

BOARD MEETING AGENDA

September 23, 2015 - 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

- | | |
|---|----------|
| 1. Approval of Minutes | 9:30 AM |
| 2. LEOFF Audit Results FY 2015
Steve Davis, Davis Accounting, Tax & Audit Service | 9:35 AM |
| 3. Supplemental Contribution Rate Adoption
Ryan Frost, Research and Policy Manager | 10:00 AM |
| 4. Economic Experience Study
Graham Dyer, Actuarial Analyst
Lisa Won, ASA, FCA, MAAA, Deputy State Actuary | 10:30 AM |
| 5. Administrative Factors Adoption
Lisa Won, ASA, FCA, MAAA, Deputy State Actuary | 11:00 AM |
| 6. Administrative Update <ul style="list-style-type: none">• Outreach Activities• SCPP Update | 11:30 AM |
| 7. Career Extension
Paul Neal, Senior Research and Policy Manager | 12:00 PM |
| 8. Disaster Response Coverage
Ryan Frost, Research and Policy Manager | 12:30 PM |
| 9. Retiree Annuity Purchase
Paul Neal, Senior Research and Policy Manager | 1:00 PM |
| 10. Alternate Revenue
Steve Nelsen, Executive Director | 1:30 PM |
| 11. Board and Administrative Committee Elections
Steve Nelsen, Executive Director | 2:00 PM |
| 12. 2015 Meeting Dates
Steve Nelsen, Executive Director | 2:30 PM |
| 13. Agenda Items for Future Meetings
Steve Nelsen, Executive Director | 2:45 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.



LEOFF Audit Results FY 2015

Report Type:

Comprehensive Report

Date Presented:

9/23/2015

Presenter Name and Title:

Steve Davis, Davis Accounting, Tax & Audit Service

Summary:

LEOFF Financial Audit Report for Fiscal Year 2015

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Maintain the financial integrity of the plan., Inform the stakeholders.

ATTACHMENTS:

Description	Type
 LEOFF Audit Results FY15	Report

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS
PLAN 2 RETIREMENT BOARD**

AUDITED SCHEDULE OF EXPENDITURES

**For the Year Ended
June 30, 2015**

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS
PLAN 2 RETIREMENT BOARD
For the Year Ended June 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board
Law Enforcement Officers & Firefighters Plan 2 Retirement Board
PO Box 40918
Olympia, WA 98504-0918

I have audited the accompanying schedule of expenditures and related notes to the schedule of expenditures (schedule and notes) of the Law Enforcement Officers & Firefighters Plan 2 Retirement Board for the year ended June 30, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the schedule and notes in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule and notes that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on schedule and notes based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the schedule and notes are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule and notes. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule and notes, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule and notes in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule and notes.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the schedule and notes referred to above present fairly, in all material respects, the expenditures of the Law Enforcement Officers and Firefighters Plan 2 Retirement Board for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Davis Accounting Tax & Audit Services

123 Fir Street NE
Olympia, WA. 98506

Other-Matter

My audit was conducted for the purpose of forming an opinion on the schedule of expenditures and related notes as a whole. The supplementary information presented on pages 8 and 9 is presented for purposes of additional analysis and is not a required part of the schedule of expenditures. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the schedule of expenditures. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the schedule of expenditures or to the schedule of expenditures itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the schedule of expenditures as a whole.



DAVIS ACCOUNTING TAX & AUDIT SERVICES

Olympia, WA
September 14, 2015

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF EXPENDITURES - BUDGET ALLOTMENT TO ACTUAL
For the Year Ended June 30, 2015

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Salaries & wages	\$ 514,728	\$ 569,538	\$ (54,810)
Employee benefits & payroll taxes	157,542	154,058	3,484
Personal service contracts	32,285	29,220	3,065
Goods & services - supplies & materials	4,204	4,479	(275)
Goods & services - communications	13,500	11,156	2,344
Goods & services - utilities	6,000	5,411	589
Goods & services - rentals & leases	46,920	45,954	966
Goods & services - repairs & maintenance	996	16	980
Goods & services - printing & reproduction	25,080	10,204	14,876
Goods & services - employee development	41,700	35,040	6,660
Goods & services - furniture & equipment leases	4,980	5,434	(454)
Goods & services - subscriptions	798	5,096	(4,298)
Goods & services - facilities & related services	17,900	5,970	11,930
Goods & services - data processing	9,000	4,222	4,778
Goods & services - Attorney General's Office	22,500	12,010	10,490
Goods & services - personnel services	504	1,112	(608)
Goods & services - insurance	1,000	50	950
Goods & services - other purchased services	133,708	152,298	(18,590)
Other goods & services	3,660	9,004	(5,344)
Travel, lodging & subsistence	82,995	71,323	11,672
Capital outlays	2,000	17,824	(15,824)
Grants, benefits & client	0	207	(207)
 Total Expenditures	 <u>\$ 1,122,000</u>	 <u>\$ 1,149,626</u>	 <u>\$ (27,626)</u>

The accompanying notes are an integral part of this schedule of expenditures.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies

The Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board (the Board) was created through a taxpayer initiative approved by voters in November 2002. The schedule of expenditures – budget allotment to actual of the Board has been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity, Background & Activities:

An eleven-member board, appointed by the Governor of the State of Washington, governs the Board. Board members are appointed from the following groups of individuals:

- Three must be active law enforcement officers who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired law enforcement officer who is a member of the plan).
- Three must be active fire fighters who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired fire fighter who is a member of the plan).
- Three must be representatives of employers
- One must be a member of the State House of Representatives
- One must be a member of the State Senate

The Board is empowered to oversee the Law Enforcement Officers & Fire Fighters Plan 2 Retirement system (LEOFF 2). They do not maintain custody or manage the investments of the plan. The custody and investment management function is the responsibility of the Washington State Investment Board (SIB). The Board is required to 1) adopt actuarial tables, assumptions and cost methodologies; 2) adopt contribution rates for LEOFF Plan 2; as well as other related duties. Some specific duties relating to the expenditures of the Board are;

Professionals & technical advisors:

- Retain Professionals & technical advisors necessary to accomplish the board's duties.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies, Continued

Actuary:

- Consult with an enrolled actuary retained by the board (The state actuary shall provide assistance when the board requests.)
- The actuary used must provide the State Actuary with copies of its valuations, assumptions and cost methodology for a reasonableness review.
- If the two actuaries do not agree, a third actuary must be appointed by the board and state actuary.

Other Costs:

- Engage administrative staff and acquire office space
- Board members shall be reimbursed for travel and education expenses as provided in RCW 43.03.050 and 43.03.060

B. Basis Of Accounting And Reporting:

All payroll, reporting and accounting functions are handled by the Washington State Department of Enterprise Service's Small Agency Financial and HR Services and recorded in the State of Washington's Accounting & Financial Reporting System under Agency #341.

The Board uses the modified-accrual basis of accounting with a measurement focus on current financial resources. Therefore, the purchase of non-current assets such as property, plant and equipment is not deemed to be an asset for financial reporting purposes. Instead, these costs are reflected as expenditures in the year they are incurred.

C. Subsequent Events Evaluation:

Management has evaluated for subsequent events through September 22, 2014, the date the financial statements were available to be issued. No material subsequent events were identified by management.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies, Continued

D. Budgetary Process:

The Board must develop an annual budget consistent with the requirements of chapter 43.88 RCW. This budget draws funding from the investment income of the LEOFF Trust fund held by the State Investment Board.

The Board's budget is subject to the OFM allotment process but is not subject to legislative appropriation. Allotments may be adjusted on a quarterly basis. Monthly allotments are not binding but are used as a tool to ensure the total biennium budget is not exceeded.

The Board's operating expenses are paid from a sub-account of the LEOFF Plan 2 Retirement Fund (the expense fund).

E. Expenditure Authority (RCW 41.26.732):

The authority to establish all policies relating to the expense fund, other than the investment policies of the SIB, resides with the Board. With the exception of investments by, and expenses of, the SIB, disbursements from the expense fund may be made only on the authorization of the board.

The expense fund may be spent only for the purposes of defraying the expenses of the Board. Expenses include, but are not limited to:

- Salaries and expenses of personnel
- Lease payments
- Travel
- Goods & services
- Audits
- Other general costs of conducting board business

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2015

Note 2 – Commitments

The Board, Acting through the Washington State Department of Enterprise Services, entered into an operating lease for office space through April 30, 2019. The agreement calls for monthly lease payments of \$3,829.50. In addition to monthly lease payments the Board is also required to pay the landlord for its prorate share (5.36%) of water, sewer, garbage and restroom supplies as well as the cost of electricity and natural gas directly attributable to the office space occupied.

Upon expiration of the lease term on April 30, 2019, The Board may renegotiate the lease for another five (5) year term, allow the lease to become a month to month lease, or vacate the premise.

The lease may be cancelled and terminated by either party any time provided written notice of such cancellation and termination shall have been given at least one-hundred eighty (180) days prior to the effective date thereof. The Board has not provided such written notice and was therefore obligated, at June 30, 2015, to pay rents through December 28, 2015. The minimum lease payment through December 28, 2015 was approximately \$22,660.

SUPPLEMENTARY INFORMATION

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
COMPARATIVE SCHEDULE OF EXPENDITURES
For the Biennium Ended June 30, 2015

	Year Ended <u>06/30/2014</u>	Year Ended <u>06/30/2015</u>	Biennium Ended <u>06/30/2015</u>
Salaries & wages	\$ 487,776	\$ 569,538	\$ 1,057,314
Employee benefits & payroll taxes	149,002	154,058	303,059
Personal service contracts	0	29,220	29,220
Goods & services - supplies & materials	2,386	4,479	6,865
Goods & services - communications	12,092	11,156	23,248
Goods & services - utilities	5,111	5,411	10,522
Goods & services - rentals & leases	45,954	45,954	91,908
Goods & services - repairs & maintenance	276	16	292
Goods & services - printing & reproduction	17,510	10,204	27,714
Goods & services - employee development	34,615	35,040	69,655
Goods & services - furniture & equipment leases	4,673	5,434	10,107
Goods & services - subscriptions	2,260	5,096	7,356
Goods & services - facilities & related services	5,964	5,970	11,934
Goods & services - data processing	4,286	4,222	8,508
Goods & services - Attorney General's Office	28,011	12,010	40,021
Goods & services - personnel services	7,970	1,112	9,082
Goods & services - insurance	25	50	75
Goods & services - other purchased services	132,438	158,306	290,745
Other goods & services	4	2,996	3,000
Travel, lodging & subsistence	62,486	71,323	133,809
Capital outlays	11,215	17,824	29,039
Grants, benefits & client	400	207	607
 Total Expenditures	 <u>\$ 1,014,454</u>	 <u>\$ 1,149,626</u>	 <u>\$ 2,164,080</u>

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF BIENNIUM EXPENDITURES - BUDGET TO ACTUAL
For the Biennium Ended June 30, 2015

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>OVER (UNDER) BUDGET</u>
Salaries & wages	\$ 1,110,787	\$ 1,057,314	\$ (53,473)
Employee benefits & payroll taxes	320,584	303,059	(17,525)
Personal service contracts	80,205	29,220	(50,985)
Goods & services - supplies & materials	8,400	6,865	(1,535)
Goods & services - communications	27,000	23,248	(3,752)
Goods & services - utilities	12,000	10,522	(1,478)
Goods & services - rentals & leases	93,840	91,908	(1,932)
Goods & services - repairs & maintenance	1,992	292	(1,700)
Goods & services - printing & reproduction	50,160	27,714	(22,446)
Goods & services - employee development	59,700	69,655	9,955
Goods & services - furniture & equipment leases	9,960	10,107	147
Goods & services - subscriptions	2,236	7,356	5,120
Goods & services - facilities & related services	25,400	11,934	(13,466)
Goods & services - data processing	12,900	8,508	(4,392)
Goods & services - Attorney General's Office	45,000	40,021	(4,979)
Goods & services - personnel services	3,008	9,082	6,074
Goods & services - insurance	2,100	75	(2,025)
Goods & services - other purchased services	316,621	290,745	(25,876)
Other goods & services	14,389	3,000	(11,389)
Travel, lodging & subsistence	125,934	133,809	7,875
Capital outlays	29,000	29,039	39
Grants, benefits & client	0	607	607
 Total Expenditures	 <u>\$ 2,351,216</u>	 <u>\$ 2,164,080</u>	 <u>\$ (187,136)</u>



Supplemental Contribution Rate Adoption

Report Type:

Final Proposal

Date Presented:

9/23/2015

Presenter Name and Title:

Ryan Frost, Research and Policy Manager

Summary:





The Board must decide whether it is necessary to increase contribution rates due to the passage of Substitute House Bill 1194, providing surviving spouses of members of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement System and Washington State Patrol Retirement System (WSPRS) monthly survivor benefits regardless of remarriage.

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.

ATTACHMENTS:

Description	Type
 Supplemental Rate Adoption Report	Report
 Supplemental Rate Adoption Presentation	Presentation
 Supplemental Rate Adoption Appendix A	Appendix
 Supplemental Rate Adoption Appendix B	Appendix



September 23, 2015

Supplemental Rate Adoption

FINAL PROPOSAL

By Ryan Frost

Research and Policy Manager

360-586-2325

ryan.frost@leoff.wa.gov

ISSUE STATEMENT

The Board must decide whether it is necessary to increase contribution rates due to the passage of Substitute House Bill 1194, providing surviving spouses of members of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement System and Washington State Patrol Retirement System (WSPRS) monthly survivor benefits regardless of remarriage.

OVERVIEW

Based on the preliminary actuarial data as of May 18, 2015, there were 16,773 active LEOFF Plan 2 members. Adopting supplemental contribution rates impacts all active LEOFF Plan 2 members, employers, and the state.

One of the Board's strategic goals is to ensure the financial integrity of the plan. In order to maintain that goal, it may be necessary for the Board to pay for benefit improvements. Not all benefit improvements will have costs necessitating an increase in contribution rates, but if they do, the Board has the option of adopting a supplemental rate increase. Changes are usually effective September 1 following the effective date of the legislation.

BACKGROUND & POLICY ISSUES

In the 2014 interim, the Board decided to leave contribution rates at their current levels for the upcoming biennium. However with the added cost of this new benefit, there is potentially a larger gap between actual rates and what the normal cost of the plan is projected to be.

The vast majority of the costs of this bill are related to the assumptions of remarriage among current widows. OSA's best estimate was that 40% of widows would remarry within four years. It may be the Board's decision to let experience play out before assuming changes to the normal cost of the plan.

The Board could also decide to adopt the full entry age normal cost (EANC) of the plan now. The majority of the rate increases were tied to mortality improvements among the population. In the 2014 biennium, the Board elected to leave rates at their current levels through the 2015-2017 biennium, then adopt the full normal cost rates for the 2017-2019 biennium.

FISCAL NOTE CHANGES

The Office of the State Actuary (OSA) provided a revised fiscal note on August 25, 2015 indicating the cost of this benefit enhancement would require a contribution rate increase of five basis points for the member (0.05%), three basis points for the employer (0.03%), and two basis point for the state (0.02%). See Appendix A.

This fiscal note differs from the prior version in two ways. First, the Department of Retirement Systems (DRS) determined the Cost-of Living Adjustment (COLA) applied to these benefits is not the same as those applied to retirement benefits and will be based upon the percent increase in the State Average Wage (SAW) consistent with current L&I administrative practices. The SAW is the Washington State average annual wage as determined by the Employment Security Department (ESD) under RCW 50.04.355. Second, OSA received updated data from the Department of Labor & Industries (L&I) regarding current survivors that could be eligible for this benefit in the future.¹

Helping to maintain the goal of actuarial soundness in the plan, the Board had an outside independent actuary audit OSA's fiscal note. See Appendix B.

POLICY OPTIONS

Option 1: Do not adopt a supplemental rate

Under this option, the Board would recommend no increase in contribution rates. This would leave rates at:

Member	8.41%
Employer	5.05%
State	3.36%

Option 2: Adopt OSA's recommended supplemental rates

Under this option, the Board would recommend to adopt an increase in contribution rates of 0.05% for members, 0.03% for employers, and 0.02% for the state. Rates would increase to:

Member	8.46%
Employer	5.08%
State	3.38%

¹ Appendix A

Option 3: Adopt the full normal cost

Under the option, the Board would adopt the full normal cost of the plan as presented by OSA last interim, including the cost of the new benefit. This would increase rates to:

Member	8.90%
Employer	5.34%
State	3.56%

SUPPORTING INFORMATION

Appendix A: Revised fiscal note

Appendix B: Independent Actuarial audit of OSA revised fiscal note

Multiple Agency Fiscal Note Summary

Bill Number: 1194 S HB	Title: Death benefits/LEOFF, WSPRS
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Estimated Cash Receipts

NONE

Estimated Expenditures

Agency Name	2015-17			2017-19			2019-21		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Retirement Systems	.1	0	24,278	.0	0	0	.0	0	0
Department of Labor and Industries	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	1,400,000	1,600,000	.0	1,500,000	1,700,000	.0	1,600,000	1,800,000
Total	0.1	\$1,400,000	\$1,624,278	0.0	\$1,500,000	\$1,700,000	0.0	\$1,600,000	\$1,800,000

Estimated Capital Budget Impact

NONE

Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Revised 8/25/2015
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

ENPID: 42333

FNS029 Multi Agency rollout

Individual State Agency Fiscal Note

Bill Number: 1194 S HB	Title: Death benefits/LEOFF, WSPRS	Agency: 124-Department of Retirement Systems
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	0.2	0.0	0.1	0.0	0.0
Account					
Department of Retirement Systems	24,278	0	24,278	0	0
Expense Account-State 600-1					
Total \$	24,278	0	24,278	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☒ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 02/12/2015
Agency Preparation: Dave Nelsen	Phone: 360-664-7304	Date: 02/17/2015
Agency Approval: Marcie Frost	Phone: 360-664-7224	Date: 02/17/2015
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/17/2015

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill provides that if a surviving spouse or domestic partner of a member of Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System or of the Washington State Patrol Retirement System (WSPRS) receives death benefits from the Department of Labor and Industries (LNI) due to a duty-related death, and subsequently loses those benefits as a result of remarriage or new domestic partnership, that the Department of Retirement Systems (DRS) will administer an equivalent payment which will be funded out of the appropriate retirement trust fund.

In addition, this bill states that these equivalent LNI replacement payments will resume for surviving spouses or domestic partners whose LNI death benefits stopped prior to the effective date of the bill due to remarriage or new domestic partnership. The bill also declares that if the surviving spouse or domestic partner had received a lump sum payment from LNI, the monthly replacement payments from DRS will be actuarially reduced.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ADMINISTRATIVE ASSUMPTIONS

- There are currently eight known cases that would be eligible for this payment (six LEOFF, two WSPRS).
- There are currently 52 LEOFF accounts and six WSPRS accounts that are receiving benefits from DRS for duty-related death. It is assumed that the majority of these accounts are also receiving LNI death benefits and would possibly be affected by this legislation now or in the future.
- An estimated average of six duty-related deaths occur each year in the LEOFF 2 and WSPRS systems.
- Eligible surviving spouses and domestic partners would be required to contact DRS and request to receive payment of the amount equivalent to the LNI benefit that has been stopped due to their remarriage or new domestic partnership.
- DRS will coordinate with LNI to verify the amount of the benefit that they had been paying and the date on which that benefit was stopped.
- The LNI replacement benefit will be added to the DRS payment as an adjustment, and will be eligible for any pension-based increases (e.g. LEOFF 2 and WSPRS Cost-of-Living Adjustments).
- The LNI replacement benefit will assume the same tax characteristics as the death benefit that is already being paid by DRS.
- If the surviving spouse or domestic partner stopped receiving LNI death benefits prior to the effective date of the bill, the LNI replacement payment from DRS will be effective immediately upon the bill's effective date. The payments will not be made retroactively for periods of time prior to the effective date of the bill.
- If the surviving spouse or domestic partner received a lump sum payment from LNI, the monthly LNI replacement payments from DRS will be actuarially reduced to reflect the lump sum payment.

- If the remarriage or domestic partnership which resulted in the LNI benefit stoppage ends, the recipient is responsible to contact DRS to stop paying the additional replacement benefit when the LNI benefits resume.
- DRS would communicate with LNI annually on all affected accounts to determine whether the LNI benefit has been restarted, and take appropriate action to adjust the account.
- DRS will create a new adjustment code to add this benefit to the existing pension.

The assumptions above were used in developing the following workload impacts and cost estimates.

BENEFITS/CUSTOMER SERVICE

Retirement Specialists (RSs) will support the modifications of DRS' automated systems by participating in business requirement development and user acceptance testing activities. RSs will assist in reviewing minimal updates to member communications and internal reference and training materials. RSs will develop and implement the necessary manual processes for supporting this legislation, and there will be increased review and processing time needed by lead retirement specialists in special processing units to make the adjustments on affected accounts.

Retirement Specialist 3 – 490 hours (salary/benefits) = \$17,141

AUTOMATED SYSTEMS

The agency's automated systems will need to be modified to add a new benefit adjustment code. Business requirements will be developed and User Acceptance Testing will be needed.

Info Tech Specialist 4 - 30 hours (salary/benefits) = \$1,387

Contracted programming – 50 hours @ \$95 per hour = \$4,750

DES* cost - 2 weeks @ \$500 per week = \$1,000

Total Estimated Automated Systems Costs = \$7,137

*cost for mainframe computer processing time and resources at CTS/DES

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL: \$24,278

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	0.2		0.1		
A-Salaries and Wages	13,199		13,199		
B-Employee Benefits	5,329		5,329		
C-Professional Service Contracts					
E-Goods and Other Services	5,750		5,750		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	\$24,278	\$0	\$24,278	\$0	\$0

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2016	FY 2017	2015-17	2017-19	2019-21
Info Tech Specialist 4	71,496	0.0		0.0		
Retirement Specialist 3	51,864	0.2		0.1		
Total FTE's	123,360	0.2		0.1		0.0

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

New rules will be required.

Individual State Agency Fiscal Note

Bill Number: 1194 S HB	Title: Death benefits/LEOFF, WSPRS	Agency: 235-Department of Labor and Industries
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Part I: Estimates

☒ **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 02/12/2015
Agency Preparation: Jennifer C Smith	Phone: 360-902-4470	Date: 02/16/2015
Agency Approval: Randi Warick	Phone: 360-902-4214	Date: 02/16/2015
OFM Review: Devon Nichols	Phone: (360) 902-0582	Date: 02/18/2015

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

See attached.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

None.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

None.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

None.

Part II: Explanation

This legislation allows for certain surviving spouses who are not eligible to receive industrial insurance payments due to remarriage to receive benefits through the Law Enforcement Officers' and Firefighters (LEOFF) retirement system or the State Patrol retirement system an amount equal to the benefit they would have received if they had not remarried.

