BOARD MEETING AGENDA

September 27, 2017 - 9:30 AM



LOCATION

Hotel Red Lion Olympia 2300 Evergreen Park Drive Olympia, WA 98502 Phone: 360.586.2320 Fax: 360.586.2329 recep@leoff.wa.gov

1. <i>A</i>	Approval of Minutes	9:35 AM
2. E	Board Officer Elections	9:40 AM
J	Jason Granneman, Vice Chair	
	Public Pension Administration Benchmarking Analysis	10:00 AM
	Mark Feldhausen, Budget and Performance Management Director DRS	
4. /	Audited Schedule of Expenditures	10:30 AM
5	Steve Davis, Davis Accounting Tax & Audit Services	
5. I	nterruptive Military Service Credits Plans 2 & 3	11:00 AM
5	Seth Miller, Assistant Director Retirement Services Division, DRS	
6. I	nterruptive Military Service Credit Study	11:15 AM
F	Ryan Frost, Research and Policy Manager	
7. E	Benefit Improvement Pricing	11:30 AM
F	Ryan Frost, Research and Policy Manager	
8. /	Administrative Update	
	Administrative Update	12:00 PM
	Steve Nelsen, Executive Director	
	Report on Financial Conditions and Recommendation on Long-Term Economic Assumptions	1:00 PM
L	Lisa Won, OSA	
10. (Catastrophic Disability Medical Insurance	1:30 PM
F	Paul Neal, Senior Research and Policy Manager	
11. [Disabled Members Return to Work	2:00 PM
F	Ryan Frost, Research and Policy Manager	
12. E	Executive Director Evaluation	2:30 PM
13. <i>A</i>	Agenda Items for Future Meetings	3:00 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.



Board Officer Elections

Date Presented:

9/27/2017

Presenter Name and Title:

Jason Granneman, Vice Chair

Summary:

Board elections of Board Chair, Vice Chair, and Employer Representative for the Administrative Committee

ATTACHMENTS:

Description Type

Board Operating Policies Report



Board of Trustees - Operating Policies

- RULE 1. **MEETINGS**. The LEOFF Plan 2 Retirement Board will typically meet once each month during the year. Additional meetings may be scheduled by the Board or called by the Chair or Administrative Committee as deemed necessary.
- RULE 2. **RULES OF ORDER.** All meetings of the Board, or any subcommittee created by the Board, shall be governed by Robert's Parliamentary Rules, except as specified by applicable law or Board operating policies.
- RULE 3. **QUORUM.** A majority of the 11 Board members shall constitute a quorum of the Board (6 members). A majority of the members appointed to a subcommittee shall constitute a quorum of the subcommittee.
 - a. The Chairman may convene or adjourn a meeting of the Board without a quorum being present.
 - b. The Board may hear reports or other information, hold debate and take public testimony on matters before the Board without a quorum being present but may not vote on any measure or issue until a quorum is present.

Section 3.01 **TELECONFERENCE ATTENDANCE**.

Teleconferencing to the LEOFF Plan 2 Retirement Board, Administrative Committee or other committee meetings is permitted upon advance notification of the Chair and administrative staff to the board. In the absence of the Chair, the Vice Chair may grant approval and in the absence of the Vice Chair the remaining Administrative Committee member may grant approval. Criteria to be used by the Chair to determine if teleconferencing is appropriate are:

- a. If there is hazardous weather
- b. When an agenda item cannot be postponed to a later meeting date and a member's attendance is needed for quorum purposes.
- c. If in the Chair's opinion it is clearly to the LEOFF 2 Board's or Administrative Committee's advantage to arrange a teleconference.

- d. As an alternative to board member travel as recommended by Chapter 7, 2010 Laws 1st Special Session.
- e. If teleconferencing is approved, a speaker phone audible to all attendees shall be arranged at the location of the public meeting.

A member appearing via telephone shall identify themselves at the beginning of the meeting. Periodically the Chair should verify whether the member is still participating by telephone at the meeting. Members appearing by telephone shall use a land line if at all possible instead of a mobile telephone to ensure clarity and consistent connection.

- RULE 4. **VOTING.** A majority of the 11 Board members (6 members) must vote in the affirmative for an official action of the Board to be valid. A majority of those Board members present must vote in the affirmative on procedural matters (at least 4 members), unless provided otherwise in statute or Board operating policies. A majority of the members appointed to a subcommittee must vote in the affirmative for an official action of a subcommittee to be valid; a majority of those subcommittee members present must vote in the affirmative on procedural matters, unless provided otherwise in statute or Board operating policies.
- RULE 5. **MINUTES.** Minutes summarizing the proceedings of each Board meeting and subcommittee meetings shall be kept. These minutes will include member attendance, official actions taken at each meeting, and persons testifying.

RULE 6. **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.
- RULE 7. **EXPENSES.** Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other Board members' travel expenses shall be reimbursed by the Board in accordance with RCW 43.03.050 and 43.03.060.
- RULE 8. **AGENDA ITEMS.** Any Board member may request that the Board place an item on the agenda for a future meeting. The Chair or the Administrative Committee may also place an item on the agenda for a future meeting, or make other agenda changes, as deemed necessary. Items will not be placed on the agenda without the approval of the Board, the Chair, or the Administrative Committee.
- RULE 9. **PROCESS FOR CONSIDERING NEW BENEFIT PROPOSALS.** The Board will maintain a register of all proposals for benefit changes, sorting them into the following categories:
 - a. Proposals by Board members; or
 - b. Proposals by plan members, employers and the public; or
 - c. Technical corrections identified by staff, the Department of Retirement Systems or other agencies/organizations.

Proposals will remain on the register for two years unless withdrawn by the sponsor or acted on by the Board.

In order to provide stakeholders and the public with ample opportunity to comment on proposals and to understand the potential impacts on plan members, beneficiaries and/or contribution rates, the Board will consider proposed benefit changes from the register in the following stages:

Initial Consideration - Staff will prepare background information regarding the topic. A majority of Board members must agree to request that staff prepare a Preliminary Report.

Preliminary Report – Staff will develop key issues and policy alternatives for Board consideration. The Board may invite public and stakeholder comment. A majority of Board members must agree to request that staff prepare a Final Proposal.

Final Proposal – Staff will develop statutory or regulatory language describing the benefit and seek legal review by counsel, an analysis by the State Actuary on the impact of the change, an independent review of fiscal notes by an outside actuarial firm, if available, and supporting analysis and descriptive information.

The Board will review the Final Proposal in a public meeting and hear public testimony before voting to move the proposal forward to the Legislature. A majority of Board members must agree to move the proposal forward to the Legislature.

NOTE: Rules adopted November 19, 2003

Rule 9 revised August 25, 2004

Rule 6 revised September 28, 2005

Rule 3 revised April 30, 2008

Rule 3 revised June 16, 2010

Rule 6 revised December 12, 2012

Rule 2 revised May28, 2014

LEOFF Plan 2 Board Operating Policies Last Revised: May 28, 2014/jb



Audited Schedule of Expenditures

Date Presented:

9/27/2017

Presenter Name and Title:

Steve Davis, Davis Accounting Tax & Audit Services

Summary:

Audited Schedule of Expenditures for the year ended June 30, 2017

Strategic Linkage:

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

ATTACHMENTS:

	Description	Type
D	Audited Schedule of Expenditures	Report

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD

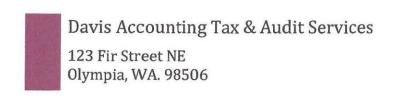
AUDITED SCHEDULE OF EXPENDITURES

For the Year Ended June 30, 2017

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD For the Year Ended June 30, 2017

TABLE OF CONTENTS

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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, 2017.

Management's Responsibility for the Financial Statements

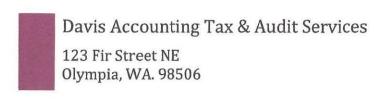
Management is responsible for the preparation and fair presentation of the schedule and notes in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair 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, 2017 in accordance with accounting principles generally accepted in the United States of America.

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 18, 2017

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD SCHEDULE OF EXPENDITURES - BUDGET ALLOTMENT TO ACTUAL For the Year Ended June 30, 2017

Employee benefits & payroll taxes 159,997 192,221 (3 Personal service contracts 64,229 55,827	
Employee benefits & payroll taxes Personal service contracts 159,997 64,229 55,827	(2,054)
Personal service contracts 64,229 55,827	32,224)
Condo 0	8,402
Goods & services - supplies & materials (4,000) (83)	(3,917)
Operate 0	(1,383)
Goods & services - utilities 6,780 6,078	702
Goods & services - rentals & leases 45,960 45,954	6
Goods & services - repairs & maintenance 0 15	(15)
Goods & services - printing & reproduction 17,024 8,688	8,336
	10,527)
	(1,767)
	(1,095)
Goods & services - facilities & related services 3.789 3.950	(161)
Goods & services - data processing 8,939 6,142	2,797
Goods & services - Attorney General's Office 24,054 24,769	(715)
Goods & services - personnel services 4.698 6.051	(1,353)
Goods & services - insurance 90 25	65
Goods & services - other purchased services 140,152 139,668	484
Other goods & services 11,090 7,725	3,365
Travel, lodging & subsistence 46,245 44,696	1,549
Capital outlays 300 4,614	(4,314)
Grants, benefits & client 0 200	(200)
Total Expenditures \$ 1,178,047 \$ 1,212,066 \$ (3	34,019)

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

Page 3

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 and 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 and 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.

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 18, 2017, the date the financial statements were available to be issued. No material subsequent events were identified by management.

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

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, 2016, to pay rents through December 28, 2017. The minimum lease payment through December 28, 2017 was approximately \$22,660.

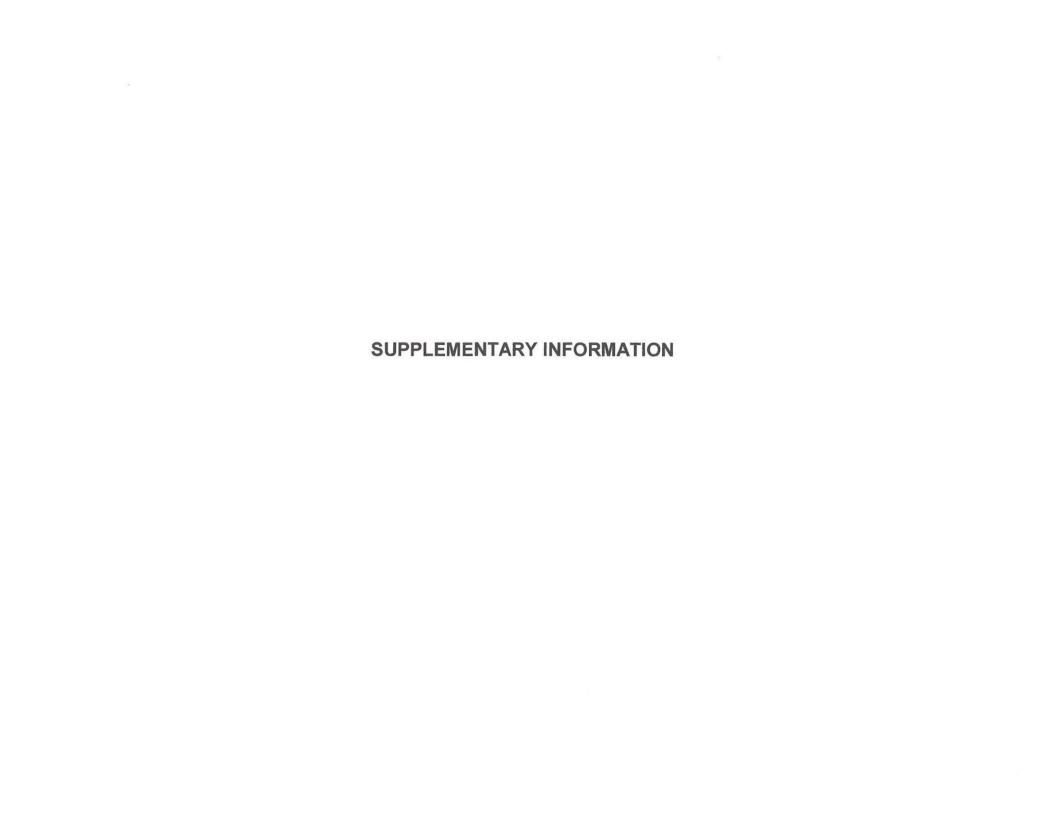
Note 3 - Related Party Transactions

The Board obtains goods and services from other departments and agencies within the State of Washington through interagency agreements. The terms of such agreements are developed through the State's budgetary process and are generally designed to recover the cost of the goods or services. The following significant services were provided by various state agencies under such arrangements during the year ended June 30, 2016.

