

BOARD MEETING AGENDA

September 24, 2014 - 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 July 23 Meeting Minutes | 9:30 AM |
| 2. Washington State Investment Board Annual Update
Theresa Whitmarsh, Executive Director, WSIB | 9:40 AM |
| 3. PEBB Technical Corrections Legislation
Mary Fliss, Deputy Division Director, PEBB, HCA | 10:15 AM |
| 4. DRS Annual Administrative Update
Marcie Frost, Executive Director, DRS | 11:00 AM |
| 5. LEOFF Audit Results FY14
Steve Davis, Davis Accounting Tax & Audit Service | 11:40 AM |
| 6. Supreme Court Decision Update: WEA v. DRS
Paul Neal, Senior Research and Policy Manager | 12:25 PM |
| 7. Salary Spiking
Ryan Frost, Research Analyst | 12:50 PM |
| 8. Career Extension
Paul Neal, Senior Research and Policy Manager | 1:25 PM |
| 9. Administrative Update <ul style="list-style-type: none">• SCPP Update• Outreach Activities | 2:00 PM |
| 10. Agenda Items for Future Meetings
Steve Nelsen, Executive Director | 2:30 PM |

Lunch is served as an integral part of the meeting.

In accordance with RCW 42.30.110, the Board may call an Executive Session for the purpose of deliberating such matters as provided by law. Final actions contemplated by the Board in Executive Session will be taken in open session. The Board may elect to take action on any item appearing on this agenda.



Washington State Investment Board Annual Update

Report Type:

Educational Briefing

Date Presented:

9/24/2014

Presenter Name and Title:

Theresa Whitmarsh, Executive Director, WSIB

Summary:

Washington State Investment Board Annual Update

ATTACHMENTS:

Description	Type
 WSIB Annual Update	Presentation



WSIB Update for the LEOFF Board



**Theresa Whitmarsh
Executive Director
September 24, 2014**



Overview



- ▣ Board Changes
- ▣ Commingled Trust Fund (CTF) Performance and Market Values
- ▣ Source of WSIB Excellent Performance
- ▣ Market Outlook
- ▣ National Standing
- ▣ Cost Effectiveness
- ▣ Conclusion

Overseen by an Excellent Board



The 10 voting and 5 non-voting members of the Board are fiduciaries whose mission is to manage investments for retirement and other public funds with the exclusive benefit of beneficiaries.

The WSIB adheres to rigorous conflict of interest policies to ensure the highest standards of ethical behavior and conduct.

Appointment Authority		Name	Position
10 Voting	Ex-Officio	Jim McIntire	State Treasurer
		Marcie Frost	Director, Retirement Systems
		Joel Sacks	Director, Labor & Industries
	Senate President	Sharon Nelson	State Senator
	House Speaker	Timm Ormsby	State Representative
	Governor	Judy Kuschel	Active Member, PERS
		George Masten	Retired Member, PERS
		Kelly Fox	Active Member, LEOFF
	Superintendent of Public Instruction	Arlista D. Holman	Active Member, SERS
		Stephen Miller	Active Member, TRS
5 Investment Professionals	Selected by the Board	Robert Nakahara	
		Jeffrey Seely	
		David Nierenberg	
		William A. Longbrake	
		Richard Muhlebach	

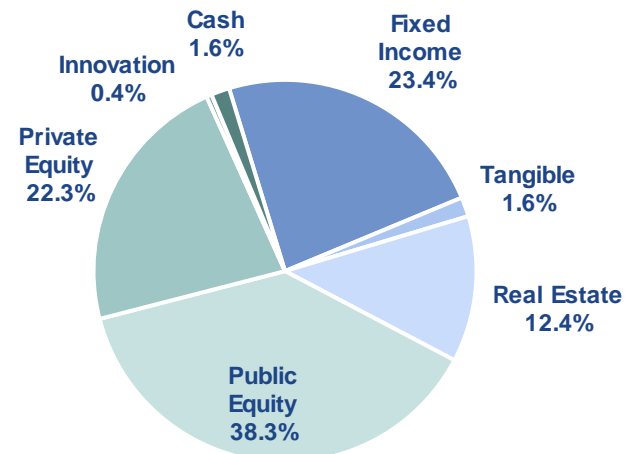
Deliver Excellent Performance

Commingled Trust Fund Performance & Market Values – June 30, 2014

Historical Market Value (billions)



Actual Allocation



Historical Fund Returns



Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns					
	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$78,109,056,127	17.06%	10.07%	12.83%	8.35%
Fixed Income	\$18,310,766,384	5.96%	4.06%	6.38%	6.00%
Tangibles	\$1,277,008,538	4.99%	1.75%	4.34%	N/A
Real Estate	\$9,654,448,437	13.01%	13.08%	9.73%	9.78%
Public Equity	\$29,886,884,510	24.20%	11.30%	15.44%	7.73%
Private Equity	\$17,421,269,499	20.02%	12.79%	17.20%	13.26%
Innovation	\$347,768,448	38.84%	17.83%	N/A	N/A
Cash	\$1,210,910,312	0.11%	0.14%	0.15%	1.72%



Source of WSIB Excellent Performance



Fixed income increased by \$4.3 billion during the current fiscal year

- ▣ Returned 6.0 percent during the current fiscal year
- ▣ The global low interest rate environment continued in Fiscal Year 2014 primarily driven by broadly accommodative central bank policy
- ▣ The one-year period was characterized by two distinct fixed income environments
- ▣ The first half of the fiscal year experienced an increased rate environment, likely driven by improving global economic conditions combined with concerns over potential tightening of U.S. monetary policy
- ▣ In the second half of the fiscal year, however, rates declined as evidence of slowing global growth emerged and concern over geopolitical events grew
- ▣ Investment grade corporate fixed income benefitted from spreads tightening which led to outperformance versus Treasuries
- ▣ Default activity for investment grade issuers and spreads relative to Treasuries are low relative to historical standards

Equity securities increased by \$4.1 billion, almost entirely due to positive returns in the equity markets



Source of WSIB Excellent Performance



Alternative investments increased by \$3.2 billion

- ▣ Distributions received from general partners totaled \$7.1 billion
- ▣ The private equity market environment continued to be decidedly favorable during Fiscal Year 2014, extending the prior year's run
- ▣ While pricing trended up as a result of robust valuation across sectors, the availability of debt funding on extremely attractive terms continued to increase and Initial Public Offerings and trade sale conditions remained buoyant, allowing for sustained investment activity
- ▣ The strong return from real estate in Fiscal Year 2014 resulted from a combination of appreciation due to high investor demand and the completion of a number of properties that had been under development
- ▣ The primary drivers behind the Fiscal Year 2014 tangible asset return was income generation, portfolio management activities, and asset purchases and sales

One of the benefits of the diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio



Market Outlook – Still Cautious



Global

- ▣ Global growth will continue to be weak
- ▣ Emerging markets are the bright spot with higher growth, lower debt, and lower fiscal deficits than the developed world

U.S.

- ▣ The economy will perform better than economies of Europe and Japan
- ▣ Inflation will remain contained
- ▣ Housing recovery will continue
- ▣ Energy investment boom is a long-term positive for the U.S.

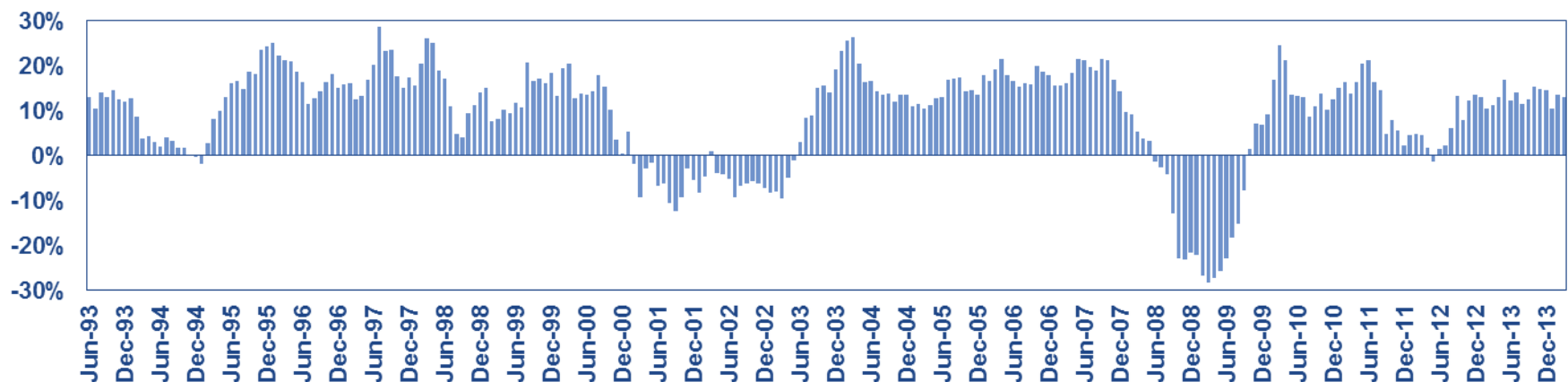
Long-Term Investment Policy Expects Volatility

WSIB uses a 15-20 year horizon for investing

- WSIB does not need to strictly match pension liabilities with the short-term ups and downs of the market

A long time horizon allows opportunities to take more risk

- Higher-risk portfolios have more volatility in annual returns, but can achieve higher returns over the long term – this means lower pension contribution rates over the long term
- Lower-risk portfolios have lower volatility in returns, but expected returns are less – this means more of long-term pension costs must be covered by contributions





Investment Volatility Was Less Than Expected Over the Past 20 Years

Even though the picture of investment volatility was very different from the first decade to the second, the amount of volatility over the 20-year period was well within long-term expectations

How did experience compare to expectations?

- ▣ Three-quarters of actual investment returns fell inside the expected “interquartile range” and only one-fourth of the actual investment returns fell outside of the expected range

Even the five events that were outside of the expected range were anticipated by WSIB’s modeling, including the one-in-one-hundred-year event that occurred at the end of the period (-22.8% annual rate of return)

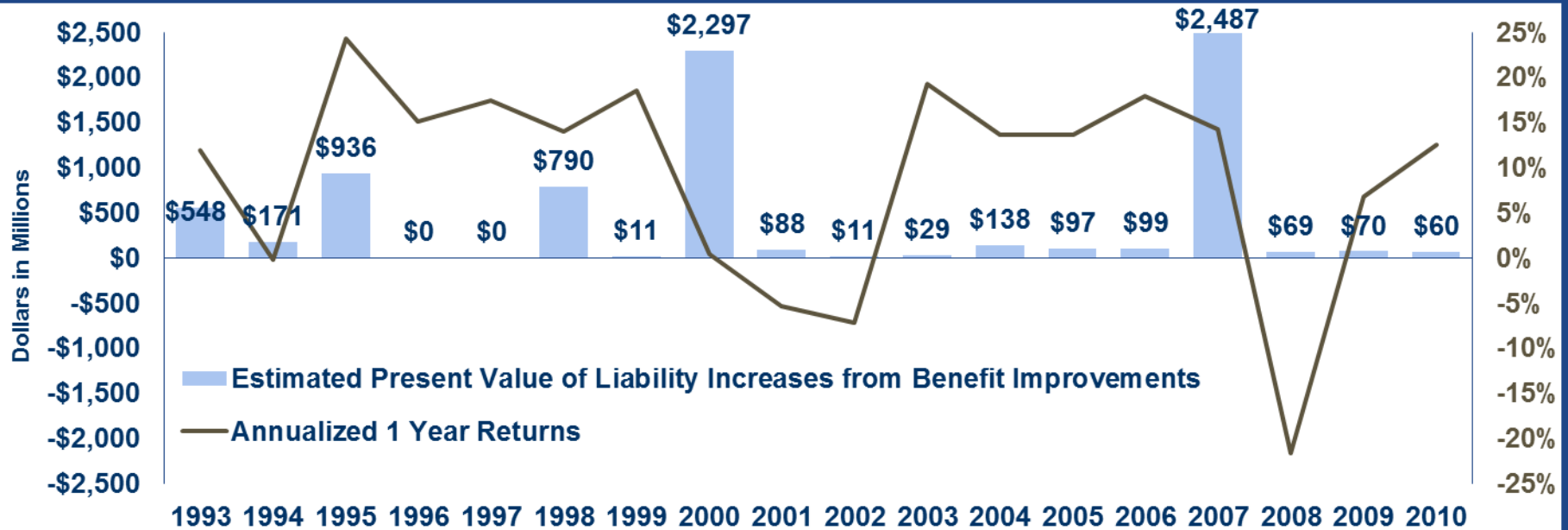
What is more striking about the two-decade period is the contrast between the first decade and the second

- ▣ The first decade experienced extended upward volatility
- ▣ There were no negative returns and significant positive returns, especially in the latter part of the decade

Prudent to Proceed with Caution

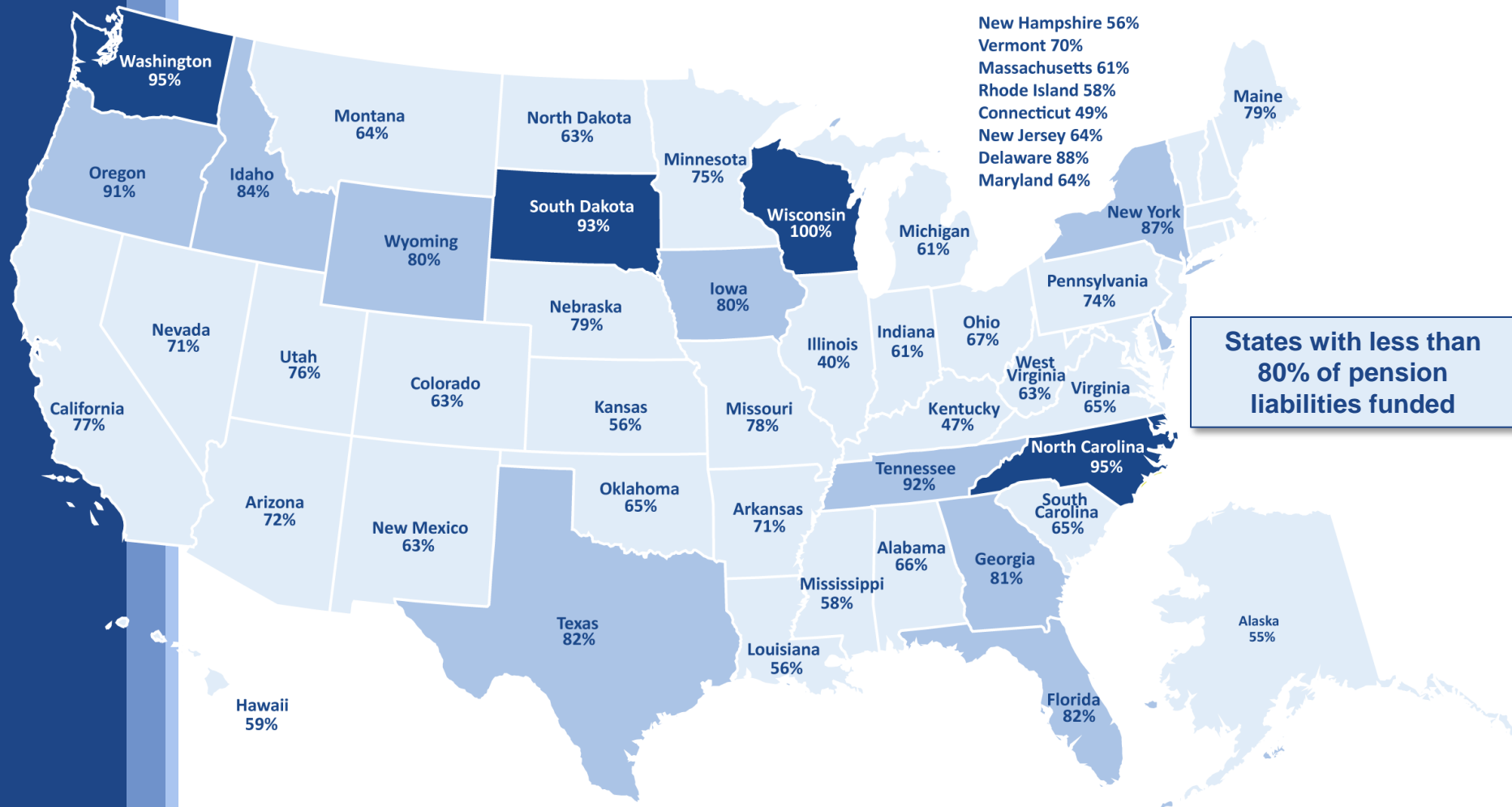
Historically when investment returns exceed expectations, contribution rates have declined and benefits have increased