II. A – Brief Description of What the Measure Does that Has Fiscal Impact

This fiscal note differs from the fiscal note for HB 1194 distributed on January 26, 2015. The previous legislation required the industrial insurance payment to continue to be paid to surviving spouses through Labor and Industries. The substitute bill requires the equivalent amount to be paid through the LEOFF or State Patrol retirement systems.

II. B – Cash Receipt Impact

II. C – Expenditures

This legislation has no fiscal impact on Labor and Industries. The amount paid to qualifying surviving spouses will not be paid with either the Accident or Medical Aid funds. Labor and Industries will no longer need to do programming to provide an indicator to track the surviving spouses.

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

None.

Individual State Agency Fiscal Note

Revised

Bill Number: 1194 S HB	Title: Death benefits/LEOFF, WSPRS	Agency: AFN-Actuarial Fiscal Note - State A
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
Account					
All Other Funds-State 000-1	100,000	100,000	200,000	200,000	200,000
General Fund-State 001-1	600,000	800,000	1,400,000	1,500,000	1,600,000
Total \$	700,000	900,000	1,600,000	1,700,000	1,800,000

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 02/12/2015
Agency Preparation: Aaron Gutierrez	Phone: 360-786-6152	Date: 08/24/2015
Agency Approval: Lisa Won	Phone: 360-786-6150	Date: 08/24/2015
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 08/25/2015

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

NONE

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: The substitute bill states that when certain death benefits paid to a surviving spouse cease due to remarriage, an identical benefit will be paid from the LEOFF 2 or WSPRS trust fund.

COST SUMMARY

Impact on Contribution Rates (Effective 07/01/2015)		
Fiscal Years 2015-2017 State Budget	LEOFF 2	WSPRS
Employee (Plan 2)	0.10%	0.15%
Employer	0.06%	0.15%
State	0.04%	

Budget Impacts			
(Dollars in Millions)	2015-2017	2017-2019	25-Year
General Fund-State	\$1.4	\$1.5	\$23.2
Local Government	\$2.1	\$2.2	\$34.6
Total Employer	\$3.7	\$4.0	\$60.1

Note: We use long-term assumptions to produce our short-term budget impacts so our results will likely vary from estimates produced using other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

The benefits provided under this bill have a cost to the system because they are new benefits that will be paid out of the pension trust funds.

- ❖ We relied on current survivor data from L&I in estimating the costs for surviving spouses who have either (1) remarried and had their L&I benefits stopped or, (2) are in-receipt of L&I benefits and could remarry in the future.
- ❖ We relied on current valuation data to estimate costs for future duty-related deaths where the surviving spouse could remarry and receive benefits from the pension trust fund.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The costs of this bill will vary based on the assumptions used to determine the likelihood a benefit will be paid and the length of time it will be paid.

- ❖ Compared to our Best Estimate of 40 percent of survivors remarrying on average four years after the member's death, we also measured the impact of assuming 15 percent remarrying after six years (Low), and 65 percent remarrying after two years (High).

Impact on Contribution Rates			
Total Employer	Low	Best Estimate	High
LEOFF 2	0.04%	0.10%	0.16%
WSPRS	0.08%	0.15%	0.22%

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

How The Revised Fiscal Note Differs From The Prior Fiscal Note

This fiscal note differs from the prior version in two ways.

- ❖ First, the Department of Retirement Systems (DRS) determined the Cost-of-Living Adjustment (COLA) applied to these benefits is not the same as those applied to retirement benefits and will be based upon the percent increase in the State Average Wage (SAW) consistent with current L&I administrative practices. The SAW is the Washington State average annual wage as determined by the Employment Security Department (ESD) under [RCW 50.04.355](#).
- ❖ Second, we received updated data from the Department of Labor & Industries (L&I) regarding current survivors that could be eligible for this benefit in the future.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts the following systems:

- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2.
- ❖ Washington State Patrol Retirement System (WSPRS).

This bill states that upon the remarriage of a surviving spouse of a LEOFF 2 or WSPRS member who dies in the line of duty, the survivor will receive a benefit paid from the LEOFF 2 or WSPRS trust fund that is equivalent to the benefit the survivor had been receiving from L&I.

Effective Date: 90 days after session.

How The Substitute Bill Differs From The Original Version

The original bill stated that death benefits paid from L&I would not cease upon remarriage. In the substitute version, a survivor who remarries will receive an identical benefit paid from the LEOFF 2 or WSPRS trust fund instead.

What Is The Current Situation?

When a member of LEOFF 2 or WSPRS suffers a duty-related death, the member's eligible surviving spouse receives insurance benefits paid from L&I. If the survivor remarries, those benefits cease.

Who Is Impacted And How?

We estimate this bill could affect current or future survivors of duty-related deaths of these systems through improved benefits. Furthermore, we expect about 30 current survivors and approximately two survivors each year in the future will actually receive improved benefits. See the **Special Data Needed** section of this fiscal note for more details.

We estimate this bill will improve the benefits for a typical survivor by allowing them to remarry and maintain benefits that L&I would have suspended under current law. This bill impacts all active LEOFF 2 and WSPRS members through increased contribution rates.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill has a cost because upon remarriage, a surviving spouse will continue to receive death benefits L&I would have suspended under current law. Those benefits have a cost to the system because they are new benefits that will be paid out of the pension trust funds.

Who Will Pay For These Costs?

The cost of this benefit change will be paid through an increase in contribution rates shared equally by members and employers under the respective system's standard funding methods.

- ❖ WSPRS 1/2: 50 percent member and 50 percent employer.
- ❖ LEOFF 2: 50 percent member, 30 percent employer, and 20 percent State.

HOW WE VALUED THESE COSTS

Assumptions We Made and How We Applied These Assumptions

To price the full impact of this bill, we had to answer the following questions.

1. How many duty-related deaths do we expect to occur in the future?
2. What portion of the eligible population is married?
3. Of surviving spouses, what portion choose to remarry?
4. How long after the member's death do surviving spouses remarry?
5. What is the benefit amount that will be paid from the trust funds?

We have actual data for some of these questions, depending on the group we are modeling. For instance, we received information from L&I on survivors who have already remarried. We expect all of those survivors will begin receiving replacement benefits from the pension trust funds starting from the effective date of this bill.

For potential survivors of active members, we assume 40 percent will remarry an average of four years after the member's duty-related death. We use the same assumption for the group of current unmarried survivors, but assume remarriage occurs on average two years from the effective date of this bill since the member's death occurred in the past.

For more detail on the assumptions we selected and how we applied them, please see **Appendices A and B**.

In order to estimate the COLA, we assumed the SAW would grow by 3.75 percent per year. We relied on historical SAW data (1980-2012) gathered from the Office of Financial Management (OFM) in setting this assumption. The ESD publishes six years of historical data available online (2008-2013). Please see **Appendix C** for more details.

Special Data Needed

We relied on data from L&I regarding current surviving spouses of duty-related deaths. We compared this data to our valuation data on eligible survivors receiving reimbursement for medical premiums as a result of a duty-related death. The data was not audited but we found it reasonable for the purposes of this pricing.

- ❖ L&I provided individual data on nine surviving spouses who have remarried. Their average current age is 53 and their expected annual benefit under this bill is approximately \$23,000. Before being actuarially reduced for the settlement amount they received, the benefit averaged \$26,000.
- ❖ L&I provided individual data on 53 surviving spouses who have not remarried. Their average age as of the valuation date is 51 and their expected annual benefit under this bill is approximately \$51,000. We chose to exclude eight survivors identified by L&I because we do not believe they are eligible for the benefits provided under this bill upon remarriage. Please see **Appendix C** for more details.

Otherwise, we developed these costs using the same assets and data as disclosed in the [*June 30, 2013 Actuarial Valuation Report*](#) (AVR).

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding of LEOFF 2 and WSPRS by increasing the present value of future benefits payable under the systems as shown below.

Impact on Pension Liability			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to all Current Members)</i>			
LEOFF 2	\$10,314	\$34.7	\$10,349
WSPRS 1/2	\$1,132	\$2.3	\$1,134
Unfunded Projected Unit Credit Liability			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
LEOFF 2	(\$1,003)	\$34.7	(\$968)
WSPRS 1/2	(\$50)	\$2.3	(\$48)

Note: Totals may not agree due to rounding.

How The Assets Changed

This bill does not change asset values, so there is no impact on the actuarial funding of the affected plans due to asset changes.

How The Present Value of Future Salaries (PVFS) Changed

This bill does not change the PVFS of the members, so there is no impact on the actuarial funding of the affected plans due to PVFS changes.

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown on page one that applies in the current biennium. However, we will use the un-rounded rate increases shown below to measure the budget changes in future biennia.

Impact on Contribution Rates		
System/Plan	LEOFF 2	WSPRS
Current Members		
Employee (Plan 2)	0.099%	0.147%
Employer	0.059%	0.147%
State	0.040%	
New Entrants*		
Employee (Plan 2)	0.047%	0.016%
Employer	0.028%	0.016%
State	0.019%	

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

Budget Impacts			
(Dollars in Millions)	LEOFF 2	WSPRS	Total
2015-2017			
General Fund	\$1.4	\$0.0	\$1.4
Non-General Fund	0.0	0.2	0.2
Total State	\$1.4	\$0.3	\$1.6
Local Government	2.1	0.0	2.1
Total Employer	\$3.5	\$0.3	\$3.7
Total Employee	\$3.5	\$0.3	\$3.7
2017-2019			
General Fund	\$1.5	\$0.0	\$1.5
Non-General Fund	0.0	0.2	0.2
Total State	\$1.5	\$0.2	\$1.7
Local Government	2.2	0.0	2.2
Total Employer	\$3.7	\$0.2	\$4.0
Total Employee	\$3.7	\$0.2	\$4.0
2015-2040			
General Fund	\$23.1	\$0.2	\$23.2
Non-General Fund	0.0	2.2	2.2
Total State	\$23.1	\$2.4	\$25.5
Local Government	34.6	0.0	34.6
Total Employer	\$57.7	\$2.4	\$60.1
Total Employee	\$57.7	\$2.4	\$60.1

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

The analysis of this bill does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the systems will vary from those presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

How the Risk Measures Changed

We have not analyzed this bill using the risk assessment model. We chose not to use the risk assessment model because we do not have the resources to do risk analysis on every bill.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the Best Estimate assumptions selected for this pricing, we varied the percent of the eligible survivors we expect will remarry and how quickly remarriage may occur.

- ❖ For a Low sensitivity, we assumed 15 percent of survivors would remarry on average six years after the member's death.
- ❖ For a High sensitivity, we assumed 65 percent of survivors would remarry on average two years after the member's death.

The following tables show the estimated contribution rate and budget impacts under these scenarios compared to our Best Estimate. Note that for the current unmarried survivors, we adjusted the portion we expect will remarry under this sensitivity analysis but did not change the assumed two-year delay until remarriage.

Impact on Contribution Rates			
Total Employer	Low	Best Estimate	High
LEOFF 2	0.04%	0.10%	0.16%
WSPRS	0.08%	0.15%	0.22%

25-Year Budget Impacts			
Total Employer	Low	Best Estimate	High
LEOFF 2	\$22.2	\$57.7	\$97.8
WSPRS	\$1.2	\$2.4	\$3.7

These scenarios are presented for illustrative purposes only to provide the reader a sense of the likely range of results. However, they do not represent the entire spectrum of possible outcomes.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary (“we”) prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We prepared this fiscal note for the Legislature and is intended to apply to the 2015 Legislative Session.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature and is intended to apply to the 2015 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

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APPENDIX A – ASSUMPTIONS WE MADE

To price the impact of this bill for current active members who may suffer a future duty-related death and whose spouse may remarry, we made the following assumptions.

- ❖ We relied on our current assumptions for the portion of active deaths that are duty-related. Please see the AVR for the age-based assumptions by retirement system and plan. The assumptions start at 100 percent of active deaths for young ages and decrease over time.
- ❖ We relied on our current assumption that approximately 64 percent of active members that die from duty-related causes are married. Please see the AVR for the age-based assumptions by retirement system and plan.
- ❖ We assumed that 40 percent of surviving spouses of duty-related deaths would remarry in the future.
 - ◇ We found data from the U.S. Census Bureau regarding the percent of people who remarry following a marriage dissolution. The portion has declined from 89 percent in 1960 to 54 percent in 1980. This data includes remarriage after divorce and does not separately report remarriage after death of a spouse.
 - ◇ We also considered actual experience for survivors receiving L&I benefits, which indicates 15 percent chose to remarry. However, some of these survivors may have elected to not get remarried because their benefits would be suspended under current law.
- ❖ We assumed that, of surviving spouses who remarried, their remarriage would occur on average four years after the member's death.
 - ◇ We found data from the U.S. Census Bureau regarding how many years a widowed person waits until remarriage (males 3.0 years / females 4.4 years).
 - ◇ We also considered actual experience for current survivors who have remarried, which indicates they remarry on average six years after the member's death. The assumption we selected is shorter than the average we observed since we expect the improved benefits will remove a potential deterrent.

To price the impact of this bill for current eligible survivors who have already remarried, we assumed their benefits would be paid for life starting on the effective date of the bill.

To price the impact of this bill for current eligible survivors who have not yet remarried, we assumed 40 percent would remarry on average two years after the effective date of the bill. Their benefits are assumed to be paid for life.

Otherwise, we developed these costs using the same assumptions as disclosed in the AVR.

APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

To price the impact of this bill for current active members, we modeled the new benefits as follows.

- ❖ A 60 percent of salary benefit is paid to the survivors of a duty-related death that we assumed would remarry. We used our valuation software to value these benefits for active members who may suffer a duty-related death in the future.
 - ◇ The annual benefit is subject to a 15 percent floor and a 120 percent cap of the SAW.
- ❖ The lifetime benefit is paid out of the trust funds starting on the date of remarriage, after the assumed deferral period since the member's death. The annual benefit is increased with a COLA. Based on input we received from DRS, this COLA will be based upon the percent increase in the SAW consistent with current L&I administrative practices.

To price the impact of this bill for current eligible survivors, we modeled the new benefits as follows.

- ❖ We determined the liability impact for the current survivors who have remarried using single life annuity factors multiplied by their annual benefit. We offset the liability by the settlement amount they received upon remarriage, consistent with provisions laid out in this bill. Finally, based on input we received from DRS regarding administration of COLAs, we included future COLAs from the effective date of this bill, consistent with current L&I administrative practices.
- ❖ We determined the liability impact for the current survivors who have not remarried using single life annuity factors multiplied by the annual benefit they currently receive from L&I. The annuity factors include an assumed 3.75 percent COLA during the two-year deferral period.

Otherwise, we developed these costs using the same methods as disclosed in the AVR.

We used the Entry Age Normal Cost Method to determine the fiscal budget changes for future new entrants. We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members.

APPENDIX C – SPECIAL DATA NEEDED

In order to estimate the COLA, we reviewed SAW data from ESD and OFM. The following table documents the historical data available on their respective websites. We relied on this data as complete and accurate.

Every year, the ESD determines a state average wage based on salaries of employees (both public and private sector) covered by unemployment insurance. The SAW is used for purposes of unemployment and worker's compensation benefits. In 2013—the most recent year available—the annual SAW was \$52,635.

Over the last ten and twenty-five year periods, the annualized percent increase in the SAW data gathered from OFM ranges from 3.23 percent to 3.95 percent, respectively. The amount of the increase has always been positive and appears to be cyclical, although the volatility has declined in recent years since the Great Recession. We were unable to locate a lengthy history of the SAW from ESD, however the values track the OFM data relatively closely.

Year	ESD	OFM	Year	OFM
2013	\$52,635	N/A	1996	\$29,348
2012	\$51,595	\$52,945	1995	\$27,918
2011	\$49,894	\$51,139	1994	\$26,882
2010	\$48,162	\$49,337	1993	\$26,234
2009	\$47,153	\$47,993	1992	\$25,870
2008*	\$46,274	\$47,140	1991	\$24,211
2007	N/A	\$46,114	1990	\$22,885
2006	N/A	\$43,825	1989	\$21,636
2005	N/A	\$41,704	1988	\$20,816
2004	N/A	\$40,464	1987	\$20,124
2003	N/A	\$39,309	1986	\$19,649
2002	N/A	\$38,529	1985	\$18,912
2001	N/A	\$37,798	1984	\$18,282
2000	N/A	\$37,544	1983	\$17,918
1999	N/A	\$36,113	1982	\$17,539
1998	N/A	\$33,598	1981	\$16,533
1997	N/A	\$31,243	1980	\$15,086

*2008 ESD figure imputed based on the increase provided in the 2009 report.

The membership data we excluded can be summarized as follows:

- ❖ Three of the survivors were identified by DRS as eligible for PERS benefits; and,
- ❖ Five survivors are not part of the DRS systems and may in fact be part of the Pre-LEOFF system. L&I confirmed they are not part of WSPRS.

These excluded survivors have an average age of 70 with a current annual L&I benefit of about \$32,000. If all of the excluded survivors are ultimately determined to be eligible for the benefits from the LEOFF 2 trust fund and the assumed 40 percent of survivors re-marry, we expect contribution rates will increase by approximately one basis point.

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. Under this method, all plan costs (for past and future service credit) are included under the normal cost. Therefore, the method does not produce an unfunded actuarial accrued liability outside the normal cost. It's most common for the normal cost to be determined for the entire group rather than on an individual basis for this method.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- ❖ Normal cost.
- ❖ Amortization of the unfunded actuarial accrued liability.

The normal cost is most commonly determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.



September 15, 2015

Law Enforcement Officers' & Firefighters' Plan 2 Retirement Board
P.O. Box 40918
Olympia, Washington 98504-0918

Re: Actuarial Review of SHB 1194 Fiscal Note

Chairman Fox and Members of the Board:

There follow the results of our actuarial review of the above fiscal note.

Background

SHB 1194 removed the L&I restriction on remarriage for those entitled to L&I survivor benefits due to death in the line of duty. This was achieved by providing that after remarriage the benefit payable to the surviving spouse would be paid through LEOFF 2. The provision would impact both past and future remarriages; however payments would not be made retroactively. The L&I benefit is 60% of wages subject to a minimum of 15% of the State Average Wage and a maximum of 120% of the State Average Wage (\$52,635 in 2013). Benefits increase with increases in the State Average Wage.

Based on data as of June 30, 2013 supplied by L&I, DRS, and OSA, there were 7 surviving spouses who remarried and will now become entitled to survivor benefits and 49 surviving spouses who have not remarried, but could be eligible in the future. In addition spouses of future deaths in the line of duty could become eligible should they remarry.

The increases in contribution rates calculated by the Office of the State Actuary for contribution rates are shown below.

Employee	0.10%
Employer	0.06%
<u>State</u>	<u>0.04%</u>
Total	0.20%

For budgeting purposes the Office of the State Actuary calculated a normal cost rate difference

Results of Review

Assumptions

In order to estimate the cost of this legislation it is necessary to make assumptions regarding rates of and timing of remarriage.



Rate of Remarriage

Per the fiscal note:

- L&I data showed a 15% remarriage rate under the current remarriage provisions, and
- US census data showed remarriage rates following divorce or widowhood of 89% in 1960 and 54% in 1980.

Based on this data and taking into account a possible increase in marriage rates due to the elimination of the remarriage restriction, a 40% remarriage assumption was used for both current and future surviving spouses. The 40% assumption does not appear unreasonable. It is difficult to find ideal sources of relevant data in this area. However, age-gender remarriage tables used by the Railroad Retirement System and the Department of Defense would predict lower overall remarriage rates. In addition the census data remarriage rates may overstate remarriage rates for widows since remarriage rates following widowhood may be lower than those following divorce.

Timing of Remarriage

Based on census bureau data indicating that those widows remarrying did so in an average of 4.4 years and those widowers remarrying did so in an average of 3.0 years, an assumption of 4 years was made. L&I data showed an average of 6 years, but as with the L&I remarriage experience this may have been influenced by the remarriage provision. Based on this experience the 4-year assumption does not appear unreasonable.

For current surviving spouses a 2 year assumption was made. This assumption is not unreasonable based on the possible increase in marriage rates when the remarriage assumption is removed.

EANC Normal Cost

The contribution rate increases are based on the aggregate cost method. Due to the large proportion of the costs attributable to current surviving spouses, the increase in EANC normal cost, which we estimate at .09%, is considerably lower (less than half of) the contribution increase under the aggregate cost method.

Calculations

We independently calculated the supplemental rates and agree with the rates shown on page 1 which were based on data as of June 30, 2013.



Summary

We reviewed the supplemental contribution rate increases shown in the Office of the State Actuary August 28, 2015 Fiscal Note for SHB 1194.

Prediction of remarriage rates among widows/widowers is difficult. However, we agree that these supplemental rates represent reasonable estimates of the costs. We would suggest that the underlying assumptions be reviewed in future experience studies when the impact of any delayed remarriages is better known.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Sincerely,

Marilyn M. Oliver, F.S.A., M.A.A.A.
Vice President
Bartel Associates, LLC

John E. Bartel, A.S.A., M.A.A.A.
President
Bartel Associates, LLC

Cc. Steve Nelsen, Executive Director; Matthew M. Smith, State Actuary

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Supplemental Rate Adoption

Final Report
September 23, 2015

Issue

- A supplemental rate change may be necessary due to the passage of SHB 1194

Overview

- Ensuring actuarial soundness
- Adoption of supplemental rates

Background

- Rate adoption history
 - Keep level rates
- Costs
 - Remarriage assumption
- Full EANC

Fiscal Note Changes

- Member - 0.05% increase
- Employer - 0.03% increase
- State - 0.02% increase
- DRS COLA
- Current Survivors

Options

Option 1: Do not adopt a supplemental rate

The Board would leave rates at:

Member	8.41%
Employer	5.05%
State	3.36%

Options

Option 2: Adopt OSA's recommended supplemental rates

The Board would adopt an increase in contribution rates of 0.05% for members, 0.03% for employers, and 0.02% for the state. Rates would increase to:

Member	8.46%
Employer	5.08%
State	3.38%

Options

Option 3: Adopt the full normal cost

The Board would adopt the full normal cost of the plan as presented by OSA last interim, including the cost of the new benefit. This would increase rates to:

Member	8.90%
Employer	5.34%
State	3.56%

Options

	Option 1 – Do not adopt a supplemental rate	Option 2- Adopt OSA's recommended supplemental rates	Option 3- Adopt the full normal cost, including the new benefit
Member	8.41%	8.46%	8.90%
Employer	5.05%	5.08%	5.34%
State	3.36%	3.38%	3.56%

Questions?

Contact:

Ryan Frost

Research & Policy Manager

(360) 586-2325

ryan.frost@leoff.wa.gov



Economic Experience Study

Date Presented:

9/23/2015

Presenter Name and Title:

Graham Dyer, Actuarial Analyst

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

Summary:



The economic assumptions are reviewed every two years during odd years. The Office of the State Actuary will make recommendations for changes, if any, to the long term economic assumptions.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Maintain the financial integrity of the plan., Inform the stakeholders.