Actuarial services related to pension plan administration, benefits and rates are provided by the State Actuary and billed to the Board in equal monthly amounts. The total cost of such services was approximately \$105,000.

Various accounting, human resources, data processing and other administrative services are provided by the Department of Enterprise Services through the small agency accounting and administrative services divisions. The total cost of such services was approximately \$51,000.

Legal support is provided by the State Attorney General's office. The total cost of such services was approximately \$46,000.



		ar Ended /30/2016	ear Ended 6/30/2017	9	Biennium Ended 06/30/2017
Salaries & wages Employee benefits & payroll taxes Personal service contracts Goods & services - supplies & materials Goods & services - communications Goods & services - utilities Goods & services - rentals & leases Goods & services - repairs & maintenance Goods & services - printing & reproduction Goods & services - employee development Goods & services - furniture & equipment leases Goods & services - subscriptions Goods & services - facilities & related services Goods & services - Attorney General's Office Goods & services - personnel services Goods & services - insurance Goods & services - other purchased services Other goods & services Travel, lodging & subsistence Capital outlays Grants, benefits & client	\$	597,764 155,363 12,204 (963) 10,738 6,200 45,954 780 25,707 35,550 4,498 1,637 4,040 8,757 13,890 1,319 90 139,673 6,105 56,932 0	\$ 615,306 192,221 55,827 (83) 20,586 6,078 45,954 15 8,688 24,692 4,138 804 3,950 6,142 24,769 6,051 25 139,668 7,725 44,696 4,614 200	\$	1,213,070 347,584 68,031 (1,046) 31,324 12,278 91,908 795 34,395 60,242 8,636 2,441 7,990 14,899 38,659 7,370 115 279,341 13,830 101,627 4,614 200
Total Expenditures	\$	1,126,238	\$ 1,212,066	\$	2,338,303

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD SCHEDULE OF BIENNIUM EXPENDITURES - BUDGET TO ACTUAL For the Biennium Ended June 30, 2017

OVED

	BUDGET	ACTUAL	OVER (UNDER) <u>BUDGET</u>
Salaries & wages	\$ 1,213,076	\$ 1,213,070	\$ (6)
Employee benefits & payroll taxes	348,445	347,584	(861)
Personal service contracts	89,229	68,031	(21,198)
Goods & services - supplies & materials	(400)	(1,046)	(646)
Goods & services - communications	31,779	31,324	(455)
Goods & services - utilities	12,372	12,278	(94)
Goods & services - rentals & leases	91,920	91,908	(12)
Goods & services - repairs & maintenance	795	795	0
Goods & services - printing & reproduction	35,732	34,395	(1,337)
Goods & services - employee development	52,165	60,242	8,077
Goods & services - furniture &equipment leases	8,647	8,636	(11)
Goods & services - subscriptions	2,817	2,441	(376)
Goods & services - facilities & related services	8,013	7,990	(23)
Goods & services - data processing	16,939	14,899	(2,040)
Goods & services - Attorney General's Office	46,050	38,659	(7,391)
Goods & services - personnel services	7,374	7,370	(4)
Goods & services - insurance	115	115	0
Goods & services - other purchased services	279,232	279,341	109
Other goods & services	11,990	13,830	1,840
Travel, lodging & subsistence	104,901	101,627	(3,274)
Capital outlays	5,604	4,614	(990)
Grants, benefits & client	0	200	200
Total Expenditures	\$ 2,366,795	\$ 2,338,303	\$ (28,492)



Interruptive Military Service Credits Plans 2 & 3

Date Presented:

9/27/2017

Presenter Name and Title:

Seth Miller, Assistant Director Retirement Services Division, DRS

ATTACHMENTS:

Description Type

Interruptive Military Service Credits Presentation

Department of Retirement Systems Interruptive Military Service Credits Plans 2 and 3

Seth Miller, Assistant Director Retirement Services Division

LEOFF 2 Board September 27, 2017



Interruptive Military

Member:

- Leaves employment to serve in the military;
- Returns to DRS covered employment;
- Provides proof of military service, usually DD Form 214.
- Member must make employee contributions,
- Employer must make employer contributions.



No-Cost Interruptive Military

Member:

- Leaves employment to serve in the military;
- Returns to DRS covered employment;
- Serves during a period of war as defined in RCW 41.04.005 (2)
- Provides proof of military service during a period of war, usually DD Form 214.
- Employer must make employer contributions.



Period of War

as defined by RCW 41.04.005 (2) includes:

- World War I
- World War II
- The Korean Conflict
- The Vietnam era
- The Persian Gulf War



as defined by RCW 41.04.005 (2)(g) includes the following armed conflicts:

- The crisis in Lebanon
- The invasion of Grenada
- Panama, Operation Just Cause
- Somalia, Operation Restore Hope
- Haiti, Operation Uphold Democracy
- Bosnia, Operation Joint Endeavor
- Operation Noble Eagle
- Southern or central Asia, Operation Enduring Freedom
- Persian Gulf, Operation Iraqi Freedom



RCW 41.04.005 (2)(g): "The following armed conflicts, if the participant was awarded the respective campaign badge or medal"

Campaign Medals as Defined by the Department of Defense (DoD)

"Campaign medals recognize Service members who are deployed to the geographic area where the combat is actually occurring. Members awarded campaign medals have the highest degree of personal risk and hardship as they are conducting the combat operations and are deployed to the area where the combat is actually occurring."



Tiers of Medal Recognition for Major Combat Operations
As defined by DoD Manual 1348.33 December 21, 2016

Tier 1. Campaign medals recognize Service members who are deployed to the geographic area where the combat is actually occurring.

Tier 2. Expeditionary medals recognize Service members deployed to areas supporting the major combat operations.

Tier 3. Service medals recognize members supporting the combat operations from locations where the level of personal hardship and risk differs little from that endured in normal military service.



Persian Gulf War:

- RCW 41.04.005 (2) (e): "The Persian Gulf War, which was the period beginning August 2, 1990, and ending on the date prescribed by presidential proclamation or law"
- No presidential proclamation or law ever ended the Persian Gulf War.
- The DoD stopped awarding badges or medals for this war on November 30, 1995. DRS considers that to be the ending date and considers that period closed.



Operation Noble Eagle

While named in the definition of a period of war, no campaign medal was ever awarded.

Current and Future Operations

There are current named combat operations for which we cannot award No-Cost Interruptive Military service credit even though a campaign medal is awarded:

- Inherent Resolve, Iraq and Syria
- Freedom's Sentinel, Afghanistan



Questions?





Interruptive Military Service Credit Study

Report Type:

Comprehensive Report

Date Presented:

9/27/2017

Presenter Name and Title:

Ryan Frost, Research and Policy Manager

Strategic Linkage:

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

ATTACHMENTS:

	Description	Type
D	Interruptive Military Service Credit Study	Report
D	Interruptive Military Service Credit Study	Presentation



September 27, 2017 Interruptive Military Service Credit

COMPREHENSIVE REPORT

By Ryan Frost Research and Policy Manager 360-586-2325

ryan.frost@leoff.wa.gov

ISSUE STATEMENT

Veterans who served during a designated conflict period but did not earn a campaign badge or medal must pay member contributions to receive LEOFF¹ Plan 2 credit for periods of interruptive military service credit.

OVERVIEW

LEOFF Plan 2 members may establish up to 5 years² of service credit for military service interrupting their LEOFF service. To establish service credit, many LEOFF Plan 2 members must submit the member contributions that would have been paid during that period. However, member contributions are waived for LEOFF 2 members who served in the military: 1) during a period of war; or 2) during a specified conflict for which they earned a campaign badge or medal.

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

BACKGROUND

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

A member can purchase interruptive military service credit if:

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

¹ Law enforcement and firefighters' retirement system, chapter 41.26 RCW.

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

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

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

Required Contributions

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

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

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

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

Waiver of Member Contributions

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

 World War I, World War II, the Korean conflict, the Vietnam era, the Persian Gulf War, and any future period of war declared by Congress, See RCW 41.04.005. Any service during one of these conflicts specified above qualifies one as a veteran.

- Specified military operations where the member earned a campaign badge or medal³. The department of defense awards a campaign badge or medal to service members who:
 - Served during a specified conflict⁴; and
 - o Were stationed in a designated war zone.

Campaign medals, as defined by the Department of Defense manual 1348.33 Volume 2, are medals which "recognize Service members who are deployed to the geographic area where the combat is actually occurring. Members awarded campaign medals have the highest degree of personal risk and hardship as they are conducting the combat operations and are deployed to the area where the combat is actually occurring."

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

LEOFF 2 Data

Since June 2012, 187 LEOFF 2 members have taken advantage of interruptive military service credit. The average service credit bought by those members was 9.3 months.

Some data still needs to be researched. If the waiver of member contributions were expanded:

- How many additional members would become eligible for the waiver?
- How many members who already paid contributions for these periods would be eligible for a refund?
- What will be the cost to LEOFF Plan 2?

POLICY OPTIONS

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

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

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

- 1. Should the current policy continue, where free interruptive military service credit is only granted to those members who served in combat?
- 2. Should the Board make corrections to the current definition of "veteran"?

SUPPORTING INFORMATION

Appendix A: Additional Background Information

Appendix B: Comparison to Other Washington State Systems

Appendix C: Comparison to Other States

APPENDIX A - ADDITIONAL BACKGROUND INFORMATION

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

Qualifying for Interruptive Military Service Credit

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

Qualified Military Service

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

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

Initiation of Reemployment

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

USERRA provides varying reemployment timeframes which are determined by the duration or type of military service that the person was engaged in. However, the state law generally is longer than the provisions in USERRA. State law provides that a member must initiate reemployment within ninety days to qualify for interruptive military service credit.

There are two notable exceptions to the ninety-day reemployment requirement that would allow a member to still purchase service credit. The state law provides that if a person fails to initiate reemployment within the required timeframe, that person can still purchase the service

credit by paying the full actuarial value of the increase to their benefit from the additional service credit.

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

Maximum Service Credit

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

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

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

APPENDIX B - COMPARISON TO OTHER WASHINGTON STATE SYSTEMS

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

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

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

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

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APPENDIX C - COMPARISON TO OTHER STATES

The Select Committee on Pension Policy (SCPP) staff at their July 2017 meeting presented data on 8 "peer States" to see what level of interruptive military service benefits they offered. These States were chosen as peer's due to their similar numbers of military members. Their findings are as follows:

			Interrup	tive Milita	ry Service (Credit			
States	Washington	Alaska	California	Florida	Georgia	Hawaii	Maryland	Texas	Virginia
				Eligib	ility				
Active Duty	✓	Y	✓	V	~	✓	~	Y	>
Honorable Discharge	~	✓	•	~	•	~	•	✓	•
Discharge Date		✓			✓		✓		V
Period of War	✓			✓	✓				
Campaign Medal/Badge	✓								
Plan Vesting		✓		✓					
Reserves & National Guard	V 1	V 1	V 1	V 1	X ²	✓ 3	✓ 1	V 1	V 1
State Service						✓			
Training	~	✓	✓	✓	~	>	✓	V	>
USERRA⁴	~	✓	✓	✓	~	~	✓	✓	~
				Cos	it				
No Cost ⁵	✓ 6	√ 7	✓				✓		₩ 8
Cost	✓	✓	✓ 9	✓	✓	✓		✓	✓
Credit Amount									
Up to 4 Years				✓		✓			
Up to 5 Years		✓			~		✓		
Up to 10 Years	~								
No Restrictions									✓ 10
Leave Specific			V					V	

¹Active and inactive Reservists and National Guard are eligible.