Estimated Present Value of Liability Increases from Benefit Improvements Compared to Historical Annualized Returns

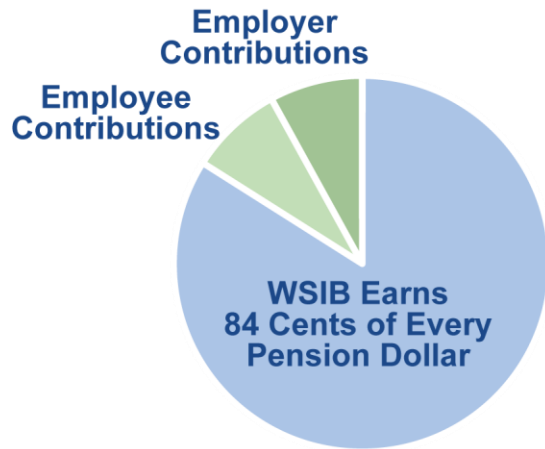


WSIB Retirement Fund Results: Top Four Funded Pension Systems

The WSIB's long term, diversified investment strategy has made Washington's public pension fund one of the best performing in the nation



WSIB Retirement Fund Results: Great Returns at Low Cost to System



Roughly, 84 cents of every dollar needed to pay benefits is generated by our investment returns

All expenses of the WSIB are funded from the earnings of the funds managed by the WSIB at no cost to state taxpayers

International benchmarking studies have consistently ranked the WSIB in the top number of low cost and high performing institutional investors

WSIB Expenses 2014
\$363 Million
(0.35%)

Total Assets Under Management
(as of June 30, 2014)
\$104.0 Billion



Conclusion



WSIB continues to be committed to:

- ▣ **Market leadership**
- ▣ **Cost effectiveness**
- ▣ **Transparency**
- ▣ **Integrity**



PEBB Technical Corrections Legislation

Report Type:

Educational Briefing

Date Presented:

9/24/2014

Presenter Name and Title:

Mary Fliss, Deputy Division Director, PEBB, HCA

Summary:

Discussion of HCA request legislation seeking correction of health care statutes.

ATTACHMENTS:

Description	Type
 PEBB Technical Corrections Bill	Presentation

**Washington State Health Care Authority
Public Employees Benefits (PEB) Program
LEOFF 2 Board Presentation
September 24, 2014**

PEBB Technical Corrections Bill

Mary Fliss

Deputy Division Director, PEB

PEBB Overview

- PEBB is the Public Employees Benefits Board program which is a part of the Washington State Healthcare Authority (HCA.)
- PEBB provides insurance coverage to eligible state and higher-education employees, retirees, and their dependents, as well as eligible groups.
- PEBB provides health benefits coverage for about 340,000 members
 - Including **138** Surviving spouses, state registered domestic partners, and dependent children of emergency service personnel who are killed in the line of duty
- PEBB coverage for LEOFF 2 survivors includes:
 - Medical and Dental coverage
 - Optional coverage includes long-term care, auto, and home

Key Issues within the PEB Technical Corrections Bill

- Clean-up of Domestic Partner Eligibility: Two bills enacted in 2009 addressed the benefit rights of domestic partners of emergency service personnel killed in the line of duty. They amended RCW 41.05.080 in slightly different forms.
 - This proposal amends RCW 41.05.080 to achieve a single statutory provision consistent with the three domestic partner bills enacted in 2009.
 - Repeals 41.05.080 as amended by 2009 c 522 in order to achieve a single statutory provision consistent with the three domestic partner bills enacted in 2009
- Align Child Dependent Coverage: The statute conflicts with provisions of the Patient Protection and Affordable Care Act (PPACA) because it extends self-paid PEBB coverage to dependents up to age 25, not paid on the same basis as other dependents and up to age 26 as required.

Closing

- Request support for our technical corrections bill during the upcoming legislative session
- Appreciate the support that you have provided this bill in previous sessions
- Questions?



DRS Annual Administrative Update

Report Type:

Educational Briefing

Date Presented:

9/24/2014

Presenter Name and Title:

Marcie Frost, Executive Director, DRS

Summary:

Report on DRS activities during 2013

ATTACHMENTS:

Description	Type
 DRS Year in Review	Presentation

DEPARTMENT OF RETIREMENT SYSTEMS

Year in Review

Marcie Frost, Director

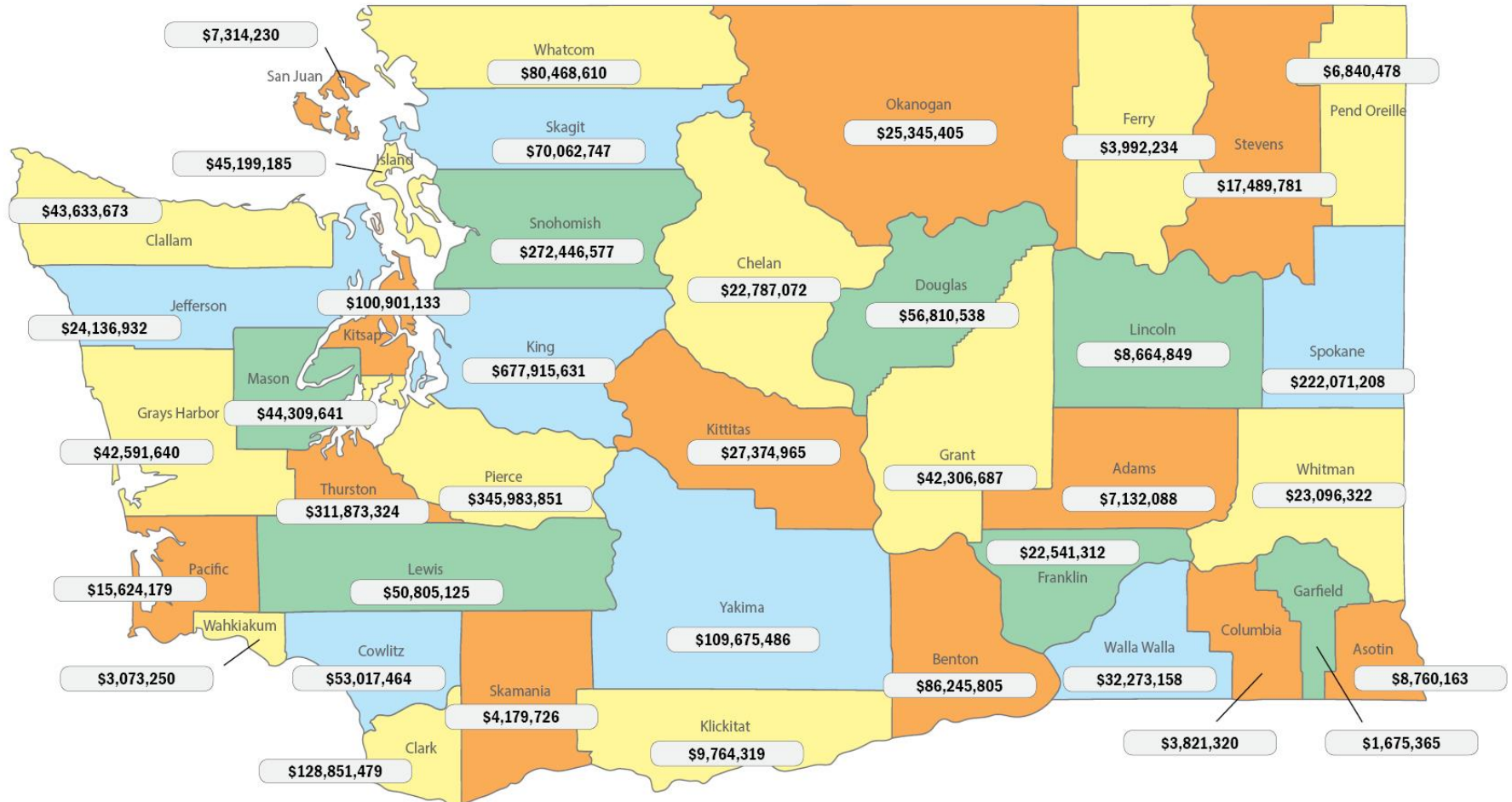
LEOFF 2 Board
September 24, 2014



DRS Stats as of June 30

- Dollars Collected
 - Members - \$1.1 B last FY
 - Employers - \$1.5 B last FY
- Dollars Paid
 - \$346 M in July 2014
 - \$3.9 B last FY
- Plan Members
 - Active – 296,219
 - Annuitants – 157,641
 - Inactive – 231,297
 - Total – 685,157
- Team Members - 235

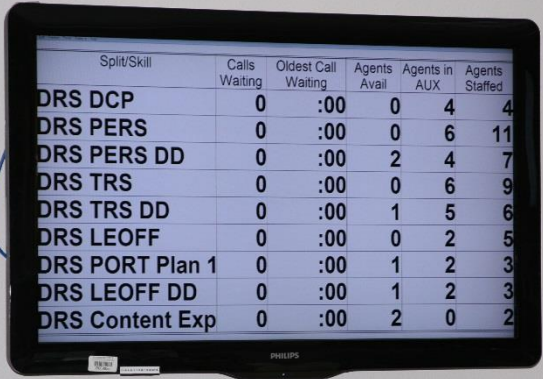
Benefits Paid by County FY 2013



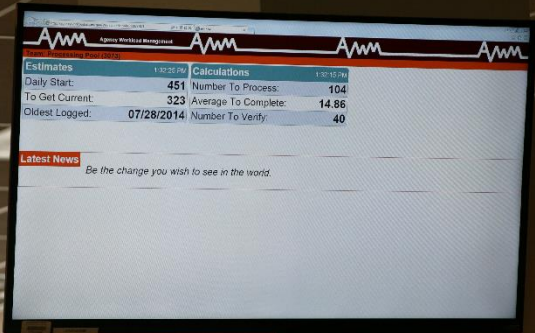
The Numbers Past 12 Months

Contact Center

- 192,133 calls
- 47,005 emails
- 5,892 visitors



Split/Skill	Calls Waiting	Oldest Call Waiting	Agents Avail	Agents in AUX	Agents Staffed
DRS DCP	0	:00	0	4	4
DRS PERS	0	:00	0	6	11
DRS PERS DD	0	:00	2	4	7
DRS TRS	0	:00	0	6	9
DRS TRS DD	0	:00	1	5	6
DRS LEOFF	0	:00	0	2	5
DRS PORT Plan 1	0	:00	1	2	3
DRS LEOFF DD	0	:00	1	2	3
DRS Content Exp	0	:00	2	0	2



Estimates		Calculations	
Daily Start:	451	Number To Process:	104
To Get Current:	323	Average To Complete:	14.86
Oldest Logged:	07/28/2014	Number To Verify:	40

Latest News
Be the change you wish to see in the world.

Processing Center

- 22,680 estimates
- 11,053 calculations
- 5,290 recalculations



Members ▾

Retirees ▾

Forms ▾

Education ▾

General ▾



Education & Outreach

What's New

New Members

Mid-Career Reality Check

Pre-Retirement

For Employers

Calculators

Related Links

Your Retirement Account

Watch These Retirement Planning Videos

Career Path

Retirement Planning Seminar available online

If you haven't been able to attend one of the popular "Planning for Retirement" seminars presented by the state Department of Retirement Systems, you now have an opportunity to view the same presentations online. Key segments of a recent seminar were recorded and are now available in on-demand webinar format. Stay tuned for our newest seminar. The presentations can be accessed at <http://ncwctc.com/>.