ATTACHMENTS:

Description	Type
 OSA Recommendations Economic Assumptions	Report
 Economic Experience Study Communication	Correspondence



Office of the State Actuary

"Securing tomorrow's pensions today."

September 16, 2015

Mr. Steve Nelsen
Executive Director
LEOFF Plan 2 Retirement Board
P.O. Box 40918
Olympia, Washington 98504-0918

SUBJECT: 2015 ECONOMIC EXPERIENCE STUDY

Dear Steve:

Guided by applicable actuarial standards of practice, OSA performed an economic experience study to develop a recommendation for each long-term economic assumption for LEOFF 2. We developed the recommended assumptions as a consistent set of economic assumptions and it is recommended to review them as a set of assumptions.

We recommend maintaining the current assumptions for total inflation, general salary growth, and annual investment return. The table below summarizes the current and recommended long-term economic assumptions that apply to LEOFF 2.

Assumption	Current	Recommended
Inflation	3.00%	3.00%
General Salary Growth	3.75%	3.75%
Annual Investment Return	7.50%	7.50%

We find all current economic assumptions reasonable and recommend no changes. We updated the service based salary increase assumption during the [2007-2012 Demographic Experience Study](#) (DES). For the DES, we adjusted experience study data to remove short-term salary practices in response to the Great Recession. We developed the General Salary Growth assumption for the [2015 Economic Experience Study](#) (2015 EES) consistent with the methodology used for the DES. We observed an increase to productivity rates since the 2013 Economic Experience Study, however, we recommend maintaining the current assumed level of general salary growth.

Please see the 2015 EES and Appendix A on general salary growth for supporting information and analysis. We prepared the 2015 EES for the Pension funding Council, but the analysis in that report applies to LEOFF Plan 2 as well. Please combine the 2015 EES with this letter and the enclosed exhibit to form a complete actuarial communication for the LEOFF 2 Board.



Please let us know if you have any questions or need further information on the study.

Sincerely,

Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

Kyle Stineman
Senior Actuarial Analyst

cc: Graham Dyer
Actuarial Analyst

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Office Of The State Actuary's Recommendations On Long-Term Economic Assumptions

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

*Graham Dyer
Actuarial Analyst*

Presentation to LEOFF Plan 2 Retirement Board

Office of the State Actuary
"Securing tomorrow's pensions today."

September 23, 2015

Today's Presentation

- Highlights of Report on Financial Condition for all plans
- Economic Experience Study for LEOFF 2
- Full reports included in meeting material
- No action required at today's meeting

Three Key Measures To Assess Plan's Financial Condition

- Funding level
- Adequacy and affordability of contributions
- Underlying financial risks of the plan

- One measure alone will not provide the complete story
- Maintaining plan health requires striking the right balance of these measures for all stakeholders

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Summary Of Financial Condition

- Funded status declined since last report
 - Most plans on target for full funding
 - Plan in place to get PERS and TRS Plans 1 back on track
 - GASB reporting changes lowered funded status in open plans
- Contributions required under funding policy currently being made
- Affordability measures have experienced volatility
- Financial risk of the systems has improved
 - Changes to benefit provisions for new hires
 - Court ruling regarding Gain Sharing and UCOLA
 - Adoption of updated assumptions

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Funded Status Declined From Last Report

- Phase-in of lower investment return assumption from 7.9 to 7.8 percent for all plans except LEOFF 2
 - Today's value of future benefits increases when the discount rate decreases
- Recognizing longer life spans (mortality improvements)
 - When members live longer they receive more benefits and the cost (liabilities) of the plan increases

Funded Status as of June 30			
Plan	2012	2013	2014
PERS 1	69%	63%	61%
PERS 2/3	111%	102%	101%
TRS 1	79%	71%	69%
TRS 2/3	114%	105%	104%
SERS 2/3	110%	102%	101%
PSERS 2	134%	124%	124%
LEOFF 1	135%	125%	127%
LEOFF 2	119%	115%	113%
WSPRS 1/2	114%	105%	103%

Note: Shown under Projected Unit Credit (PUC) cost method.

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Funded Status Also Declined Under Different Cost Method

- GASB requires Entry Age Normal (EAN) Actuarial Cost Method to report funded status in state and local government's financial reports
- GASB requirements do not change contribution rate calculations for funding purposes
- Beginning with the 2014 Actuarial Valuation, we will report the funded status under EAN

Funded Status as of June 30, 2014, Under Different Cost Methods		
Plan	Projected Unit Credit	Entry Age Normal
PERS 1	61%	61%
PERS 2/3	101%	90%
TRS 1	69%	69%
TRS 2/3	104%	94%
SERS 2/3	101%	91%
PSERS 2	124%	96%
LEOFF 1	127%	127%
LEOFF 2	113%	107%
WSPRS 1/2	103%	100%

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Financial Condition Based On Funded Status

- Washington's combined plans rank seventh in the nation based on national report by the Pew Charitable Trusts
- All open plans and LEOFF 1 at least 90 percent funded and considered on target for full funding
- PERS and TRS Plans 1 less than 70 percent funded but Legislature requires additional employer contributions to get them back on track
 - Legacy costs (Unfunded Actuarial Accrued Liability) amortized over rolling ten year period
 - Minimum rates in place to ensure full funding
 - Under current projections and assumptions, full funding is expected in 2027 (PERS 1) and 2025 (TRS 1)
 - Full funding will occur sooner/later under optimistic/pessimistic outlooks

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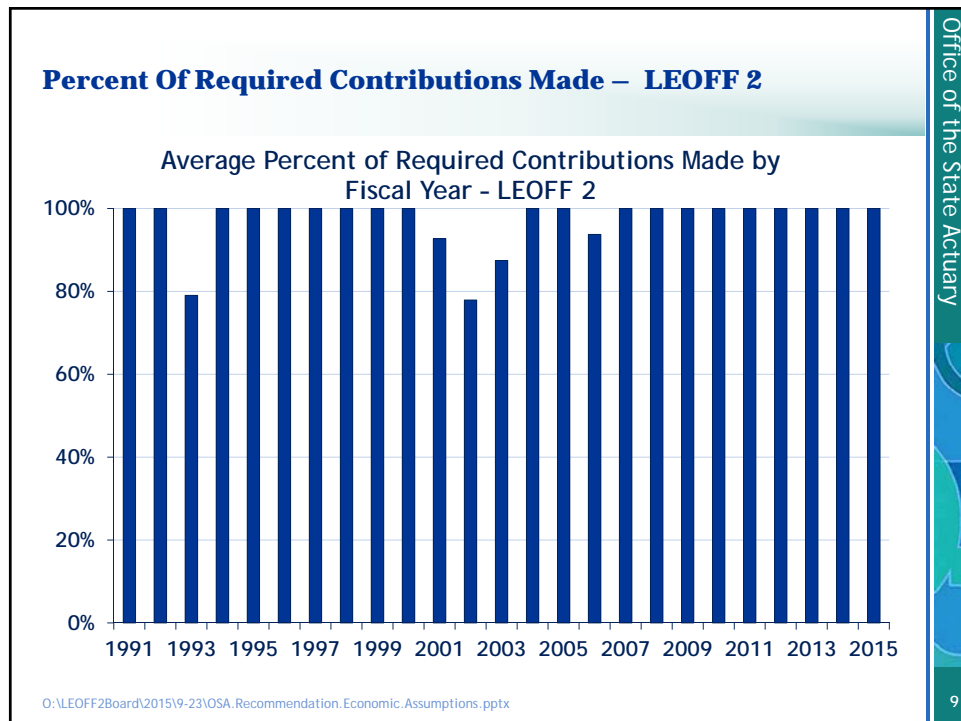
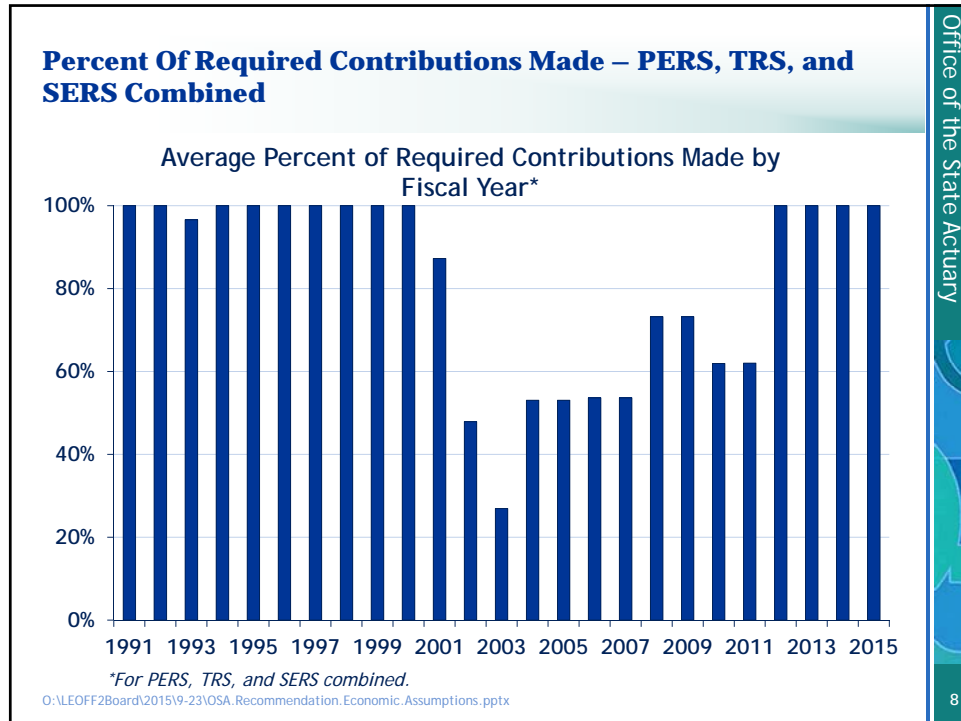
Adequate Funding Improves Plan Health

- Contributions are adequate if they provide full funding based on the funding policy and reasonable set of assumptions
 - Recent history shows adequate contributions have been made
 - Future increases are expected to reach full funding for most plans
 - PERS and TRS Plans 1 also require additional funding to amortize the past legacy costs (UAAL)
- Adopting set of reasonable assumptions improves adequacy
 - When assumptions closely model actual experience the contributions calculated under the funding policy will closely model actual plan costs

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Affordability Is The Ability To Provide Adequate Funding

- If contributions are deemed unaffordable, full funding and plan health are at risk of declining
- Affordability is subjective
- Can measure/assess affordability by the growth in contributions over time
 - As a percent of pay
 - As a percent of General Fund-State (GF-S) budget
- Affordability improves if contribution rates are stable and predictable
 - Asset smoothing method helps reduce volatility

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Contribution Rates As A Percent Of Pay

		Contribution Rates		
System		Actual 2013-15	Adopted 2015-17	Projected ¹ 2017-19
PERS	Member ²	4.92%	6.12%	7.23%
	Employer	9.03%	11.00%	12.29%
TRS	Member ²	4.96%	5.95%	7.00%
	Employer	10.21%	12.95%	14.69%
SERS	Member ²	4.64%	5.63%	6.94%
	Employer	9.64%	11.40%	12.52%
PSERS	Member	6.36%	6.59%	6.80%
	Employer	10.36%	11.36%	11.75%
LEOFF ³	Member	8.41%	8.41%	8.85%
	Employer	8.41%	8.41%	8.85%
WSPRS	Member	6.59%	6.69%	7.19%
	Employer	7.91%	8.01%	12.45%

¹Rates shown for 2017-19 are expected projections based on the 2013 Actuarial Valuation.

²Plan 1 members' contribution rate is statutorily set at 6.0%. Members in Plan 3 do not make contributions to their defined benefit.

³No member or employer contributions are required for LEOFF Plan 1 when the plan is fully funded.

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Estimated Pension Contributions As A Percent Of GF-S Budget

Estimated Pension Contributions as a Percent of GF-S Budget						
(Dollars in Millions)	1989	1994	2000	2005	2010	2014
Est GF-S Contributions*	\$200	\$323	\$265	\$81	\$384	\$597
GF-S Budget**	\$5,686	\$8,013	\$11,068	\$13,036	\$13,571	\$16,383

Percent of GF-S Budget 3.5% 4.0% 2.4% 0.6% 2.8% 3.6%

**Actual total employer contributions were found in the 2005, 2009, and 2014 OFM CAFRs. The estimated GF-S contributions is the product of actual employer contributions and assumed GF-S fund splits (found on OSA's website).*

***1989 and 1994 GF-S budget found in June 2008 ERFC Annual Forecast. All other GF-S budgets were found in June 2015 ERFC Annual Forecast.*

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Financial Risk Has Improved

- Recent changes to benefit provisions for new hires
 - Early retirement benefits less generous
 - Reduces contribution requirements
 - Improves affordability and sustainability of plans
- Litigation risks for gain-sharing and Plan 1 UCOLA removed after court ruling in favor of the state
- Adoption of updated assumptions
 - Longer life spans
 - Lower investment return assumption
 - Short term costs with long term savings

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Concluding Remarks On Financial Condition

- Contribution rates expected to increase in the short term to meet full funding goal
- Full funding and maintenance of affordable/sustainable plan designs will help systems manage financial risks and improve health
- Adopting reasonable assumptions improves adequacy
 - Require continual monitoring and adjustments as needed
- Questions on Report on Financial Condition?

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Summary Of Report On Long-Term Economic Assumptions

- All current assumptions reasonable
- No assumption changes recommended
- Retaining current assumptions will maintain system health and lessen some financial risks
- Supporting data and analysis in full report

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Current and Recommended Assumptions

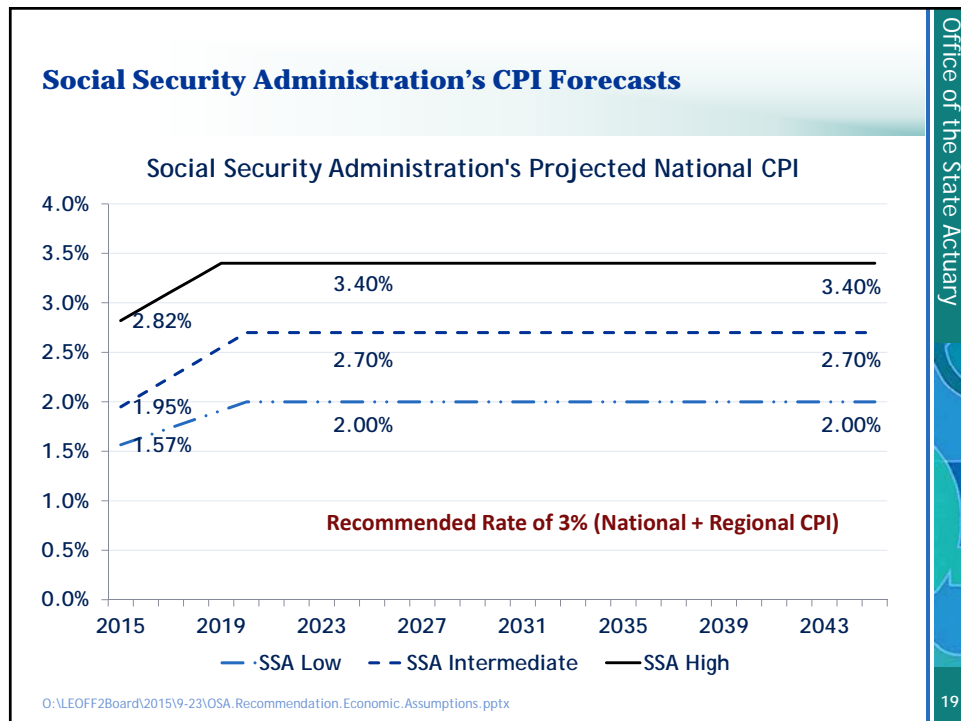
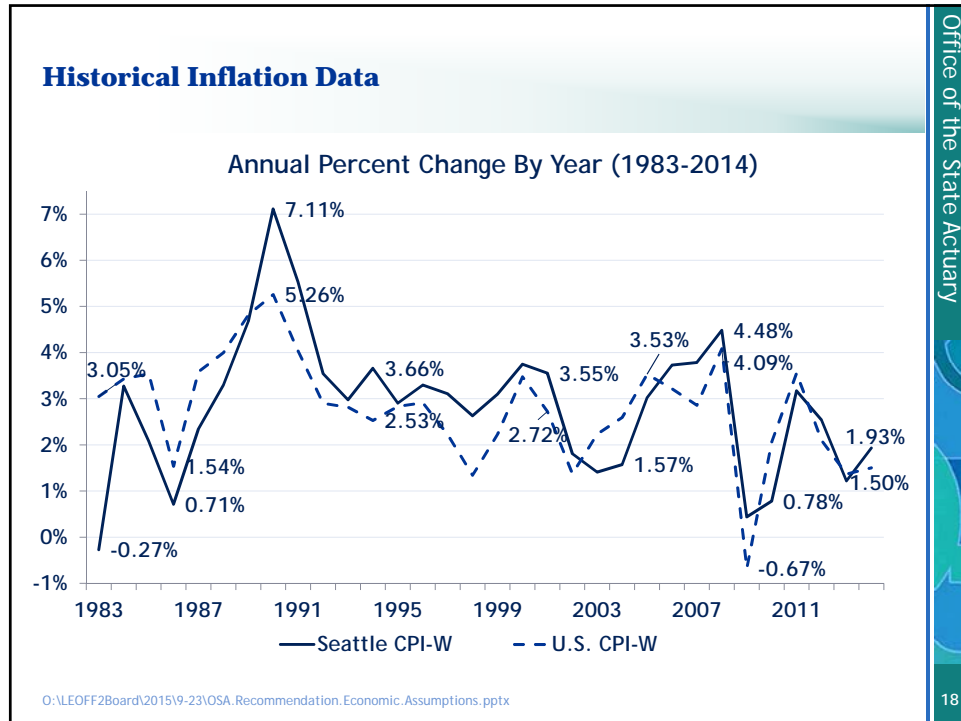
Assumption	Current	Recommended
Inflation	3.00%	3.00%
General Salary Growth	3.75%	3.75%
Annual Investment Return	7.50%	7.50%

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Inflation

- Assumption used to model post-retirement COLAs based on changes in consumer price index (CPI) for Seattle, Tacoma, Bremerton
- Also used as a “building block” for general salary growth and nominal rate of return assumption
- Components of total inflation assumption
 - US inflation
 - Adjustment for regional inflation
- Recommending no change in the total inflation assumption from the current assumption

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General Salary Growth

- Assumption used to project salaries to determine future retirement benefits and contribution rates as a percentage of payroll
- Components of general salary growth assumption
 - Inflation
 - "Productivity growth" (salary growth above inflation)
 - Economic growth factors only
- Service-based salary increases included in plan-specific demographic assumptions
- Consistent with last study, adjusted experience study data to remove short-term salary practices in response to Great Recession
- Recommending no change in the general salary increase assumption from the current assumption

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General Salary Growth Experience

General Salary Growth Experience 1984 - 2009				
	Observed Inflation	Observed Productivity	Total General Salary Growth	Recommended Assumption*
LEOFF 2	3.14%	0.51%	3.65%	3.75%

Note: Totals may not agree due to rounding.

**3% assumed inflation + 0.75% assumed productivity*

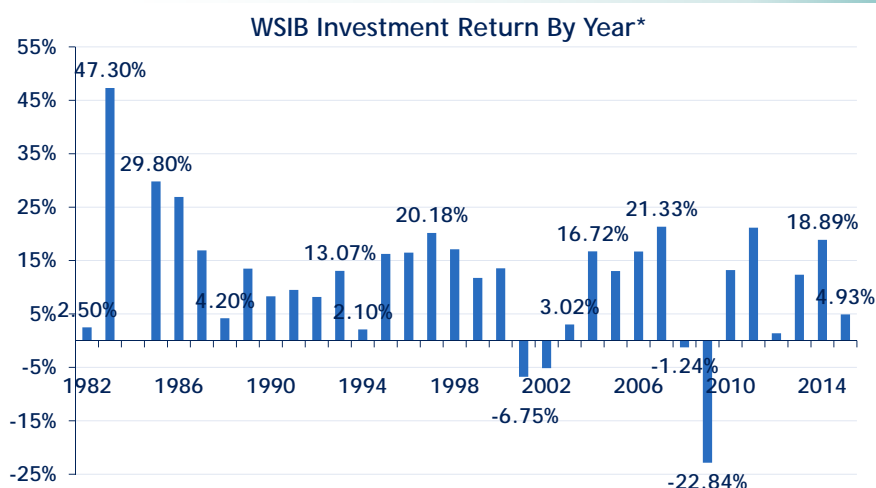
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Annual Investment Return

- Assumption used to determine today's value of future benefit payments and salaries
- Key assumption for determining contribution requirements
- Components of annual investment return assumption
 - Inflation
 - "Real rate of return" (return above inflation)
- Recommending no change in the annual investment return assumption from the current assumption

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Historical Investment Returns



*Fiscal year ending June 30.

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Simulated Future Investment Returns

50-Year Simulated Future Investment Returns*					
	2015	2013	2011	2009	Average
75th Percentile	8.86%	8.62%	8.95%	8.87%	8.83%
60th Percentile	8.18%	7.86%	8.04%	8.05%	8.03%
55th Percentile	7.94%	7.63%	7.76%	7.80%	7.78%
Expected Return	7.74%	7.40%	7.49%	7.57%	7.55%
45th Percentile	7.54%	7.17%	7.22%	7.31%	7.31%
40th Percentile	7.31%	6.93%	6.94%	7.07%	7.06%
25th Percentile	6.56%	6.13%	6.03%	6.25%	6.24%

*Based on WSIB's capital market assumptions.