²Members of Georgia Air or Army National Guard qualify under Georgia's Military Pension Fund.

³Reservists and National Guard are eligible only if service took place during a wartime period, national or state emergency.

⁴A check denotes that the state complies with USERRA.

⁵A check denotes that there is no member cost.

⁶No cost for up to 5 years; cost for additional 5 years.

⁷No cost for PERS members who return within 90 days of discharge.

⁸Active duty service is eligible if a member was granted leave of absence, returned within a year of discharge or release and discharge was honorable.

⁹If a member does not qualify for no-cost interruptive, a member may be eligible to pay member contributions. ¹⁰Recovery of this service credit is unlimited if a member qualifies.



Interruptive Military Service Credit

Comprehensive Report – September 27, 2017

Issue

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

Overview

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

Background

Waiver of Employee Contributions for Purchasing Military Service Credit

- Period of War
- Specified Military Operations

Campaign Medals

As defined by the Department of Defense manual 1348.33 Volume 2, campaign medals are medals which "recognize Service members who are deployed to the geographic area where the combat is actually occurring. Members awarded campaign medals have the highest degree of personal risk and hardship as they are conducting the combat operations and are deployed to the area where the combat is actually occurring."

LEOFF 2 Data

Since June 2012:

- 187 LEOFF 2 members have taken advantage of interruptive military service credit.
- Average service credit bought by those members was 9.3 months.

Some data still needs to be researched. If the waiver of member contributions were expanded:

- How many additional members would become eligible for the waiver?
- How many members who already paid contributions for these periods would be eligible for a refund?
- What will be the cost to LEOFF Plan 2?

Policy Issues

SB 5661 directs the Board to study the following questions:

- Should the current policy continue, where free interruptive military service credit is only granted to those members who served in combat?
- Should the Board make corrections to the current definition of "veteran"?

Questions?

Ryan Frost

Research and Policy Manager

ryan.frost@leoff.wa.gov

360-586-2325



Benefit Improvement Pricing

Report Type:

Educational Briefing

Date Presented:

9/27/2017

Presenter Name and Title:

Ryan Frost, Research and Policy Manager

Summary:

It has been over 10 years since the Board has requested pricing on benefit improvements. This briefing will focus on one in particular, the cost of increasing the multiplier.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

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

ATTACHMENTS:

Description Type

Multiplier Pricing Report

Multiplier Pricing Presentation



September 27, 2017 Benefit Improvement Pricing

EDUCATIONAL BRIEFING

By Ryan Frost Research and Policy Manager 360-586-2325

ryan.frost@leoff.wa.gov

ISSUE STATEMENT

One of the goals of the LEOFF 2 Board's strategic plan is to keep the stakeholders informed. One of the ways of meeting that goal, is for the Board to be briefed on the price of certain benefit improvements.

OVERVIEW

It has been over 10 years since the Board has requested pricing on benefit improvements. This briefing will focus on one in particular, the cost of increasing the multiplier. The current multiplier used in the LEOFF Plan 2 benefit formula is 2%, and a change to the existing multiplier could impact all 17,186 LEOFF Plan 2 active members.

Board staff requested the state actuary's office to price two specific multiplier increases:

- 2.50% multiplier on all service
- 2.50% multiplier on prospective service only

BACKGROUND

2005 Pricing

The first report on increasing the multiplier was presented to the Board in 2005. A number of different multiplier options were reviewed; they ranged from an increase of 2.25% to 3.00%.

The actuaries estimated cost for the 2.25% multiplier for the 2007-2009 biennia would have been \$111 million. This would've required a 4.40% increase in the rates, with 2.20% paid for directly by the member¹.

The cost for the 3% multiplier for the 2007-2009 biennia would've been \$444 million. This would've required a 17.58% increase in the rates, 8.79% paid directly by the member.

¹ The contribution rate split set in statute for LEOFF 2 is 50% member, 30% employer, 20% state.

2017 MULTIPLIER PRICING

Impact on Contribution Rates		
2.50% Multiplier - All Service		
Total Rate Increase 12.34%		
Employee	6.17%	
Employer	3.70%	
State	2.47%	

Contribution rates if this benefit was approved²:

Employee: 14.92%Employer: 8.95%State: 5.97%

Impact on Contribution Rates			
2.50% Multiplier - Prospective Service Only			
Total Rate Increase 4.88%			
Employee	2.44%		
Employer	1.46%		
State	0.98%		

Contribution rates if this benefit was approved:

Employee: 11.19%Employer: 6.71%State: 4.48%

Budget Impacts - 2.50% Multiplier - All Service					
(Dollars in Millions) 2018-2019 2019-2021 25-Year					
General Fund-State	\$42.6	\$97.0	\$1,278.6		
Local Government \$63.7 \$145.5 \$1,917.9					
Total Employer \$106.3 \$242.5 \$3,196.5					

Budget Impacts - 2.50% Multiplier - Prospective Service Only				
(Dollars in Millions)	2018-2019	2019-2021	25-Year	
General Fund-State	\$16.9	\$41.8	\$777.8	
Local Government	\$25.2	\$62.6	\$1,166.5	
Total Employer	\$42.0	\$104.4	\$1,944.3	

2015 Funded Status			
2015 Valuation Report 105%			
2.5% Benefit Multiplier	90%		
2.5% Benefit Multiplier Prospective Service Only	100%		

² Current contribution rates: Employee – 8.75%; Employer – 5.25%; State – 3.50%



Benefit Improvement Pricing

Educational Briefing – September 27, 2017

Issue

 One of the goals of the LEOFF 2 Board's strategic plan is to keep the stakeholders informed. One of the ways of meeting that goal, is for the Board to be briefed on the price of certain benefit improvements.

Overview

- It's been over 10 years since the Board has requested pricing on benefit improvements.
- This briefing will focus on one in particular, the cost of increasing the multiplier.
- The current multiplier used in the LEOFF Plan 2 benefit formula is 2%, and a change to the existing multiplier could impact all 17,186 LEOFF Plan 2 active members.

Overview

Board staff requested the state actuary's office to price two specific multiplier increases:

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2017 Multiplier Pricing cont.

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Note: 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.

Budget Impacts - 2.50% Multiplier - Prospective Service Only

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2015 Valuation Report	105%		
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Questions?

Ryan Frost

Research and Policy Manager

ryan.frost@leoff.wa.gov

360-586-2325



Report on Financial Conditions and Recommendation on Long-Term Economic Assumptions

Date Presented:

9/27/2017

Presenter Name and Title:

Lisa Won, OSA

ATTACHMENTS:

Description Type

Report on Financial Conditions and Recommendation on Long-Term Economic Assumptions

Presentation

Report On Financial Condition And Recommendation On Long-Term Economic Assumptions



Matthew M. Smith, FCA, EA, MAAA State Actuary

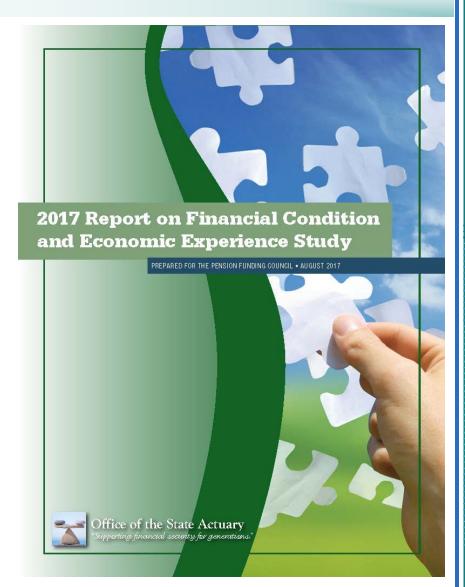
> Lisa Won, ASA, FCA, MAAA Deputy State Actuary

> > Mitch DeCamp Actuarial Analyst

Presentation to: LEOFF Plan 2 Retirement Board



- Highlights of two reports
 - Financial Condition
 - Economic Experience Study
- <u>Link</u> to the full reports included in meeting materials
- No action required at today's meeting



Report On Financial Condition



Satisfies requirement for OSA to report on the financial condition of the state retirement plans (RCW 41.45.030)



Uses a framework and set of tools to assess plan health



Helps decision-makers evaluate the recommended assumption changes from the Economic Experience Study

What's the health of the retirement plans today?

Where is the plan health expected to be in the future?

How can the future look different than expected?

 Risk factors facing the retirement plans Can some of these risks be managed?

Tools For Assessing Plan Health

- Affordability: ability to provide adequate funding
 - Can members, employers, and the State pay the amount required to fully fund the plans?
 - Is budgeting difficult due to volatility in rates?
- Solvency (funded status)
 - Can the plans pay the benefits that have been earned by members?
 - Are the plans on target to meet future benefit requirements?

Balancing Affordability And Solvency Is Key For Financial Health



Current Contribution Rates Are At Their Highest Level

Total Employer Contribution Rates					
2013-15 2015-17 2017-19 Biennium Biennium Biennium					
System	Collected	Collected	Adopted		
PERS	9.03%	11.00%	12.52%		
TRS	10.21%	12.95%	15.02%		
SERS	9.64%	11.40%	13.30%		
PSERS	10.36%	11.36%	11.76%		
LEOFF	8.41%	8.41%	8.75%		
WSPRS	7.91%	8.01%	12.81%		

- Past periods of underfunding due to rate and assumption phase-ins
- Members are living longer and that trend is expected to continue
- Investment returns are expected to be lower in the future so additional contributions are required to fund benefits

Pension Contributions Are Larger Portion Of State Budget

- Current level is similar to those in the late 1980's and early 1990's
- Highest level over the past twenty years

Estimated Pension Contributions as a Percent of GF-S Budget										
	1990	1994	2000	2005	2010	2015	2016			
Percent of GF-S Budget	3.4%	4.0%	2.4%	0.6%	2.8%	3.7%	4.3%			

- Funded status compares plan assets to members' earned benefits
- Plan assets reflect past funding plus investment earnings
- Funded status >100% means the plan has more assets than earned benefits

Funded Status Has Declined From The Prior Year

Funded Status on an Actuarial Value Basis												
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total		
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2				
2015	58%	88%	64%	92%	89%	95%	125%	105%	98%	86%		
2014	61%	90%	69%	94%	91%	96%	127%	107%	100%	87%		

- Decline in funded status reflects lower investment return assumption and recognition of longer life spans
 - Funding these changes were phased-in over several biennia
- All open plans considered on target for full funding
- PERS 1 and TRS 1 require additional contributions (UAAL payment) to get the plans back on track

Plan Financial Health: What Does The Future Hold?