Online Seminar

Members

- » Members Home
- » New Members
- » Former Members
- » Outlook Newsletter

Retirees

- » Retirees Home
- » Elected Officials
- » PEBB Retirees
- » Benefit Payment Schedule
- » Outlook Newsletter

About This Site

- » Privacy Notice
- » Policies

Quick Links

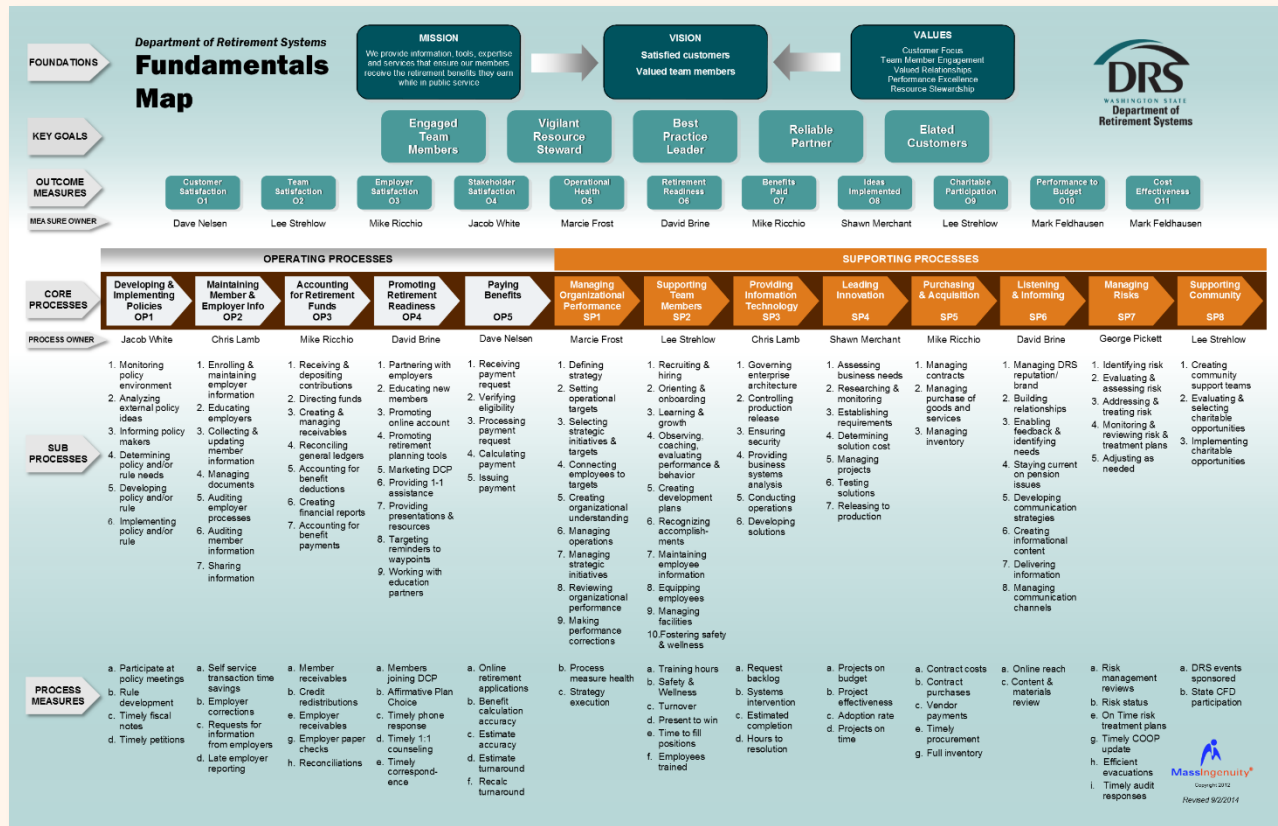
- » Employers Home
- » Legislation
- » Job Openings
- » Rules
- » Vendors
- » Health Care Authority



Member Education

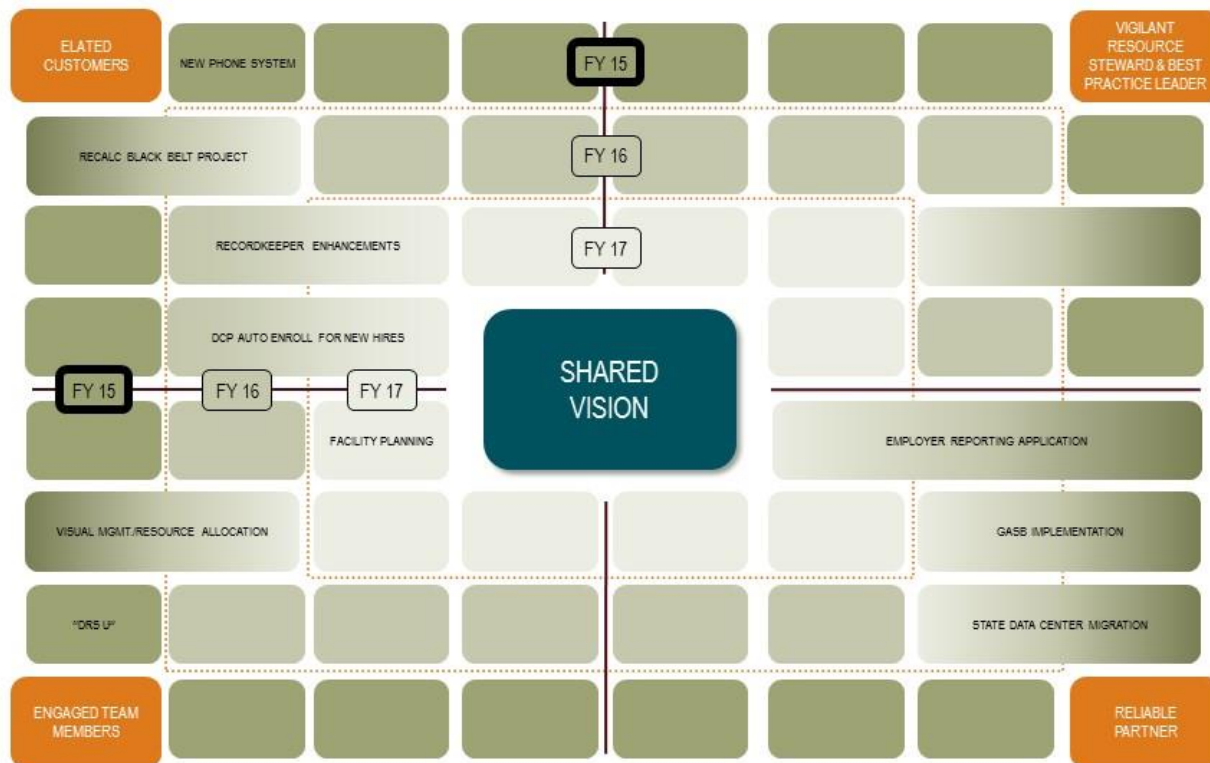
- 24 Seminars scheduled for 2014
 - 17 at Western WA locations
 - 7 at Eastern WA locations
- 3,358 attendees – 2014 to date
- 2012 First live webinar/recorded seminar
 - 4,499 hits on website
- 2013 Seminar recorded
 - 8,336 hits on website
- Benefit Fairs
- New Employee Orientations
- Record Keepers
 - Choice/Investment/Distribution Seminars

Operational view of the Management System



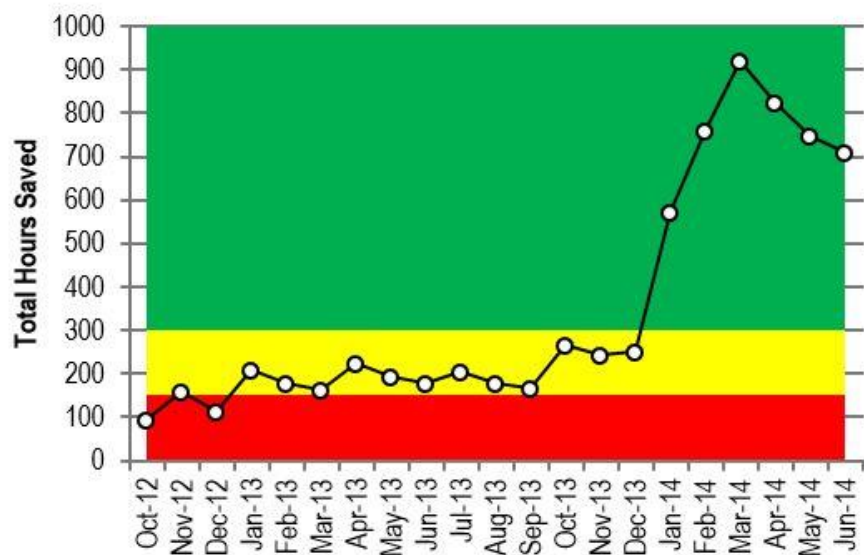
Strategic Initiatives

THE 2015-17 BREAKTHROUGH INITIATIVES

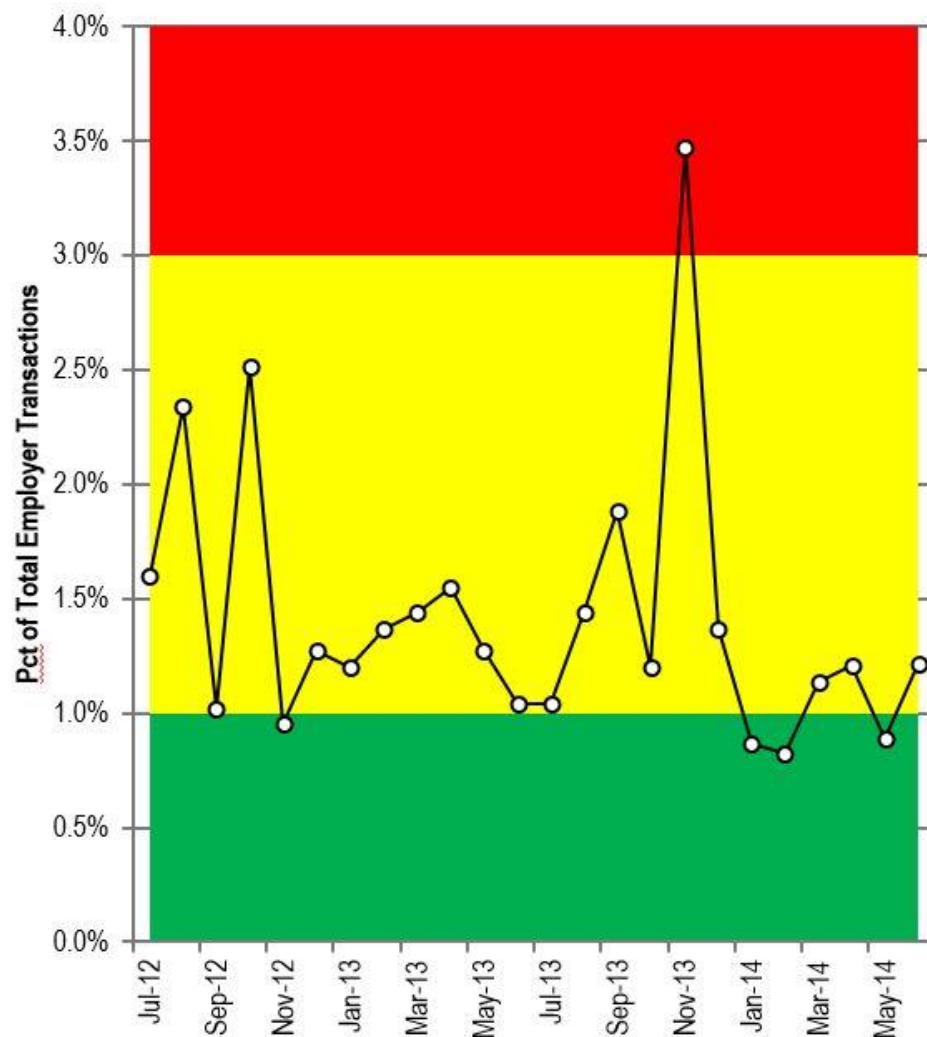


OP2-MAINT MEMBER & EMPLOYER DATA AND OP4-RETIRE READINESS

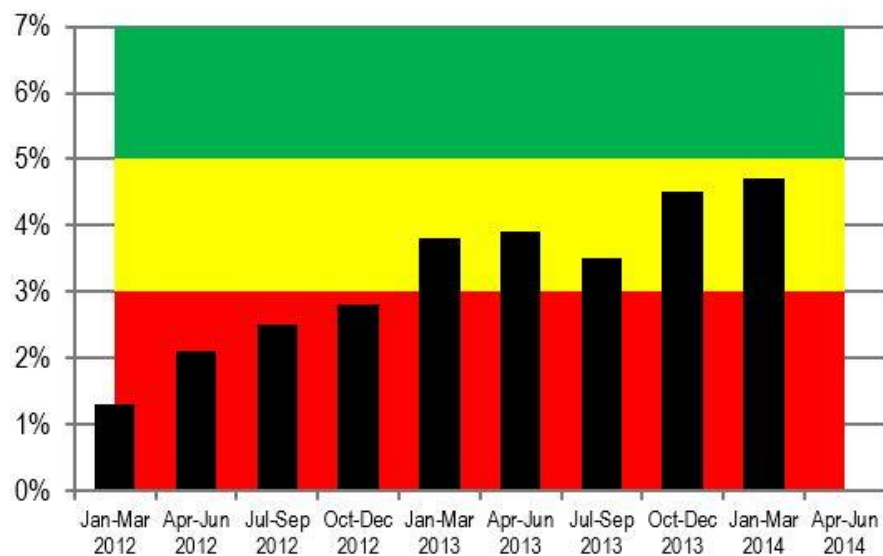
OP2a-Time Saved by Self-Svc Trans (Chris)



OP2b-Employer Corrections (Chris)



OP4a-% New State Employees Joining DCP (David)



■ Total of 35,556 corrections this quarter

Focus on Customer Satisfaction

Respectful, Responsive and Right

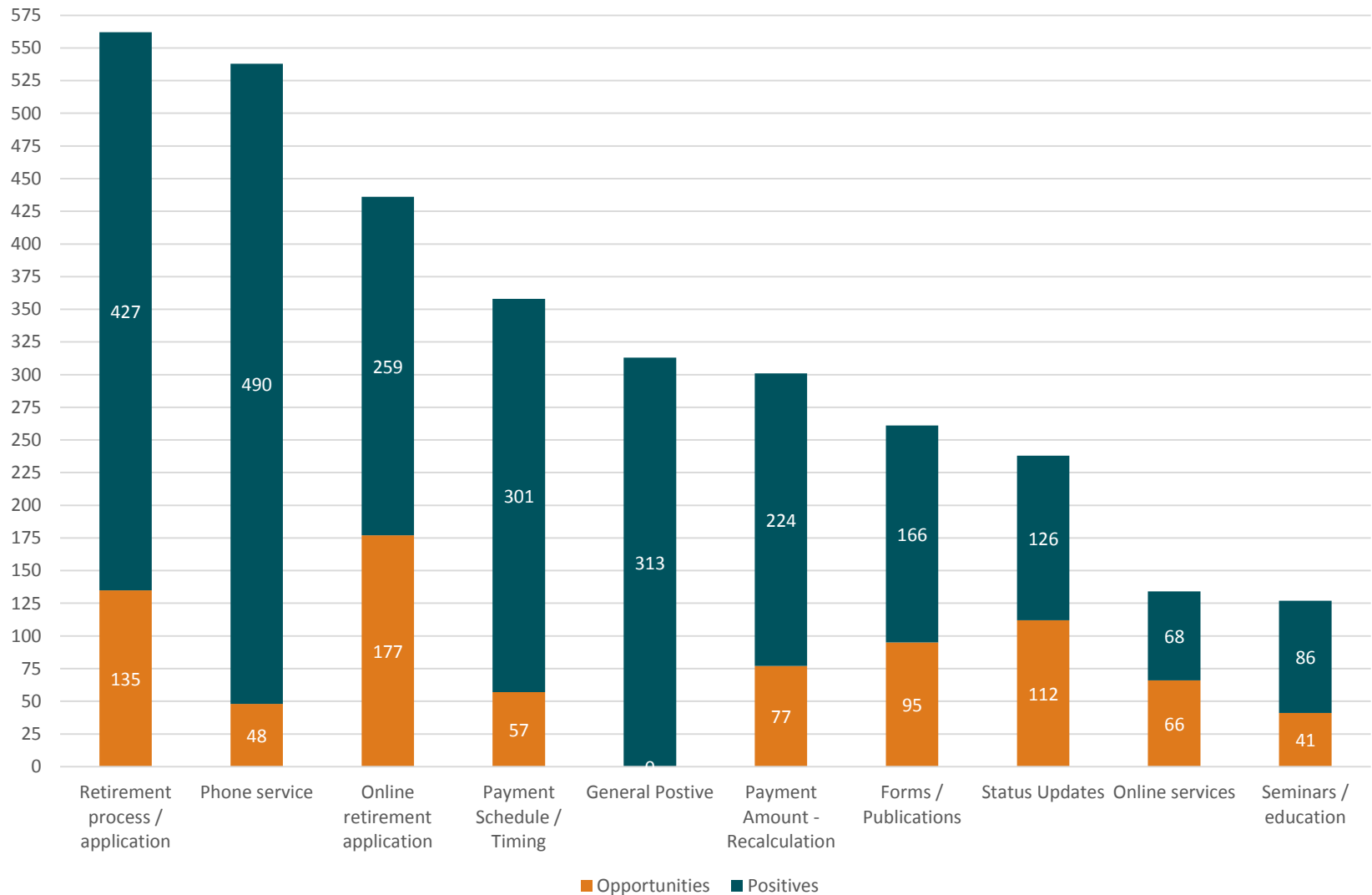
O1-Customer Satisfaction

RESPECT	Valued Customer	94	98	95	95
	Carefully Guided	86	93	85	90
	Informed of Issues	83	84	83	86
RESPONSIVE	Quick Access	94	97	92	95
	Timely Response	92	92	91	90
	Informed Status	79	80	80	84
	Anticipate Needs	89	93	92	91
RIGHT	Online Tools	85	86	90	91
	Accurate Info	92	94	94	93
	Correct/Timely s	97	94	95	93
		QTR 5	QTR 6	QTR 7	QTR 8

