

---

# Minutes

## Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

October 17, 2003

John A. Cherberg Building, Olympia, Washington

### BOARD MEMBERS PRESENT

Ted Campbell  
Doug Cochran  
Michael Edwards  
Kelly Fox  
Patrick Hepler  
Mark Johnston  
Maureen Morris  
David Moseley  
Linda Evans Parlette  
Jack Simington  
Geoff Simpson

---

### CALL TO ORDER

Chair Fox called the meeting to order at 10:15 on Friday, October 17, 2003, in the John A. Cherberg Building, conference rooms A, B, and C.

Each of the Board members introduced themselves. Steve Nelsen was introduced as the new Interim Executive Director for the LEOFF 2 Board. Mr. Nelsen came from the Department of Retirement Systems as the Legal and Legislative Services Manager.

### APPROVAL OF MINUTES

MOTION: Jack Simington moved to approve the August 29, 2003 LEOFF 2 Board minutes.

SECOND: Ted Campbell seconded.

ACTION: Motion passed unanimously.

Mr. Nelsen discussed the administrative updates with the Board. Mr. Nelsen asked how much the Board wanted to be involved in his decisions? The first item of administrative duties is to hire an interim Executive Assistant. Mr. Nelsen stated that he had someone in mind to offer the position to in the next week. The next item would be to acquire permanent office space. Mr. Nelsen thanked Chris Rose for his initial start-up of the Board and indicated that Mr. Rose's efforts allowed for a smooth transition.

Mr. Nelsen handed expense reimbursement forms out to each of the Board members. The Board will reimburse members for expenses that are not covered by their employer.

Chair Fox addressed the Board about having an administrative sub-committee to work with Mr. Nelsen during the initial stages of discussions and decisions. It was suggested by Board members to have Chair Fox, Maureen Morris and Jack Simington serve as the Administrative Sub-Committee for the Board. Chair Fox asked members if they had any questions or concerns. None were stated.

Chair Fox indicated that the Board would like operating policies and procedures, specifically detailing the operating obligations of the Board. Chair Fox stated that he would like them formalized at the next Board meeting.

**MOTION:** Doug Cochran moved to have Chair Fox, Maureen Morris, and Jack Simington act on behalf of the Board as the Administrative Sub-Committee.

**SECOND:** Mark Johnston seconded.

**ACTION:** Motion passed unanimously.

Ms. Morris had a concern with the existing fiscal note pertaining to staffing requirements (how many staff needed) and questioned what the structure of the Board should be? Geoff Simpson stated that the Board has the opportunity to keep hiring to a minimum.

Mr. Nelsen stated that the deadline for the Board to make a decision on changing the previously approved budget allotments would fall during the middle of 2004 Legislative Session. He suggested that the Board vote on a budget at the December board meeting.

**Joe Dear, Executive Director,** gave an overview of the State Investment Board (SIB). The agency's purpose is to establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk, (RCW 43.33a.110). The investment principles considers investments not in isolation, but in the context of the investment of the particular fund as a whole, and as part

of an overall investment strategy that would incorporate risk and return objectives reasonably suited for that fund (RCW 43.33a.140.)

The State Investment Board's organizational structure is comprised of 15 board members; 10 voting and five non-voting, fifty-eight staff, and 124 investment managers under contract. Mr. Dear and the Board members appoint the voting board members. The staff receive recommendations from the voting members to make their decisions. The voting members appoint the non-voting members. The non-voting members serve on both committees and are non-bias to decisions.

The investment responsibilities of the SIB consist of retirement funds, defined contribution, deferred compensation funds, insurance funds (Labor and Industries), permanent funds, and other trusts. There are a total of 36 funds.

Mr. Dear discussed the fundamentals of investing—the accumulation and drawdown of wealth, assets under management, CTF asset allocation, retirement fund historical rates, CTF assets under management, capital markets environment Wilshire 5000, real estate geographical distribution, real estate property type distribution, private equity, and the portfolio by strategy.

The State Investment Board has open meetings for public participation. SIB is personally liable for the Board. The SIB staff is accountable to the Board and to the principal beneficiary on a monthly report.

Ms. Morris asked when there was a change in policy, if there was a choice of Washington investment and non-Washington investment, and what kinds of safe guards had been put in place? Mr. Dear replied that the Board evaluates all investments made and documents those evaluations, which are kept on file.

Mr. Dear offered to come back to the Board at a later meeting date with detailed information on the operations of the State Investment Board.

**Patty McGuire, Department of Personnel**, discussed the timeline for the executive search for a permanent Executive Director and hiring of staff. She asked if the Board wanted to start an immediate search? Ms. McGuire stated that there were advantages to waiting and to working with the Department of Personnel (DOP) but that the Board did not have to go through DOP's program. She noted Spring some time after session as a good time to shoot for and indicated this would give Mr. Nelsen a chance to draft qualifications and to work with the Board a bit. Ted Campbell asked Ms. McGuire what the cost would be to use DOP's Executive Search? Ms. McGuire replied that it would be 15 to 20 percent of the base annual salary. Geoff Simpson stated that it would make sense to allow the interim director, Mr. Nelsen, to assist the board work through these issues and develop a job description and not jump into hiring a permanent Executive Director immediately.

Michael Edwards stated that there are other administrative decisions—job description, staffing, and salary that the Board should focus on first. The Board decided to contact DOP at a later date after they have made a decision on when they will do the Executive Search. Ms. McGuire suggested waiting six months before doing an executive search. David Moseley stated that six months seems to be a long time to come to a decision. He suggested doing the recruitment during session in January.

