<b>November 15</b>	
<b>December 20</b>	2018 Meeting Calendar Adoption