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Concluding Remarks On Economic Assumptions

- All current assumptions reasonable and representative of our best estimate
- No changes recommended

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Recap

- Report on Financial Condition
 - Funded status declined but the plan remains fully funded
 - Current contribution rates are adequate to maintain full funding
 - Risk measures have improved
 - Reasonable assumptions key to maintain plan health
- Economic Experience Study
 - All current assumptions reasonable
 - Recommend no changes to current assumptions
- Full reports included in meeting materials

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Next Steps

- LEOFF 2 Board has authority to adopt recommendations for economic assumptions
 - Any changes subject to revision by Legislature

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Appendix



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Other States' Economic Assumptions

Economic Assumptions for Selected Plans Outside Washington				
Plan Name	Investment Return	General Salary Growth	Productivity*	Inflation
Alaska Public Employees Retirement System	8.00%	3.62%	0.50%	3.12%
Alaska Teachers Retirement System	8.00%	3.62%	0.50%	3.12%
California Public Employees Retirement System	7.50%	3.00%	0.25%	2.75%
California State Teachers Retirement System	7.50%	3.75%	0.75%	3.00%
Public Employees Retirement Association of Colorado (State & School Divisions)	7.50%	3.90%	1.10%	2.80%
Florida Retirement System	7.65%	3.25%	0.65%	2.60%
Iowa Public Employees Retirement System	7.50%	4.00%	1.00%	3.00%
Public Employees Retirement System of Idaho	7.00%	3.75%	0.51%	3.24%
Missouri State Employees Retirement System	8.00%	3.00%	0.50%	2.50%
Ohio Public Employees Retirement System	8.00%	3.75%	0.75%	3.00%
Oregon Public Employees Retirement System	7.75%	3.75%	1.00%	2.75%
Wisconsin Retirement System	7.20%	3.20%	N/A	2.0%-2.7%
2015 Economic Experience Study Recommendation	7.50%	3.75%	0.75%	3.00%
Selected Public Plans Outside WA - Average	7.63%	3.55%	0.68%	2.90%
Selected Public Plans Outside WA - Minimum	7.00%	3.00%	0.25%	2.50%
Selected Public Plans Outside WA - Maximum	8.00%	4.00%	1.10%	3.24%

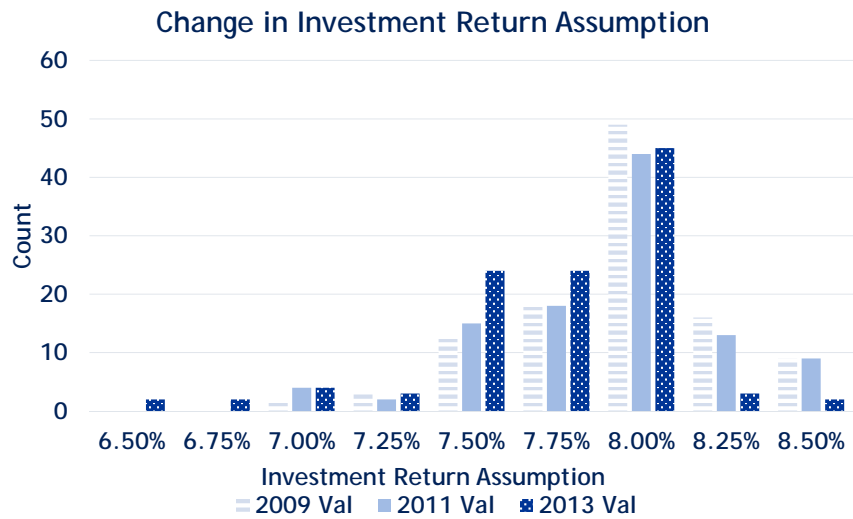
Assumptions are developed according to individual plan needs for use in a variety of actuarial models. Additional assumptions may be used, in combination with the reported general salary growth assumption, to model total salary growth. Investment return assumptions are heavily dependent on the plan's asset allocation.

Data gathered from Public Plans Database, Center for Retirement Research, and individual state system Comprehensive Annual Financial Reports or Actuarial Valuations.

*For comparison to our economic assumptions. We assumed productivity was the difference between General Salary Growth and Inflation.

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Other States' Economic Assumptions



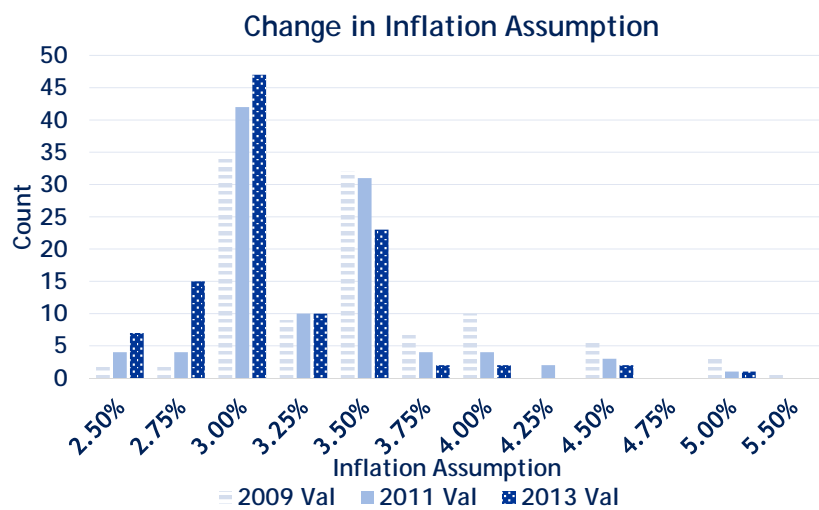
Source: NASRA Public Fund Survey.

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Other States' Economic Assumptions



Source: NASRA Public Fund Survey.

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Administrative Factors Adoption

Date Presented:

9/23/2015

Presenter Name and Title:

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

Summary:

The Board has the statutory responsibility to adopt administrative factors for the plan. The Board will be reviewing for adoption the following factors: Early Retirement Factors, Survivor Benefit Option Factors, Annuity Factors and Service Credit Restoration Factors.

Strategic Linkage:

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

ATTACHMENTS:

Description	Type
 Administrative Factors	Presentation
 2015 LEOFF 2 Administrative Factors Letter	Correspondence



Office of the State Actuary

"Securing tomorrow's pensions today."

September 16, 2015

Mr. Steve Nelsen
Executive Director
LEOFF 2 Retirement Board
PO Box 40918
Olympia, Washington 98504-0918

SUBJECT: LEOFF 2 ADMINISTRATIVE FACTORS UPDATE

Dear Steve:

We have completed our update of several administrative factors for use in the Washington Administrative Code (WAC). We amended them as a result of the changes to the demographic assumptions adopted by the Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2) Retirement Board (Board) during the 2014 Interim.

As a result of this project, please find attached the following updated actuarial tables for the Board's approval.

- ❖ Early Retirement Factors (ERFs) for [WAC 415-02-320](#) (**Appendix B**).
- ❖ Monthly Benefit per \$1.00 of Accumulation for [WAC 415-02-340](#) (**Appendix C**).
- ❖ Joint and Survivor Option Factors (J&S) for [WAC 415-02-380](#) (**Appendix D**).
- ❖ Service Credit Restoration Factors (SCRF) for [WAC 415-02-370](#) (**Appendix E**).

Administrative factors should be reviewed and, if necessary, updated any time the underlying demographic or economic assumptions for the plan change. The tables will be updated again after our next *Demographic Experience Study (DES)*, which will review experience from the 2013-2017 period. They could also change with new member options or benefit changes in the future.

The attached appendices contain supporting information for each factor we updated. **Appendix A** supplies general information about data, assumptions, and methods used to develop the early retirement factors, the monthly benefit per \$1.00 of accumulation factors, and the J&S option factors. **Appendices B through D** provide more detailed information about each of these factors, respectively. **Appendix E** supplies general information about



data, assumptions, and methods used to develop SCRF. All of the appendices, including the attached Excel Spreadsheet, should be used together with this cover letter to form a complete actuarial communication.

We developed the administrative factors based on our understanding of how the Department of Retirement Systems (DRS) applies them and according to policy decisions made by the Board. The policy decisions were documented in a letter from our office dated August 26, 2009, and have been updated to reflect more current data. We intend this communication to be used by the Board and DRS only. If a party other than the Board or DRS reads this communication, they should address questions to the Board or DRS and seek professional guidance with the content and interpretation of this communication.

The economic and demographic assumptions we used for updating the factors were adopted by the Board consistent with RCW 41.26.720.

In my opinion, all of the data, assumptions, and methods we used in developing the factors are reasonable and appropriate for this project and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this letter and supporting attachments are intended to be complete, we are available to offer extra advice and explanations as needed.



Please let me know if you have any questions concerning these administrative factors or the assumptions and methods used to develop them.

Sincerely,

Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

cc: Kelly Fox,
LEOFF Plan 2 Retirement Board
Marcie Frost,
Department of Retirement Systems
Dave Nelsen,
Department of Retirement Systems
Shawn Merchant,
Department of Retirement Systems
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Office of the State Actuary
Frank Serra,
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Attachments

Appendix A – General Data, Assumptions, and Methods
Appendix B – Early Retirement Factors
Appendix C – Monthly Benefit Per \$1.00 of Accumulation
Appendix D – Joint and Survivor Option Factors
Appendix E – Service Credit Restoration Factors
Excel Spreadsheet – SCRF for LEOFF2 – OSA 9-15-15.xlsx

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APPENDIX A – GENERAL DATA, ASSUMPTIONS, AND METHODS

Purpose

Unless otherwise noted, the information contained in this appendix applies to all factors developed in this project.

Data

We relied on the [2014 Actuarial Valuation Report](#) (AVR) data whenever necessary to develop the administrative factors. Please see the *Actuarial Certification Letter* in the 2014 AVR for further considerations on the data we used.

Assumptions

We relied on the following key assumptions in the 2014 AVR to develop the administrative factors.

❖ **Economic Assumptions.**

System	Interest	Annual COLA
LEOFF 2	7.50%	3%

- ❖ **Mortality Assumptions:** We used the mortality improvement method developed in our [2007-2012 DES](#) to project the RP-2000 table to the year 2017 (“RP-2017”) for the underlying mortality assumption for the plan. We use 2017 because it’s the approximate midpoint between the current and next expected update to administrative factors.

We included additional mortality improvement projections for the plan developed specifically for retirement-age members as shown in the table below.

Plan	Average Retirement Age	Projection Year
LEOFF 2	56	2039

Note that we project mortality improvements generationally in the 2014 AVR (see the DES for more information on generational mortality improvement projections). Generational mortality improvement means mortality rates get smaller every year in the future for every age. However, in order to calculate administrative factors, we must project mortality improvements to a selected static year. We developed the static projection year by matching the life expectancy of a retirement-age member in 2017 calculated under generational mortality, to the life expectancy calculated under a static projection year. We calculated 2039 as the matching static year.



See the **Methods** section below for a description of the development of projected mortality assumptions.

- ❖ **Mortality Blending:** We used the retirement and disability rates as disclosed in the 2014 AVR and RP-2017 mortality rates to blend healthy and disabled mortality assumptions (see the **Methods** section below for a description of the process).
- ❖ **Percent Male/Female:** We assumed percent male/female for primary members as shown in the table below. These percentages match the DES.

System	Percent Male	Percent Female
LEOFF	90%	10%

Methods

Development of Underlying Mortality Assumptions

Consistent with the Board's 2009 policy decisions, we blended healthy and disabled mortality assumptions using the following method.

- ❖ We multiplied the RP-2017 healthy mortality rates by the probability that benefit commencement is from a healthy cause. Healthy causes include service retirement and the death of a member from active service.
- ❖ We multiplied the RP-2017 disabled mortality rates by the probability a member will take a disability benefit. In other words, we multiplied the RP-2017 disabled mortality rates by the probability of a benefit commencing due to a non-healthy cause.
- ❖ We added the weighted rates above to come up with male and female RP-2017 blended mortality assumptions by age for the plan.

We incorporated mortality improvements for each year after 2017 as follows.

- ❖ We used data from the 2014 AVR to find the historical average retirement age of the service and disability retirees for the plan.
- ❖ We project mortality improvements based on the plan's expected retirement age rather than the plan's average member age.
- ❖ We projected the blended mortality rates from RP-2017 to the projected mortality improvement year. We incorporated expected mortality improvements using 100 percent of Scale BB, as developed in the DES and applied in the 2014 AVR.



APPENDIX B – EARLY RETIREMENT FACTORS

Purpose

DRS uses ERFs to reduce an annuitant's lifetime benefit for early commencement. We have provided actuarially equivalent ERFs for LEOFF 2

We intend these ERFs to be used for benefits that receive actuarially equivalent reductions for early commencement. The ERFs developed in this section do not apply to members eligible for “alternate” ERFs, such as 3 percent ERFs, who have reached specific age and service combinations as mandated in statute.

Data and Assumptions

We used the data and assumptions described in Appendix A along with the assumed Normal Retirement Age (NRA) of 53 for LEOFF 2.

Methods

Development of ERFs

To develop the ERFs, we divided annuity factors deferred to NRA by the immediate annuity factors for each age level. The ratio of these two factors at each age level is the ERF that solves the actuarial equivalence relation.

$$PV(\text{accrued benefits deferred to NRA}) = \text{ERF} \times PV(\text{benefits started immediately})$$

Where “PV” denotes Present Value and includes the annuity factors produced for this project. “Benefits” means the sum of all expected lifetime benefits.

The next table displays detailed information about the annuity factors we used to develop the ERFs.

Annuity Factor Details		
	Immediate Annuity	Deferred Annuity
Annuity Type	Single-Life	Single-Life
Payment Commencement	Immediate	Deferred to 53
Payment Frequency	Monthly	Monthly
Payment Timing	End of Period	End of Period
Certain Period (Years)	None	None
COLA Percent	3%	3%
COLA Increase Frequency	Annual	Annual



We rounded the ERFs to three decimal places (one-tenth of a percent).

Using the factors from each whole age, we used linear interpolation to find the monthly factors. That is, we moved from one whole age factor to the next in 12 straight-line increments.

Other Information

We formatted the ERF table in a way consistent with the current format in [WAC 415-02-320](#). Please see the following attached table for the LEOFF 2 ERFs.

Early Retirement Factor Table

Years Early	Month 0	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11
0	1.0000	0.9931	0.9862	0.9793	0.9724	0.9655	0.9586	0.9517	0.9448	0.9379	0.9310	0.9241
1	0.9176	0.9114	0.9052	0.8990	0.8928	0.8866	0.8804	0.8742	0.8680	0.8618	0.8556	0.8494
2	0.8426	0.8369	0.8312	0.8255	0.8198	0.8141	0.8084	0.8027	0.7970	0.7913	0.7856	0.7799
3	0.7743	0.7692	0.7640	0.7588	0.7536	0.7484	0.7432	0.7380	0.7328	0.7276	0.7224	0.7172
4	0.7120	0.7073	0.7026	0.6979	0.6932	0.6885	0.6838	0.6791	0.6744	0.6697	0.6650	0.6603
5	0.6551	0.6508	0.6465	0.6422	0.6379	0.6336	0.6293	0.6250	0.6207	0.6164	0.6121	0.6078
6	0.6031	0.5991	0.5951	0.5911	0.5871	0.5831	0.5791	0.5751	0.5711	0.5671	0.5631	0.5591
7	0.5555	0.5518	0.5482	0.5446	0.5410	0.5374	0.5338	0.5302	0.5266	0.5230	0.5194	0.5158
8	0.5118	0.5085	0.5052	0.5019	0.4986	0.4953	0.4920	0.4887	0.4854	0.4821	0.4788	0.4755
9	0.4719	0.4688	0.4657	0.4626	0.4595	0.4564	0.4533	0.4502	0.4471	0.4440	0.4409	0.4378
10	0.4352	0.4324	0.4296	0.4268	0.4240	0.4212	0.4184	0.4156	0.4128	0.4100	0.4072	0.4044
11	0.4016	0.3990	0.3964	0.3938	0.3912	0.3886	0.3860	0.3834	0.3808	0.3782	0.3756	0.3730
12	0.3707	0.3684	0.3660	0.3636	0.3612	0.3588	0.3564	0.3540	0.3516	0.3492	0.3468	0.3444
13	0.3424	0.3402	0.3380	0.3358	0.3336	0.3314	0.3292	0.3270	0.3248	0.3226	0.3204	0.3182
14	0.3163	0.3143	0.3123	0.3103	0.3083	0.3063	0.3043	0.3023	0.3003	0.2983	0.2963	0.2943
15	0.2923	0.2904	0.2886	0.2868	0.2850	0.2832	0.2814	0.2796	0.2778	0.2760	0.2742	0.2724
16	0.2702	0.2685	0.2668	0.2651	0.2634	0.2617	0.2600	0.2583	0.2566	0.2549	0.2532	0.2515
17	0.2498	0.2483	0.2467	0.2451	0.2435	0.2419	0.2403	0.2387	0.2371	0.2355	0.2339	0.2323
18	0.2311	0.2297	0.2283	0.2269	0.2255	0.2241	0.2227	0.2213	0.2199	0.2185	0.2171	0.2157
19	0.2138	0.2125	0.2112	0.2099	0.2086	0.2073	0.2060	0.2047	0.2034	0.2021	0.2008	0.1995
20	0.1979	0.1967	0.1955	0.1943	0.1931	0.1919	0.1907	0.1895	0.1883	0.1871	0.1859	0.1847
21	0.1832	0.1821	0.1810	0.1799	0.1788	0.1777	0.1766	0.1755	0.1744	0.1733	0.1722	0.1711
22	0.1697	0.1686	0.1676	0.1666	0.1656	0.1646	0.1636	0.1626	0.1616	0.1606	0.1596	0.1586
23	0.1571	0.1562	0.1552	0.1542	0.1532	0.1522	0.1512	0.1502	0.1492	0.1482	0.1472	0.1462
24	0.1456	0.1447	0.1438	0.1429	0.1420	0.1411	0.1402	0.1393	0.1384	0.1375	0.1366	0.1357
25	0.1349	0.1341	0.1333	0.1325	0.1317	0.1309	0.1301	0.1293	0.1285	0.1277	0.1269	0.1261
26	0.1250	0.1243	0.1235	0.1227	0.1219	0.1211	0.1203	0.1195	0.1187	0.1179	0.1171	0.1163
27	0.1159	0.1152	0.1145	0.1138	0.1131	0.1124	0.1117	0.1110	0.1103	0.1096	0.1089	0.1082
28	0.1075	0.1068	0.1062	0.1056	0.1050	0.1044	0.1038	0.1032	0.1026	0.1020	0.1014	0.1008
29	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000
30+	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000



APPENDIX C – MONTHLY BENEFIT PER \$1.00 OF ACCUMULATION FACTORS

Description

DRS uses monthly benefit per \$1.00 of accumulation tables in two ways. When the factors are multiplied by a lump sum dollar value, a monthly lifetime benefit amount may be obtained. Conversely, the department may divide a monthly benefit amount by a factor in these tables to determine a single lump sum payment for the purchase of an annuity upon retirement.

Data and Assumptions

We used the data and assumptions described in **Appendix A**.

Methods

Development of Monthly Benefit per \$1.00 of Accumulation Tables

The factor at each age equals one divided by an immediate single-life annuity factor divided by 12.

The next table displays additional information we used to develop these factors.

Annuity Factor Details	
Annuity Type	Single-Life
Payment Commencement	Immediate
Payment Frequency	Monthly
Payment Timing	End of Period
Certain Period (Years)	None
COLA Percent	3%
COLA Increase Frequency	Annual

Other Information

We formatted the monthly benefit per \$1.00 of accumulation tables in a way consistent with the current format in [WAC 415-02-340](#). Please see the following attached tables for the resulting monthly benefit per \$1.00 of accumulation factors.



Monthly Benefit per \$1.00 of Accumulation Table

Age	Factor	Age	Factor
20	0.0039000	61	0.0054657
21	0.0039124	62	0.0055731
22	0.0039254	63	0.0056883
23	0.0039390	64	0.0058115
24	0.0039531	65	0.0059433
25	0.0039678	66	0.0060853
26	0.0039832	67	0.0062394
27	0.0039992	68	0.0064060
28	0.0040159	69	0.0065872
29	0.0040333	70	0.0067825
30	0.0040514	71	0.0069937
31	0.0040702	72	0.0072212
32	0.0040899	73	0.0074680
33	0.0041104	74	0.0077358
34	0.0041319	75	0.0080268
35	0.0041543	76	0.0083431
36	0.0041776	77	0.0086877
37	0.0042020	78	0.0090640
38	0.0042275	79	0.0094764
39	0.0042541	80	0.0099298
40	0.0042820	81	0.0104301
41	0.0043114	82	0.0109841
42	0.0043423	83	0.0115971
43	0.0043746	84	0.0122786
44	0.0044086	85	0.0130410
45	0.0044443	86	0.0139008
46	0.0044819	87	0.0148803
47	0.0045210	88	0.0159639
48	0.0045616	89	0.0171594
49	0.0046037	90	0.0184724
50	0.0046475	91	0.0198954
51	0.0047011	92	0.0214186
52	0.0047583	93	0.0230513
53	0.0048185	94	0.0247825
54	0.0048832	95	0.0265923
55	0.0049520	96	0.0284466
56	0.0050250	97	0.0302877
57	0.0051021	98	0.0320177
58	0.0051838	99	0.0340070
59	0.0052716		
60	0.0053653		



APPENDIX D – JOINT AND SURVIVOR OPTION FACTORS

Purpose

Members of LEOFF 2 may elect a reduced monthly benefit amount to provide an ongoing survivor benefit for their designated survivor beneficiary. The department currently offers three J&S choices for these members:

- ❖ Survivor receives 100 percent of the member's benefit (Option 2).
- ❖ Survivor receives 50 percent of the member's benefit (Option 3).
- ❖ Survivor receives 66 2/3 percent of the member's benefit (Option 4).

The J&S option factors presented in this communication can be multiplied by a member's earned monthly benefit amount to find the member's reduced monthly benefit if they select one of these options.

Data

We used the 2014 AVR data as described in **Appendix A**. We also used data from the 2007-2012 DES about service and disability retirees to develop the percent male assumptions and expected retirement ages (see tables in the **Assumptions** section below) for members who select a J&S option.

Assumptions

We relied on the following key assumptions:

- ❖ We used the economic and mortality assumptions shown in **Appendix A**.
- ❖ We assumed percent male assumptions specifically for the J&S factors of 98.23 percent, based on information in the DES. This assumption method is consistent with the method used to develop the J&S administrative factors currently in place.
- ❖ We developed average assumed LEOFF 2 retirement ages based on information about the same service and disability retirees cited in the data section of this appendix. This assumption is consistent with the assumption used to develop the J&S administrative factors currently in place.



Retirement Age*		
Plan	Males	Females
LEOFF	57	54

*Age for members who have selected a J&S option.

Methods

Development of J&S Option Factor Table

J&S option factors reduce members' benefits so that the selection of the option makes the benefits under that option actuarially equivalent to the members' single life benefits.

$$\text{PV (single-life benefits)} = \text{Factor} \times \text{PV (J\&S benefits)}$$

Where "PV" denotes Present Value and includes the annuity factors produced for this project. "Benefits" means the sum of all expected lifetime benefits.

The next table displays additional information we used to develop these factors.

Annuity Factor Details		
	Single-Life Annuity	Joint & Survivor Annuity
Annuity Type	Single Life	Joint Life
Payment Commencement	Immediate	Immediate
Payment Frequency	Monthly	Monthly
Payment Timing	End of Period	End of Period
Certain Period (Years)	None	None
COLA Percent	3%	3%
COLA Increase Frequency	Annual	Annual

We developed the J&S option factors to include the probability that a survivor will pre-decease the member, and the member's benefit will "pop up" to its pre-reduction level.