- Will the current measures of plan health continue?
- OSA developed a model that projects future valuation results for 50 years
- Model assumes future experience matches current assumptions
- Analysis shows both affordability and solvency improve

- Contribution rates expected to decline to long-term levels
 - Phase-ins complete
 - Cost of benefits for new members generally less than cost for current members
 - PERS 1 and TRS 1 UAAL rates trend down to their rate floors
- Contributions as a percent of General-Fund Budget expected to decline from a high of 5.2% in 2020 to 2.3% in 2035

Contribution Rates Decline After 2019-21 Biennium

Total Employer Contribution Rates							
	2017-19 Biennium	2019-21 Biennium	2021-23 Biennium	2023-25 Biennium			
System	Adopted	Projected	Projected	Projected			
PERS	12.52%	13.05%	11.72%	10.70%			
TRS	15.02%	15.09%	13.13%	12.76%			
SERS	13.30%	12.97%	11.49%	10.42%			
PSERS	11.76%	11.80%	10.81%	10.33%			
LEOFF 2	8.75%	8.75%	7.93%	7.98%			
WSPRS	12.81%	18.32%	18.08%	16.34%			

Future Solvency: All Plans On Target To Reach Full Funding

- Assumes actual experience matches assumptions over long term
- All open plans have a funded status of 95% or higher by 2023
- TRS 1 UAAL projected to be paid off in 2028
- PERS 1 UAAL projected to be paid off in 2030

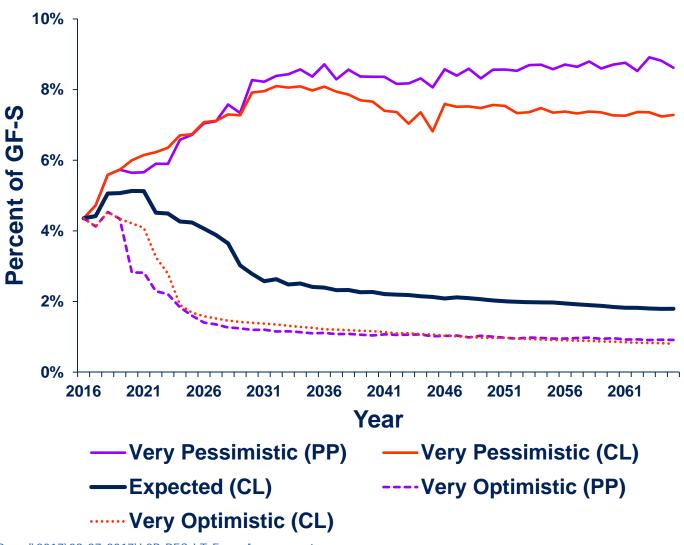
The Future Might Be Different Than We Expect

- Demographics
 - Age, gender, salary, and number of new members
- Investment experience
 - Average returns higher or lower
 - Possible volatile environment
- Legislative action
 - May not fund the required contributions
 - Could adopt new plan benefits or new tiers of benefits

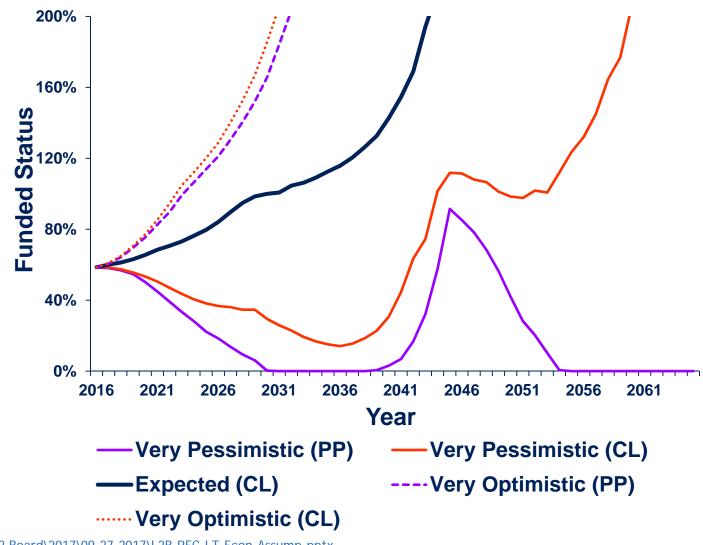
Modeling The Impacts Of Unexpected Experience

- OSA developed a risk assessment model
- Model generates 2,000 scenarios with randomly simulated economic outlooks
- Can assess risks of continuing "past practices"
 - Funding shortfalls and benefit improvements consistent with historical plan experience

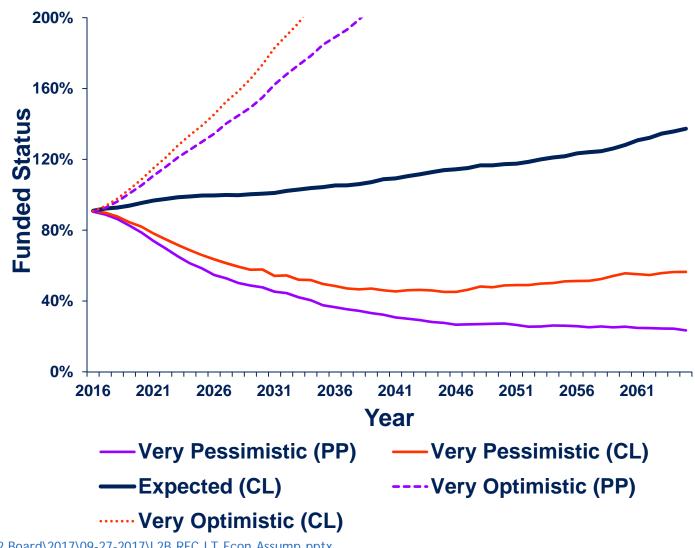
Possible Outcomes - Contributions As Percent Of GF-S Budget



Possible Outcomes – Closed Plan Funded Status



Possible Outcomes – Open Plan Funded Status



Managing Risks We Can Control



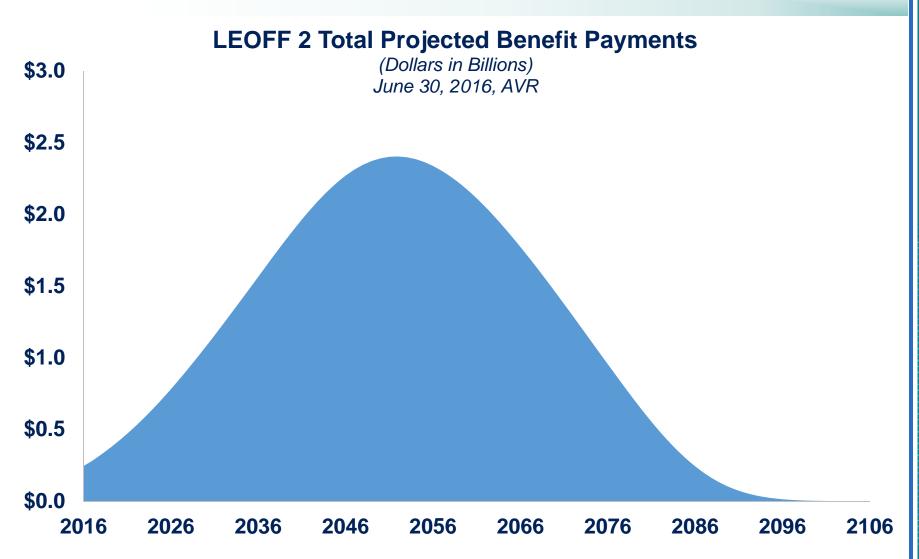
Report On Financial Condition: Concluding Comments

- Current pressure on affordability and solvency
 - Contribution rates are the highest in plan history
 - Funded status has declined
- Future measures of plan health expected to improve
- Balancing affordability and solvency is key since improving one measure usually weakens the other
- Managing pension risks requires:
 - Regular monitoring
 - Making necessary adjustments
 - Applying discipline to fully fund the required contributions

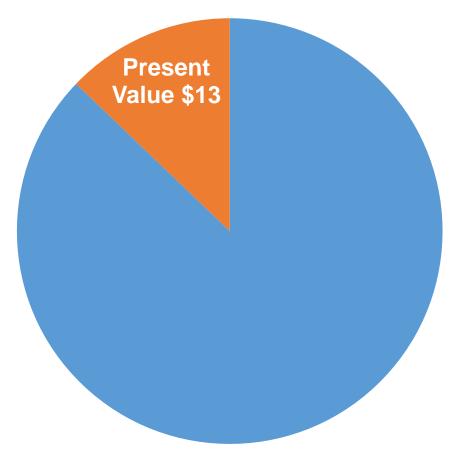
Economic Assumptions: Purpose And Measurement Period

- Before we dive in, let's first clarify two things
- Purpose of the assumptions
 - Assumptions are set consistent with the purpose of the measurement
 - Used to determine the on-going funding requirements of the plans consistent with the state's funding policy in Chapter 41.45 RCW
- Measurement period
 - Varies by assumption, but most are long-term assumptions
 - Easily 30 to 50 plus years
- Have a different measurement or period in mind? Use different assumptions!

We're Setting Assumptions To Fund This ...



We Reduce Future Pension Costs By Assumed Future Earnings



Total = \$101 Billion

What Are The Assumptions In This Study?

Assumption	Use of Assumption
Inflation	Model post-retirement COLAs based on changes in Consumer Price Index (CPI) for Seattle, Tacoma, Bremerton Building block for other assumptions
General Salary Growth	Project salaries to determine future retirement benefits and contribution rates as a percentage of payroll
Investment Return	Determine today's value of future benefit payments and salaries

General Assumption Setting Process

1. Review Historical Data

2. Review Forecasts

3. Review More Forecasts

4. Recommend Assumption

Wait, One More Thing!

- We developed these assumptions as a consistent set of economic assumptions and recommend reviewing them as a set of assumptions
- No cherry picking please!

It All Starts With Inflation

Investment Return

Real Rate of Return

General Salary Growth

Inflation

Real Salary Growth

Inflation

Inflation

Inflation

Historical Data

Inflation has remained low for the past few decades

Forecasts

Short-term: maintain low levels

Long-term: typically higher due to uncertainty over

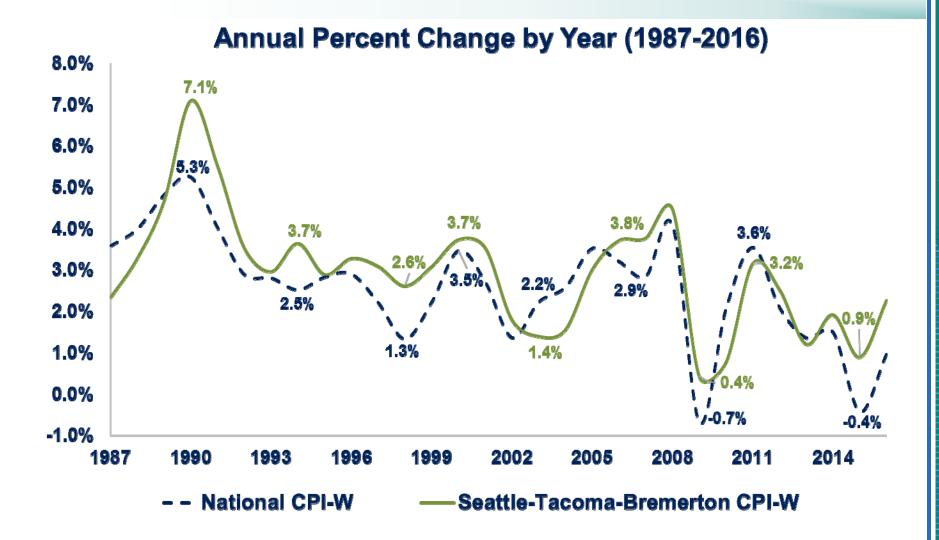
longer forecasting period

Recommendation

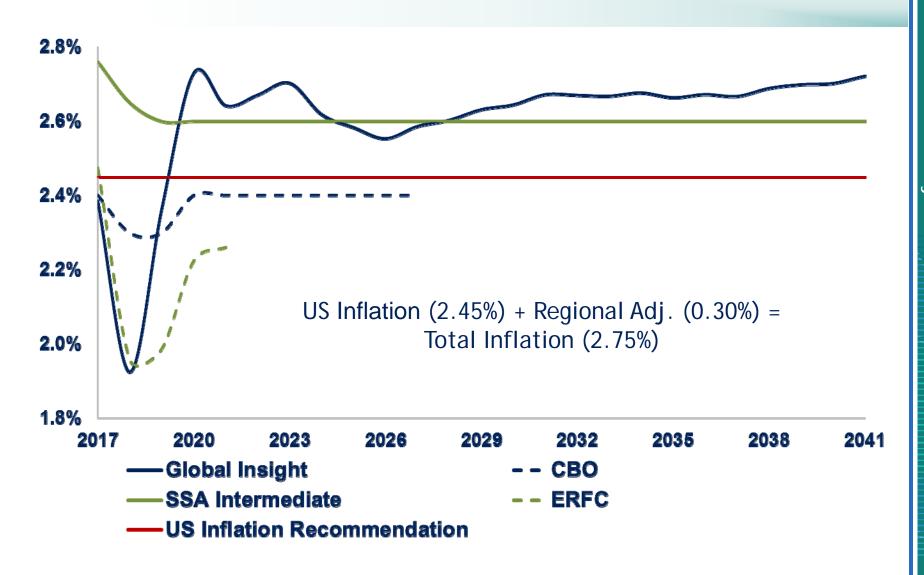
Lower from 3.00% to 2.75%

2.75% = 2.45% (national) + 0.30% (regional adjustment)