- Since 2012, team members have interviewed 2,656 retirees
- 278 interviews conducted in the past quarter

Top Ten Topics – Last 12 Months

Based on the number of times customers mentioned each topic both positively and as an opportunity



July 2013-June 2014 Interviews

Supportive and Accountable Work Environment

- Onboarding New Team Members/Leaders
- Retirement Specialists
 - 6 month classroom
 - 6 month – SPIKE team
- Behavioral Based Hiring
 - Customer Focused
 - People and Team Focused
 - Energy Level
 - Attitude
 - Plus high numeric ability/reasoning
- Team Leaders
 - Supportive and Engaged
 - Observational Coaching
 - Ability to comprehend complexity

Profile XT

Sample Company – Assistant Manager (Sample “Good” Job Fit)

Overall Job Match



86%

Thinking Style

Learning Index						6	7	8		
Verbal Skill						6	7	8		
Verbal Reasoning						6	7	8		
Numerical Ability					5	6	7			
Numeric Reasoning						6	7	8		10

Job Match
Percentage
89%

Behavioral Traits

Energy Level							8	9	10	
Assertiveness					5		7	8	9	
Sociability				4	5	6	7			
Manageability			3	4	5					
Attitude	1				5	6	7			
Decisiveness						7	8	9		
Accommodating				4	5	6				
Independence				4	5	6	7	8		
Objective Judgment					5	6	7			

Job Match
Percentage
79%

Distortion - 9

Occupational Interests

Top three interests for this position

Financial/Admin						7				
Enterprising						6				
People Service						6				

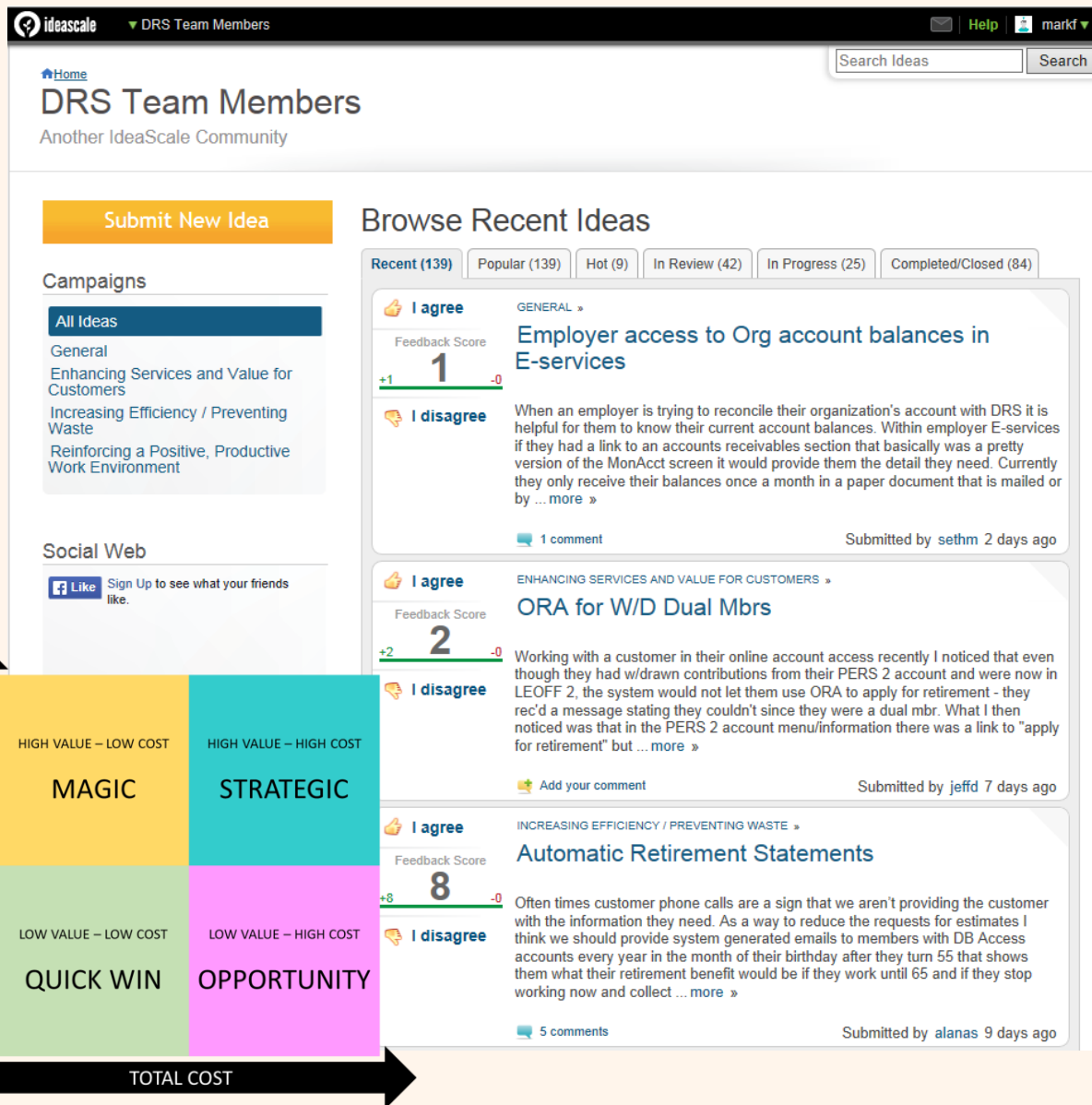
Job Match
Percentage
95%

Lowest three interests for this position

Technical						6				
Creative		2								
Mechanical		2								

The Job Matching process for Interests is concerned with the top three interests of a Job Match Pattern and how a candidate's top three interests match. The three top interests for this Pattern are indicated and ranked from top to

Team Member Engagement



Independent Contractor Reviews

- 374 LEOFF employers
- 300+ contracts
- 115 individuals prioritized
- Issues identified include:
 - 2008 ERFs
 - Misclassification of worker status
 - Improper separation from service
 - Employees returning to work not reported
- 25 employers assessed – \$1,587,000*
- 5 members assessed – \$160,487

* Final amount dependent upon employer wage and hour reporting

Independent Contractor Reviews

DRS Response

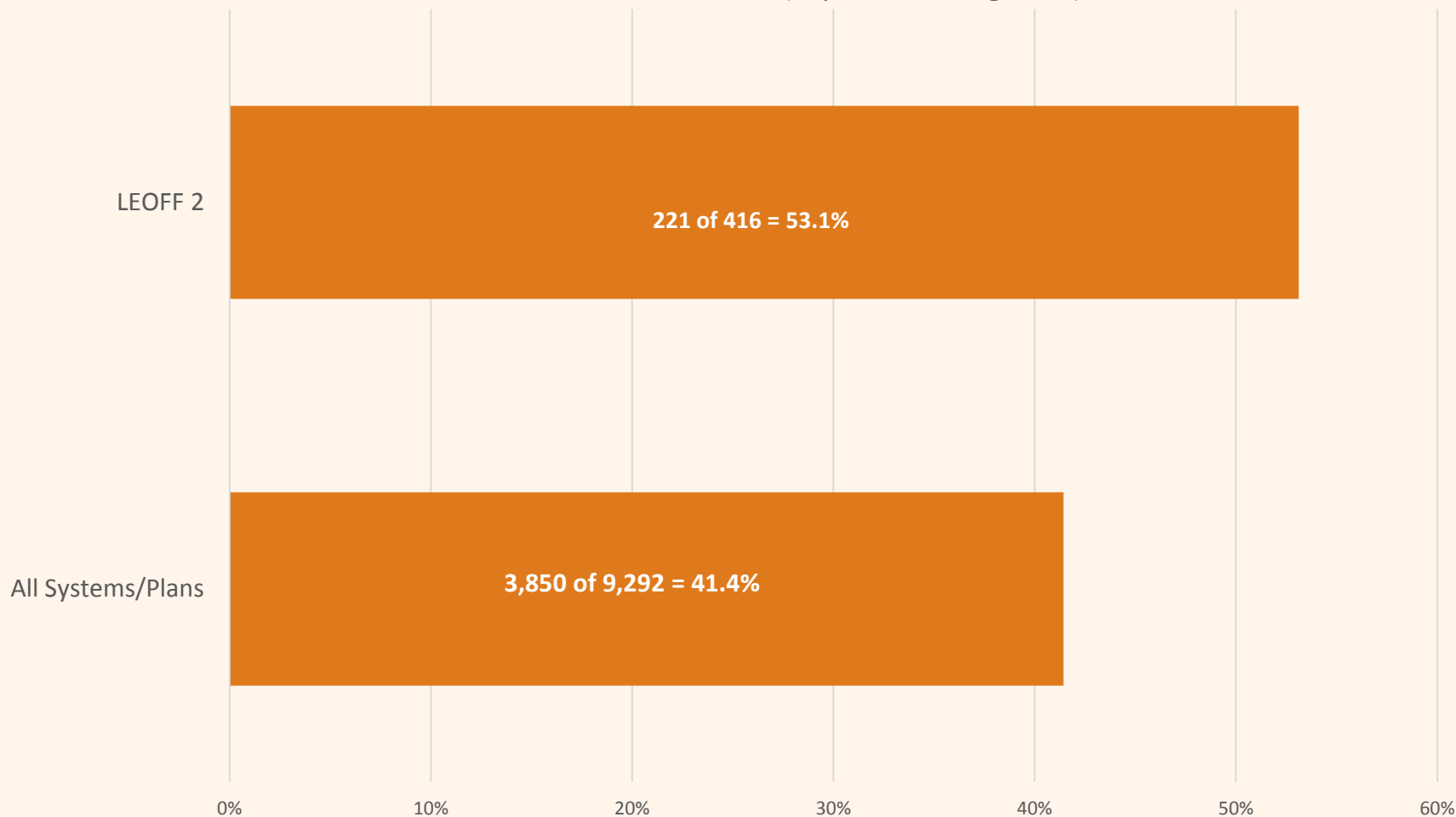
- Enhanced employer awareness
- Internal training about LEOFF retirements
- Escalation and consultation process for retire/rehire questions
- Requiring documentation for hours worked if not full-time
- Additional outreach and presentations to employer and member organizations to clarify pension impacts of return to work

Deferred Compensation Program

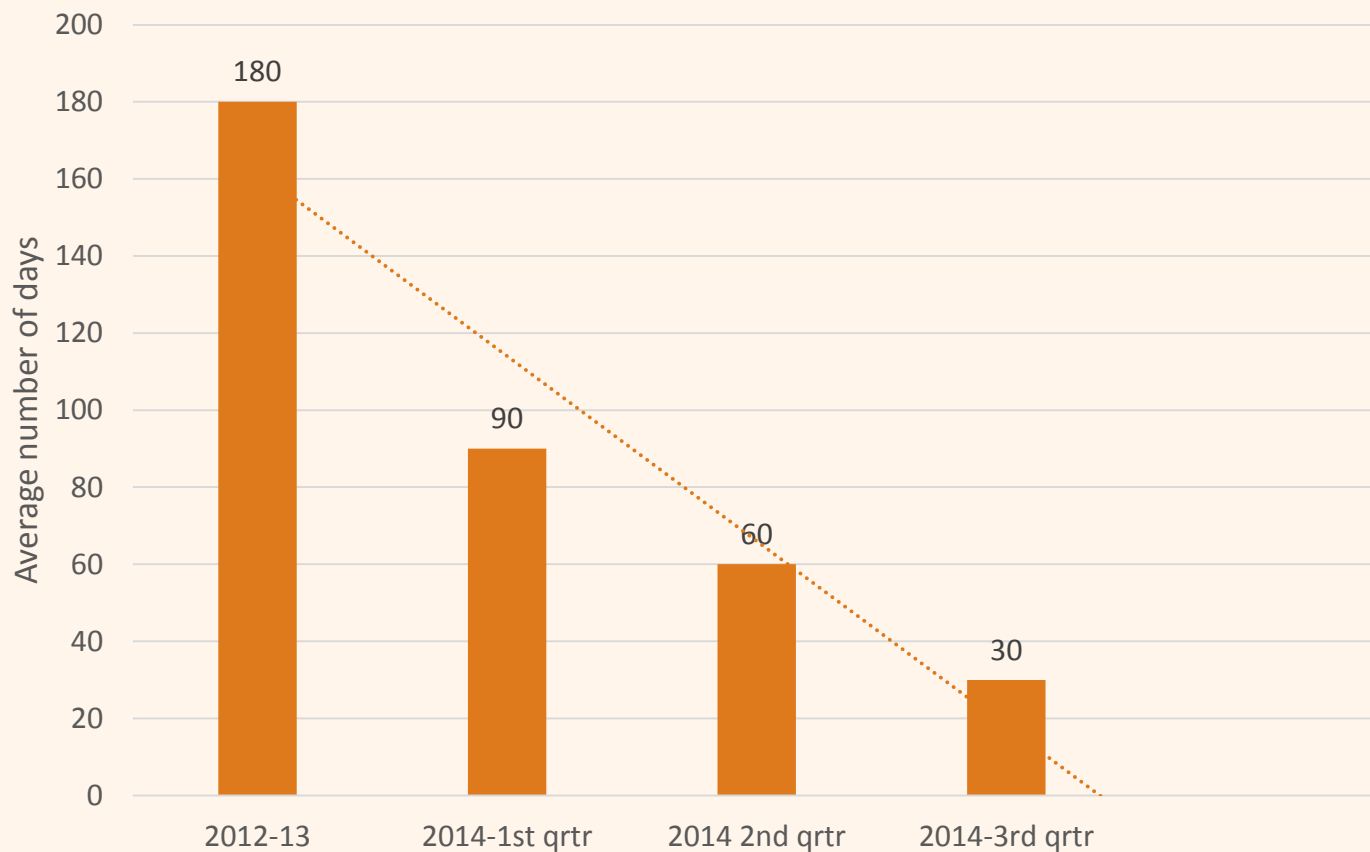
- Assets – \$3.4 B
- Total Participants – 63,322
- Actively Contributing – 31,661
- Receiving Payments – 2,694
- Employers Offering DCP – 927
- New State Employee Take Up Rate – 4.7%
- Low Administrative Fees – 0.129%
- Investment Lineup:
 - Savings Pool
 - US Large Cap Equity Index
 - US Small Cap Equity Index
 - Global Equity Index
 - Emerging Market Equity Index
 - Washington State Bond Fund
 - Social Balanced Fund
 - Retirement Strategy Funds

Online Retirement Applications

Service Retirements via the Web (Sep 2013 to Aug 2014)



Disability Review Timeframe



Disability Review Timeframe (non-duty, duty and catastrophic)

- What changed?
 - Triage of the application by Retirement Specialist and/or Occupational Nurse Consultant
 - Access to LNI Orion system
 - All electronic process
 - Internal commitment to review and process all complete applications within a week

Catastrophic Medical Reimbursement

- In-progress
 - New process for verification of medical reimbursement
 - Working on new forms, letters and communication
 - Working with members to pay directly to their insurance vender if possible
 - Plan to roll out in November 2014

Thank you

- Questions?