Other Information

We formatted the J&S option factor table in a way consistent with their current format in [WAC 415-02-380](#). Please see the attached table for the resulting J&S option factors.



J&S Option Factor Table

Age Difference	Option 2 100%	Option 3 50%	Option 4 66 2/3%	Age Difference	Option 2 100%	Option 3 50%	Option 4 66 2/3%
(20)	0.958	0.978	0.972	11	0.834	0.909	0.883
(19)	0.955	0.977	0.970	12	0.829	0.907	0.879
(18)	0.953	0.976	0.968	13	0.825	0.904	0.876
(17)	0.950	0.975	0.966	14	0.821	0.901	0.873
(16)	0.948	0.973	0.964	15	0.816	0.899	0.870
(15)	0.945	0.972	0.963	16	0.812	0.896	0.867
(14)	0.942	0.970	0.960	17	0.808	0.894	0.864
(13)	0.939	0.968	0.958	18	0.805	0.892	0.861
(12)	0.936	0.967	0.956	19	0.801	0.889	0.858
(11)	0.932	0.965	0.954	20	0.797	0.887	0.855
(10)	0.929	0.963	0.951	21	0.794	0.885	0.852
(9)	0.925	0.961	0.949	22	0.790	0.883	0.850
(8)	0.922	0.959	0.946	23	0.787	0.881	0.847
(7)	0.918	0.957	0.944	24	0.784	0.879	0.845
(6)	0.914	0.955	0.941	25	0.781	0.877	0.843
(5)	0.910	0.953	0.938	26	0.778	0.875	0.840
(4)	0.905	0.950	0.935	27	0.775	0.874	0.838
(3)	0.901	0.948	0.932	28	0.773	0.872	0.836
(2)	0.896	0.945	0.928	29	0.770	0.870	0.834
(1)	0.892	0.943	0.925	30	0.768	0.869	0.832
0	0.887	0.940	0.922	31	0.765	0.867	0.830
1	0.882	0.937	0.918	32	0.763	0.866	0.829
2	0.877	0.935	0.915	33	0.761	0.864	0.827
3	0.872	0.932	0.911	34	0.759	0.863	0.825
4	0.868	0.929	0.908	35	0.757	0.862	0.824
5	0.863	0.926	0.904	36	0.755	0.860	0.822
6	0.858	0.923	0.900	37	0.753	0.859	0.821
7	0.853	0.921	0.897	38	0.751	0.858	0.819
8	0.848	0.918	0.893	39	0.750	0.857	0.818
9	0.843	0.915	0.890	40	0.748	0.856	0.817
10	0.839	0.912	0.886				

Note: Age difference equals member age minus beneficiary age.



APPENDIX E – SERVICE CREDIT RESTORATION FACTORS

Purpose

These factors allow DRS to calculate the Actuarial Equivalent (AE) cost for members to restore prior service credit under RCW 41.50.165.

Data and Assumptions

We used the data, economic assumptions, and percent male/female assumptions described in **Appendix A**.

We relied on the following additional assumptions to develop the new SCRF.

- ❖ **Actuarial Equivalence:** We developed the new SCRF assuming members commence receiving their retirement benefits at Normal Retirement Age (NRA), or immediately for post-NRA restorations. We did not include assumptions for pre-retirement mortality, termination, or disability. Also, we applied an adjustment for members who have the opportunity to benefit from subsidized early retirement. Under these circumstances, we increased the age-based SCRF by the weighted average of, (i) the increase in their benefit from more favorable ERFs, and, (ii) the likelihood that they will retire. We used the retirement rates as disclosed in the 2014 AVR.
- ❖ In addition, we've added a second step that includes the cost for the increased value of the member's past service if it is available at an earlier (subsidized) retirement age due to the addition of the restored service. This step will result in no additional cost if the restored service does not change the member's ability for subsidized or earlier unreduced retirement. Please see the "Part 2" equation of the **Other Information** section below for how this cost is calculated administratively. This additional component also ensures the cost paid by the member is the same whether the service is restored as a single transaction or over multiple transactions.

System	Normal Retirement Eligibility (Age/Service)	Early Retirement Eligibility (Age/Service)	Subsidized Early Retirement (Age/Service)
LEOFF 2	53/5	50/20	50/20

- ❖ **Mortality Assumptions:** We projected mortality to a static year of 2036. Since actives and deferred vested employees will likely be the population purchasing additional service credit in the future, we changed our static projected mortality improvement year to match this group's liability under generational mortality improvement.



- ❖ **Mortality Blending:** These factors only apply for restorations by active members. Therefore, we did not blend disabled mortality rates with healthy mortality rates in their development.
- ❖ **Retirement Rates:** We used the same retirement rates that were developed in the DES.
- ❖ **Early Retirement Factors:** We applied the new ERFs that were developed in this administrative factor update. Please see **Appendix B** for the table of factors used.
- ❖ **Certain Period:** We apply a certain period to the NRA annuity factors to cover the guaranteed “refund of contributions provision” in the case that a member dies before all of their contributions have been paid out in monthly benefits. This certain period matches the 2007-2012 DES.

System	Certain Period
LEOFF 2	5

Methods

Development of Underlying Annuity Factors

The next table displays detailed information about how we developed the deferred and immediate annuity factors.

Annuity Factor Details		
	Deferred Annuity	Immediate Annuity
Annuity Type	Single-Life	Single-Life
Payment Commencement	Deferred to NRA	Immediate
Payment Frequency	Monthly	Monthly
Payment Timing	End of Period	End of Period
Percent COLA	3%	3%
COLA Increase Frequency	Annual	Annual

Other Information

The format we developed for the SCRF includes a two-dimensional table. Specifically, the dimensions are *Current Age* by *Service*. The cost paid by the member equals their AFC, times the sum of Part 1 plus Part 2.



Part 1. (i) The number of years to be restored, times (ii) the table factor at their current age and service amount with the restoration;

Plus;

Part 2. (iii) Their service prior to the restoration, times (iv) the difference between
(a) The table factor including restored service, minus;
(b) The table factor based upon service before the restoration.

Part 2 of this equation accounts for the cost of receiving benefits on past service at a subsidized or earlier unreduced retirement age resulting from the restored service. For more information, see WAC [415-02-370](#).

Please see the attached spreadsheet for the new SCRF. Note that the factors can be linearly interpolated between each integer age and service value provided in the spreadsheet.

Administrative Factors

Lisa Won, ASA, FCA, MAAA
Deputy State Actuary



Today's Presentation

- Background information
- Assumptions impacting factors
- New factor comparisons
- Recommendations
- Next steps

Background – What Are Administrative Factors?

- Administrative factors adjust pensions for optional payment forms
 - Optional payments should be cost-neutral to the plan as a whole - “Actuarial Equivalence”
- Factors cover all plan members
 - Best actuarial equivalence includes all members in the development of the factors

Background – Why Is This Before The Board?

- The Board has authority to adopt factors
 - DRS adopts factors for all other plans
- The Board adopted new demographic assumptions last interim
 - Key update includes recognition of longer life spans
 - When assumptions change, administrative factors may need updating

LEOFF 2 Has Four Sets Of Factors To Update

- Early Retirement Factors (ERFs)
- Joint and Survivor Option Factors (J&S factors)
- Monthly Benefit per \$1.00 of Accumulation (Annuity Factors)
- Service Credit Restoration Factors (SCRFs)

Early Retirement Factors

- ERFs reduce a member's benefit for early commencement
- Applies to non-duty disability or death benefits prior to Normal Retirement Age (NRA), age 53
- When benefits start earlier, they are paid longer and the total cost of a member's expected lifetime benefits increases

Joint And Survivor Option Factors

- J&S factors reduce a member's benefit to provide an ongoing benefit for their survivor
- Three types of survivor benefits available under the plan:
 - J&S 100 percent
 - J&S 50 percent
 - J&S 66 2/3 percent

Monthly Benefit Per \$1.00 Of Accumulation Factors

- “Annuity” factors convert a lifetime monthly benefit to a lump sum
- Calculation is made at retirement
- Applies to cash-out of small monthly pension or purchase of additional pension
 - “Airtime” - up to five years
 - Optional life annuity purchase

Service Credit Restoration Factors

- Factors used to calculate the cost of the increase in a member's benefit if they restore prior service credit
 - Service withdrawn in the past and member wants to restore it after window to pay contributions with interest
- Purchase is made sometime before retirement

Administrative Factors Include Policy Decisions Of The Board

- Incorporate mortality improvement trends
- Blend male and female mortality rates
- Blend healthy and disabled mortality rates
 - ERFs, J&S factors, and Annuity factors - apply to members at retirement
 - SCRFs use healthy mortality rates - apply to active members prior to retirement
- Improves actuarial equivalence for the plan

Assumption Changes Since Last Administrative Factor Update

- No changes to economic assumptions
- Demographic assumptions updated in 2014 Interim based on Demographic Experience Study

Demographic Changes From 2012 Factors		
Metric	2015	2012
Mortality Projection Scale	100% BB	50% AA
Base Mortality Year	2017	2014
Projection Year	2039	2032
Average Male Ret Age	57	56
Average Female Ret Age	54	53
Weighted Average Ret Age	56	55
Percent Male	98.23%	98.86%

Key Impact – Mortality Assumption

- Mortality assumption impacts all factors
- Recognition of additional mortality improvements adopted last interim following the Demographic Experience Study
 - 100 percent of Scale BB
 - Prior assumption based on 50 percent of Scale AA
 - Both mortality projection scales published by the Society of Actuaries
- Mortality projections are different for the actuarial valuation compared to the administrative factors
 - Actuarial valuation uses generational improvements in mortality
 - Administrative factors use a static year for mortality improvements

Early Retirement Factor Comparison

- Compares the value of an annuity that starts at NRA to an annuity that starts immediately
- ERFs reduce a member's benefit to recognize additional cost to pay benefits for a longer period of time

Percent Change From 2012

MIN	0.44%
AVG	4.78%
MAX	8.41%

Early Retirement Factor Example

- Impact on benefit for non-duty disability retirement:
 - Member age = 45
 - Accrued benefit = \$1,500/mo

	Current	New	Change
ERF	0.497	0.512	3.02%
Monthly Benefit	\$746	\$768	\$22

Joint & Survivor Factor Comparison

- J&S factors are not very sensitive to changes in mortality
- Compares the value of a single life annuity to a joint life annuity
- J&S factors reduce a member's benefit to recognize additional cost of providing a benefit payable on two lives

Percent Change From 2012			
	J&S 100%	J&S 50%	J&S 66.67%
MIN	(0.18%)	(0.09%)	(0.12%)
AVG	2.35%	1.31%	1.68%
MAX	5.19%	2.97%	3.77%

Joint & Survivor Factor Example

- Impact on \$2,700 monthly retirement benefit for member electing J&S 100 percent (age difference = 3):

	Current	New	Change
J&S Factor	0.859	0.872	1.51%
Monthly Benefit	\$2,319	\$2,354	\$35

Annuity Factor Comparison

- Also called “Monthly Benefit per \$1.00 of Accumulation” factors
- Annuity factors are sensitive to changes in mortality
- Converts lifetime benefit into lump sum payment
- Payment occurs at retirement

Percent Change From 2012	
MIN	2.31%
AVG	5.54%
MAX	11.71%

Note: Only includes ages 65 and below.

Annuity Factor Example

- Impact on cost to purchase additional \$600 monthly benefit (five years “airtime”) for age 55 member:

	Current	New	Change
Annuity Factor	0.0053643	0.0049520	7.69%
Lump Sum Cost	\$111,900	\$121,200	\$9,300

Service Credit Restoration Factor Comparison

- SCRFs are sensitive to changes in mortality
- Converts expected lifetime benefit into lump sum payment
- Payment occurs prior to retirement
 - Estimate amount of benefit at retirement
 - Use plan retirement assumptions and new ERFs
 - Purchase may qualify member for subsidized early retirement

Percent Change From 2012	
MIN	11.48%
AVG	12.37%
MAX	15.52%

Note: Only includes ages 65 and below

Service Credit Restoration Factor Example

- Impact on cost to restore 15 years of service for age 45 member with 5 years of current service and a salary of \$50,000

	Current	New	Change
SCRF (Factor 1)	0.2358	0.2630	11.54%
SCRF (Factor 2)	0.2325	0.2601	11.87%
Lump Sum Cost	\$177,675	\$197,975	\$20,300

Recommendations

- We recommend adopting new administrative factors
 - Best estimate of life expectancies for impacted members
 - Best actuarial equivalence (accuracy) for cost of optional benefits
 - Consistent with assumptions used in the actuarial valuation to determine funding requirements of the plan

Next Steps

- OSA has provided additional information and tables of new factors
- Board adopts final factors
- DRS will communicate factor changes to members and implement new factors effective October, 2016

Questions?





SCPP Update

Date Presented:

9/23/2015

Summary:

SCPP September 15 Meeting Agenda

Strategic Linkage:

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

ATTACHMENTS:

Description	Type
📎 SCPP September 15 Meeting Agenda	Report

Select Committee on Pension Policy

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

Regular Committee Meeting

September 15, 2015
10:00 a.m. – 12:30 p.m.*
Senate Hearing Room 4
Olympia

AGENDA

- | | |
|------------|---|
| 10:00 a.m. | 1. Approval of Minutes |
| 10:05 a.m. | 2. State Actuary's Recommendations on Long-Term Economic Assumptions – Matt Smith, State Actuary, and Lisa Won, Deputy State Actuary |
| 11:00 a.m. | 3. DRS Update – Marcie Frost, Director, Department of Retirement Systems |
| 11:20 a.m. | 4. LEOFF 2 Update – Steve Nelsen, Executive Director, LEOFF 2 Board |
| 11:40 p.m. | 5. SCPP Rules of Procedure – Mark Lyon, Assistant Attorney General, Attorney General's Office |
| 12:10 p.m. | 6. Estoppel Rule – Lauren Rafanelli, Associate Policy Analyst |
| 12:30 p.m. | 7. Adjourn |

**These times are estimates and are subject to change depending on the needs of the Committee.*

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Senator Barbara Bailey

John Boesenberg
PERS/Higher Ed Employer

Patricia Bosmans
PERS Employers

***Representative Bruce Chandler, Chair**

***Senator Steve Conway, Vice Chair**

Annette Creekpaum
PERS Employers

Randy Davis
TRS Actives

***Beverly Freeman**
PERS Employers

***Marcie Frost, Director**
Department of Retirement Systems

Bev Hermanson
PERS Retirees

Senator Steve Hobbs

Robert Keller
PERS Actives

Representative Matt Manweller

Representative Timm Ormsby

Senator Mark Schoesler

David Schumacher, Director
Office of Financial Management

Representative Pat Sullivan

J. Pat Thompson
PERS Actives

***Robert Thurston**
WSPRS Retirees

***David Westberg**
SERS Actives

**Executive Committee*

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leg.wa.gov/SCPP.htm



Career Extension

Report Type:

Comprehensive Report Follow-up

Date Presented:

9/23/2015

Presenter Name and Title:

Paul Neal, Senior Research and Policy Manager

Summary:

Revisiting last year's Board discussion on career discussion to review options changing standards governing when LEOFF plan 2 retirees can return to public safety work and retain their pension.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Enhance the benefits for the members.

ATTACHMENTS:

Description	Type
 Career Extension Follow Up	Report
 Career Extension Follow Up Presentation	Presentation



COMPREHENSIVE REPORT FOLLOW-UP

By Paul Neal
Senior Research & Policy Manager
360-586-2327
paul.neal@leoff.wa.gov

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.

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. . Earlier this year the board asked staff to provide a review briefing on the issue. That is the purpose of this report.

MEMBERS IMPACTED

Two hundred sixty-five LEOFF Plan 2 retirees have utilized the provisions of the career change law since its inception in 2005¹. A similar number of members would be impacted by any 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.

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

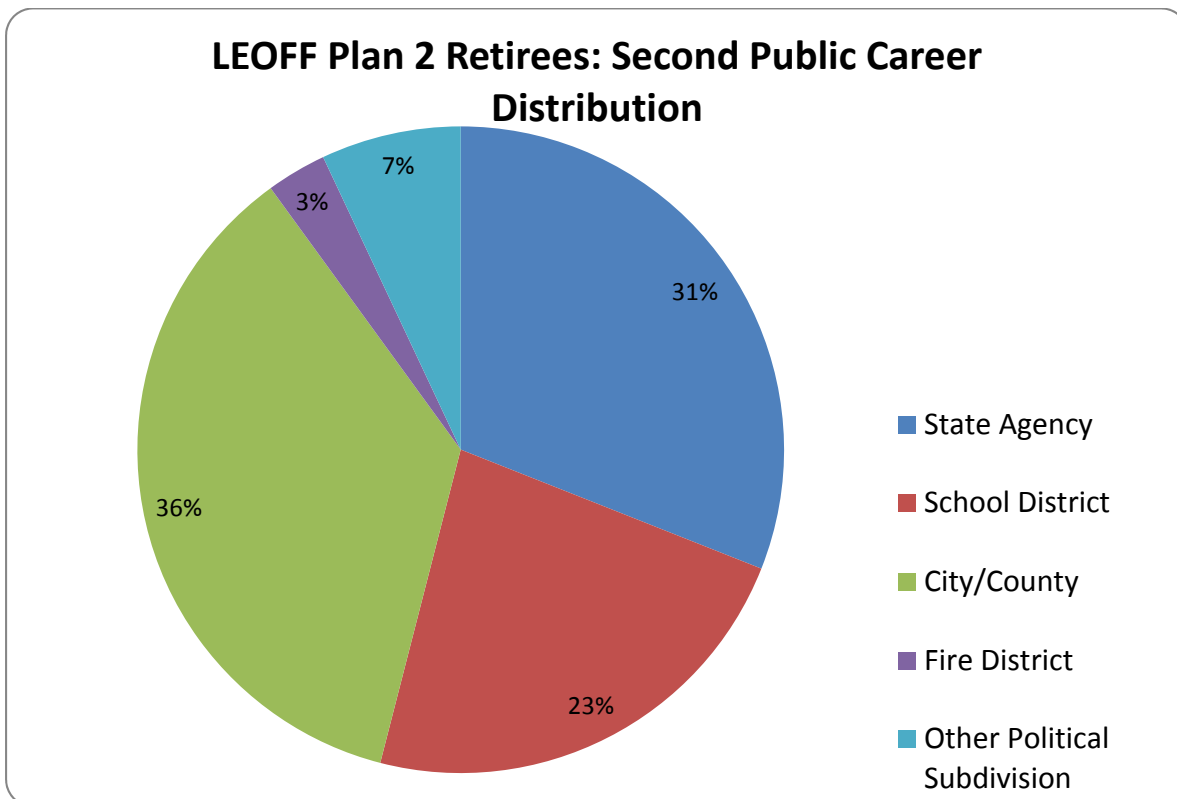
BACKGROUND & POLICY ISSUES

Career Change

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 fire fighting 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 in more detail in 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 chiefs and fire chief's positions as "part-time." This allows LEOFF Plan 2 retirees to hold those positions without losing receipt of their pensions.

Another 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.

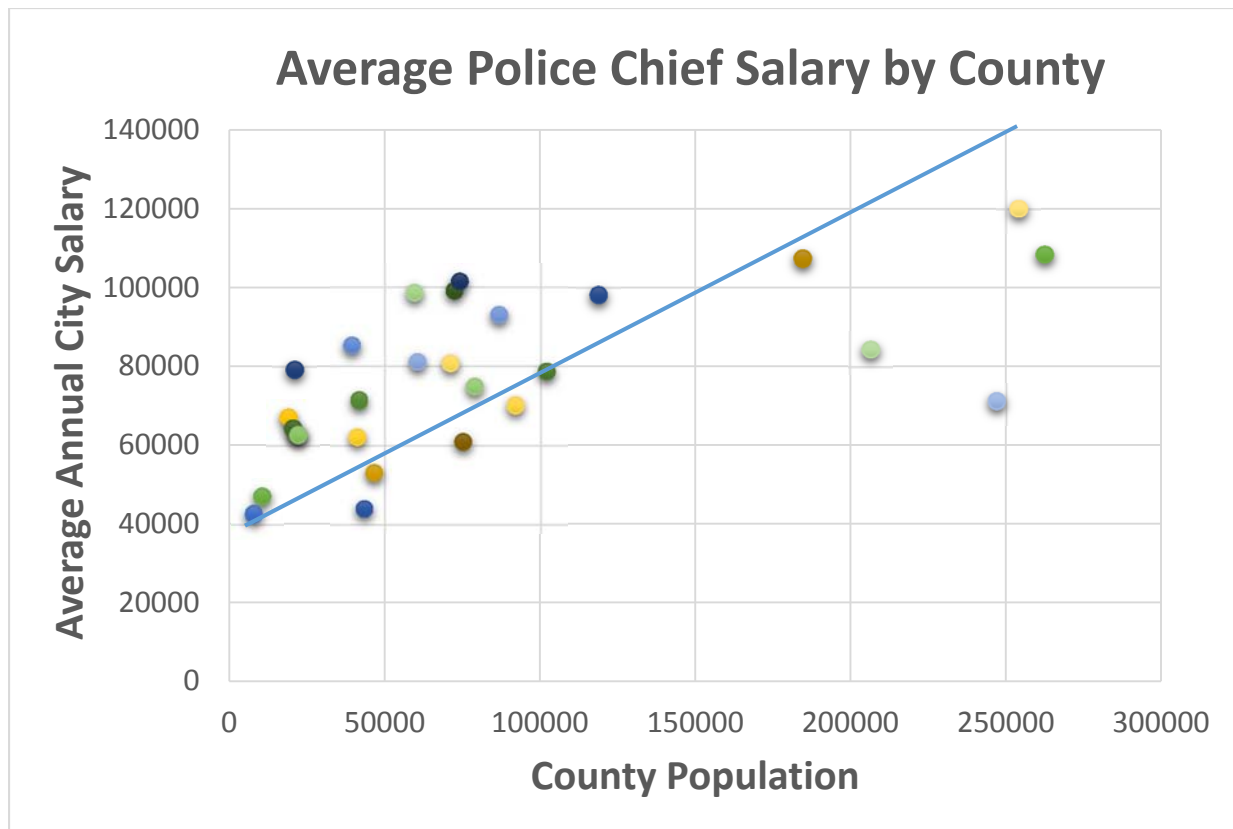
THE VALUE OF EXPERIENCE

Perhaps more than other public professions, law enforcement and fire fighting require continuous, specific training. Over the course of a 25 year career a fire fighter's employer spends approximately \$142,500 on training². 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. Last year's 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 sort the data to examine the urban vs rural distinction, last year's data is sorted below by population of the county the city is in, rather than the city itself.

² The South King County Fire Training Coalition, which provides training to fire fighters from 8 different jurisdictions, charges employee \$5700 per year per fire fighter. $\$5700 \times 25 \text{ years} = \$142,500$.



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 contributions³.