Low Inflation Persists



Recommendation For National CPI Consistent With Forecasts



Real Salary Growth (Salary Growth Above Inflation)

Historical Data

Holding steady after considering impact of outliers We isolated economic growth factors in Plan 2/3 salary growth data

Forecasts

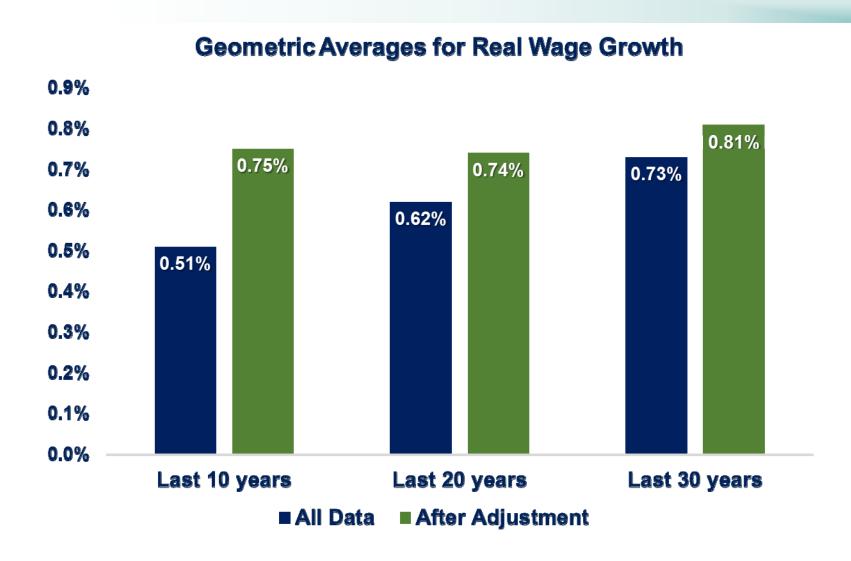
Short-term: CBO projects 1.2% for next 10 years Long-term: SSA projects 1.2% for next 75 years

Forecasts include both economic and demographic growth factors; virtually unchanged from two years ago

Recommendation

No change; remain at 0.75% Lower general salary growth from 3.75% to 3.50% 3.50% = 2.75% (inflation) + 0.75% (real salary growth)

Plan 2/3 Real Salary Growth Holding Steady After Adjusting For Outliers



Investment Return

Historical Data

Actual average returns for the last 10 and 20 years fell below currently assumed rate

Forecasts

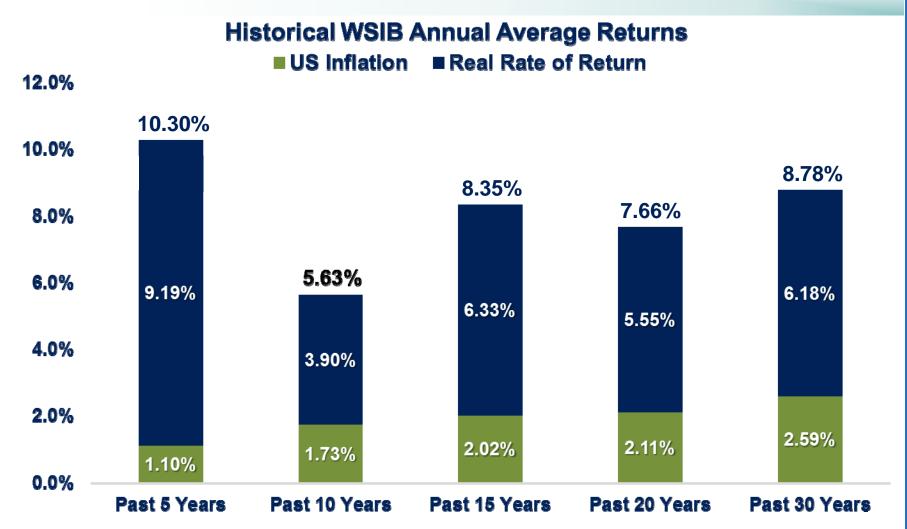
Based on new Capital Market Assumptions, WSIB expects lower returns for next 15 years than previously expected

We applied our professional judgment to extend WSIB's return expectations beyond 15 years

Recommendation

Lower from 7.50% to 7.40% 7.40% = 2.45% (national inflation) + 4.95% (real ROR)

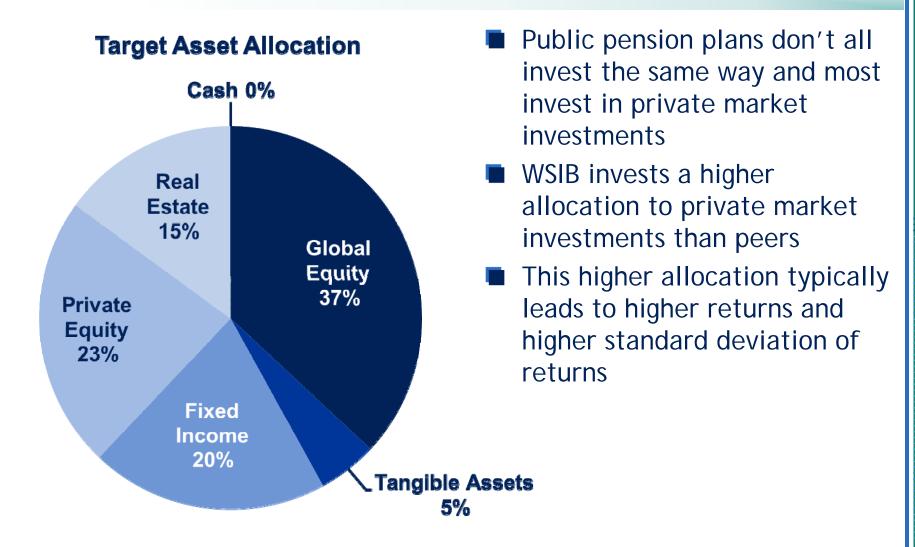
Average Annual Returns For Past 10 And 20 Years Below Current Assumption



Source: Washington State Investment Board. Returns restated for 1993 and beyond.

Note: Totals may not agree due to rounding. O:\LEOFF 2 Board\2017\09-27-2017\L2B.RFC.LT.Econ.Assump.pptx

Asset Allocation Matters



WSIB Expects Lower Future Returns Than Previously Assumed

50-Year Simulated Future Investment Returns*							
	2017	2015	Difference				
75 th Percentile	8.57%	8.86%	(0.29%)				
55 th Percentile	7.58%	7.94%	(0.36%)				
Median Return	7.34%	7.74%	(0.40%)				
45 th Percentile	7.11%	7.54%	(0.43%)				
25 th Percentile	6.08%	6.56%	(0.48%)				

^{*}Source: Washington State Investment Board.

- Using 1-year expected returns and standard deviations, we can simulate returns over the next 50 years
- Half the simulated returns fall below (or above) the "Median Return"
- Actual returns are uncertain and will vary from the simulations

Simulated Returns Change When We Use Different Assumptions

50-Year Simulated Annual Investment Returns Sensitivity Analysis							
Private Equity Global Equity Expected Return Expected Return							
	Base	(1%)	(1%)	1%			
75 th Percentile	8.57%	8.34%	1% 8.80%	8.20%	8.94%		
Median Return	7.34%	7.11%	7.57%	6.97%	7.71%		
25 th Percentile	6.08%	5.85%	6.32%	5.71%	6.46%		

- Private and global equity represent the two largest asset classes
- If we assume 1% lower/higher global equity returns, the median return falls/increases from 7.34% to 6.97/7.71%
- If we assume 1% lower/higher private equity returns, the median return falls/increases from 7.34% to 7.11/7.57%

Landing On The Return Recommendation

1. Review Historical Data

Review CTF performance

Consider
historical
conditions and
whether those
conditions exist
now or will in
the future

2. Review Simulations

Provided by WSIB based on 15-year CMAs and 2.20% inflation assumption

Assumed PE returns 300 basis points above global equity

3. Review Simulations with Different Assumptions

Simulated CTF returns most sensitive to lower/higher global equity returns

4. Make Adjustments

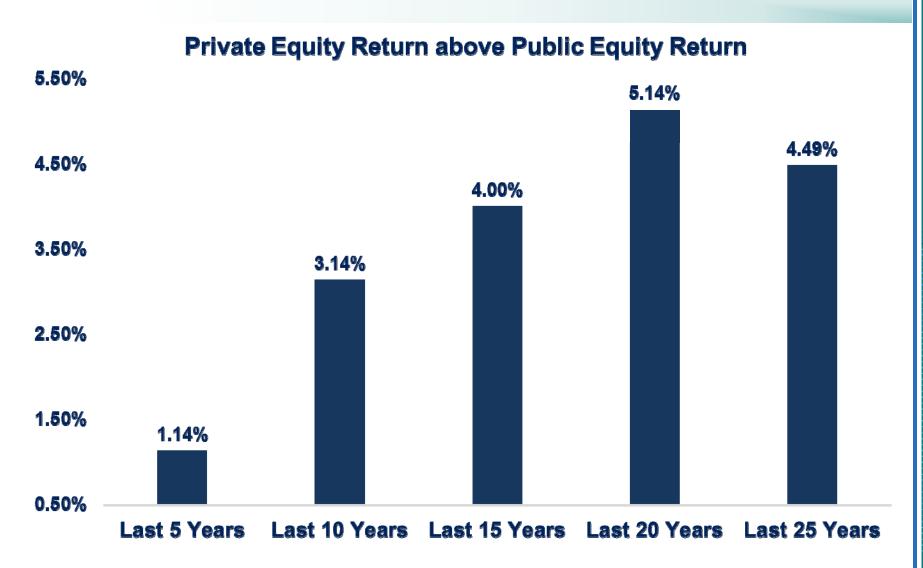
Increase returns by 0.25% to account for higher OSA inflation assumption (2.45% - 2.20%)

Decrease returns for lower expected longterm PE returns

Wait ... Tell Me More About Those Adjustments

- Inflation adjustment
 - WSIB assumes lower national inflation for a shorter, 15-year time horizon
 - OSA assumes higher national inflation for a longer time horizon
 - We added 0.25 percentage points to WSIB simulated returns to equalize our inflation assumptions
 - Adjustment ensures our assumption set remains consistent
- Private equity (PE) adjustment
 - WSIB assumes PE returns will exceed global equity returns by 300 percentage points, on average, over the next 15 years
 - We think that's a reasonable assumption for the next 15 years
 - We expect lower PE returns beyond the next 15 years due to increased efficiency and competition, and the general continued evolution of the PF market

WSIB Excess/Premium Of Private Equity Over Public Equity Returns Has Declined



Pulling It All Together

- Inflation adjustment increases simulated 50-year median return from 7.34% to 7.59%
- Private equity adjustment lowers inflation-adjusted median return from 7.59% to 7.36%
- Recommend long-term rate of return assumption of 7.40%

Summary Of Report On Long-Term Economic Assumptions

Assumption	Current	Recommended		
Inflation	3.00%	2.75% 🎝		
General Salary Growth	3.75%	3.50% 🎝		
Annual Investment Return	7.50%	7.40% 🌡		

- We developed these assumptions as a consistent set of economic assumptions and recommend reviewing them as a set of assumptions
- Adopting recommendation will improve long-term system health measures, but weaken short-term affordability

Estimated Contribution Rate Impact Adopting All Assumption Changes

LEOFF 2 - Contribution Rate Change					
Aggregate 100% EAN Method Method					
Employee	(0.73%)	(0.27%)			
Employer	(0.44%)	(0.16%)			
State	(0.29%)	(0.11%)			

- The Board has already adopted contribution rates for the 2017-2021 biennia equal to 100% of EAN
- Contribution rate changes above provide an estimate of how those rates could be different
 - Aggregate method represents statutory funding method
 - EAN method represents the Board's current policy

2019-21 Estimated Budget Impact – Adopting All Assumptions Changes With No Phase-In

Increase in Contributions from Adopting Full Recommendation*							
(Dollars in Millions)	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	Total
2019-2021							
General Fund	\$24.4	\$69.3	\$10.9	\$1.6	(\$11.4)	\$0.1	\$94.9
Non-General Fund	36.7	0.0	0.0	0.2	0.0	1.8	38.7
Total State	\$61.1	\$69.3	\$10.9	\$1.8	(\$11.4)	\$1.9	\$133.6
Local Government	69.4	28.3	13.5	2.0	(17.1)	0.0	96.1
Total Employer	\$130.5	\$97.5	\$24.4	\$3.8	(\$28.6)	\$1.9	\$229.7
Total Employee	\$50.7	\$9.4	\$5.6	\$1.5	(\$28.6)	\$0.1	\$38.8

Totals may not agree due to rounding.