Ms. Morris stated that the Board needed to discuss how the Board should operate, what type of agency do they want to be, how long it is going to take to work through the issues on hiring, and that the Board needs to come to some administrative agreement before they do the recruitment. Ms. McGuire stated that it could take approximately 90 days to complete a search. Mr. Nelsen stated that he would contact Ted Koska to invite him to a Board meeting to discuss the executive search process.

Mr. Cochran asked how long it would take for someone to be hired as the Executive Assistant, and if someone will be hired by their next meeting. Mr. Nelsen replied that he would approach someone next week and offer him or her the position as Executive Assistant. Discussions at future meetings include: decision to bring on more staff, what does the Board have in mind as a staffing model, and what functions they want performed.

Chair Fox asked the Board to approve Mr. Nelsen to hire an Executive Assistant.

MOTION: Ted moved to authorize Mr. Nelsen to hire the Interim Executive Assistant.

SECOND: Patrick Hepler seconded.

ACTION: Motion passed unanimously.

The salary for the interim executive assistant was decided on by the start-up team of \$3,200- \$4,000.

**Mr. Nelsen, Interim Executive Director**, discussed the statutory duties of the LEOFF2 Board. He addressed the requirements of the Board to adopt actuarial tables, assumptions and cost methodologies (I-790), and to adopt contribution rates for the LEOFF 2 Plan.

Mr. Nelsen gave the Board an introduction to the pension contribution rate-setting process. The Board adopts the required member, employer and state contribution rates. Contribution rates come in two forms: 1) supplemental rate—to pay the cost of additional benefits; and 2) base rate—to pay for the cost of the

plan. The contribution rates are calculated as a percentage of employee salary. The current rate for LEOFF 2 is 10.10 percent, which breaks down to: 5.05 percent for members, 3.03 percent for employers, and 2.02 percent for state.

Mr. Nelsen discussed the pension funding process. The LEOFF 2 pays for all pension benefits for LEOFF 2 members and their beneficiaries and is part of the Commingled Trust Fund invested by the State Investment Board, but LEOFF 2 assets are accounted for separately. Assets are added to the LEOFF 2 in one of two ways: 1) Contributions—member, employer, and state, 2) Investment earnings. Base contribution rates for all public pension plans are established on a biennial basis. Rates are adopted no later than September 30 in even-numbered years. The LEOFF 2 Board adopts the member, employer, and state rates for LEOFF Plan 2. Several factors are important in determining the base contribution rate: assets in the retirement fund, projected liabilities, long-term economic assumptions, demographic assumptions, and actual experience. The contribution rate adjustments can be adjusted in one of two ways: 1) the Legislature can change contribution rates, 2) a supplemental contribution rate may be charged to pay for benefit increases or other plan changes. These decisions are the responsibility of the Board.

**Matt Smith, State Actuary**, gave a presentation on the pension contribution rates. He stated that the contribution rate formula is liability minus assets, divided by future salary collected as a percentage of salary over one's working lifetime. The liability is the present value of future benefits, based on an eight percent interest rate assumption. The assets are based on actuarial value, not market value and the actuarial value smoothes the effects of short-term volatility in the market value. Mr. Smith also discussed HB 1205. An estimated 72 PERS members would be affected within the range of age 40, with an average annual salary of \$52,000 and 11 years of prior PERS service. He stated that the law change would increase the total LEOFF 2 contribution rate by 0.04 percent. The cost is split 50/30/20 between members, employers, and the state. Mr. Smith stated that the projected contribution rates for LEOFF 2 are on the rise despite a 14.3 percent estimated rate of investment return for the plan year ending September 30, 2003.

**Suzanne Shaw, Office of the Attorney General**, discussed the Open Public Meetings Act and the purpose of the law. Meetings must be open when a committee acts on behalf of the governing body, conducting hearings, taking testimony, or taking public comments. The scope of the act covers state boards, commissions, committees, departments, educational institutions and agencies, however it does not apply to state agencies covered by a single head. Ms. Shaw stated that an open meeting is where action is taken. She stated to be careful using e-mail to communicate with each board member and "reply to all", the courts could see this as an open meeting that a notice has not been sent out on. Penalties for violating the law could consist of a judge imposing a \$100 civil

penalty against each member. Ms. Shaw recommends not using e-mail as a regular line of communication between the Board members.

Ms. Shaw discussed the Public Disclosure Law—explaining what public records are, electronic records, making copies of records, responding to a request for records, what records are exempt, what happens if a request is denied, and records retention.

Doug Cochran recommended that all public records requests should go through Mr. Nelsen or someone on staff.

The Board discussed and decided on every third Wednesday of the month for their regular meetings. The next two meetings were decided on for Wednesday, November 19, 2003, 9:00-3:00 and Wednesday, December 17, 9:00-3:00. If a meeting is cancelled or changed, notice has to be given in advance.

Mr. Nelsen stated that he would prepare some draft Board operating policies for consideration and possible adoption by the Board at their next meeting. He would also prepare options for the adoption of the supplemental contribution rate. Ms. Morris stated that the Board needed a procedure on how something is going to be put on the agenda for future meetings. Mr. Nelsen stated that he would draft a policy and bring it back to the Board for possible adoption.

Items for the November 19, 2003, meeting include:

- Potential 2004 legislation—federal taxation of disability benefits and survivor benefits to spouses of members who die in the line of duty.
- Possible discussion on having a series of public hearings regarding potential plan changes.
- Trustee training.
- Further discussion on the budget allotments.
- Confirmation of the Chair and Vice-Chair.

It was decided by the Board that they needed another visit by the State Actuary Office for further clarification.

Mr. Nelsen stated that he would bring information back to the Board to clarify Board member compensation for time-loss.

Adjourned at 2:20 p.m.