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.

³ 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, would 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. Options include:

- Limiting total compensation to a percentage of Final Average Salary: 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.
- Limit the Timeframe for Collecting Both Pension and Salary: 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

At the November meeting in 2014 the Board considered several options and decided to move the issue to the 2015 Interim. The options considered in 2014 were:

1. Support reintroduction and passage of HB 2479

2. Reconcile the policies discussed above by proposing legislation that would amend HB 2479 by retaining prohibition on avoiding LEOFF membership by modifying positions; and allowing LEOFF Plan 2 retirees to work in LEOFF positions under specified circumstances. Possibilities include:
 - a. Require the retiree to work for a different employer;
 - b. Limit LEOFF reemployment to chief positions;
 - c. Limit LEOFF reemployment to retirees with 25 or more years' experience;
 - d. Limit combined pension and salary to a percentage of FAS
 - e. Limit pension eligibility to 867 hours per year. Take no further action on this issue

APPENDIX A

Seattle Times Article: *Fire, police officials get retire-rehire deals*

Published in Seattle Times:

Updated: 8:25 a.m. Thursday, Nov. 21, 2013 | Posted: 8:25 a.m. Thursday, Nov. 21, 2013

Fire, police officials get retire-rehire deals

By MIKE BAKER

The Associated Press

SEATTLE —

A couple years after retiring as Lakewood fire chief at age 58, Paul Webb returned to the profession and his former job title — this time at Orting Valley Fire and Rescue.

Hired under a contract without some of the typical employee benefits, Webb's arrangement at the end of 2009 allowed him to draw more than \$100,000 in annual pension payments while also earning up to \$90,000 in yearly pay. It was an interim position, according to his contracts. He stayed in the job for three years.

It wasn't long before six of Webb's past colleagues followed similar paths, retiring and taking jobs in various contract positions, according to records.

In recent years, Washington lawmakers changed laws to crack down on retire-rehire arrangements, seeking to prevent pensioners from double-dipping when they return to similar government jobs.

But The Associated Press found that gaps in the special rules created for law enforcement officers and firefighters have allowed them to draw salaries alongside their pension. And those retirees generally retire much younger and with much larger retirement plans than teachers or other government workers.

According to local and state records obtained by AP under public records law, dozens of public safety retirees around the state became contractors. Some took part-time jobs such as polygraph consultants or pilots or instructors, while others returned to prominent managerial positions.

Other retirees in those two retirement systems reserved for law enforcement officers and firefighters — called LEOFF-1 and LEOFF-2 — took jobs that had them work slightly less than full time or with slightly less benefits, also allowing them to bypass rules that would have halted pension payments.

Local governments gain from the arrangements because officials can hire someone with experience at either a discounted pay rate or without having to cover some typical benefits.

DuPont Mayor Michael Grayum recently worked closely with the Department of Retirement Systems to ensure the city was following the rules in the hiring of a police chief who had

retired from a different department. The city didn't seek out pensioners, but three of the top candidates for the job were retirees.

"We were able to hire more experienced leadership for a lower cost than we have historically," he said. The new chief is able to keep his pension because his job is only 35 hours a week instead of 40.

The Legislature established retire-rehire rules for many government workers in 2003 due to concerns about the frequency and cost of those arrangements. In 2011, lawmakers placed even tighter controls on those deals, closing what some political leaders derided as "loopholes."

Rules for members of the newer LEOFF system were established in 2005 with the intent of preventing retire-rehire arrangements in similar jobs but designed to allow transition to less-demanding occupations in government.

Steve Nelsen, executive director of the LEOFF-2 Retirement Board, said the rules weren't meant to allow retirees to return to work in similar LEOFF jobs. "This was not the intent of the bill," Nelsen said. He said several board members have expressed concern about the DuPont case that surfaced in the wake of a previous AP story and that the board is now exploring the issue.

LEOFF rehire rules revolve around the issue of eligibility. Workers are eligible for the LEOFF system if they are fully compensated in full-time positions as a law enforcement officer, firefighter or supervisor. A retiree who gets rehired into a similar LEOFF-eligible position would have their pensions benefits halted.

But if a LEOFF retiree returns to a position that's less than full-time or not fully compensated, they technically would not qualify for the system and can avoid disruption of their benefits, according to the state.

Some have seized on that potential.

— In Maple Valley, in King County, Larry Rude was hired in 2007 to a contract position as assistant fire chief. He started in the new position the same day he retired from the state system, according to records.

For three years, Rude earned more than \$100,000 a year in salary — plus other benefits — along with a similar amount in retirement payments. Rude said he was allowed to draw pension and salary because he was only working in a part-time position, saying it "wasn't very many" hours a week.

Rude said he didn't have a specific number of hours that he typically worked, although the final contract he signed said Rude could work up to 159 hours a month — an average of about 37 hours a week.

— In Soap Lake, in central Washington, officials chose Glenn Quantz as an interim police chief last year, bringing him on as a contractor. Quantz had retired in 2009 at age 53 from the Thurston County Sheriff's Office.

Mayor Raymond Gravelle told state officials in a letter obtained by AP that Quantz was working 32 hours a week — making it a part-time job that wouldn't disrupt his benefits. However, Quantz is earning the full salary of the police chief and the same amount as the previous chief, according to records provided by the city's finance director.

Quantz declined to comment about his situation. Gravelle said the city is small enough that Quantz doesn't need to work full-time, but he said officials will be going back to review records to ensure they are compliant.

— In the Orting Valley case, documents show Webb consulted with the state about his rehire transition because he didn't want it to disrupt his retirement benefits. While Webb was working in a full-time post, a state official told him that there would be no impact because he didn't qualify for sick leave cash-outs and some other benefits.

"It was definitely full-time, but it wasn't fully compensated," Webb said in an interview.

Dave Nelsen, the legal and legislative services manager at the Department of Retirement Systems, said it's not clear what the review entailed at the time but said the issue of what qualifies as "fully compensated" is subjective and could be interpreted differently by other officials.

— At North Highline Fire District in the Seattle area, Steve Marstrom was hired to a contract as the administrative chief. Marstrom had retired from the Lakewood Fire District more than a decade before at age 50.

Marstrom's contract said he did not have set hours but would be paid \$8,000 a month. He could also get \$1,500 a month for housing. Marstrom said his role at North Highline was strictly an administrative one, since he was supervising personnel and not participating in any firefighting activities.

Because he wasn't personally involved in firefighting, Marstrom said the role didn't qualify for the LEOFF system so it wouldn't disrupt his LEOFF benefits.

Other LEOFF retirees in the system managed to get hired in similar roles that are technically in other pension systems. Some fire officials transitioned to become fire inspector or deputy fire marshal. Police officials transitioned to work as a "violence prevention" leader or agency security manager.

Depending on the circumstances, state officials could decide that workers hired as contractors should have been reported to the state as actual employees, potentially leading to a halting of pension payments. By hiring as contractors, however, the employees are more difficult for state pension managers to track.

One worker in the larger group of Lakewood retirees who became contractors had a part-time salary of \$90 per hour, while another was hired back as the department's full-time "emergency preparedness coordinator." Nelsen, the retirement system manager, said the agency was further examining the cases of Rude, Marstrom and Webb.

Earlier this year, after an AP report that described the case of former Lakewood official Greg Hull as part of a larger story about how some workers boosted their pensions with pre-retirement raises, the state audited files related to Hull and determined that he had been improperly classified as a contractor in his newer job at DuPont.

Retirement system managers are now seeking to recover more than \$550,000 in excess pension payments from that city.

Retirees in the two systems dedicated for law enforcement officers and firefighters have different rules than most other retirees. Many retired teachers, for example, would be unable to work more than 867 hours a year in a government job without having their benefits disrupted, but law enforcement and firefighter retirees could conceivably work more than 1,800 hours a year.

Law enforcement and firefighters also get more leeway even though their pay and benefits are typically much greater than other government workers. The median worker who retired over the last 10 years into a LEOFF system currently gets about \$45,000 per year in pension payments. By comparison, the median retiree into the teacher pension systems has a benefit about half that size — \$24,000.

Despite the much larger pension values, the median LEOFF retiree departed the job at age 56 while the median teacher retiree worked until age 61.

AP Writer Mike Baker can be reached on Facebook: <http://on.fb.me/HiPpEV>
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Career Extension

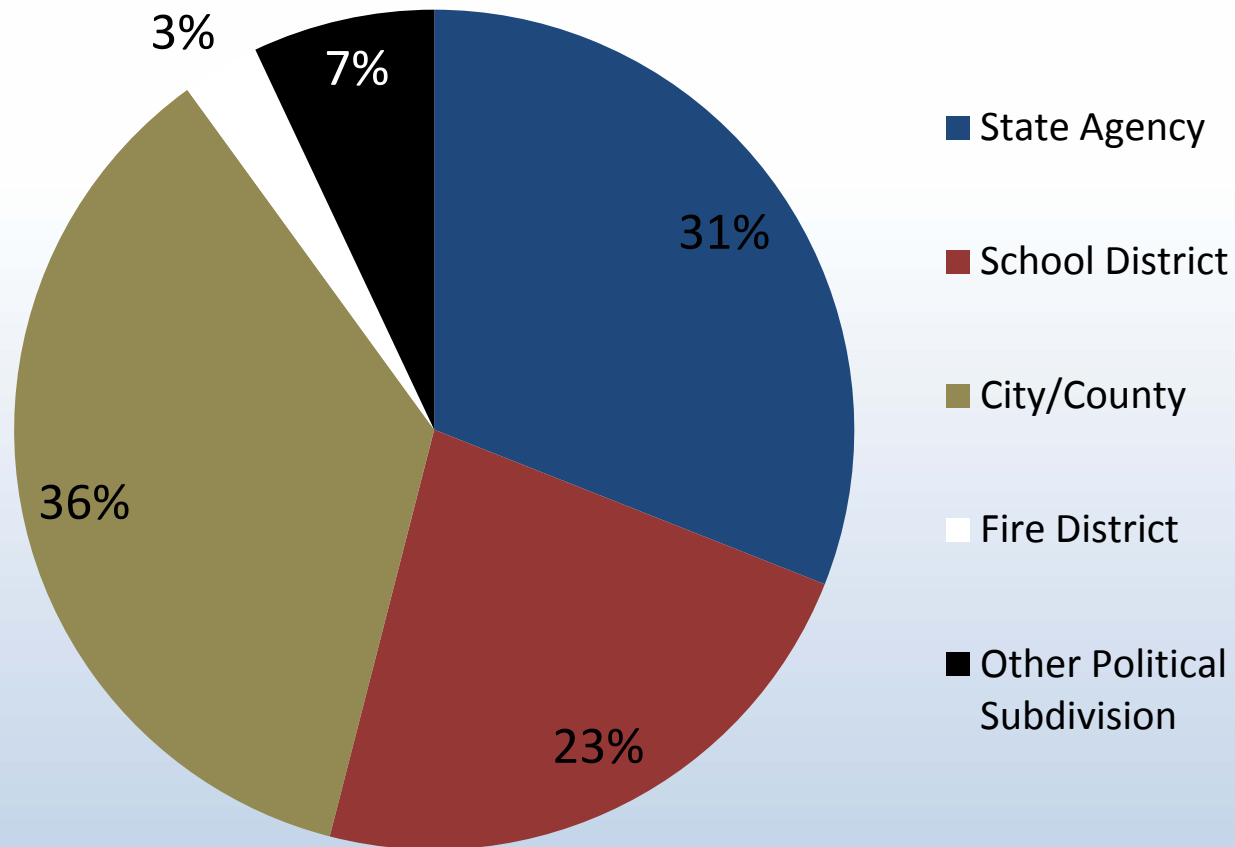
Comprehensive Follow-up
September 23, 2015

Issue

- **Career Change legislation used inappropriately by some**
- **Board proposal to remedy revealed tension**
 - Public confidence in well designed and professionally managed public pension plan
 - Access to highly trained and experienced LEOFF Plan 2 retirees small jurisdictions

Use of Career Change

LEOFF Plan 2 Retirees: Second Public Career Distribution



Public Confidence

Manipulating job descriptions enabled retirees to draw pensions while working in LEOFF positions:

- Perception of favoritism
- Continuing with same employer: Did this person *REALLY* retire?
- Public pension + public salary

Access to Talent

- **Law enforcement officers and fire fighters require significant lifetime investment in training**
- **Years of experience in Washington public safety system are valuable**

Balancing Issues

ISSUE	POSSIBLE BALANCE
Perception of unequal access to opportunity.	<ul style="list-style-type: none"> • Employment must be with different employer. • Specify covered positions – i.e. chiefs; or make available to all.
Cutting short original career to draw pension + salary.	<ul style="list-style-type: none"> • Require retiree to have earned at least 25 years of LEOFF plan 2 service credit.
Combined pension and salary “doubles” income.	<ul style="list-style-type: none"> • Limit pension to mitigate combined compensation: <ul style="list-style-type: none"> – Total compensation cannot exceed 120% of FAS; – 867 hour limit (\approx 5 months)

Next Steps

1. Maintain original position – support reintroduction and passage of HB 2479
2. Redraft HB 2479 to allow LEOFF Plan 2 retiree to hold a LEOFF position without losing pension in defined circumstances:
 - Require change of employer
 - Limit to Chief positions
 - Require 25 or more years service credit
 - Limit combined pension and salary to percentage of FAS
 - Limit pension eligibility to 867 hours per year
3. Take no further action

Questions?

Contact:

Paul Neal
Senior Research and Policy Manager
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Disaster Response Coverage

Report Type:

Comprehensive Report

Presenter Name and Title:

Ryan Frost, Research and Policy Manager

Summary:


LEOFF Plan 2 members who are called up to federal service to respond to natural disasters such as the Chelan wildfires or the Oso mudslide have different, and often less, pension protections than federal military members who respond to these disasters.

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.

ATTACHMENTS:

Description	Type
 Disaster Response Presentation	Presentation
 Disaster Response Report	Report



September 23, 2015

Disaster Response Coverage

Comprehensive Report

By Ryan Frost

Research and Policy Analyst

360-586-2325

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ISSUE STATEMENT

LEOFF Plan 2 members who are called up to federal service to respond to natural disasters such as the Chelan wildfires or the Oso mudslide have different, and often less, pension protections than federal military members who respond to these disasters.

OVERVIEW

The intent of this report is to provide benefit information for first responders when responding to natural disasters and wildfires. These responders are often a mix of wildland firefighters and federal military members. LEOFF Plan 2 members called into military service to respond to such events are not covered by certain benefits provided in LEOFF Plan 2 during times of peace.

POLICY ISSUES & BACKGROUND

Policy Issues

Currently, no in-service death benefits are provided for LEOFF Plan 2 members killed while providing military service responding to natural disasters. The survivor of a member killed in military service responding to natural disasters has the same benefits as the survivor of a member who left employment for other reasons. Thus, a primary policy question is whether survivors of members who die while called to respond to natural disasters should receive the same benefits as members who die while serving in the military during a period of war.

If special consideration is provided to survivors of these members, then what level of benefit should be provided? The current benefit only provides a refund of accumulated contributions. Should this rise to the level of a line of duty death providing full earned benefits or does it only merit an enhanced survivor benefit that is more adequate than a lump sum refund of contributions? Further, is a lump sum payment the form the benefit should take, as most of the federal benefits are, or is an annuity a more adequate solution?

Washington State Benefits

A member who dies before retirement is entitled to a standard death benefit ranging from a refund of contributions, up to an actuarially reduced monthly benefit paid to a surviving spouse

or minor child. The monthly benefit received by the survivor is determined by the number of years the member has in the system at the time of death.

In addition to the monthly benefit, if a member dies in the line of duty, as of July 1, 2015 a \$236,443 death benefit will be paid to their designated beneficiary. This death benefit is not available to members who are called into military service and killed responding to natural disasters during a time of peace.

Washington State Legislative History

The Select Committee on Pension Policy (SCPP) and LEOFF Plan 2 Retirement Board recommended joint legislation to the 2009 Legislature which provides an unreduced survivor annuity to qualifying survivors of members of all systems and plans who leave public employment due to service in the National Guard or military Reserves and die while service honorable during a *period of war*. This legislation passed.

The “period of war” language creates a gap where members who are called by the National Guard or other military agency to respond to natural disasters are not covered by that 2009 bill. Additional legislation with language tying natural disaster responders to the unreduced survivor annuity would be required.

Federal Benefits for Wildland Firefighters

Federal wildland firefighter benefits are split into four tiers depending on classification. These tiers are:

- Permanent, full-time
- Permanent, part-time
- Permanent, career-seasonal
- Temporary, seasonal

The three permanent classifications are entitled to full benefits, including membership in the federal Employees Retirement System (FERS). Access to FERS membership includes the Basic Employee Death Benefit, which is equal to 50% of the employee’s final salary (average salary, if higher), plus \$15,000 (increased by Civil Service Retirement System cost-of-living adjustments beginning 12/1/87). The \$15,000 has increased to \$30,792.98 for deaths on/after December 1, 2011.¹ Temporary, seasonal fire fighters are granted federal health benefits only.

¹ <https://www.opm.gov/retirement-services/fers-information/survivors/>

Federal Benefits Available to Survivors of Military Service Members

Department of Defense (DoD) benefits for survivors of deceased members of the armed forces vary significantly in purpose and structure. The death gratuity benefit provides an immediate one-time payment of \$100,000 to assist these survivors in meeting their financial needs during the period immediately following a member's death.

Similarly, the Service Members' Group Life Insurance (SGLI) provides the life insurance policy value in a lump sum payment following the service member's death. Other benefits include the Veteran's Administration Dependency and Indemnity Compensation (DIC), which provides a \$1,215 monthly benefit and the Survivor Benefit Plan (SBP) which provides benefits calculated as if the member retired with a 100% disability.

Additional death benefits provided by the DoD for survivors and dependents include housing assistance, health care, commissary and exchange benefits, educational assistance, and burial, funeral, and related benefits. Survivors may also receive death benefits from Social Security.

Public Safety Officers Benefits Program

The PSOB provides a \$339,310 lump sum death and total-disability benefit for eligible public safety officers. The PSOB definition of eligibility states that a public safety officer's death or total and permanent disability must result from injuries sustained in the line of duty. "Line of duty" means any action that the public safety officer is authorized or obligated to perform by law, rule, regulation or condition of employment or service. If law enforcement, fire suppression, rescue or ambulance service is not a person's primary function, then, to be covered by the Act, that person must be engaged in his or her authorized law enforcement, fire suppression, rescue or ambulance duties when the fatal or disabling injury is sustained.

This lump-sum death benefit does not apply to any wildland firefighters, or to member of LEOFF Plan 2 if they were called into federal service. federal legislation, proposed in the 113th Congress (2013-2015), titled the *Fallen Wildland Firefighters Fair Compensation Act* would have provided federal death and disability benefits (including PSOB benefits) for contractors who serve as fire fighters of the Forest Service, Department of the Interior agencies, or any State or local entity. This legislation was not enacted.

The table below lists the benefits available for first responders to natural disasters and wildfires:

	Employees Fighting Wildfires		
	Permanent federal wildland firefighters	LEOFF 2 member assigned by employer	LEOFF 2 member called up for military service
LEOFF 2 duty death benefit		X	
LEOFF 2 disability benefit		X	
Federal military benefits	X		X
Federal death & disability benefits	X	X	X
PSOB benefits		X	

Fire Fighter Fatalities

The U.S Fire Administration published data for on-duty fire fighters fatalities while responding to natural disasters for the period of Jan. 2004 to Oct. 2013. They reported 127 fatalities, with 20 of those being career fire fighters. Broken down by state, Washington had six fatalities with one of those being a career fire fighter.

Currently in 2015 alone, there have been 60 fire fighter fatalities while responding to natural disasters reported.² Washington is also currently in the midst of the largest wildfire outbreak in state history.³

POLICY OPTIONS

1. Provide full death and disability benefits under LEOFF Plan 2 for members who are called up to military service to respond to natural disasters and wildfires.
2. Take no further action.

² <http://apps.usfa.fema.gov/firefighter-fatalities/>

³ <http://www.usatoday.com/story/news/2015/08/24/washington-wildfires-largest/32302927/>



Disaster Response Coverage

Comprehensive Report
September 23, 2015

Issue

- **LEOFF Plan 2 members who are called up to federal service to respond to natural disasters such as the Chelan wildfires or the Oso mudslide have different, and often less, pension protections than federal military members who respond to these disasters.**

Issue

- **LEOFF Plan 2 members killed while providing military service to respond to natural disasters receive only non-duty death benefits, i.e. refund of contributions.**
- **Should a higher level of benefits be provided?**

Overview

This presentation provides benefit information for first responders to natural disasters and wildfires. Responders include:

- Federal wildland firefighters
- Military personnel
- LEOFF Plan 2 members “on loan” from LEOFF employers
- National guard and military reserve members called into military service who are also LEOFF Plan 2 members

LEOFF Plan 2 Benefits for Federal Service

- **2009 Legislation**
 - Improved survivor benefits
 - Unreduced survivor annuity
 - Jointly proposed by the SCPP and the LEOFF Plan 2 Retirement Board

Coverage Gap

- **The enhanced survivor benefit does not apply to members called into military service to respond to natural disasters because natural disasters are not a “period of war”**
- **Additional legislation would be required to provide this benefit**

Wildland Firefighter Benefits

Federal wildland firefighter benefits are split into four tiers depending on classification. These tiers are:

- Permanent, full-time
- Permanent, part-time
- Permanent, career-seasonal
- Temporary, seasonal

Wildland Firefighter Benefits

- **Permanent classifications**
 - Full benefits, including membership in the Federal Employees Retirement System (FERS)
- **FERS Basic Employee Death Benefit**
 - 50% of the employee's final salary (average salary, if higher), plus
 - \$30,792.98 indexed to Civil Service Retirement System cost-of-living adjustments

Military Death Benefits

- **Death gratuity**
- **Service Members' Group Life Insurance (SGLI)**
- **Veteran's Administration Dependency and Indemnity Compensation (DIC)**
- **Survivor Benefit Plan (SBP)**

PSOB

- **\$339,310 lump sum death benefit provided by the Public Safety Officers Benefits Program (PSOB)**
 - Does not cover wildland firefighters or LEOFF Plan 2 members called into federal service
 - Federal proposal to include wildland firefighters into the PSOB
 - Proposed in 113th (2013-2015) Congress ~ Not Enacted

Benefits

	Employees Fighting Wildfires		
	Permanent federal wildland firefighters	LEOFF 2 member assigned by employer	LEOFF 2 member called up for military service
LEOFF 2 duty death benefit		X	
LEOFF 2 disability benefit		X	
Federal military benefits	X		X
Federal death & disability benefits	X	X	X
PSOB benefits		X	

Firefighter Fatalities

- **127 wildland firefighter fatalities from 2004 to 2013**
 - 6 in Washington; 1 was career
 - 20 of the 127 were career fire fighters
- **60 nationwide fire fighter fatalities to date in 2015**
- **Current wildfire season is largest in state history**

Options

- 1. Provide full death and disability benefits under LEOFF Plan 2 for members who are called up to military service to respond to natural disasters and wildfires**
- 2. Take no further action**

Questions?