^{*}In current law, we assume 7.70% rate of return for the 2019-21 Biennium. This table displays the cost in the 2019-21 Biennium from lowering the assumed rate of return from 7.7% to 7.4%, lowering the general salary growth assumption from 3.75% to 3.5%, and lowering the inflation assumption from 3% to 2.75%. Short-term costs would continue beyond 2019-21 and ultimately become a long-term savings. We estimated the 2019-21 impact by applying the change in contribution rates from the 2015 AVR to projected payroll. Actual impacts may vary from this estimate.

2021-23 Estimated Budget Impact – Adopting All Assumptions Changes With No Phase-In

Increase in Contributions from Adopting Full Recommendation*							
(Dollars in Millions)	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	Total
2021-2023							
General Fund	\$24.9	\$74.4	\$11.0	\$1.7	(\$11.6)	\$0.1	\$100.5
Non-General Fund	37.4	0.0	0.0	0.2	0.0	1.8	39.3
Total State	\$62.2	\$74.4	\$11.0	\$2.0	(\$11.6)	\$1.9	\$139.9
Local Government	70.7	30.4	13.7	2.1	(17.4)	0.0	99.5
Total Employer	\$132.9	\$104.9	\$24.7	\$4.1	(\$29.1)	\$1.9	\$239.4
Total Employee	\$48.7	\$10.7	\$5.5	\$1.6	(\$29.1)	\$0.1	\$37.6

Totals may not agree due to rounding.

^{*}In current law, we assume 7.70% rate of return for the 2021-23 Biennium. This table displays the cost in the 2021-23 Biennium from lowering the assumed rate of return from 7.7% to 7.4%, lowering the general salary growth assumption from 3.75% to 3.5%, and lowering the inflation assumption from 3% to 2.75%. Short-term costs would continue beyond 2021-23 and ultimately become a long-term savings. We estimated the 2021-23 impact by applying the change in contribution rates from the 2015 AVR to projected payroll. Actual impacts may vary from this estimate.

Next Steps

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



Appendix

- Estimated 2019-21 contribution rate impacts
- Other states' economic assumptions



Estimated 2019-21 Contribution Rate Impact Adopting All Assumption Changes With No Phase-In

Increase in Contr		ates from Effective 7	•	g Full Rec	ommenda	ation*
	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Employee (Plan 2)	0.37%	0.35%	0.37%	0.22%	(0.73%)	0.00%
Employer						
Current Annual Cost	0.37%	0.35%	0.37%	0.22%	(0.44%)	1.15%
Plan 1 Past Cost	0.30%	0.50%	0.30%	0.30%	0.00%	0.00%
Total Employer	0.67%	0.85%	0.67%	0.52%	(0.44%)	1.15%

^{*}In current law, we assume 7.70% rate of return beginning in the 2019-21 Biennium. This table displays the rate impacts from lowering the assumed rate of return from 7.7% to 7.4%, lowering the general salary growth assumption from 3.75% to 3.5%, and lowering the inflation assumption from 3% to 2.75%. Shortterm impacts would continue beyond 2019-21 and ultimately become a long-term savings. We estimated the impact with the change in contribution rates from the 2015 AVR to projected payroll. Actual impacts may vary from this estimate.

Other States' Economic Assumptions

Economic Assumptions for Selected Plans Outside Washington ¹						
Plan Name ²	Investment Return	General Salary Growth	Real Salary Growth ³	Inflation		
WA 2017 Economic Experience Study Recommendation	7.40%	3.50%	0.75%	2.75%		
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)	7.25%	3.50%	1.10%	2.40%		
Florida Retirement System	7.60%	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%	0.50%	3.25%		
Missouri State Employees Retirement System	7.65%	3.00%	0.50%	2.50%		
Ohio Public Employees Retirement System	7.50%	3.25%	0.75%	2.50%		
Oregon Public Employees Retirement System	7.50%	3.50%	1.00%	2.50%		
Wisconsin Retirement System ⁴	7.20%	3.20%	N/A	2.00%-2.70%		
Selected Public Plans Outside WA - Average	7.52%	3.45%	0.68%	2.79%		
Selected Public Plans Outside WA - Minimum	7.00%	3.00%	0.25%	2.40%		
Selected Public Plans Outside WA - Maximum	8.00%	4.00%	1.10%	3.25%		

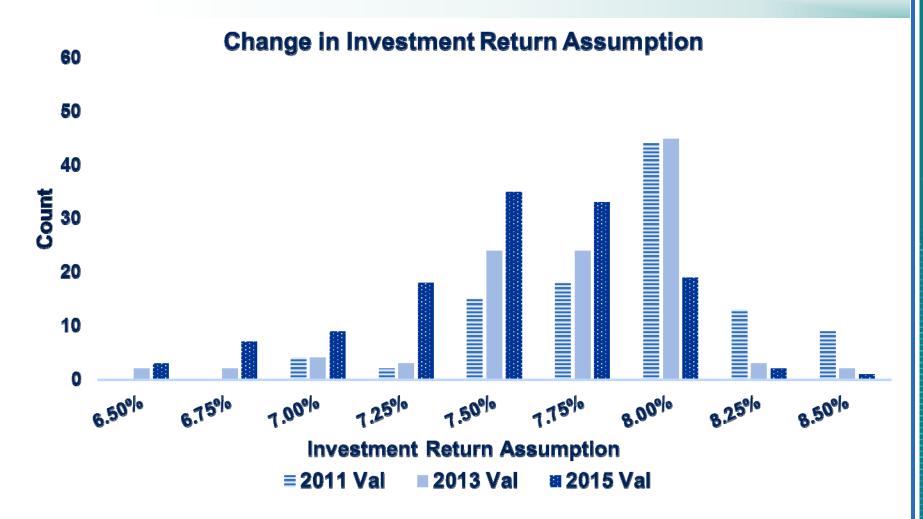
¹Assumptions are developed according to individual plan needs for use in a variety of actuarial models. Additional assumptions may be used, in combination with the reported general salary growth assumption, to model total salary growth. Investment return assumptions are heavily dependent on the plan's asset allocation. ²Data 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 real salary growth was the difference between General Salary Growth and Inflation.

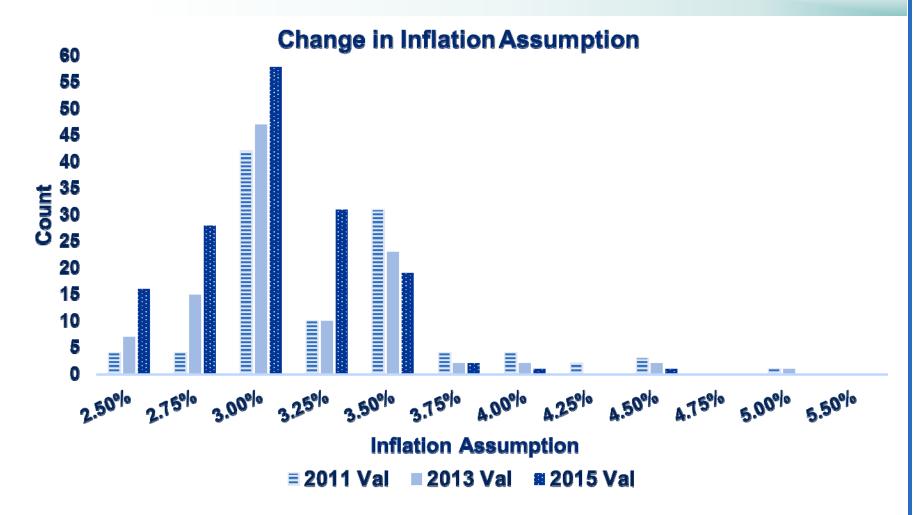
⁴Data gathered from WRS' 2015 Comprehensive Annual Financial Report, published March 31, 2017.

Other States' Economic Assumptions



Source: NASRA Public Fund Survey.

Other States' Economic Assumptions



Source: Data gathered from Public Plans Database, Center for Retirement Research, and NASRA Public Fund Survey.



Catastrophic Disability Medical Insurance

Report Type:

Initial Consideration

Date Presented:

9/27/2017

Presenter Name and Title:

Paul Neal, Senior Research and Policy Manager

Summary:

Catastrophic retirees and their survivors are eligible for reimbursement of medical insurance premiums. This report reviews the development of this benefit and asks the Board whether it would like additional information.

Strategic Linkage:

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

ATTACHMENTS:

	Description	Type
D	Catastrophic Disability Medical Insurance	Report
D	Catastrophic Disability Medical Insurance	Presentation



September 27, 2017 Catastrophic Disability Medical Insurance

INITIAL CONSIDERATION

By Paul Neal Senior Research & Policy Manager 360-586-2327

paul.neal@leoff.wa.gov

ISSUE STATEMENT

LEOFF Plan 2 catastrophic disability retirees and their survivors have different medical insurance access than survivors of members killed in the line of duty.

MEMBERS IMPACTED

The LEOFF Plan 2 catastrophic retirement benefit took effect on March 4, 2006. To date, DRS has approved 52 retirees. This is an average of about 4.5 retirees per year.

OVERVIEW

LEOFF Plan 2 catastrophic retirees receive a reimbursement of their health insurance premium costs up to the amount paid by their former employers for COBRA¹ benefits.

In 2009 the LEOFF Plan 2 Board (Board) proposed HB 1679, which would have covered catastrophic LEOFF Plan 2 retirees and their survivors through PEBB. The Health Care Authority (HCA) fiscal notes estimated a high cost, which contributed to the bill's demise. The 2010 substitute version of the bill replaced the proposed PEBB coverage with the current reimbursement system.

Actual experience in the intervening years indicates that the cost of the PEBB participation may be less than originally estimated. Primarily this is because the actual number of catastrophic retirees is much lower than estimated in 2009 and 2010.

-

¹ "COBRA" stands for Consolidated Omnibus Budget Reconciliation Act of 1985. It includes a provision allowing separated employees to purchase insurance through the former employers risk pool for up to 18 months.