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

**AUDITED SCHEDULE OF EXPENDITURES
(Budget Allotment to Actual)**

**For the Year Ended
June 30, 2014**

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS
PLAN 2 RETIREMENT BOARD
For the Year Ended June 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Schedule of Expenditures	2
Notes to Schedule of Expenditures	3 - 5

Davis Accounting Tax & Audit Services

123 Fir Street NE
Olympia, WA. 98506

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, 2014.

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, 2014 in accordance with accounting principles generally accepted in the United States of America.



DAVIS ACCOUNTING TAX & AUDIT SERVICES

Olympia, WA
September 22, 2014

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2014

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Salaries & wages	\$ 548,438	\$ 487,776	\$ (60,662)
Employee benefits & payroll taxes	157,442	148,991	(8,451)
Goods & services - supplies & materials	4,196	2,330	(1,866)
Goods & services - communications	13,500	11,069	(2,431)
Goods & services - utilities	6,000	5,087	(913)
Goods & services - rentals & leases	46,920	45,954	(966)
Goods & services - repairs & maintenance	996	276	(720)
Goods & services - printing & reproduction	25,080	17,426	(7,654)
Goods & services - employee development	18,000	34,615	16,615
Goods & services - furniture & equipment leases	4,980	4,673	(307)
Goods & services - subscriptions	1,438	2,260	822
Goods & services - facilities & related services	7,500	5,964	(1,536)
Goods & services - data processing	3,900	3,795	(105)
Goods & services - Attorney General's Office	22,500	20,883	(1,617)
Goods & services - personnel services	9,552	7,355	(2,197)
Goods & services - insurance	1,100	25	(1,075)
Goods & services - other purchased services	182,256	132,326	(49,930)
Other goods & services	3,735	4	(3,731)
Travel, lodging & subsistence	62,967	62,486	(481)
Capital outlays	14,500	11,215	(3,285)
Grants, benefits & client	0	400	400
 Total Expenditures	 <u>\$ 1,135,000</u>	 <u>\$ 1,004,910</u>	 <u>\$ (130,090)</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, 2014

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, 2014

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, 2014

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



Supreme Court Decision Update: WEA v. DRS

Report Type:

Educational Briefing

Date Presented:

9/24/2014

Presenter Name and Title:

Paul Neal, Senior Research and Policy Manager

Summary:

Discussion of recent Supreme Court decisions upholding Legislature's repeal of gainsharing and the uniform COLA; including LEOFF Plan 2 ramifications.

Strategic Linkage:

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

ATTACHMENTS:

Description	Type
 WEA v. DRS	Presentation



Supreme Court Decision Update: WEA v. DRS

Educational Briefing

Overview

The Supreme Court issued two rulings in July upholding Legislature's right to reserve the right to modify or repeal pension improvements.

This presentation examines implications for LEOFF Plan 2.

Enactment of Uniform COLA and Gain-sharing

- **1995: Uniform COLA replaced pre-existing COLAs in PERS 1 and TRS 1**
- **1998: Gain-sharing enacted to distribute extraordinary investment gains in PERS 1 & 3 and TRS 1 & 3**
- **Each included a reservation clause:
“The Legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.”**

Legislative Repeal

- **Uniform COLA and Gainsharing would require significant employer contribution increase:**
 - \$1.3 Billion in State & local funds for 2015-2017
 - Similar amounts required in subsequent biennia
- **Legislature repealed both acts:**
 - Gainsharing repealed in 2007
 - Uniform COLA repealed in 2011

Superior Court Decision

- **Lawsuits by Washington Education Association (WEA) with co-plaintiffs**
 - “...parties are in fact arguing over the enforceability of the reservation clause”
 - King County Superior Court invalidated the repeal as an unconstitutional impairment of contract
 - It was then appealed to the State Supreme Court

Supreme Court's Decision

- **Supreme Court August 14 opinions held:**

- Reservation clause enforceable
- Reservation clause was part of the contract
- Therefore, no impairment of contract

“The Legislature is allowed to condition its grant of pension enhancements using express language in the statutory provision that creates the right”

- **Repeal of Gainsharing and Uniform COLA upheld**

LEOFF Plan 2 Implications

The following LEOFF 2 enactments include a reservation of right to repeal or amend:

- **Health insurance premium reimbursement for catastrophically disabled members - RCW 41.26.470(10)(a)**
- **6 month temporary duty disability service credit - RCW 41.26.470(3)(h)**
- **24 month temporary duty disability service credit - RCW 41.26.473(9)**

Questions?

Contact:

Paul Neal

Senior Research and Policy Manager

(360) 586-2327

paul.neal@leoff.wa.gov



Salary Spiking

Report Type:

Initial Consideration Follow-up

Date Presented:

9/24/2014

Presenter Name and Title:

Ryan Frost, Research Analyst

Summary:

Salary spiking in public pension plans undermines public trust that LEOFF Plan 2 is designed responsibly and managed professionally.

Strategic Linkage:

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

ATTACHMENTS:

Description	Type
 Salary Spiking	Presentation
 Salary Spiking	Report



Salary Spiking

**Follow-up Report
September 24, 2014**

Issue Statement

Salary spiking in public pension plans undermines public trust that LEOFF Plan 2 is designed responsibly and managed professionally.

Context

- Recent pension spiking issues:
 - State Patrol Lieutenant Average Final Compensation (AFC) increased 79% using overtime.
 - LEOFF Plan 1 pension spiking recently in press.
- Build on recent pension spiking analysis:
 - Office of the State Actuary (OSA).
 - Washington State Institute of Public Policy (WSIPP).
 - Board reports from 2012.

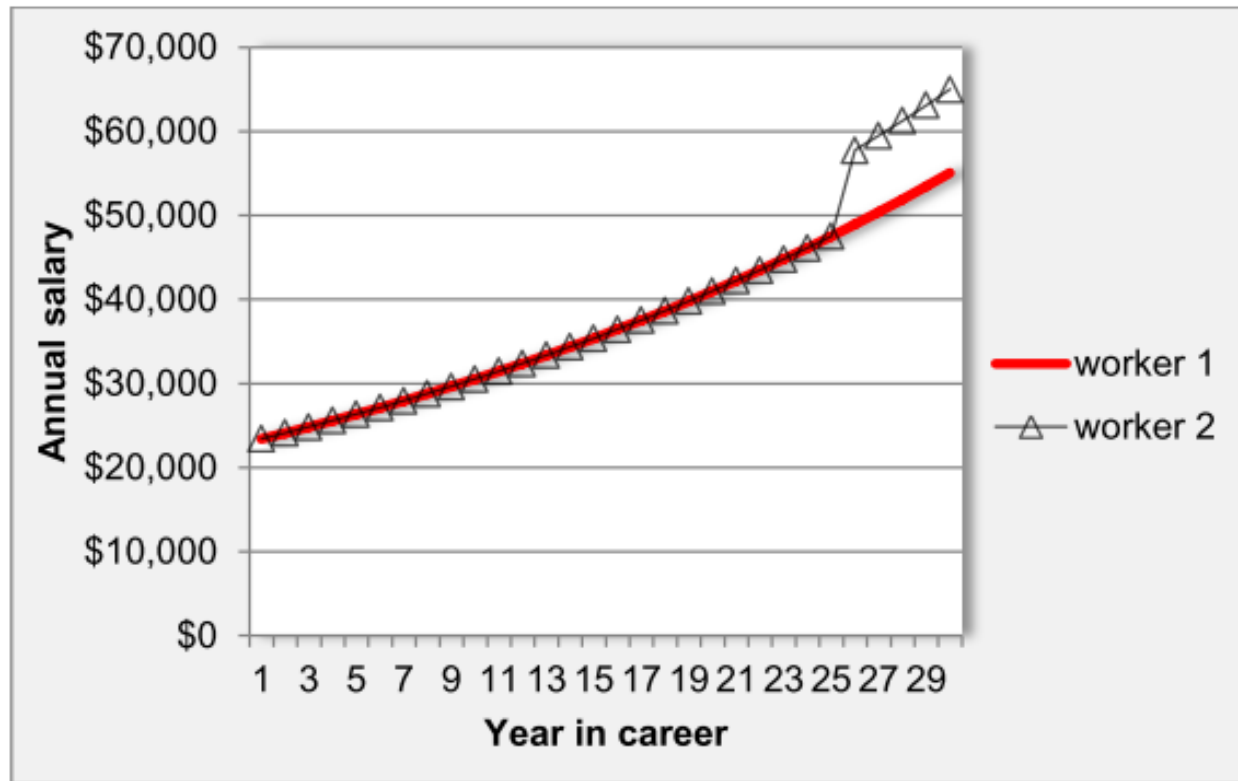
Salary Spiking Defined

- **Salary Spiking:** Manipulating compensation during an employee's final average salary period to increase retirement allowances. Also known as "pension ballooning".

Salary Spiking Example

- Two LEOFF Plan 2 members have an identical salary history up until the last 5 years.
 - Worker 1 continues to receive regular salary increases, without any overtime.
 - Worker 2 receives the same increases but also works 5 hours of overtime per week for the last 5 years of his career.

Effect of Salary Spiking



Worker 2 contributes an extra \$2500 towards his pension and receives an additional benefit with a present value of \$97,000.

Types of Spiking

- Systemic: applies to most or all retiring employees of a given employer:
 - Leave cashouts (PERS & TRS Plan 1 only).
 - Contracted severance payments.
 - Retirement bonuses.
- Individual:
 - Overtime manipulations.
 - Additional contracts.

LEOFF Plan 2 Spiking

- LEOFF Plan 2 definitions preclude many common forms of spiking:
 - Termination payments (i.e. leave cashouts, excluded).
 - 5-year FAS period:
 - Different from LEOFF Plan 1.
 - Even a dramatic increase in last few months would not raise FAS much.

LEOFF Plan 2 Spiking

- LEOFF Plan 2 spiking possible by manipulating:
 - Overtime eligibility.
 - Longevity pay.
 - Special salary or wages (i.e. educational attainment pay).

Salary Spiking Issues

OSA identified two issues in 2012 analysis:

1. Actuarial Cost: Actuarial cost to plans if salary increases “exceed expected levels”.
2. Public Trust: “...pension spiking...may weaken public trust in the state retirement systems”.

Systemic Spiking Can Have Significant Costs

- When spiking is systemically applied to an entire group of employees costs can be high.

“The impact of including termination payments when computing the "average final compensation" is not insignificant, amounting to an annual cost of between \$5 and \$6 million. In 1975, the total employee and employer rate of contributions was 13 percent of all compensation. If PERS had not included termination payments in computing benefits, the rate would have been 12.4 percent of all compensation.”

Washington Ass'n of County Officials v. Washington Public Emp. Retirement System Bd., 89 Wn.2d 729, 731 (Wash. 1978)

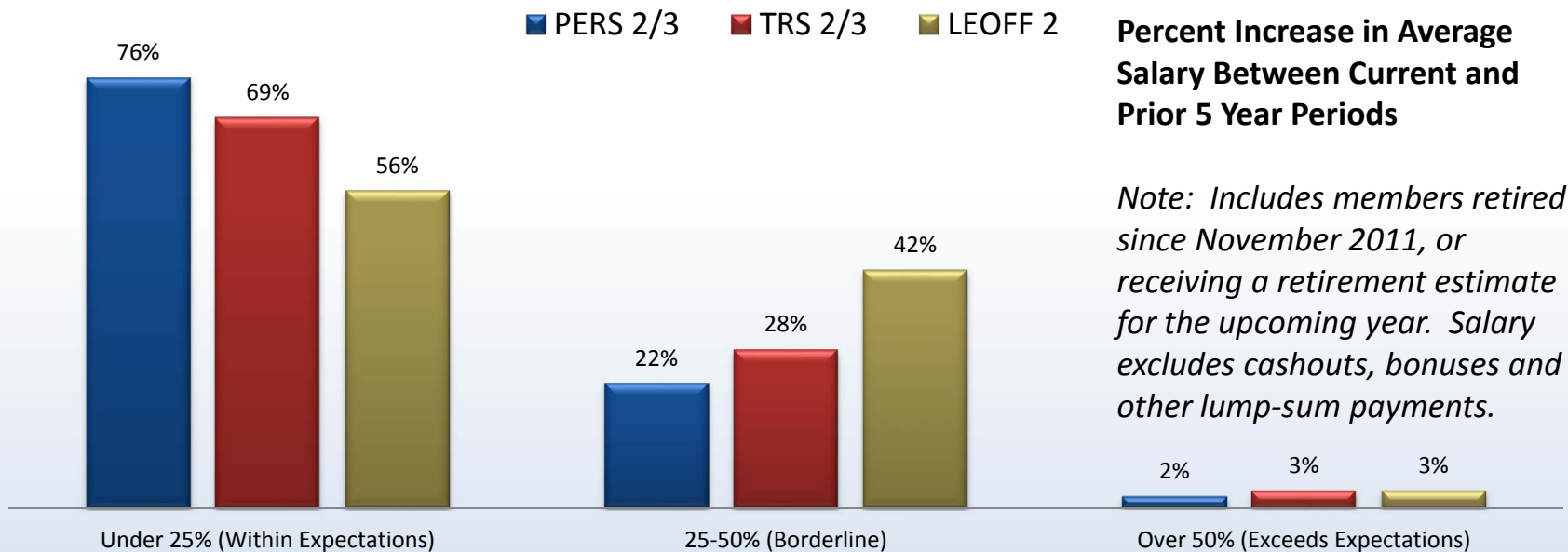


Individual Spiking – Actuarial Cost Indeterminate

- OSA could not isolate an actuarial cost for overtime spiking.
- WSIPP study included OSA and Human Resource Management System (HRMS) data - Findings on overtime:
 - Most members tend to work roughly the same number of hours before and during AFC period.
 - Those who worked overtime during AFC period also worked overtime in prior periods.
 - There are exceptions but “extreme increases are rare.”
 - Hours during AFC tended to decline.