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Retiree Annuity Purchase

Report Type:

Comprehensive Report

Date Presented:

9/22/2015

Presenter Name and Title:

Paul Neal, Senior Research and Policy Manager

Summary:

Reviewing options for extending ability to roll over funds into LEOFF to purchase annuity to persons who were already retired when the original law was passed in 2014.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Enhance the benefits for the members.

ATTACHMENTS:

Description	Type
 Retiree Annuity Purchase Comprehensive Presenatation	Presentation
 Retiree Annuity Purchase Comprehensive Report	Report



September 23, 2015

Retiree Annuity Purchase

COMPREHENSIVE REPORT

By Paul Neal
Senior Research and Policy Manager
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ISSUE STATEMENT

Current state law does not allow retirees to roll over tax deferred savings into LEOFF Plan 2 to purchase an annuity.

OVERVIEW

At the time of retirement, members can roll their retirement savings from a tax qualified plan into LEOFF Plan 2. The Department of Retirement Systems (DRS) will convert this rollover into a monthly life annuity. Because members are rolling over from a tax qualified savings plan, they do not have to pay taxes at the time the annuity is purchased. Instead, the money will be included in their taxable income as they receive it.

Members receive their pension dollars as well as this annuity in one monthly check from DRS. If they were to pass away before receiving the initial cost to purchase the annuity, the designated beneficiary receives the balance.

Following passage of the 2014 law, retirees inquired whether they could roll over and purchase an annuity after retirement. An annuity can only be purchased *at* the time of retirement. The current law does not allow existing retirees to purchase an annuity.

BACKGROUND & POLICY ISSUES

A 2012 IRS revenue ruling¹ allowed pension plan members to roll money from a deferred compensation account into the member's defined benefit plan to purchase an annuity if authorized by the plan document (i.e. the LEOFF Plan 2 statutes).

After studying the issue, the Board recommended legislation in 2014 which was passed unanimously by the Legislature. The legislation allows members of LEOFF Plan 2 who are retiring to purchase an optional actuarially equivalent life annuity from the LEOFF 2 trust fund with a minimum payment of \$25,000. The payment may be made through an eligible or direct rollover, or trustee-to-trustee transfer from a tax-qualified plan offered by a governmental employer.

Existing retirees (before the annuity legislation) began to raise questions about their ability to purchase an annuity. Neither the original revenue ruling nor the Board's legislation discussed whether existing retirees could also be given the opportunity to purchase an annuity.

Staff has since determined that federal tax law would allow retirees to purchase an annuity from the pension fund, if authorized in statute.

Value of an Annuity Purchase

Purchasing an annuity increases a retiree's monthly benefit for the rest of their life. An "annuity" is an investment on which a retiree receives fixed payments for their lifetime. If an annuity is purchased, the retiree would continue to receive the annuity portion of their monthly benefit even if they returned to work, or returned to membership.

Similar to a monthly benefit, the annuity portion may also be passed along to a survivor if a survivor option is selected at the time of retirement. If a survivor option is not selected, any portion of the annuity remaining at the time of death will be paid to the designated beneficiary or the retiree's estate. If the retiree is eligible for an annual Cost-of-Living Adjustment (COLA) on their monthly benefit, they will receive the same COLA percentage on their purchased annuity.

Many private annuity companies offer their own versions of this benefit. However, LEOFF's higher interest rate assumption (7.5% - compared to around 4% for a private annuity company) translates into a larger annuity from the same lump sum. Additionally, administrative costs to the member are much lower.

¹ Internal Revenue Bulletin 2012-8; issued February 21, 2012.

Analysis supporting the Board's 2013 Annuity Purchase proposal is included from the December 18, 2013 Final Proposal as Appendix A.

Retirees may purchase an annuity

The bill proposed by the Board and passed by the Legislature limits roll over and annuity purchases to the time of retirement. Following questions raised by retirees, staff has determined that federal tax law allows retirees to take that same action if authorized in statute.

POLICY OPTIONS

Option 1: Propose legislation allowing persons already retired at the time the original bill passed a window of time to roll over money from their defined compensation account into LEOFF Plan 2 to fund an annuity.

Option 2: Include LEOFF Plan 1 members and retirees in proposed legislation.

Option 3: Include Washington State Patrol retirees in proposed legislation.

Option 4: Take no further action.

SUPPORTING INFORMATION

Appendix A: Promoting Individual Savings for Retirement – Final Proposal, December 18, 2013

APPENDIX A: PROMOTING INDIVIDUAL SAVINGS FOR RETIREMENT – FINAL PROPOSAL, DECEMBER 18, 2013



DECEMBER 18, 2013 PROMOTING INDIVIDUAL SAVINGS FOR RETIREMENT

FINAL PROPOSAL

By Paul Neal
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ISSUE

Members are not able to take advantage of a recent IRS ruling which provides new options for managing savings in retirement.

PROPOSAL SUMMARY¹

At the November 20th meeting the Board directed staff to prepare proposals on:

- Option 1: Authorize LEOFF Plan 2 to annuitize roll-overs of tax deferred savings;
- Option 3: Require LEOFF Employers to Offer DRS's Deferred Compensation Program to LEOFF Members; and
- Option 4: Encourage DRS to offer a Roth option as part of its 457 deferred compensation plan.

Those options are being presented for Board action at the December 18th meeting.

MEMBERS IMPACTED

New options encouraging member's retirement savings as part of LEOFF Plan 2 would be available to all 16,720 active LEOFF Plan 2 members².

OVERVIEW

The LEOFF Plan 2 defined benefit Plan, the first leg of the three-legged retirement stool, provides a defined lifetime payout that does not vary with investment return. Retirees must devise their own distribution strategy for the second leg of the stool, individual retirement savings. Members can reduce the risk of outliving their assets if they convert at least some of those assets into a lifetime annuity.

¹ The Board initially considered this issue at the August 28, 2013 Board meeting. At the September follow-up the Board looked at three options and requested additional information on: Annuitization of additional amounts rolled over into LEOFF Plan 2; and requiring LEOFF employers to participate in DRS's 457 plan. Staff also researched authorized "Roth" accumulations in governmental 457 plans.

² Membership number as of June 30, 2012; Office of the State Actuary 2011 LEOFF Plan 2 Valuation Report.

LEOFF Plan 2 members may purchase an additional monthly benefit through the LEOFF Plan 2 trust fund by buying up to 5 years of additional service credit at the time retirement. Under current law, only Plan 3 members (TRS, PERS & SERS³) can convert contributions to an annuity from their retirement system.

Leveraging the existing LEOFF Plan 2 infrastructure to authorize accumulation of savings and/or converting that account to a monthly benefit through the LEOFF Plan 2 trust fund would provide a cost-effective mechanism to encourage retirement savings. This can be particularly important for LEOFF Plan 2 members since many do not participate in social security through their employer.

This report examines federal laws encouraging retirement savings, the costs of savings for retirement, different mechanisms for annuitizing retirement savings, a recent IRS ruling authorizing annuitizing retirement savings through LEOFF Plan 2, and provides options for further action.

BACKGROUND INFORMATION & POLICY ISSUES

The LEOFF Plan 2 Retirement Board began studying ways to encourage increased retirement savings during the 2004 Interim. The Board recommended legislation allowing purchase of up to five years of service credit at retirement. The Legislature passed that recommendation in 2005 (HB 1269).

That same year the Department of Retirement Systems (DRS) began offering annuities through the Plan 3 programs. The Purchase of Annuity topic was studied by the Board during the 2006, 2007, 2008 and 2009 Interims reaching the Final Proposal stage in 2006, 2008 and 2009, but no legislation was recommended. The topic was deferred for joint consideration with the Select Committee on Pension Policy (SCPP) for the 2009 Interim. No further action was taken.

The paradox is that investors recognize that their retirement savings will need to last longer than ever before but they aren't making plans to ensure they will actually have the money they need. There tends to be a false sense of security when it comes to Planning for retirement. We hope that the money will somehow be there when we need it but we're not taking the action required to ensure it is. This is a serious problem, and addressing it must become an urgent priority.

Noel Archard, Head of BlackRock
Canada. July 2013

SAVING FOR RETIREMENT

Federal Law Encouraging Retirement Savings

³ Teachers' Retirement System (TRS); Public Employees' Retirement System (PERS); School Employees' Retirement System (SERS).

The federal tax code encourages individuals to save for, and invest in, retirement:

- Qualified deferred compensation plans, such as the IRS §457 plan offered through the Department of Retirement Systems (DRS) deferred compensation program, permit an individual to authorize pre-tax salary deductions for deposit into a personal investment account. Many LEOFF Plan 2 employers offer these types of plans to employees. Upon separation from employment a member may leave the funds invested or select a distribution option.
- Members may transfer funds between government defined benefit pension Plans like LEOFF Plan 2 and deferred compensation accounts such as 457, 403(b), and 401(k) Plans. This helps members manage retirement savings as they change employers.
- Purchase of up to five years of service credit or "air-time" was authorized in the Federal Pension Protection Act.
- A recent IRS revenue ruling⁴ allows members with funds in a deferred compensation account maintained by an employer to roll the funds over into their defined benefit plan and convert those funds to an annuity from the defined benefit Plan.
- The Small Business Jobs act of 2010 authorized governmental 457 plans to include a Roth option.

Using these federal provisions, some state and local government pension plans allow member fund transfers, including funds from tax-deferred accounts, into the primary defined benefit plans to purchase additional service credit or an annuity.

THE COST OF SAVING - DEFERRED COMPENSATION FEES

DRS operates a deferred compensation program under 26 U.S.C. §457, commonly called a "457 Plan". Washington's political subdivisions may participate in DRS's 457 Plan, or use another administrator, such as ICMA-RC. Administrative fees vary significantly. Comparing private administrator fees to DRS's annual .13% fee can be challenging since private administrators tend to use variable fee schedules rather than the flat fee charged by DRS, as demonstrated by the fee comparison table included as Appendix A.

The average net annual fee of the private 457 plan administrators examined in Appendix A is 1.29%, nearly 10 times the .13% charged by DRS. DRS's lower fees facilitate a larger accumulation from the same member contributions⁵:

⁴ Internal Revenue Bulletin 2012-8; issued February 21, 2012.

⁵ The comparison assumes \$3,602 per year contribution for 15 years, earning interest at LEOFF PLAN 2's assumed rate of 7.5%, less annual fees.

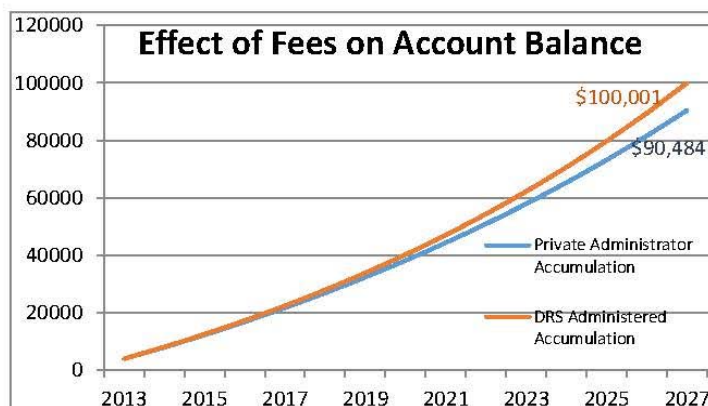


Figure 1

ANNUITIZING ASSETS

Annuities can convert retirement savings into a guaranteed monthly income (this process is called annuitization) for a specified period of time. A life annuity provides that income for the member's lifespan in exchange for a lump-sum dollar amount paid up front. Deferred compensation plans do not normally allow for the distribution of assets in the form of an annuity directly from the fund. LEOFF Plan 2 members wishing to annuitize their retirement savings must purchase the annuity through an insurance company.

The price/value of the annuity depends in part upon the features selected by the purchaser. The terms and conditions of an annuity contract specify features such as whether the annuity will be for a single life or a joint annuity (like a survivor benefit feature), the payment frequency, adjustments for cost of living, and death provisions. Different methods for annuitizing assets are listed below, though not all are currently available to LEOFF Plan 2 members.

Trust Fund Annuity Purchase

TRS Plan 3, SERS Plan 3, and PERS Plan 3 members and survivors may convert some or all of the funds from their Plan 3 member account to a life annuity, RCW 41.50.088. The features and options of the Plan 3 annuities administered by DRS are detailed in Appendix B. This option is not available to LEOFF Plan 2 members.

DRS calculates the annuity that can be purchased for a given lump sum using an age based actuarial table to compute the monthly benefit per \$1.00 of accumulation for defined benefits. There is no limit on the amount of funds in the member account that can be converted to an annuity.

RCW 41.32.067 also allows TRS Plan 1, 2 and 3 members to purchase additional benefits through a member reserve contribution which is actuarially converted to a monthly benefit at the time of retirement. The statute was passed to provide teachers with out-of-state service credit a mechanism for transferring contributions from a prior system into TRS⁶.

Service Credit Purchase

LEOFF Plan 2 members can annuitize retirement savings by purchasing up to five years of additional service credit at the time of retirement. To purchase service credit under this option the member pays the actuarial present value of the resulting increase in the member's benefit. A member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. For more information on the history and methodology for calculating service credit purchases, see Appendix C.

The federal 5-year "air time" limit works out to a maximum of \$86,484 that could be converted to a monthly benefit by the average LEOFF Plan 2 member⁷, see Appendix C. This is a key difference between a Plan 3 annuity conversion and a service credit purchase: the Plan 3 conversion does not have a maximum amount limit.

Commercial Market Annuity

Retirement savings can be annuitized by purchasing an annuity policy through insurance agents, financial planners, banks and life insurance carriers. However, only life insurance companies issue policies. Generally, commercial market annuities do not offer all the same features as the Plan 3 trust fund annuity and do not provide as favorable a payout. A primary reason for the payout difference is the different interest rate used to calculate the value of the annuity. Private insurers use a lower interest rate, due in part to the inclusion of a reasonable profit:

[A] private insurer will provide the annuity based on an interest rate of about 4 percent, whereas DRS will provide the annuity based on an interest rate of about 8%.⁸

The interest rate differential drives a significant difference in payout amounts between private annuity contracts and contributions annuitized through the trust fund. Five different insurance companies quoted the monthly annuity with a 3% annual COLA they would provide the average LEOFF Plan 2 retiree⁶ for \$100,000:

⁶ See Laws of 1991 c 278 § 2.]

⁷ Age 56 with 17 years of service credit and a final average salary of \$5000 per month.

⁸ 2010 State Actuary 2010 fiscal note on the Board's purchase of annuity proposal.

Insurance Company	Quote
American General	\$389
Aviva	\$402
Fidelity & Guaranty Life	\$421
Genworth Life Insurance	\$406
Integrity Life Insurance	\$400
Average	\$404

If that same average LEOFF Plan 2 member were able to leverage the institutional advantages of the retirement system by annuitizing \$100,000 within the LEOFF Plan 2 system, the payout would be \$578.14⁹. That's a 43% increase over the average commercial quote, or \$174 more per month for life.

The chart below uses the 15 year accumulations calculated in figure 1 and estimates the annuity those accumulations would purchase from either an insurance company or the LEOFF Plan 2 trust fund.

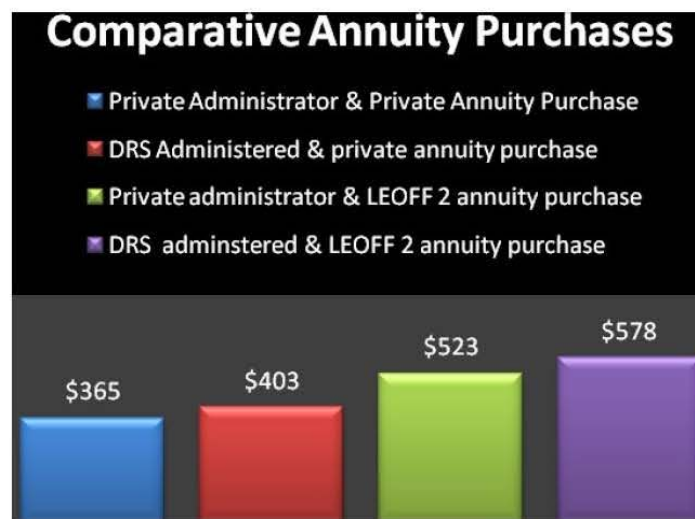


Figure 2

Current state law does not allow annuitization of retirement savings through the LEOFF Plan 2 trust fund. A recent IRS ruling gives the green light to such a program.

⁹ \$100,000 x .0057814 (conversion factor from DRS table for 56 year-old LEOFF member) = \$578.14 monthly life annuity

NEWLY AVAILABLE ALTERNATIVES:

Annuity through 401(a) plan

Federal tax law allows public defined benefit plans to add a member savings account within the plan, sometimes referred to as a companion account or "sidecar". Contributions to the employee savings account may be made by the employer or the employee and may be either pre-tax or after tax depending on plan design.

Under the recent IRS ruling cited above, a retirement savings account can be annuitized within the 401(a) defined benefit plan to obtain an additional monthly benefit paid through the trust fund. This can be done either through a employee savings account administered within the 401(a) plan or by rolling over retirement savings from another plan such as a 457 plan.

A "sidecar" plan administered through LEOFF Plan 2 could leverage the institutional advantages available to active members as participants in an existing state-administered Plan. Those advantages include the lower fees charged by DRS to administer the savings plan, and the more favorable annuity payout when purchased through the existing LEOFF Plan 2 trust fund.

Potential Risks

The purchase of an annuity through the LEOFF Plan 2 trust fund would not have a cost to the system¹⁰ under current actuarial assumptions. There is, however, a potential risk to the fund if those assumptions change or actual experience falls below assumed levels. When an annuity is purchased, the member locks in the actuarial assumptions in place at that time. A subsequent change in assumptions may knock the annuity out of actuarial equivalency.

For instance, the Actuary's 2010 fiscal note assumed a trust fund annuity would be calculated using the fund's 8% interest assumption. The Board has since reduced that assumption to 7.5%. An annuity locked in with an 8% interest assumption would be "too high" under a 7.5% assumption, causing a \$12,980 actuarial loss to the fund⁹.

Roth Contributions

The original 457 plan design allows employees to deduct contributions from their salary pre-tax. The amounts are taxed at the time of distribution. A Roth¹¹ plan reverses that system by taxing contributions, but then disbursing contributions and earnings tax free after retirement.

Governmental 457 plans were not originally allowed to offer a Roth option. The Small Business Jobs Act of 2010 authorizes government sponsored 457 plans to offer designated Roth accounts. Federal law now allows governmental 457 plans to permit participants to:

¹⁰ See OSA fiscal note on 2010 annuity purchase proposal, Appendix C.

¹¹ Named after Senator William Roth of Delaware, the chief legislative sponsor of the original legislation in the Taxpayer Relief Act of 1997 (Public Law 105-34).

- Designate a Roth elective deferral account within the plan; and/or
- Convert conventional pre-tax contributions into Roth contributions within the same plan. Participants wishing to convert existing contributions would have to pay taxes on amounts converted at the time of conversion.

Participants in DRS's 457(b) plans cannot take advantage of in-plan conversions/rollovers to designated Roth accounts unless DRS formally adopts those options in their plan document. DRS has the authority to do this under current law, though they are not required to.

POLICY OPTIONS

The specifics of options available to the Board are in many ways a function of federal tax laws. DRS has received some guidance from the law firm of Ice Miller as of this writing. The LEOFF Plan 2 Board staff had additional questions which are still pending at this time. The options presented below, while accurate in broad strokes, may have to be modified in subsequent presentations depending on future tax law guidance. Additionally, option 1 could be combined with either option 2 or option 3.

Option 1: Propose Legislation authorizing LEOFF Plan 2 to accept roll-overs of tax deferred savings and annuitize those amounts through the plan upon retirement.

Under this option the Board would direct staff to develop legislation authorizing DRS to accept roll-overs from LEOFF Plan 2 members for annuitization at the time of retirement. Further guidance is required to determine what types of roll-overs are allowable under federal tax laws and what limitations, if any, there are on annuitization of rolled over amounts.

Option 2: Propose Legislation establishing a 410(a) savings plan within LEOFF 2 to accept contributions from LEOFF Plan 2 members.

Under this option the Board would direct staff to develop legislation establishing a "sidecar" savings plan within LEOFF Plan 2 that could accept member contributions for distribution following retirement. Preliminary research indicates that this vehicle would be less flexible than a 457 plan such as that administered by DRS's Deferred Compensation Program. Member contributions may be required to follow the same rules as Plan 3 contributions. A member could be required to select a rate upon enrollment. Like the Plan 3 contribution rates, once selected the rate could not be changed except upon change of employment. Voluntary member contributions, which could apparently fluctuate, would be after-tax.

Option 3: Require LEOFF Employers to Offer DRS's Deferred Compensation Program to LEOFF Members.

This option provides a more flexible plan than the 401(a) option. The Board would propose legislation requiring all LEOFF Plan 2 employers to offer the state administered 457 plan. This would ensure that LEOFF Plan 2 members can avail themselves of a plan with the lowest possible administrative fees.

SUPPLEMENTAL POLICY OPTION INFORMATION

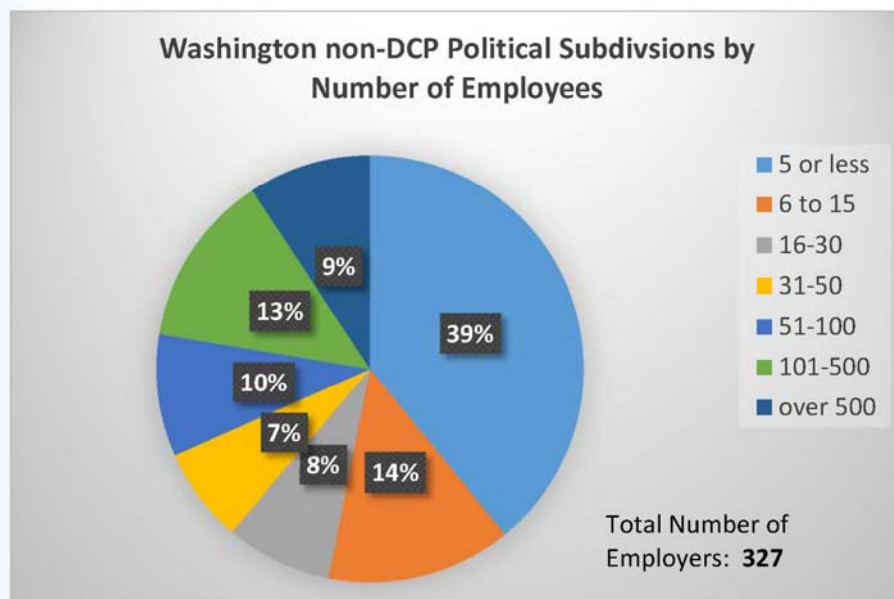
The Board requested additional consideration of options 1 and 3. A fourth option has been developed based on the additional information about Roth plans.