BACKGROUND AND POLICY ISSUES

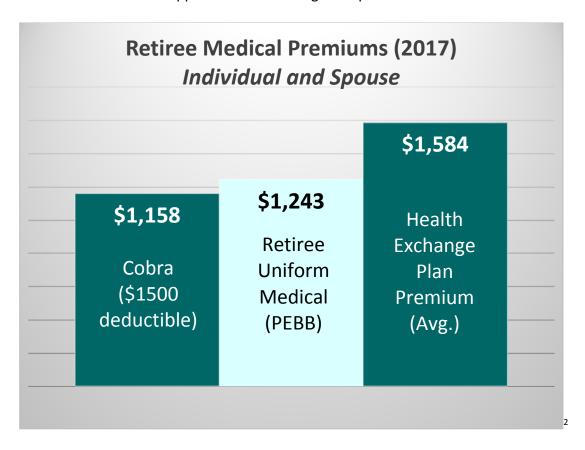
Background

Health Insurance Premium Reimbursement for Catastrophic Retirees and Survivors

LEOFF Plan 2 reimburses medical insurance premiums for LEOFF Plan 2 catastrophic retirees and their survivors. The reimbursement is capped at the former employers COBRA or other employer provided retiree medical insurance premium amount. RCW 41.26.470(10).

The actual amount reimbursed depends on the health insurance plan selected by the retiree or surviving spouse. Shopping for private coverage can be confusing. Tracking and paying a diverse and shifting field of individual providers creates administrative challenges for DRS.

The following table compares retiree health insurance premiums through COBRA, the Washington Health Exchange and PEBB retiree health premium. While comparable, the plans are not identical. Please see Appendix A for coverage and premium details.



² The premium estimates are based an "average" retiring LEOFF 2 member:

\$60,000 annual pension

 ⁵⁶ years old

Medicare qualified retirees receive reimbursement of Medicare Part A and B premiums. Most LEOFF members have Medicare and therefore have no Part A premium. The current Medicare Part B Premium is \$134. Other Medicare premiums, such as Part C and D (Prescription drugs) are not reimbursed.

The original benefit proposed by the Board on catastrophic retiree health coverage was very different than the bill that eventually passed the Legislature.

History of Premium Reimbursement

The Legislature began authorizing enhanced health care coverage for LEOFF Plan 2 members killed or catastrophically disabled in the line of duty in 2001:

- The surviving spouses of emergency service personnel (including LEOFF Plan 2 members) killed in the line of duty on or after January 1, 1998, may purchase health care benefits from the Public Employees' Benefits Board (PEBB). The premium was paid by the insured. (ESHB 1371 (2001)).
- The Legislature authorized the LEOFF trust fund to reimburse surviving spouses for that insurance premium in 2006³.

How PEBB Works

Participation in the PEBB benefit system has two advantages:

- 1. <u>Implicit Subsidy:</u> The participant belongs to an insurance pool including all public employees participating in PEBB. Participating in an insurance pool typically provides a lower premium than can be purchased by an individual.
- 2. <u>Explicit Subsidy:</u> PEBB pays Medicare Part A and B premiums for Medicare covered retirees.

During the 2008 interim, the Board studied options for extending the health care premium assistance to catastrophic retirees and their survivors. At the Board's request, the Legislature introduced HB 1679 in 2009. The original bill proposed including catastrophically disabled LEOFF Plan 2 members, their spouses and dependent children in the PEBB risk pool, with the individuals paying their own PEBB premium until Medicare eligible.

• Coverage for self and spouse

Non-smoker

³ A similar reimbursement benefit for survivors of WSPRS members was enacted in 2007.

The Health Care Authority fiscal note estimated a total cost of \$1.5 million the first biennium, ramping up to 4.7 million by the 2013-15 biennium. The fiscal note assumed, among other things, 14 new catastrophic retirees added on January 1 of each year.

The 2009 version of HB 1679 failed. The 2010 Legislature substituted a new bill containing the provisions now found in law. SHB 1679:

- Did not expand PEBB participation
- Authorized the LEOFF trust fund to reimburse catastrophic retirees and their survivors for health insurance premiums up to authorized COBRA levels

The Actuary's fiscal note estimated a cost of about \$1.8 million per biennium, increasing contribution rates by .26% total. However, when the actuary presented supplemental rate increase options to the Board in June of 2010, it did not include a rate increase from SHB 1679.

Experience May Lower Cost of Board's Original Proposal

Writing a fiscal note during the heat of session requires predicting the future. Sometimes actual experience does not track those predictions. With the benefit of hindsight, it appears the estimates of future costs for including catastrophic retirees and their families in PEBB may have been overstated, due primarily to an overestimate of the number of catastrophic retirees.

Assumed Number of Retirees

Both the actuarial and health care authority fiscal notes assumed a higher rate of catastrophic retirements than current experience demonstrates. In 2009 and 2010 the catastrophic disability retirement law was still new, leaving little experience to predict future retirement rates. The Actuary's office has completed two experience studies since that time showing a significantly lower catastrophic retirement rate.

Catastrophic Retireme Original vs. Revis			
2009 HCA Assumed Rate 14/year			
Current Experience Study rate 4.5/year			

The Actuary's sensitivity analysis in the original SHB 1679 fiscal note found that cutting the estimated number of retirees in half reduces the estimated cost of the bill nearly by half. Given that analysis, the lower rate of actual catastrophic retirements indicates a significantly lower cost than estimated in the original fiscal notes.

Mortality Assumptions

LEOFF Plan 2 provides a lifetime benefit. Cost estimates, therefore, are highly sensitive to mortality assumptions – i.e. how long a group is expected to live. Identifying the affected group is key to honing future benefit cost estimates. Possible mortality groupings for the Board's original proposal expanding PEBB eligibility include:

- <u>General membership mortality</u>: Mortality assumptions for all LEOFF members, most of whom are healthy this provides the longest lifespan estimate.
- <u>Disabled mortality</u>: Mortality assumptions for disabled persons, includes slightly disabled to fully disabled this provides a reduced lifespan estimate.
- <u>Social Security Disabled Mortality</u>: Mortality assumptions for persons that are fully disabled from any work the same standard as LEOFF Plan 2 catastrophic disability. This should provide the shortest lifespan estimate of the three options.

The shorter the projected lifespan, the lower the estimated cost of a lifetime benefit increase. Whether that cost difference is significant remains to be seen.

Time Constraints

Fiscal notes prepared during session are subject to strict, short, deadlines. Assumptions must be made and numbers crunched on a tight timeline. This can limit the opportunity for feedback loops and revising analysis. A fiscal analysis prepared during the interim, while not necessarily better or different, can avoid some of those risks.

NEXT STEPS

The Board could:

- 1. Direct staff to prepare a comprehensive report to include an updated fiscal analysis of the cost of covering LEOFF 2 catastrophic disability retirees and spouses in PEBB; or
- 2. Take no further action on this topic.

SUPPORTING INFORMATION

Appendix A: Health Insurance Premiums for New Retirees

APPENDIX A: HEALTH INSURANCE PREMIUMS FOR NEW RETIREES - 2017

The following table compares the cost of insurance purchased through the Washington Health Exchange with PEBB retiree rates. Because of the many variables in health plan design, the comparison is not exact. It is intended to give an idea of what an individual retiree might pay for health insurance.

We calculated the estimated based on the following "average" new LEOFF 2 retiree:

- 56 years old
- \$60,000 annual pension
- Non-smoker

The Health Exchange provides bronze, silver, or gold coverage levels. To get as close as possible to the level of coverage available through employer provided health plans, the comparison looks only at "gold" plans and compares that to the Uniform Medical Classic plan. The costs, deductibles, and out-of-pocket maximums are for an individual and spouse.

Plan Provider	Individual Deductible	Individual Out of Pocket Max	Emergency Room Copay/ Coinsurance	Primary Care Copay	Premium (rounded)
Uniform Medical Retiree (State)	\$250	\$2000	\$75/ 15%	15%	\$1243 ⁱ
Pla	ans Available Fr	om Washington	Health Exchange	(Gold level)	
Ambetter	\$1000	\$6350	\$250	20% coinsurance	\$1170
Bridgespan	\$1200	\$7,150	\$0/10%	\$30/10% coinsurance	\$1653
Community Health Plan	\$650	\$4800	\$250	\$0	\$1895
Kaiser Permanent	\$850	\$5000	\$200/ 20%	\$10	\$1402
LifeWise	\$1000	\$4500	\$200 / 30%	\$30	\$1560
Premera Blue Cross	\$1000	\$4500	\$200/30%	\$10	\$1823
Ave	erage Privat	e Market Pre	emium	\$1584	

The current premiums for different levels of COBRA coverage calculated for the Northwest Fire Benefits Trust are provided below:

Northwest Fire Fighters Benefits Trust 2017 Benefit Options & Rates (WA COBRA Rates)

Plan Design	Plan \$50	Plan \$100	Plan \$200	Plan \$200A	Plan \$500	Plan \$750	Plan \$1,000	Plan \$1,500	Plan \$2,000	HSA \$1,500
Deductible	\$50	\$100	\$200	\$200	\$500	\$750	\$1,000	\$1,500	\$2,000	\$1,500
Coinsurance (In-Network/Out-of-Network)	100%/70%	90%/70%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%	80%/60%
Out-Pocket-Maximum	\$1,050	\$1,100	\$1,700	\$500	\$2,500	\$2,750	\$2,000	\$2,000	\$2,500	\$4,500
Office Visit Copay (Primary Care/Specialist)	\$0	\$10	\$10	\$10	\$15	\$15	\$20	\$20	\$25	Ded/Coins
Rx Copay	\$5 Generic / \$25 Formulary / \$50 Non-Formulary						Ded/Coins			
Vision Coverage	Exam Every Year, No Copay, 100% / \$200 Hardware Every Year									
Plan Design	Plan \$50	Plan \$100	Plan \$200	Plan \$200A	Plan \$500	Plan \$750	Plan \$1,000	Plan \$1,500	Plan \$2,000	HSA \$1,50
Employee Only	\$829.85	\$681.23	\$647.78	\$805.09	\$609.39	\$584.61	\$579.66	\$530.12	\$511.55	\$453.32
Employee & Spouse	\$1,812.06	\$1,488.79	\$1,414.47	\$1,758.82	\$1,331.49	\$1,277.00	\$1,264.60	\$1,158.10	\$1,117.21	\$989.63
Employee & Child	\$1,355.02	\$1,112.26	\$1,057.76	\$1,314.15	\$994.58	\$953.72	\$945.04	\$864.54	\$833.56	\$739.43
Employee & Children	\$1,629.99	\$1,338.91	\$1,272.02	\$1,581.69	\$1,195.24	\$1,146.93	\$1,137.02	\$1,040.42	\$1,003.26	\$889.32
Employee & Spouse & Child	\$2,337.22	\$1,919.82	\$1,824.44	\$2,267.88	\$1,716.68	\$1,646.10	\$1,629.99	\$1,492.52	\$1,439.24	\$1,275.73
Employee & Spouse & Children	\$2,612.20	\$2,146.48	\$2,038.71	\$2,535.42	\$1,917.32	\$1,839.32	\$1,821.98	\$1,668.38	\$1,608.93	\$1,425.62



¹ Subsidized rate available through Public Employees' Benefits Board (PEBB) for state retirees.