Individual Spiking Rare

FAS Increase from Prior Period: Plans 2 and 3



Few retirees exceed actuary's expectation of FAS increases. That is, a small number that leads to actuarial cost.

Individual Spiking - Actuarially Significant Cost?

- Unlikely that individualized spiking causes actuarially significant costs.
 - Not enough incidents outside of the scope of actuarial assumptions to cause increase in contribution rates.
 - Individual spiking is not a problem/risk.

Excess Compensation Assesses Cost to Employers

- DRS explained excess compensation in Employer Notice 84-02:
 - Employers adopted spiking to “inflate...employee’s pensions at little cost to themselves”;
 - Additional costs are spread over all employers;
 - Legislature enacted excess compensation legislation to charge the responsible employers for the extra cost.
- When employers began receiving bills, many cut back on leave cashouts.
- Could happen with overtime as well.

Recent Study and Legislation

- Analysis by WSIPP and OSA.
- Companion studies by LEOFF Plan 2 Board staff.
- SB 6543 (2010) excluding overtime from pensionable compensation.
- SB 5392 (2013) – Defined AFC [FAS] increases of over 150% as excess compensation.
- SB 5916 (2013) – reduced trigger point to 125%.

Summary

- Pension spiking raises issues of cost and public trust.
- Spiking issues in other plans can create a public trust and fairness issue which can be a risk to LEOFF Plan 2.
- Research show that LEOFF Plan 2 does not have a systemic spiking issue.
- Individual spiking could occur and can create a public trust and fairness issue which can be a risk to LEOFF Plan 2.

Next Steps

- Discontinue pursuit of the issue at this time.
- Provide Comprehensive Report with policy options.

Any Questions?

- **Contact:**

Ryan Frost

Research Analyst

360.586.2325

ryan.frost@leoff.wa.gov

2100 Evergreen Park Dr, Olympia, WA 98502
PO Box 40918 Olympia, WA 98504
360.586.2320 or www.leoff.wa.gov



FOLLOW-UP REPORT

By Ryan Frost
Research Analyst
360-586-2325
ryan.frost@leoff.wa.gov

ISSUE

Salary spiking in public pension plans undermines public trust that LEOFF Plan 2 is designed responsibly and managed professionally.

MEMBERS IMPACTED

Salary spiking in LEOFF Plan 2 potentially benefits a limited number of individuals who are in a position to make special compensation arrangements. The resulting erosion of public trust undermines the Plan to the detriment of all 16,805 active LEOFF Plan 2 members¹.

CURRENT SITUATION

Public defined benefit plans are under increased scrutiny due in part to the significant unfunded liability in other public plans, such as those in Illinois, or the recently bankrupt city of Detroit. This heightened scrutiny underlines the importance of ensuring LEOFF Plan 2 is designed responsibly and professionally managed. Manipulation of pensions through salary spiking undermines that task. Another possible issue is the eligibility to work overtime being attached to an employee's experience, through agreements with their employer. Salary manipulation in any plan undermines public trust in all plans.

Recent examples of pension spiking in the Washington State Patrol Retirement System (WSPRS) and LEOFF Plan 1 have enhanced public scrutiny of salary practices. While none of the recent examples were in LEOFF Plan 2, public opinion tends to regard public pensions as a group. This report will review recent research on salary spiking in Washington State; examine the issues raised by salary spiking; discuss why salary spiking is attractive to employers and employees; and review some of the history of spiking, focusing on recent examples.

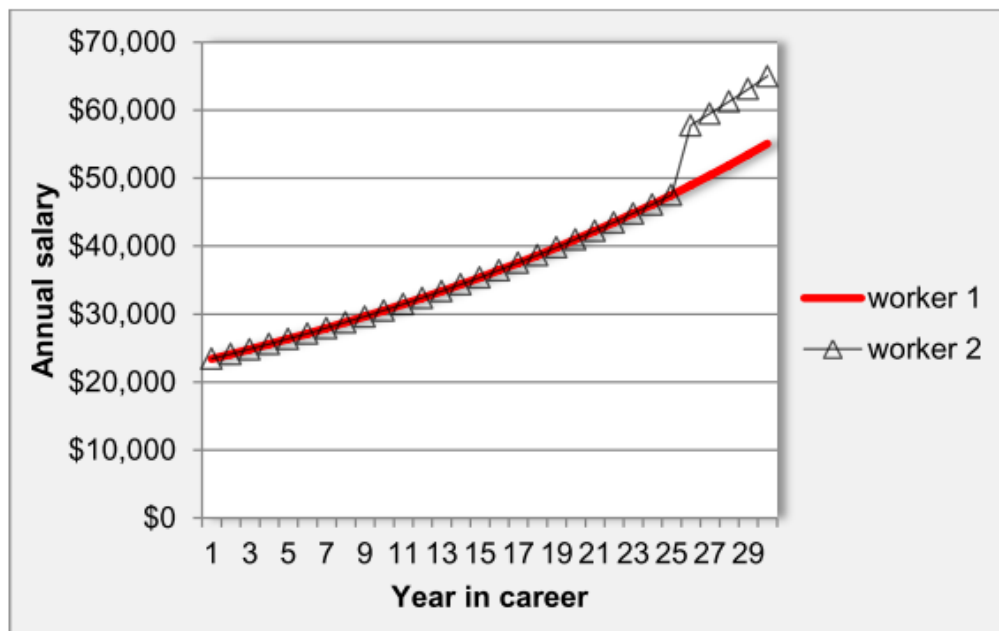
¹ Membership number as of June 30, 2011; Office of the State Actuary 2011 LEOFF Plan 2 Valuation Report.

BACKGROUND INFORMATION & POLICY ISSUES

Salary spiking, also called "pension ballooning" refers to the practice of maximizing salary during the final average salary (FAS) period in order to increase the member's pension.

Members pay contributions based on their salary throughout their career, with the goal of eventually drawing a pension that is based on that salary. While a certain level of salary increase is assumed and factored into contribution rates, a dramatic spike at the end of one's career can result in a disproportionate pension. The Plan 1 systems are especially susceptible to salary spiking because of shorter salary averaging periods. When a Plan 1 system member is granted overtime hours first, this can significantly spike (or balloon) their FAS.

The impact of pre-retirement salary increases is shown in the example below, originally developed by the Washington Institute for Public Policy (WSIPP). In the example, two Plan 2 members have an identical salary history up until the last 5 years. Worker 1 continues to receive regular salary increases, without any overtime. Worker 2 receives the same increases but also works 5 hours of overtime per week for the last 5 years of his career:



In this example, worker 2 contributes an extra \$2,500 towards his pension and receives an additional benefit with a present value of \$97,000. The worker and employer contributions cover only a small portion of the value of the additional benefit².

RECENT SALARY SPIKING RESEARCH

The previous example is drawn from the significant amount of research and analysis developed over the last 2 years examining salary spiking:

- Washington State Institute of Public Policy (WSIPP) study on Retiree Benefits in Public Pension Systems focusing in part on impacts on pensions and pension costs from overtime and excess compensation (2012)
- Office of the State Actuary (OSA) analysis and presentations to the Select Committee on Pension Policy (SCPP) on overtime usage and salary spiking (2012)
- LEOFF Plan 2 Initial Consideration reports on Salary Growth (July 2012) and Excess Compensation (December 2012)
- Investigative journalism examining LEOFF Plan 1 salary spiking: “a two-year Associated Press investigation that included more than 100 interviews, 94 public-records requests and a review of thousands of pages of government emails, meeting notes, contracts, actuarial reports and payroll records, along with more than 30 government data sets.”³ (2013)

None of the research revealed any salary spiking or excess compensation payments in LEOFF Plan 2, but when those activities take place in any public plan, they impact public trust in all public plans. The erosion of public trust is of particular concern in today’s environment, where some urge replacing public defined benefit plans with defined contribution plans.⁴

Although the LEOFF Plan 2 plan design makes pension spiking less likely, it does not preclude it entirely. LEOFF Plan 2 includes overtime, special salary, and longevity pay as allowable salary. These types of salary are susceptible to manipulation if there is a meeting of the minds between an employer and an employee.

² P. 49, 59, Appendix E, *Retiree Benefits in Public Pension Systems*, Washington State Institute for Public Policy, December, 2012.

³ *State feels bite of workers' 'pension spiking'*, Seattle Times, April 6, 2013.

⁴ See Sen. Orin Hatch *After Detroit, Replace Public Pensions*, July 31, 2013, <http://www.hatch.senate.gov/public/index.cfm/2013/7/after-detroit-replace-public-pensions>.

Salary spiking can be divided into two types: 1) End of career compensation increases provided to all or a class of employees, i.e. overtime eligibility; and 2) specially negotiated salary increases provided to individuals or small groups of employees.

ISSUES RAISED BY SALARY SPIKING

OSA's report identified two issues raised by salary spiking:

- Cost: "When a member's benefit is based on a higher-than-expected-AFC there is an additional cost to the system that emerges when the member retires. This extra cost has not been funded at retirement and is passed onto other plan participants and future generations of taxpayers."
- Erosion of Public Trust: "...pension spiking...may weaken public trust in the state retirement systems."

The Cost of Salary Spiking

When salary spiking practices are systematically applied to all retiring employees or a large group, costs can be significant. PERS Plan 1 leave cashouts increased employer contributions rates in the 1970s by .6% of salary⁵, a significant cost given the size of the PERS salary base. The Legislature has greatly reduced that cost by excluding termination payments in the Plan 2 systems and charging most Plan 1 termination payment spiking to the individual employer through excess compensation, explained in more detail on pages 7 and 8.

The cost of individualized spiking is more difficult to isolate. OSA's report stated it could not quantify the cost of overtime spiking. It did note that AFCs beyond the expected range can cause a cost to the plan. By the same token, salary increases within that range do not generate the costs identified by the actuary because they are not "higher-than-expected".

For instance, the Actuary's report identified salary increases up to 25% during the AFC period as "within the expected range" and salary increases up to 50% were not yet outside the range but were "borderline⁶." The higher cost was, therefore, funded over the employee's career, and not passed on to future generations of taxpayers. That does not mean late career salary increases do not increase individual member pensions, but more than 95% of increases are within the Actuary's assumptions and, presumably, funded through the contribution rate.

⁵ *Washington Ass'n of County Officials v. Washington Public Emp. Retirement System Bd.*, 89 Wn.2d 729, 731 (1978).

⁶ Similarly, the cost of including leave cashouts in PERS Plan 1 discussed in *County Officials* generated a 13% combined PERS contribution rate. That rate would have been 12.4% but for the inclusion of termination payments. That is, the Actuary recognized the cost of that salary spiking and factored it into the calculation of rates, i.e. it was not "higher-than-expected". *County Officials*, supra.

Recent analysis by the LEOFF Plan 2 Board, OSA, WSIPP, and the Associated Press indicate current salary spiking is an individualized affair, rather than a systemic problem. Much of the cost is accounted for in the Actuary's assumptions.

The Erosion of Public Trust

A recent Associated Press article uncovered LEOFF Plan 1 pension spiking that significantly increased pensions for a handful of retiring LEOFF Plan 1 members. LEOFF Plan 1 was closed to new members 36 years ago, with only 186 active members remaining. Further, the system is 135% funded, and has not cost taxpayers any additional money ever since contributions stopped in 2000. That is, there was no unfunded cost incurred as a result of the salary manipulations.

Regardless of the actuarial cost in dollars and cents, the erosion of public trust is a high price paid by all public pension system members when individual employees make "special" arrangements to balloon their pensions.

WHY EMPLOYERS USE OVERTIME

Overtime (OT) is of a great value to employers of LEOFF Plan 2 members. A 10 man rotating crew working an extra 20% of OT is less expensive for the employer than hiring 2 more staff and not granting OT. What is important, is to make sure no barriers exist for an employee to work OT regardless of any factor, for example: service years, age, or years to retirement. Where the public distrust comes, is when an employer has a contract with their employees with one of those barriers in place. To the public, this looks like overtime is being granted to those who are going to use it to spike their salary during their FAS period.

Salary spiking is a perennial pension policy issue, repeatedly studied in Washington over the last 20 years⁷ and the issue is not unique to Washington. If spiking salary causes so much public outrage and undermines public trust in the plan, why do employers and employees' repeatedly engage in it?

The Department of Retirement Systems (DRS) succinctly explained the rational basis for salary spiking in a 1984 Employer Notice:

⁷ The Joint Committee on Pension Policy studied salary spiking by school administrators in 1994, PERS Plan 1 in 1995, Washington State Patrol Retirement System in 1999-2000; and by PERS employers in 2002.

Over the last few years, certain employers, notably some units of local government, have adopted practices which inflate pensions of their retiring employees at relatively little cost to themselves. Since a single basic rate is charged to all PERS employers, the extra retirement costs generated by these few employers have been spread over all employers⁸.

Spiking provides a benefit to the retiree that far outweighs the cost to either the retiree or the retiree's employer.

While it is the retiree that receives the spiked pension, the employer can also benefit. A recent Seattle Times article documented several local government employers providing temporary salary increases to LEOFF Plan 1 members:

(City officials) said in interviews that the late raises were designed to incentivize retirements by boosting pension values. They said the local fire officials were having budget troubles and were interested in some staff retirements to help with a potential merger with a nearby fire district⁹.

When questioned about a temporary salary bump that appeared to result in the retirement of 8 senior employees, a former city official stated: "It worked out dollars and cents-wise — from the city's standpoint, that is¹⁰."

HISTORY OF ANTI-SPIKING EFFORTS IN WASHINGTON

For as long as there has been spiking, pension administrators have worked to combat it. Termination payments, primarily leave cashouts, were identified as a costly source of pension spiking in the 1970's. In 1977, Washington's Legislature disallowed those payments in the Plan 2 systems. It could not, however, constitutionally amend the definition of compensation in the PERS and TRS Plan 1 systems to exclude those payments¹¹.

Recognizing the cost to the system and, ultimately, to employers, the Washington Association of County Officials (County Officials) sued the Washington Public Employees Retirement System Board (PERS) to discontinue inclusion of termination payments (leave cashouts) in PERS Plan 1

⁸ DRS Notice No. 84-002.

⁹ *State feels bite of workers' 'pension spiking'*, Seattle Times, April 6, 2013.

¹⁰ *Ibid.*

¹¹ Termination payments had always been excluded from LEOFF Plan 1 as "special salary." See RCW 41.26.030(4)(a), WAC 415-104-330.

pension calculations¹². The Supreme Court ruled the long-standing practice of including termination payments in pension calculations had become part of the constitutionally protected pension contract and could not be discontinued.

PERS Plan 1 and TRS Plan 1 were required to continue including leave cashouts in the pension calculation and the State could not stop paying them. Faced with that situation the Legislature devised an elegant solution: excess compensation.

The Legislature defined excess compensation as: “any payment that was used in the calculation of the employee’s retirement allowance, except regular salary and overtime...” The statute specifically identified leave cashouts and “any other termination or severance payment used in the calculation of the employees’ retirement allowance¹³.” DRS calculates the increase to the individual’s pension from the excess compensation, determines the present value of the additional benefit stream, and bills the employer whose pay practices caused the pension ballooning for the extra pension cost.

