Strategic Planning

LEOFF Plan 2 Retirement Board

September 28, 2011

Strategic Plan Review

- Brief Overview of Current Plan

- Discussion of Key Items for 2011 Interim and 2012 Session Related to Maintaining the Financial Integrity of the Plan.

Priority Goals

- 2011- 2015 Goals
  1. Enhance the benefits for members
  2. Provide the stakeholders with a voice in plan governance
  3. Maintain the financial integrity of the plan
  4. Inform the stakeholders

2010 – 2011 Action Plan

Action	Goal
Study Health Care Proposals	1
Adopt Contribution Rates	3
Legislative Agenda 1. Maintain Board adoption of contribution rates and assumptions 2. Law Enforcement Officers – Presumptive Medical 3. Furloughs 4. Purchase of Annuity 5. Ombudsman	 3 1 1 1 1
Alternate Revenue Source	1 & 3
Long Term Economic Assumption Adoption	1 & 3
Employer Survey	2 & 4
Website Redesign	2 & 4
Annual Statement Improvements	4
OSA Risk Analysis Follow-Up	3

2011 – 2012 Action Plan

Adopted Contribution Rates for 2011-2017

- The six-year period covers the deferred investment losses from 2008/2009.
- Stable Contribution Rates
- Plan funding is projected to remain fully funded at the end of the six-year period.

2011 – 2012 Action Plan

2011 Interim Agenda

- Possible changes to long-term economic assumptions
- Possible legislation

2011 – 2012 Action Plan

2012 Legislative Agenda

1. Maintain Board adoption of contribution rates and assumptions

2. Long-Term Economic Assumptions

3. Potential merger legislation

4. Possible benefit changes

2011 – 2012 Action Plan

Other Action Items

- Follow-up to Office of State Actuary risk analysis

- Alternate Revenue Source

Strategic Planning

QUESTIONS?

STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • (360) 586-2329 FAX • recep@leoff.wa.gov

August 3, 2011

Mr. Matt Smith, State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Mr. Smith:

At the July 27, 2011 meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (Board), the Board received an initial presentation on the topic of merging LEOFF Plan 1 and LEOFF plan 2. In response to the request from your office to provide input for the study that is being conducted on this topic by OSA, the Board has identified information and/or issues they would like OSA to include in the report. Many of these items were covered in the fiscal note prepared by OSA on HB 2097 during the 2011 session but the information may change as a result of the 2010 Actuarial Valuation Report.

1. How would the merger of the LEOFF Plan 1 and LEOFF Plan 2 affect the projected contribution rates for both plans and impact the Board's goal of stable contribution rates? Project rates for both plans separately, both before and after the merger. Use stochastic analysis to show the range and likelihood of possible outcomes. Please show the impact on 10% member rate risk measure. Demonstrate the impact of the merger on the possibility that LEOFF 2 member rates will exceed 10%.

2. How would the merger affect the Board's goal of full funding for LEOFF Plan 2? Provide the funding ratios for both plans before the merger and the funding ratio of the merged plan using both the actuarial and market value of assets. Please identify differences in liabilities using the projected unit credit cost method and the entry age normal cost method.

3. Are there any material differences between the current funding cycles for LEOFF Plan 1 and LEOFF Plan 2? For example, are there any differences on when rates are set or when assumptions are adopted that might create a policy issue? The Board is not familiar with the LEOFF 1 processes.

4. What funding policy differences currently exist between LEOFF Plan 1 and LEOFF Plan 2? For example, the Board is aware of differences in the salary growth assumption, payment of LEOFF 1 Unfunded Accrued Actuarial Liability by 2024, and demographic assumptions related to projected improvements in mortality. Are there others? Have projected improvements in mortality been incorporated into LEOFF 1 demographic

assumptions as of the most recent valuation? If not, what is the projected liability associated with projected improvements in mortality for LEOFF 1? Does the use of the Frozen Initial Liability Cost Method for LEOFF 1 create any issues in the context of a merger?

5. What are the projected liabilities for LEOFF Plan 1? How would a merger affect those liabilities? What are the risks and risk measures? The Board is aware that both inflation and investment returns are significant risks. Are there others? Provide stochastic projections for investment returns and inflation. Please explain how these risks are mitigated or enhanced by the status of LEOFF 1? For instance, do earlier years affect investment return disproportionately because the ability to recover is limited in a closed plan with no active members?

6. How would a merger affect the analysis of the current LEOFF Plan 1 investment policies? Does a merger eliminate any need to consider a separate investment policy for LEOFF 1 assets?

7. What is the risk of LEOFF Plan 1 going into "pay as you go" status and how would a merger affect that risk? Are there other measures which might mitigate this risk besides a merger?

8. What is the effect of a merger on state pension risk measures identified in the Pension Score card? For instance, what is the effect of a merger on the chance that pensions will consume more than 8% of the State general Fund? What is the effect on the total weighted score? If the total weighted score changes, would this be positive or negative and would the change be significant? Is there a risk measure associated with the impact of pension liabilities on State bond issuances?

9. How would a merger affect the current cost policies for LEOFF 1? What are the projected costs if the State pays 100% of LEOFF 1 costs? What are the projected employer rates if any future LEOFF 1 costs are paid for via a supplemental rate charged to LEOFF employers?

10. How would a merger affect the current 50-30-20 cost sharing policy for LEOFF 2 liabilities? How would a merger affect the current cost policy for LEOFF Plan 1? Could you continue to track LEOFF Plan 1 and LEOFF Plan 2 liabilities separately? What would rates be if current LEOFF Plan 2 cost-sharing policy was extended to cover LEOFF Plan 1 liabilities?

11. How much revenue would be generated by resuming 6% contributions for LEOFF Plan 1 members and/or LEOFF Plan 1 employers effective July 1, 2012? How much would be generated if employers began paying the LEOFF 2 employer rate for LEOFF 1 members? What policy issues are raised when employers do not pay the same rate for all employees?

12. To what extent could benefits be decreased in LEOFF Plan 1 under current law if an unfunded liability emerges in LEOFF Plan 1 and the decrease in liabilities is determined to be necessary for the actuarial soundness of the plan? Do LEOFF Plan 1 members have a *Bakenhus* right to a 0% rate?

13. How would a change to a 4.5% salary growth assumption for LEOFF Plan 1 affect Present Value of Future Service for a merged plan? Would the change be significant?

14. The most recent risk assessment included a chart projecting the future LEOFF Plan 1 funded ratio. Could this chart include an overlay of the projected assets associated with those funding ratios? There are some who are assuming that a projected 160% funding ratio in the future means that the plan is projected to have a surplus of over $1 billion. What is the underlying data that is responsible for the projected increase in the funding ratio for LEOFF 1 after 2024?

15. You are scheduled to make recommendations regarding any changes to long-term economic assumptions later this interim. Please evaluate the impact of any proposed changes on the risk measures previously discussed for merging LEOFF 1 and LEOFF 2.

16. Would it be possible to graph the actuarial value of assets over time (maybe the last 20 years) with the 30% corridor to demonstrate where the assets have fit in the corridor? Could there be a second line showing the market value of assets over the same period of time to demonstrate how much the actuarial and market values have deviated from each other.

I hope this input is helpful for your study. Please contact me if you have any questions concerning the items covered in this letter or need additional information. The Board may have additional input later this interim. They are aware of your timeframe and will make every effort to provide input in a timely manner.

Sincerely,

Steve Nelsen

Steve Nelsen
Executive Director

cc: Marcie Frost, Deputy Director