Catastrophic Disability Medical Insurance

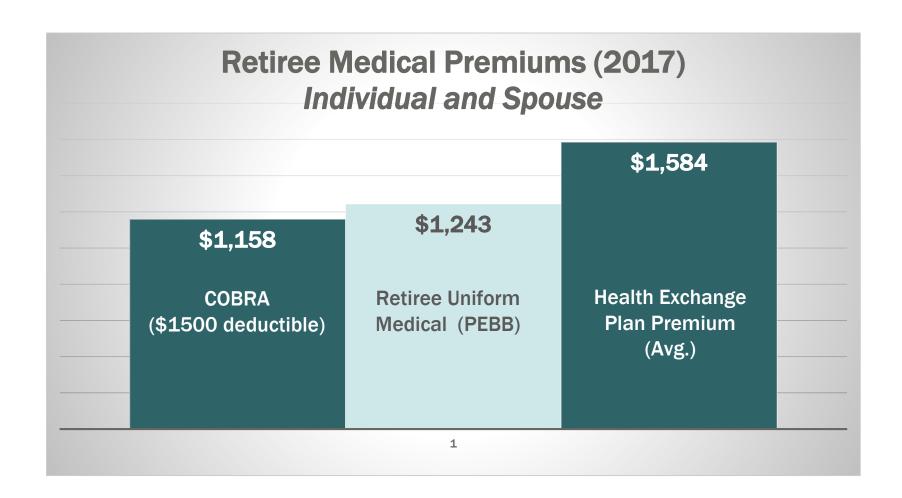
Initial Consideration - September 27, 2017

Current Law

- Catastrophic retirees and surviving spouses premium reimbursement:
 - Before Medicare eligibility:
 - Reimbursement of health insurance premiums
 - Up to former employer's COBRA limit
 - At 65, Reimbursement of Medicare Premiums:
 - Part A (if any)
 - Part B
 - Not eligible for reimbursement of part C and D premiums

Post-retirement Medical Premiums

- Pre-Medicare
- Medicare Part B reimbursement:\$134 per month



Survivor Premium Reimbursement

- Line-of-duty death benefit:
 - Survivors of LEOFF 2 members killed in the line of duty allowed to participate in PEBB (2001)
 - PEBB Premiums reimbursed by LEOFF (2006)
- Participation in the PEBB benefit system has two advantages:
 - Implicit Subsidy: Pay same rate as entire PEBB pool
 - Explicit Subsidy: PEBB pays Medicare part B premiums for Medicare covered retirees

Extending Benefit to Catastrophic Retirees

Version 1: Proposal to include catastrophic retirees and survivors in PEBB, with insured paying their own premium – HB 1679 (2009)

- Health Care Authority (HCA) Fiscal Note: estimated cost of extending PEBB subsidy to catastrophic retirees
 - Estimated costs:
 - \$1.5 million cost first biennium
 - \$4.7 million 2013-15 biennium

Extending Benefit to Catastrophic Retirees

Version 2: Premium reimbursement – SHB 1679 (2010)

- No PEBB membership, so no HCA cost
- Actuary supplemental rate increase not recommended

Cost Mitigation – Catastrophic Retirement Rate

Catastrophic Retirement Rates: Original vs. Revised

2009 HCA Assumed Rate 14/year

Current Experience Study rate 4.5/year

Cost Mitigation - Catastrophic Retiree Mortality

- How long is benefit expected to last?
 - Longer: General membership mortality: Average life expectancy for healthy and disabled retirees
 - Shorter: Disabled mortality: Average life expectancy for disabled individuals
 - Shortest: Social Security disabled mortality: Average life expectancy of catastrophically disabled individuals
- HCA fiscal note used disabled mortality table
- OSA examining whether use of Social Security disabled mortality table appropriate

Should Cost be Revisited?

- Does Board still support extending PEBB coverage to catastrophic retirees and survivors depending upon cost?
 - Does Board want staff to update cost analysis?
 - Include reimbursement for Medicare C and D premiums?
- Other questions?



Thank You

Paul Neal

Senior Research and Policy Manager

(360) 586-2327

paul.neal@leoff.wa.gov



Disabled Members Return to Work

Date Presented:

9/27/2017

Presenter Name and Title:

Ryan Frost, Research and Policy Manager

Summary:

Current disability statute for LEOFF 2 members states that when a member is determined to have recovered from their disability, the members' previous employer is required to hire them back at their previous rank. Issues arise when the employer disagrees with Department of Retirement Systems' (DRS) decision that the member has fully recovered from their disability.

Strategic Linkage:

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

ATTACHMENTS:

	Description	Type
D	Disabled Members Return to Work	Report
D	Disabled Members Return to Work	Presentation



September 27, 2017 Disabled Members Return to Work

INITIAL CONSIDERATION

By Ryan Frost Research and Policy Manager 360-586-2325

ryan.frost@leoff.wa.gov

ISSUE STATEMENT

Members who recover from their disabilities are stuck in limbo if their previous employer refuses to hire them back.

OVERVIEW

Current disability statute for LEOFF 2 members states that when a member is determined to have recovered from their disability, the members' previous employer is required to hire them back at their previous rank.

Issues arise when the employer disagrees with Department of Retirement Systems' (DRS) decision that the member has fully recovered from their disability. This leaves the member in limbo pending the appeals decision because:

- Disability payments have been stopped
- They are not earning a salary

BACKGROUND

Disability Payments Stopped

Any member who receives a disability allowance is subject to comprehensive medical examinations as required by DRS. If those medical examinations reveal that the member has recovered from their incapacitating disability, they are no longer entitled to benefits under Title 51 RCW. The members' retirement allowance is therefore canceled and the member shall be restored to duty.

Previous Employer

Once the determination has been made that the member has recovered from their disability, the member's previous employer is required to hire them back at the same civil service rank

they held at the time of their disability retirement¹. The employer may appeal if they disagree with the DRS determination.

DRS is aware of one current case where this is happening, but they have chosen to continue paying the members disability benefit while the appeal works its way through the process.

Following cancellation of the members disability benefit, and upon their return to a LEOFFeligible position, they will begin earning service credit again and become eligible for an active member benefit.

POLICY ISSUES

- Should DRS continue to pay a disability benefit to members who are no longer disabled?
- Should DRS be able to bill the employer for the disability payments they made to the member while they were stuck in limbo?

SUPPORTING INFORMATION

Appendix A: Different types of disabilities

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¹RCW 41.26.470 (2)

APPENDIX A: DIFFERENT TYPES OF DISABILITIES²

Temporary Duty Disability

If you do not earn full service credit because of leave associated with a duty disability, you have the option to purchase up to 24 months of service credit for each covered duty disability. To establish service credit, you must meet the following criteria:

- Your disability must have occurred in the line of duty.
- You must have received your injury on or after July 1, 2002, and be eligible to receive workers' compensation benefits.
- You and your employer must make employer and member contributions on the
 compensation you would have earned had you been working. If the payments are made
 for a retroactive period, interest is charged. If your employer offers a disability leave
 supplement or similar benefit, your first six months of service credit are interest free.

If your duty disability occurred between July 23, 1989, and June 30, 2002, the amount of service credit you can purchase is limited to six months and requires that you be receiving a disability leave supplement or similar benefit from your employer.

Duty Disability

If your disability occurred in the line of duty, you may choose between a nontaxable:

- One-time payment equal to 150% of your eligible retirement contributions
- Minimum monthly benefit of at least 10% of your FAS

If you have fewer than 60 service credit months when you become disabled, the average will be based on your actual total of service credit months. If the normal retirement benefit calculation rule yields a monthly benefit greater than 10% of your FAS, you will receive the higher benefit amount. However, only the amount equal to 10% of your FAS is nontaxable. Contributions made to restore service credit after the deadline are refunded at 100% only.

Disaster Response Disability

There are certain circumstances, on or after March 22, 2014, when you might qualify for disaster response benefits and service credit. In the two situations listed below, your disability must have occurred while you were in eligible federal service providing eligible emergency management services.

Working for a LEOFF Plan 2 employer: You might qualify for a disability benefit if you leave the employment of your LEOFF Plan 2 employer to provide a disaster response, and you become

² http://www.drs.wa.gov/publications/member/leoff/leoff2disability.htm

disabled on or after March 22, 2014. Your benefit won't be reduced if you retire early. The benefit will be a minimum 10% of your Final Average Salary.

Working in eligible federal service: You might qualify for service credit for a leave of absence if you become disabled when you leave the employment of your LEOFF Plan 2 employer to provide a disaster response, on or after March 22, 2014.

Non-duty Disability

If your disability didn't occur in the line of duty, you might receive a monthly benefit calculated as follows: 2% x FAS x service credit years

Final Average Salary (FAS) is the monthly average of your 60 consecutive, highest-paid service credit months. Your monthly benefit will be reduced to reflect the difference between your age at the time of your disability retirement and age 53. If you are age 50 and have 20 years of service credit, the reduction is 3% per year (prorated monthly) from age 53.

Catastrophic Duty Disability

If your disability occurred in the line of duty and is so severe it prevents you from performing substantial gainful activity or substantial gainful employment in any capacity in the future, you might be entitled to receive a catastrophic duty disability benefit.

The Social Security Administration defines "substantial gainful employment" as working in a position whose average earnings are more than a set dollar amount each month, a figure it updates annually.

The catastrophic duty disability benefit can be calculated in three ways:

- 70% of your FAS
- 100% of your FAS, offset by Social Security disability and workers' compensation disability payments
- <2% x FAS x service credit years

In addition to your monthly benefit, you will be reimbursed for premiums you pay for employer-provided health insurance, COBRA, and Medicare Parts A and B.

If you are entitled to Medicare, you must enroll and maintain enrollment in both Medicare Parts A and B to remain eligible for the reimbursement. These premium reimbursements are not taxable. Medical insurance reimbursements are available for current, past and eligible COBRA enrollees. Reimbursement for these members is never greater than the COBRA coverage they are eligible for.



Disabled Members Return to Work

Initial Consideration – September 27, 2017

Issue

 Members who recover from their disabilities are stuck in limbo if their previous employer refuses to hire them back

Overview

Current Disability Statute

• When a member is determined to have recovered from their disability, the members' previous employer is required to hire them back at their previous rank

Issues

- Employer may disagree with DRS' decision that the member has fully recovered from their disability
- This leaves the member in limbo pending the appeals decision

Limbo

Disability Payments Stopped

- Any member who receives a disability allowance is subject to comprehensive medical examinations as required by DRS
- If those medical examinations reveal that the member has recovered from their incapacitating disability, they are no longer entitled to benefits under Title 51 RCW
- The members' retirement allowance is therefore canceled and the member shall be restored to duty

Limbo cont.

Previous Employer

 Once the determination has been made that the member has recovered from their disability, the member's previous employer is required to hire them back at the same civil service rank they held at the time of their disability retirement. 41.26.470 (2)

Background

One Current Case

 DRS has chosen to continue paying the members disability benefit while the appeal works its way through the process

Back to Service

 Following cancellation of the members disability benefit, and upon their return to a LEOFFeligible position, they will begin earning service credit again and become eligible for an active member benefit

Policy Issues

- Should DRS continue to pay a disability benefit to members who are no longer disabled?
- Should DRS be able to bill the employer for the disability payments they made to the member while they were stuck in limbo?

Questions?

Ryan Frost

Research and Policy Manager

ryan.frost@leoff.wa.gov

360-586-2325



Agenda Items for Future Meetings

Date Presented:

9/27/2017

Summary:

2017 Agenda Items Calendar

ATTACHMENTS:

Description Type

2017 Agenda Items Calendar Report



2017 AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
Jan 25	Legislative Update
Feb 22	Legislative Update
March 22	Legislative Update
April 19	Legislative Update
May 31	Legislative Update
June 28	Legislative Update
July 26	Legislative Update Actuarial Valuation and Economic Experience Study Preview – Lisa Won, OSA 2017 Interim Planning Interruptive Military Service Credit Executive Director COLA Budget Update
August 23	CANCELLED
Sept 27	Board Officer Elections CEM Benchmarking Results – Mark Feldhausen, DRS Independent Audit Results – Steve Davis, Davis Accounting Tax & Audit Services Interruptive Military Service Credit Study Interruptive Military Service Credits Plans 2 and 3 – Seth Miller, DRS Benefit Improvement Pricing Report on Financial Conditions & Recommendation on Long-Term Economic Assumptions—Lisa Won, OSA Catastrophic Disability Medical Insurance Disabled Members Return to Work
Oct 18	Proposed 2017 Meeting Calendar Strategic Plan Review
Nov 15 Dec 20	WSIB Annual Update – Theresa Whitmarsh, WSIB DRS Annual Update – Tracy Guerin, DRS Board Member Annual Training – Tor Jernudd, AGO LEOFF 2 Actuarial Valuation Report – Lisa Won, OSA 2018 Meeting Calendar Adoption
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