Option 1:

Staff has confirmed that the IRS will permit rollovers from any authorized tax-deferred savings plan (457, 403(b), 401(a)) into LEOFF 2 for purposes of purchasing an annuity. Further, there are no IRS limits on the amount that may be rolled over and annuitized, except that the total payout cannot exceed the IRS's section 415 limits on maximum allowable benefit.

Option 3:

Staff has drafted proposed legislation that is currently being reviewed by DRS for comments. DRS Director Marcy Frost has asked the Select Committee on Pension Policy to consider a similar directive for all Washington Public Employers. Additional data from DRS identifies Washington political subdivision that do not offer the State administered 457 plan:



Option 4: Roth Contributions to Governmental 457 plan.

The Board may wish to take action on the Roth option:

Option 4(a): Amend Deferred Compensation Statute to Require Roth Option.

Submit legislation requiring DRS to develop a Roth option as part of its deferred compensation plan. The Board may want to direct staff to work with DRS on bill language.

Option 4(b): Ask DRS to Offer a Roth Option

If the Board wished DRS to develop a Roth option without a bill, it may be sufficient to send a letter from the Board to DRS requesting them to take action.

Option 4(c): Take No Action at this Time

The Board could decline to take any action on the Roth option at this time.

SUPPORTING INFORMATION

- Appendix A: Deferred Compensation Fee Comparison
- Appendix B: Plan 3 annuity purchase option features
- Appendix C: Service Credit Purchase history and example
- Appendix D: OSA draft fiscal note - 2009
- Appendix E: Bill Draft re: annuitization of savings
- Appendix F: Bill Draft re: Required participation in DRS 457 plan
- Appendix G: Letter to DRS re: offering Roth option
- Appendix H: OSA draft fiscal note -2013

Appendix A

DEFERRED COMPENSATION FEE ANALYSIS

An approximation of annual fees for private administration of a 457 deferred compensation plan was derived by working from a table developed by The City of Duluth in 2013 to allow employees to compare costs of 4 different 457 Plan administrator. Fees were highly variable. Board staff averaged the fees of each provider and then averaged those to derive a net average estimated annual fee. Given the small sample and the assumptions that had to be made in averaging, this is a “ball park” figure provided solely for purposes of comparison.

	Hartford Life Deferred Compensation Plan		ICMA Retirement Corporation Deferred Compensation Plan		Minnesota State Deferred Compensation Plan MNDCCP – (Great West)		NationwideDeferred Compensation Program	
	Original data	Average fee	Original data	Average fee	Original data	Average fee	Original data	Average fee
Annual Account Fees	No	0 %	No.	0%	No	0%	No.	0%
Daily Asset-Based Charges	75 - 90 bps	.825 %	0.55% administration fees on all assets; additional 0.15% fee on assets in non-proprietary funds.	.55%	0.10% annual administrative fee, charged only on the first \$100,000 in an individual account.	.1%	0.50% annual administrative fee on all variable fund assets. 0.25% annual administrative fee on fixed account option.	.375%
Fund Operating Expenses	Varies by investment option, from 0.0% to 2.42%	1.21%	Fund expenses range from 0.46% to 1.40%	.93%	Fund expenses range from 0.01% to 0.93%.	.47%	Fund expenses range from 0.00% to 1.40%.	.7%
Net fee estimate	2.035%		1.48%		.57%		1.075%	
Average for all plans	1.29%							

APPENDIX B

CURRENT ANNUITY PURCHASE FEATURES

The purchase of annuity currently administered by DRS through the Plan 3 programs includes the following features:

WSIB Investment Program Annuity Features and Options	
Contract Provider	Washington State
Minimum Purchase Price	\$25,000
Annuity Payment Frequency	Monthly
Rescission Period	15 calendar days from date of purchase
Single Life Annuity	<ul style="list-style-type: none"> • Provides regular payment for as long as annuitant lives. • Automatic 3% Annual Cost of Living Adjustment (COLA) • Conversion option to Joint Life Annuity • Balance Refund
Joint Life Annuity	<ul style="list-style-type: none"> • Provides regular payment for as long as member or joint annuitant is alive. • Joint annuitant survivorship options: 100%, 66 2/3%, or 50% • Automatic 3% Annual COLA • Monthly payment pops-up to Single Life Annuity amount if joint annuitant predeceases member. • Balance Refund
<p>Annuitant – The member/owner who purchases the annuity; the payee who receives lifetime monthly payments.</p> <p>Balance Refund – Any remaining balance equal to the original purchase price minus the total of all annuity payments made to the single or joint annuitants, may be refunded to the specified beneficiary.</p> <p>Conversion Option – If a single life annuity is purchased and then a subsequent marriage occurs, a one-time opportunity is available to convert to a joint life annuity with the new spouse as the joint annuitant. If a joint annuity is purchased with someone other than a spouse named as the joint annuitant, the annuity may be converted to a single life annuity after payments have begun.</p> <p>Joint Annuitant – The person designated to receive an ongoing payment in the event of the annuitant's death.</p> <p>Pop-up – An increase from a joint annuity payment amount to the full single life annuity amount if the annuitant outlives the joint annuitant.</p> <p>Rescission Period – A period of time (typically 7 to 15 days) during which the terms of the contract may be canceled or altered</p>	

APPENDIX C

SERVICE CREDIT PURCHASE

Since the inception of the service credit purchase of “air time” benefit (2005), 214 service credit purchase billings have been requested from DRS and paid in full. The average cost of all billings was \$118,876.

LEOFF Plan 2 SC Purchases at Time of Retirement									
Year Paid	2006	2007	2008	2009	2010	2011	2012	2013	Grand Total
Number of PSC Bills Paid	6	10	11	15	30	42	57	43	214
Average Cost of PSC Bill	\$106,853	\$102,102	\$85,391	\$99,161	\$119,527	\$123,924	\$120,245	\$132,699	\$118,876
Average SC Months of PSC Bill	55	53	44	48.5	54.6	51.8	48.4	54.3	51.3



Retiree Annuity Purchase

Comprehensive Presentation
September 23, 2015

Issue

Members who retired prior to the passage of the 2014 law are not currently eligible to purchase a LEOFF Plan 2 annuity.

Annuity Features

If a member purchases an annuity at time of retirement:

- He or she receives an additional monthly benefit for life
- The annuity continues even if the retiree returns to a LEOFF eligible position

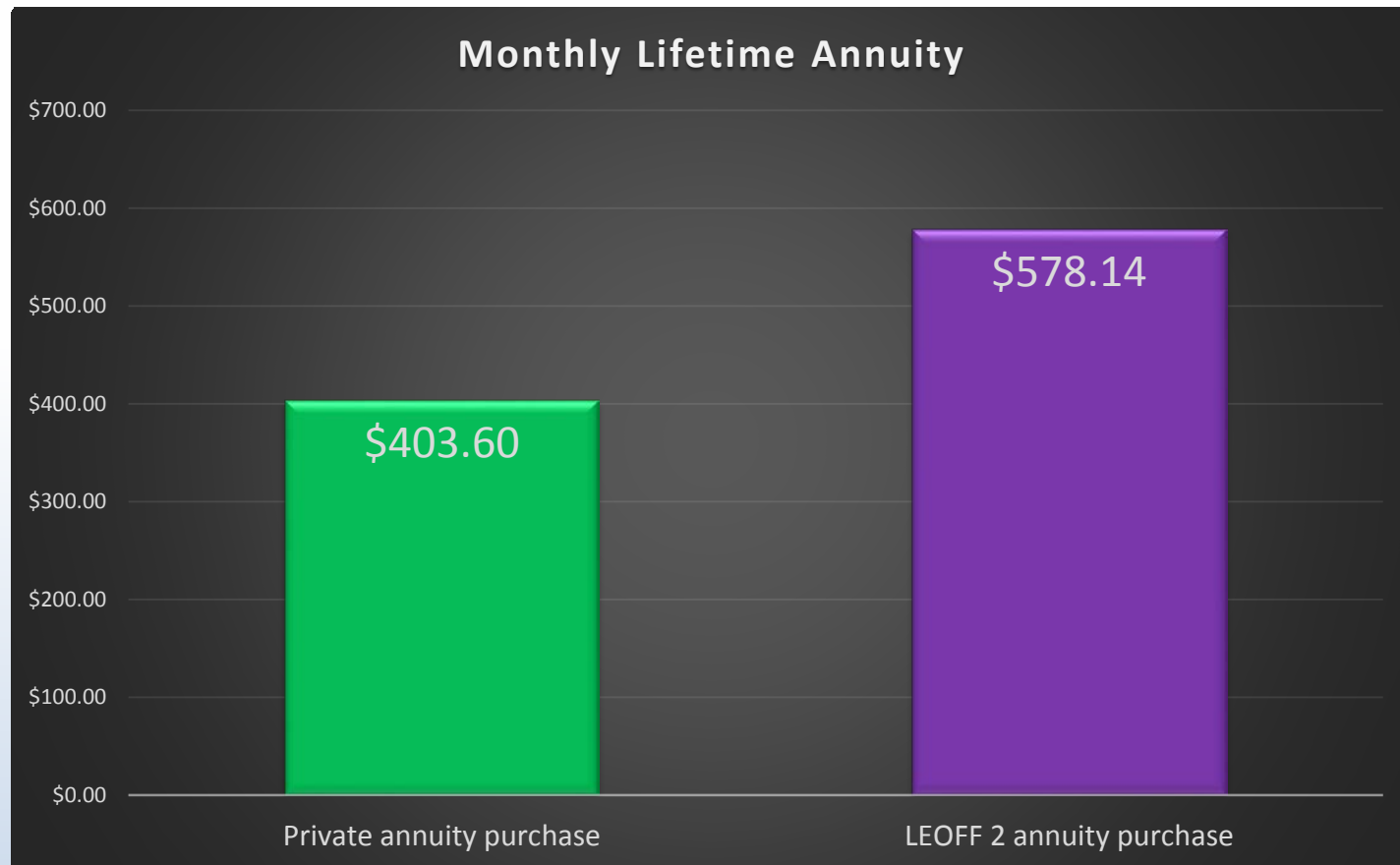
LEOFF Plan 2 Annuity Compared to Private Annuity

Retiring members can purchase an annuity from LEOFF Plan 2 on more favorable terms than private annuities:

“[A] private insurer will provide the annuity based on an interest rate of about 4 percent, whereas DRS will provide the annuity based on an interest rate of about 8%” – *OSA fiscal note on Board’s 2010 purchase of annuity proposal*

* LEOFF Plan 2 uses 7.5%

Advantage: LEOFF 2



Assuming member purchases annuity for \$100,000 at age 56.

Retirees Asked to Be Included

- **Federal tax law allows benefit to be offered to retirees**
- **Requires legislation**

Options

1. Propose legislation allowing retirees a one-time window to roll over money from their deferred compensation account into the LEOFF Plan 2 annuity
2. Include LEOFF Plan 1 and Washington State Patrol retirees in proposed legislation
3. Take no further action

Questions?

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Alternate Revenue

Report Type:

Educational Briefing

Date Presented:

9/23/2015

Presenter Name and Title:

Steve Nelsen, Executive Director

Summary:

The legislature did not appropriate the Alternate Revenue payment for 2015 as prescribed in statute. The biennial operating budget passed by the legislature for 2015-2017 included a provision to transfer \$15,776,000 from the LEOFF Plan 2 Trust Fund assets to the LEOFF Plan 2 Benefit Improvement Account. This agenda item will review the legislative actions related to Alternate Revenue.

Strategic Linkage:

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



EDUCATIONAL BRIEFING

By Steve Nelsen

Executive Director

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OVERVIEW

LEOFF Plan 2 historically had two sources of revenue to fund plan benefits; contributions and investment earnings. Any benefit improvement must be paid for by an increase in contributions by plan members, employers, and the State.

During a three year period¹, the Board researched other public safety retirement plans around the country that had developed alternate revenue sources as a means of funding improved plan benefits without raising contribution rates.

The 2008 Legislature passed a bill providing additional revenue to LEOFF Plan 2 for benefit improvements and to local government for defined public safety purposes.

BACKGROUND

Alternate Revenue Legislation

The 2008 Legislature passed Engrossed Substitute Senate Bill 6573 providing local government public safety employers and the law enforcement officers' and firefighters' plan 2 pension plan with additional shared revenues.

Alternate Revenue Trigger and Payment Schedule

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer is required to transfer, subject to appropriation, prescribed funds to the Local Public Safety Enhancement Account (LPSEA). The amounts that would be transferred to the LPSEA if the Alternate Revenue trigger is met are shown in the following schedule:

- \$5 million for 2011
- \$10 million for 2013
- \$20 million in 2015
- Lesser of one-third of the general revenue increase amount or \$50 million in 2017 and beyond

¹ 2006, 2007, 2008

Benefits Improvement Account

After a transfer to the LPSEA, one-half of the funds transferred into the LPSEA would then be transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF Plan 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes.

Money transferred to the Benefits Improvement Account can only be used to fund benefits adopted by the Legislature. Benefits may be funded from the Benefits Improvement Account if the State Actuary determines that the actuarial present value of the proposed and existing benefit obligations is met or exceeded by the actuarial present value of the projected revenues to the account. The Washington State Investment Board (WSIB) is authorized to adopt investment policies and invest the money in the Benefits Improvement Account.

The Board has the sole authority to authorize disbursements from the Benefits Improvement Account, and to establish all other policies relating to the Benefits Improvement Account, which must be administered in an actuarially sound manner. Funds in the Benefits Improvement Account may not be considered assets of the plan and are not included in contribution rate calculations by the State Actuary until directed by the Board for purposes of financing benefits adopted by the Board. The LEOFF Plan 2 Board is required to include sufficient funds from the account in the LEOFF Plan 2 Fund to meet benefit obligations within 90 days of the fund's transfer into the account.

Local Public Safety Enhancement Account (LPSEA)

The State Treasurer is responsible for the distribution of the funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF Plan 2 membership that it employs, as determined by the Department of Retirement Systems. In the event that two jurisdictions have a contract for the provision of law enforcement or fire protection services, the two parties must agree on a revenue sharing arrangement before funds will be distributed. The LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at risk or runaway youth, or other public safety purposes, and may not replace existing expenditures by local jurisdictions for those purposes.

Disbursement History

The 5% revenue growth trigger was not met in 2011. The trigger was met for 2013, however, the Legislature declined to pay it, instead striking the \$10 million payment from the statute.

The statutory trigger was met again for 2015. Rather than pay the \$20 million into the LPSEA, the legislature decided to make a \$15,776,000 payment into the Benefit Improvement Account, from the LEOFF Plan 2 Trust. The 2015 budget, as passed by the legislature, contained language about the intent of the Alternate Revenue legislation regarding funding of the 2017 payment which read:

"It is the intent of the legislature to fund the portion of the distribution in 2017 dedicated to the local law enforcement officers' and firefighters' retirement system benefits"

improvement account through alternate means, which may include transfers from the law enforcement officers and firefighters' plan 2 retirement fund."

Governor Jay Inslee vetoed this language with the following message:

"I support funding for the Local Law Enforcement Officers' and Firefighters' Retirement System Benefits Improvement Account, and included funding for this account in my budget proposal. Rather than provide a General State-Fund appropriation to this account, the Legislature transferred money from the LEOFF retirement system pension fund to the benefits improvement account. While I am approving this one-time transfer, I am concerned that repeated transfers would undermine the stability of the pension fund and increase the cost of existing pension benefits for plan members, local governments, and the state of Washington. Because I believe that future funding for the benefits improvement account should be made through General Fund appropriations, as envisioned by the legislation that created that account, I am vetoing language that indicates legislative intent for future transfers from the pension fund."

Fiscal Year	Biennial General State Revenues	Difference from Previous Biennium	% Change from previous biennium	Statutory Transfer Date	Transfer Amount
2011	24,623,203,901	(110,068,281)	(0.45%)	9/30/2011	none
2013	26,738,496,726	2,115,292,825	8.59%	9/30/2013	\$10 million ²
2015	29,000,000,000	2,261,503,274	8.45%	9/30/2015	\$15,776,000 ³

² The 2011 scheduled payment was not appropriated in the Legislature's budget and not transferred to the BIA.

³ Statute required a \$20 million payment into the LPSEA, with \$10 million into the BIA. The \$15,776,000 went strictly into the BIA.



Alternate Revenue

**Educational Briefing
September 23, 2015**

Presentation Overview

- Background
- Alternate Revenue Legislation
 - Intent
- Components
 - Trigger and Payment Schedule
 - Local Public Safety Enhancement Account
 - Benefit Improvement Account
- Disbursement History

Background

- Two sources to fund benefits
- Board studied for 3 years (2006-2008)
- Legislation Proposed in 2008

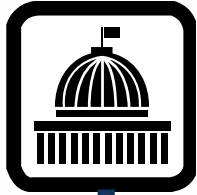
Legislation

- Intent
 - Provide revenue for public safety and protection
 - Recognize risk and physical/challenging demands
 - Negative impacts on career and accrual on adequate pension benefits
- Purpose
 - Provide local government public safety employers and the LEOFF Plan 2 with additional shared revenues when general state revenues exceed by more than five percent the previous fiscal biennium's revenue.

Components

- Trigger
 - 5% Biennial growth in general state revenue
- Payment Schedule
 - 2011 - \$5 Million
 - 2013 - \$10 Million
 - 2015 - \$20 Million
 - 2017 and beyond - lesser of 1/3 of biennial revenue increase or \$50 Million

How it works



1. Revenue growth trigger met
2. Payment appropriated by Legislature

\$10 million transferred to LPSEA

Local Public Safety
Enhancement Account
(LPSEA)

\$5 million distributed to
local government

\$5 Million (50%) transferred from LPSEA to BIA

Benefit
Improvement
Account

Disbursement History

- 2011 – Trigger not met
- 2013 – Trigger met, funds not appropriated
- 2015 – Trigger met, funds appropriated to BIA from LEOFF 2 Trust

Fiscal Year	Biennial General State Revenues	Difference from Previous Biennium	% Change	Statutory Transfer Date	Transfer Amount
2011	\$24,623,203,901	\$(110,068,281)	(0.45%)	9/30/2011	none
2013	\$26,738,496,726	\$2,115,292,825	8.59%	9/30/2013	\$10 million*
2015	\$29,000,000,000	\$2,261,503,274	8.45%	9/30/2015	\$15,776,000*

Questions?

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Board and Administrative Committee Elections

Date Presented:

9/23/2015

Presenter Name and Title:

Steve Nelsen, Executive Director

Summary:

The Board elects the Chair, Vice-Chair, and Administrative Committee representatives every two years at the September meeting.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Provide the stakeholders with a voice in plan governance.

ATTACHMENTS:

Description	Type
 Board Operating Policy - Officer Elections	Report

BOARD OPERATING POLICY - RULE 3. ELECTION AND DUTIES OF OFFICERS

- a. The Board shall elect a Chairman and Vice-Chairman from its membership. Nominations for Chairman and Vice-Chairman shall be open during the regularly scheduled board meeting held in August. Any member may verbally nominate another member or themselves when the presiding officer declares the nominating period open. Elections for Chairman and Vice-Chairman shall be held during the regularly scheduled September board meeting. Terms for Chairman and Vice-Chairman shall be for a period of two years commencing immediately following the officers' election.
- b. Both Chairman and Vice-Chairman shall be members of the Administrative Committee. One additional member shall be chosen by board members representing employer groups. Administrative Committee members shall serve two year terms that begin and end with the Chairman and Vice-Chairman's terms.
- c. The Chair shall preside at all meetings of the Board and Administrative Committee, except that the Vice Chair shall preside when the Chair is not present. In their absence, an Administrative Committee member may preside.
- d. Board staff shall prepare and maintain a record of the proceedings of all meetings of the Board and subcommittees of the Board.
- e. The Administrative Committee shall perform all duties delegated by the Board.
- f. Board members shall consult with the Executive Director before referring issues to the Assistant Attorney General so that any budget constraints may be taken into consideration. Advice from the Attorney General's Office to the Board may be subject to the attorney client privilege. When subject to the privilege, Board members are advised to maintain the advice as confidential. The privilege may be waived only by vote of the Board.
- g. The Executive Director may refer requests for information or services by Board members that are directly related to current Board projects or proposals and/or require a significant use of staff resources to either the Chair or the Administrative Committee.
- h. Such requests will be approved by either the Chair or by a majority vote of the Administrative Committee prior to action by staff. The Chair or Administrative Committee will consider priorities of all current projects and budget constraints in making this decision.
- i. Any Board member may attend Administrative Committee meetings at any time, though participation may be restricted for time or procedural purposes.



2015 Meeting Dates

Date Presented:

9/23/2015

Presenter Name and Title:

Steve Nelsen, Executive Director

Summary:

Discussion on remaining board meeting dates for 2015

Strategic Linkage:

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



Agenda Items for Future Meetings

Date Presented:

9/23/2015

Presenter Name and Title:

Steve Nelsen, Executive Director

Summary:

2015 Agenda Items Calendar

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Provide the stakeholders with a voice in plan governance., Inform the stakeholders.

ATTACHMENTS:

Description	Type
 2015 Agenda Items Calendar	Report



2015

AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
January 28, 2015	2015 Legislative Update
February 25, 2015	2015 Legislative Update
March 25, 2015	2015 Legislative Update
April 22, 2015	2015 Legislative Update
May 27, 2015	2015 Legislative Review 2015 Interim Planning Supplemental Rate Adoption
June 24, 2015	Supplemental Rate Adoption Experience Study Timing – Lisa Won, OSA Retiree Purchase of Annuity Income Leveling Option Increasing Retirement Age Disaster Response Coverage Final Legislative Update
July 22, 2015	PEBB Access - Mary Fliss, HCA DRS Update, CEM Benchmarking – Mark Feldhausen, DRS Economic Experience Study Overview – Lisa Won, OSA Administrative Factors – Lisa Won, OSA Pension Garnishment Pension Forfeiture Individual Health Savings Accounts Final Legislative Update
August 26, 2015	CANCELLED
September 23, 2015	LEOFF Audit Results FY 2015 – Steve Davis, Davis Accounting, Tax & Audit Service Supplemental Contribution Rate Adoption Economic Experience Study Recommendations – Lisa Won & Graham Dyer, OSA Administrative Factors Adoption – Lisa Won, OSA Career Extension National Disaster Response Retiree Annuity Purchase Alternate Revenue Board & Administrative Committee Elections 2015 Meeting Dates
October 28, 2015	
November 18, 2015	
December 16, 2015	