The excess compensation law did not change pensions and did not break the constitutional protections relied on in the *County Officials v. PERS* case. The retiree still gets the full pension, but the employer no longer gets to pass the cost onto others. Once employers started being charged for the full cost of their salary spiking practices, a number of them stopped¹⁴. After the Legislature passed the excess compensation law, providing leave cashouts to boost employee pensions was, generally speaking, no longer a viable option.

RECENT INDIVIDUAL PENSION SPIKING AND LEGISLATIVE RESPONSES

Salary spiking engenders a strong negative public reaction. Recent incidents documented in the media have been no exception.

Overtime Abuse and Response

In 2011, a retiring Washington State Patrol Lieutenant earned an additional 79% on top of his base salary from overtime. The Lieutenant self-assigned his overtime, subject to review from his Captain. After the overtime issue came to light the Captain was demoted and reassigned and the State Patrol commissioned an outside investigation. The resulting criminal charges alleged the Lieutenant did not work all the overtime claimed and that he manipulated the

¹² See *Washington Association of County Officials v. Washington Public Emp. Retirement System Bd.*, 89 Wn.2d 729, 731 (1978).

¹³ Laws of 1984 c 184 § 1, RCW 41.50.150

¹⁴ See *Abels v. Snohomish County Public Utility Dist. No. 1*, 69 Wn. App. 542, 546-548, 849 P.2d 1258 (1993)

reporting system to misreport voluntary overtime, which is excluded from WSPRS's definition of earnable compensation.

Soon after the news broke, Legislators introduced Senate Bill 6543 banning overtime from the definition of reportable compensation. While the bill did not pass, the Legislature did commission WSIPP to review overtime and excess compensation. The SCPP also requested analysis and a presentation from OSA.

One issue complicating the analysis by both OSA and WSIPP is that DRS does not capture overtime as a separate data element. OSA approximated overtime by looking at total compensation and backed out cashouts, bonuses, and other lump sum payments. OSA was not able to back out increases resulting from promotions or regular raises, as DRS does not capture those as separate data elements either.

OSA compared the salary increases it found during an employee's years prior to retirement to the salary increases it expected. Ninety-seven percent of LEOFF Plan 2 members retiring or requesting estimates had salary increases within expected levels during their FAS periods. Of the 3% (14) of participants with unexpected levels of salary growth¹⁵, nine had overtime in the current period; six of them also had overtime in the prior period.

WSIPP reviewed the data from OSA and also looked at data from the Human Resource Management System (HRMS). HRMS identifies overtime as a separate data element, but only covers state employees and only goes back to 2006. DRS will soon have the ability, through a new system, to view local government salaries' as well. After reviewing both excess compensation and overtime from both OSA and HRMS data, the WSIPP report concluded:

- "Excess compensation is rare, especially among members of open plans."
- "In all Washington's state-administered public pension systems, average monthly hours are not systemically higher during AFC [FAS] periods."
- "Exhibit 23 (detailing employee hours before and during AFC [FAS] period) illustrates some important points.
 - First, most members tend to work roughly the same number of hours before and during the AFC [FAS] period. Those who work overtime during the end of their career tended to also do so earlier in their career....
 - Second, there are exceptions – hours increased substantially for some members, and extreme increases are rare.
 - Third, hours decline for some members."

¹⁵ OSA identified "higher than expected" salary growth as over 50%. It did not find those increases were from overtime, as they could have come from promotions or other non-spiking sources.

The SCPP directed its staff to develop draft legislation expanding the definition of excess compensation, though the Committee did not vote to endorse the final bill draft. Some members expressed concern about assessing excess compensation on payments that did not reflect salary manipulation, such as mandatory overtime or overtime consistently earned over a member's career.

An individual legislator on the SCPP introduced the draft legislation during the 2013 session. SSB 5392 would have required DRS to bill an employer for excess compensation if FAS increased by 150% or more over the prior period. Another version of this proposal, SSB 5916, was introduced later in session reducing the proposed trigger point to 125%. Neither bill passed.

SUMMARY

The common theme running through the recently reported incidents of pension spiking is that, unlike the systemic spiking targeted by the original excess compensation law, these were temporary, individual arrangements effecting 1 or at most a handful of individuals. While these may not generate an actuarially significant cost, they undermine public trust in public pension plans. Regardless of what pension plan the salary spiking occurs in, the erosion of public trust presents a risk to all plans.

SUPPORTING INFORMATION

Appendix A: Excess Compensation Detail and Example

Appendix B: LEOFF Reportable Compensation Table

APPENDIX A

EXCESS COMPENSATION DETAIL AND EXAMPLE

The following detailed description and example of the excess compensation law, RCW 41.50.150, is taken from the December 12, 2012, LEOFF Plan 2 Board initial consideration report on excess compensation:

Excess Compensation

Since 1984 excess compensation has been defined in the pension statutes as consisting of specific types of reportable compensation when the payment increases the member's retirement allowance. If reportable compensation included in a retiree's retirement allowance calculation qualifies as excess compensation, then the applicable employer is responsible for the resulting liability to the pension fund. Without such an employer payment, the excess compensation-related liability would effectively be spread across the plan and paid for through the contribution rate structure.

The employer paying employees reportable compensation that qualifies as excess compensation is liable to the pension fund for the total estimated cost of all present and future retirement benefits attributable to the excess compensation. An employer must pay the excess compensation bill within thirty days of the receipt of the billing. Any unsettled bill will be assessed an interest penalty of one percent of the amount due for each month or fraction thereof beyond the original thirty-day period. The Director of the Department of Retirement Systems may in the director's discretion decline to bill the employer if the amount due is less than fifty dollars. Excess compensation billings do not affect the calculation of individual pension benefits.

Excess compensation includes the following payments, when used in the calculation of the member's retirement allowance:

- a cash-out of more than 240 hours of annual leave;
- a cash-out of any other form of leave;
- a cash-out in lieu of the accrual of annual leave;
- any payment added to salary or wages, concurrent with a reduction of annual leave;
- a payment for, or in lieu of, any personal expenses or transportation allowance, to the extent that the payment qualifies as reportable compensation in the member's retirement system;
- any termination or severance payment; or
- the portion of any payment, including overtime payments, that exceeds twice the regular daily or hourly rate of pay.

The excess compensation statutes apply to all of the retirement systems administered by the Department of Retirement Systems, including the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, and the Washington State Patrol Retirement System. The provision regarding overtime is the only type of payment applicable to LEOFF Plan 2 for excess compensation.

Excess Compensation Billings in LEOFF Plan 2

According to the Department of Retirement Systems, there have not been any excess compensation billings issued under LEOFF Plan 2.

Excess compensation calculation example: Plan 2 member retires at 53 with 25 years

Variables	
Regular Salary (over Five years)	\$85,000 (\$425,000)
Overtime Included in FAS	\$225,000
Final Average Salary, INCLUDING overtime	$\$425,000 + \$225,000 = \$650,000$
5 year Cumulative – Two different overtime accrual patterns, same total.	YR 1 \$130,000 \$85,000
	YR 2 \$130,000 \$85,000
	YR 3 \$130,000 \$85,000
	YR 4 \$130,000 \$197,500
	YR 5 <u>\$130,000</u> <u>\$197,500</u>
	TOTAL <u>\$650,000</u> <u>\$650,000</u>
Actuarial Factor (WAC 415-02-340)	0.0054978

Calculations
<ol style="list-style-type: none"> <u>Monthly Benefit Calculation</u> <ul style="list-style-type: none"> $\\$650,000 / 60\text{mo} = \\$10,833.33$ (FAS/Month) $2\% * 25y * \\$10,833.33 = \\$5,416.67$ <u>Excess Compensation Threshold</u> <ul style="list-style-type: none"> $\\$425,000 \times 1\frac{1}{2} = \\$637,500$ $\\$637,500 / 60\text{ mo} = \\$10,625$ $2\% * 25y * \\$10,625 = \\$5,312.50$ <u>Monthly Benefit Over Threshold</u> <ul style="list-style-type: none"> $\\$5,416.67 - \\$5,312.50 = \\$104.17$ <u>Excess Compensation Billing to Employer</u> <ul style="list-style-type: none"> $\\$104.17 \div 0.0054978 = \\$18,947.58$

Excess Compensation Provisions: RCW 41.50.150, WAC 415-02-140
Actuarial Factor: WAC 415-02-340

APPENDIX B

LEOFF REPORTABLE COMPENSATION TABLE

LEOFF REPORTABLE COMPENSATION TABLE

Type of Payment	LEOFF Plan 1 Basic Salary	LEOFF Plan 2 Basic Salary
Additional Duty Pay	Yes - WAC 415-104-3205	Yes - WAC 415-104-360
Allowances (i.e. uniform)	No - WAC 415-104-3404	No - WAC 415-104-390
Basic Monthly Rate	Yes - WAC 415-104-3200	Yes - WAC 415-104-360
Cafeteria Plans	No - WAC 415-104-3303	Yes - WAC 415-104-367
Deferred Wages Attached To Position	Yes - WAC 415-104-3201 (1)	Yes - WAC 415-104-363 (1)
Deferred Wages not Attached to a Position	No - WAC 415-104-3201 (2)	No - WAC 415-104-363 (2)
Differential Military Pay	Yes - DRS Notice 08-019	Yes - DRS Notice 08-019
Disability Payments	No - WAC 415-104-340	No - WAC 415-104-380
Education Attainment Pay	No - WAC 415-104-3301	Yes - WAC 415-104-375
Employer Taxes/Contributions	No - WAC 415-104-3401	No - WAC 415-104-383
Fringe Benefits	No - WAC 415-104-3402	No - WAC 415-104-385
Illegal Payments	No - WAC 415-104-3403	No - WAC 415-104-387
Leave Cash Outs/Severance	No - WAC 415-104-3304	No - WAC 415-104-401
Longevity Pay	Yes - WAC 415-104-330 RCW 41.26.030 13(a)	Yes - WAC 415-104-375
Overtime	No - WAC 415-104-3305	Yes - WAC 415-104-370
Paid Leave	Yes - WAC 415-104-3203	Yes - WAC 415-104-373
Payments in Lieu of Excluded Items	No - WAC 415-104-350	No - WAC 415-104-405
Performance Bonuses	No - WAC 415-104-3302	Yes - WAC 415-104-377
Retroactive Salary Increase	Yes - WAC 415-104-3202	Yes - WAC 415-104-365
Reimbursements	No - WAC 415-104-3404	No - WAC 415-104-390
Retirement or Termination Bonuses	No - WAC 415-104-3406	No - WAC 415-104-395
Shared Leave	No - WAC 415-104-311	Yes - DRS Email 10-009
Shift Differential	Yes - WAC 415-104-3204	Yes - WAC 415-104-379
Special Salary or Wages	No - WAC 415-104-330	Yes - WAC 415-104-375
Standby Pay	No - WAC 415-104-3405	No - WAC 415-104-393
Tuition/Fee Reimbursement	No - WAC 415-104-3404	No - WAC 415-104-390
Worker's Compensation	Not Applicable	No - WAC 415-104-380



Career Extension

Report Type:

Comprehensive Report Follow-up

Date Presented:

9/24/2014

Presenter Name and Title:

Paul Neal, Senior Research and Policy Manager

Summary:

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.

Seeking board direction on further action.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Enhance the benefits for the members., Maintain the financial integrity of the plan.

ATTACHMENTS:

Description		Type
 Career Extension		Presentation
 Career Extension		Report



Career Extension

Comprehensive Follow-up
September 24, 2014

Overview

Follow-up on the career change issue from the 2013 interim:

- Review and further research on policy issues
- Discussion of possibilities for next steps

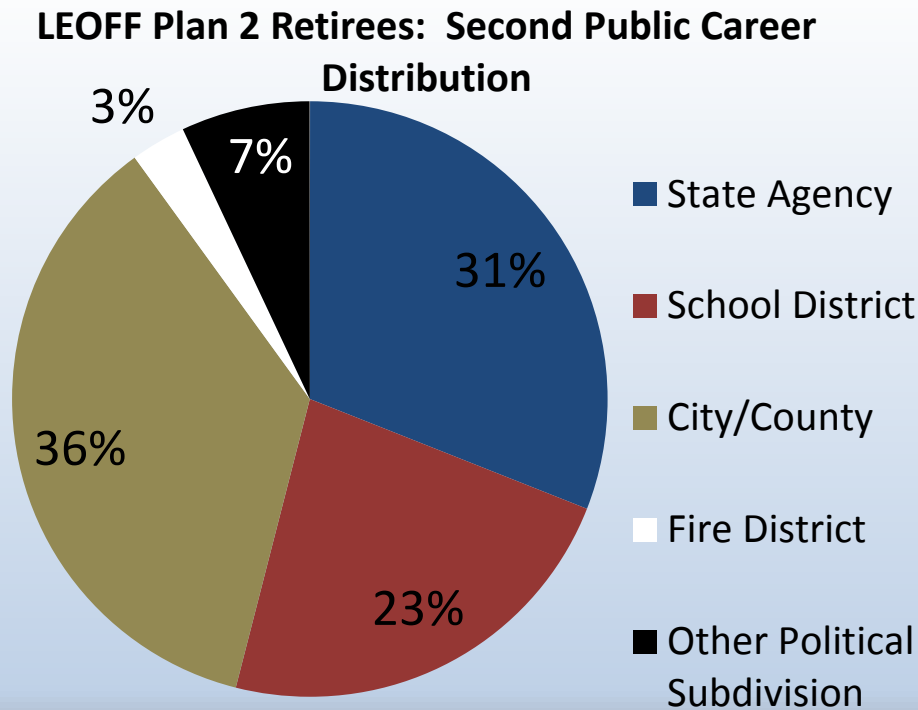
Issue

The Board proposal to tighten restrictions in the career change law (HB 2479) revealed tension between the policies of:

- Maintaining public confidence that LEOFF Plan 2 is well designed and professionally managed
- Facilitating smaller jurisdictions' access to highly trained and experienced LEOFF Plan 2 retirees

Maintaining a Well Designed and Professionally Managed Plan

Majority of retirees using career change law consistent with the intent:



Public Trust Issues

Manipulating job descriptions to enable LEOFF Plan 2 retirees to draw pensions while working as law enforcement officers or fire fighters raises issues:

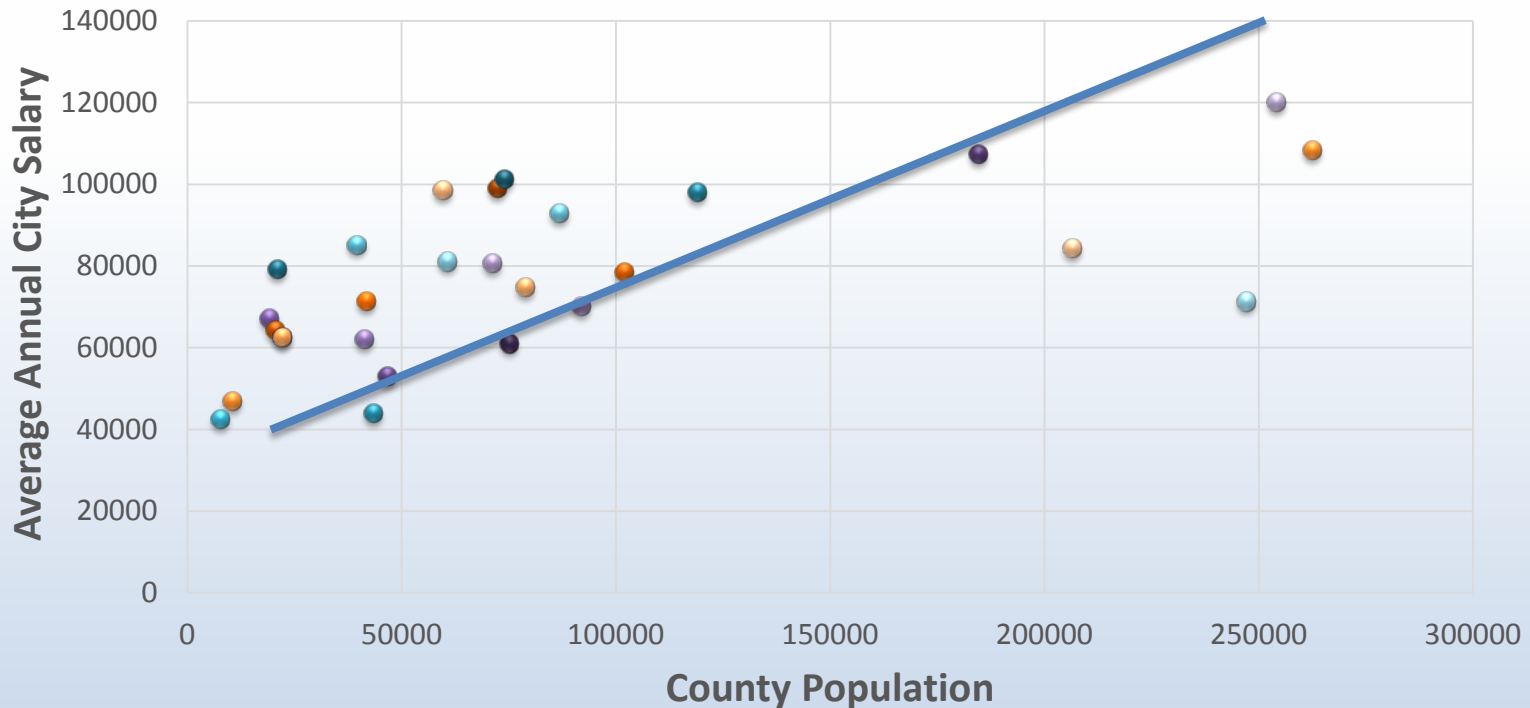
- Continuing with same employer: Did this person *REALLY* retire?
- Public pension + public salary
- Perception of “insider trading”

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**

Smaller Jurisdictions Often Have Smaller Budgets

Average City Police Chief Salary by County



Next Steps

- **Take no further action**
- **Maintain original position – support reintroduction and passage of HB 2479**
- **Direct staff to develop options balancing the competing policies**

Questions?

Contact:

Paul Neal

Senior Research and Policy Manager

(360) 586-2327

paul.neal@leoff.wa.gov



September 24, 2014
Career Extension

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

Last year 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.

This report reviews last year's research on career change and examines the policy tension with the goal of informing consideration of possible next steps.

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.

BACKGROUND & POLICY ISSUES

Career Change

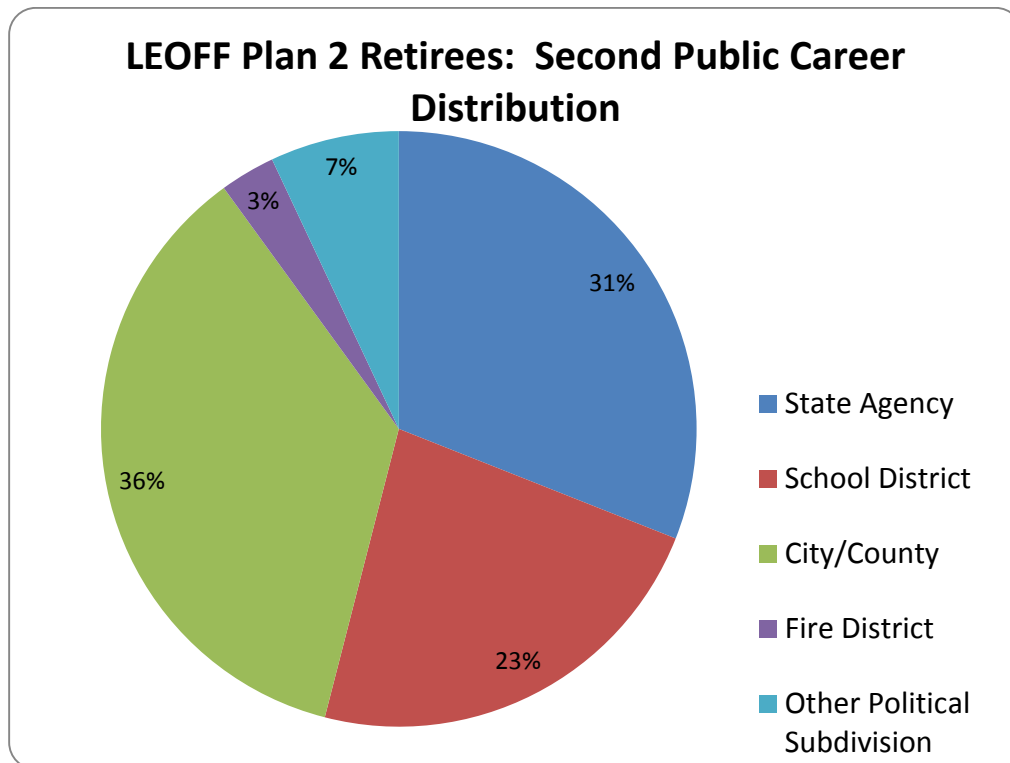
Before 2005 a LEOFF Plan 2 retiree's pension stopped if they worked in a job covered by any state-wide public retirement system. The Board recognized member's may no longer be able to fulfill the physical demands of law enforcement or fire fighting before they were ready, or could afford to, stop working. 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

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

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 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 2 to hold those positions without losing receipt of their pensions.

HB 2479

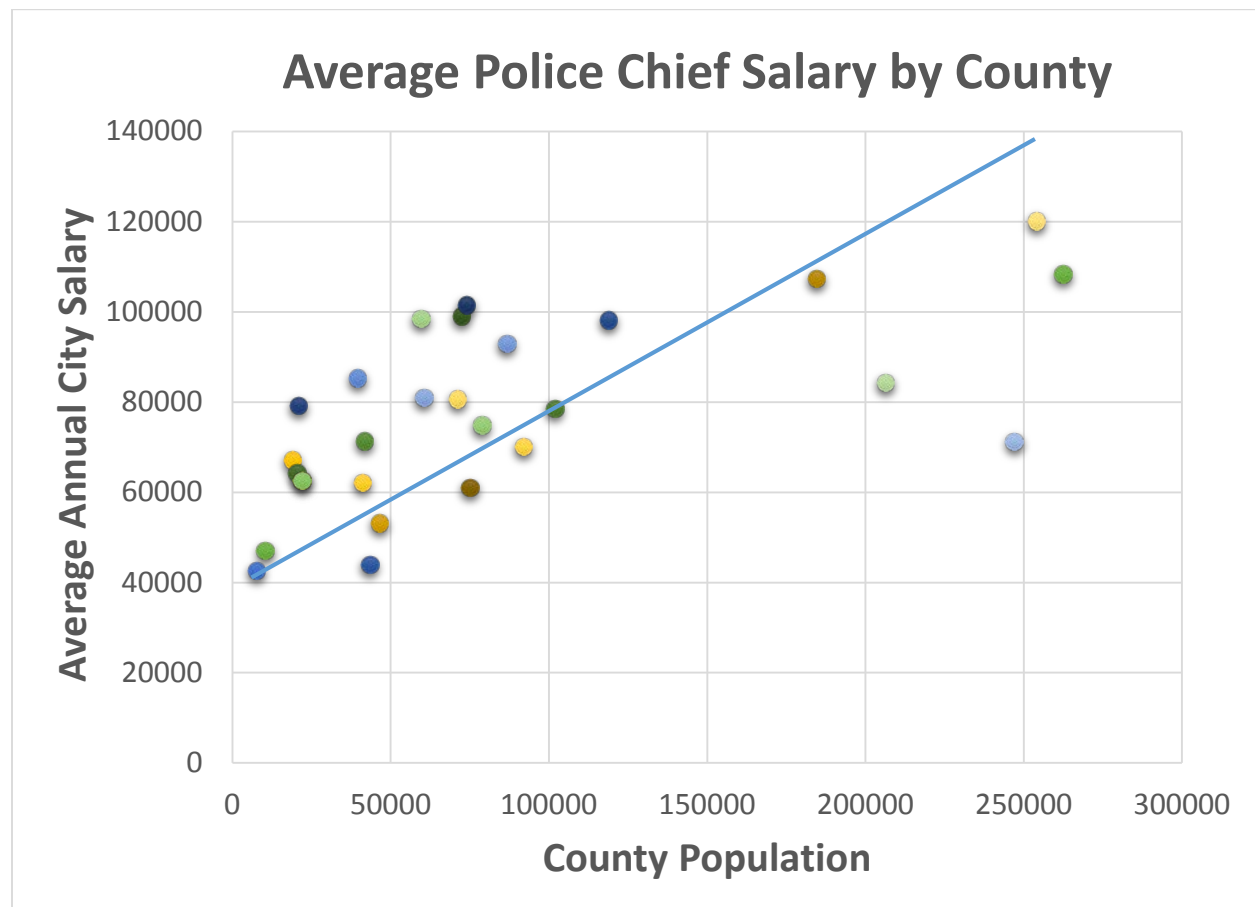
The Board proposed curtailing the ability of a LEOFF Plan 2 retiree to draw a pension and work in a historically LEOFF position. The proposal was introduced in 2014 as HB 2479. After passing the House, the bill failed to pass the Senate, in part because of concerns raised by stakeholder groups about 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, such as the FBI academy for upper level law enforcement officers. Similarly, 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 correspondence, 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 2 retirees working as police chiefs and fire chiefs described a LEOFF 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 2 pensions, unlike salaries for current service, are not paid out of current revenues. LEOFF 2 retiree pensions are fully funded at retirement by employer and employee contributions paid over the course of the employee's career, plus earnings on those contributions.

When a public employee retires and goes to work in the private sector, or even for a public entity in another state, few 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.

"Insider Trading"

The vast majority of LEOFF 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. Those 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. Some of the public anger over allegations of abuse flow from a perceived misuse of authority.

NEXT STEPS

Possible options for further exploration, should the Board wish to pursue this topic, include:

- Continue to support HB 2479;
- Amend the career change law to allow LEOFF Plan 2 retirees to return to work as law enforcement officers or fire fighters while drawing their pension; or
- Work to reconcile the competing policies to expressly allow some career extension in certain circumstances while preserving public confidence in the system as a whole.

SUPPORTING INFORMATION

Appendix A: *Fire, police officials get retire-rehire deals*, by Mike Baker, published The Seattle Times, November 21, 2013.

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>

Copyright The Associated Press



SCPP Update

Report Type:
Educational Briefing

ATTACHMENTS:

Description	Type
 SCPP Update	Correspondence

Select Committee on Pension Policy

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

Regular Committee Meeting

September 16, 2014
10:00 a.m. – 12:00 p.m.*
Senate Hearing Room 4
Olympia

AGENDA

- 10:00 a.m. **1. Approval Of Minutes**
- 10:05 a.m. **2. OSA 2015-17 Budget – Matt Smith, State Actuary**
- 10:25 a.m. **3. Department Of Retirement Systems Update –
Marcie Frost, Director, DRS**
- 10:50 a.m. **4. Update On PFC Rate Adoption – Devon Nichols,
Policy Analyst**
- 11:00 a.m. **5. Update On Supreme Court Decision: Gain
Sharing And Uniform COLA – Anne Hall and
Sarah Blocki, AGO**

Work Session

- 11:15 a.m. **6. Annuity Purchase – Devon Nichols**

Educational Briefing

- 11:40 a.m. **7. Alternative Plan Designs – Aaron Gutierrez,
Senior Policy Analyst**
- 12:00 p.m. **8. Adjourn**

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

O:\SCPP\2014\9-16-14_Full\0.Updated_September_Full_Agenda.docx

***Senator Barbara Bailey,
Chair**

***John Boesenberg**
PERS/Higher Ed Employer

Representative Bruce Chandler

Senator Steve Conway

Randy Davis
TRS Actives

***Eugene Forrester**
TRS Retirees

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

Senator Steve Hobbs

Corky Holloway
PERS Employers

Robert Keller
PERS Actives

**Representative Matt
Manweller**

Vacant
Employers

Glenn Olson
PERS Employers

***Representative Timm
Ormsby, Vice Chair**

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*

(360) 786-6140
Fax: (360) 586-8135
TDD: 711
leg.wa.gov/SCPP.htm



Agenda Items for Future Meetings

Date Presented:

9/24/2014

Presenter Name and Title:

Steve Nelsen, Executive Director

ATTACHMENTS:

Description

Type

📎 [Agenda Items Calendar](#)

Report



2014

AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
January 22, 2014	2014 Legislative Update
February 26, 2014	2014 Legislative Update
March 26, 2014	2014 Legislative Update 2014 Interim Planning
April 16, 2014	Meeting Cancelled
May 28, 2014	Local Government DCP Participation, Initial Consideration Final Average Salary Protection, Initial Consideration Alternate Revenue Update SCPP Coordination Demographic Experience Study Education – OSA Annual Attorney General Training – Dawn Cortez, AAG Parliamentary Procedure Review – Dawn Cortez, AAG
June 18, 2014	Contribution Rate Setting Contribution Rate Preview – OSA Demographic Experience Study Recommendation – OSA DRS Benchmarking – Mark Feldhausen, Budget and Benchmarking Director Actuarial Audit Presentation – Mark Olleman, Milliman Alternate Revenue, Educational Briefing
July 23, 2014	Funding Pension Plan Benefits – Robert Klausner, Esquire Experience Study and Actuarial Valuation Update – Lisa Won, Actuary Actuarial Audit Presentation – Mark Olleman & Daniel Wade, Milliman Contribution Rate Adoption – Ryan Frost
August 27, 2014	Meeting Cancelled
September 24, 2014	Salary Spiking Career Extension LEOFF Financial Audit Results, Steve Davis Washington State Investment Board Annual Update – Theresa Whitmarsh, SIB PEBB Technical Corrections Legislation – Mary Fliss, HCA DRS Annual Administrative Update – Marcie Frost, DRS
October 22, 2014	Strategic Planning – Off Site
November 19, 2014	Local Government DCP Participation Final Average Salary Protection, Comprehensive Report Plan Design Education 2015 Meeting Calendar Adoption
December 17, 2014	