BOARD MEETING AGENDA
October 18, 2017 - 9:00 AM

LOCATION

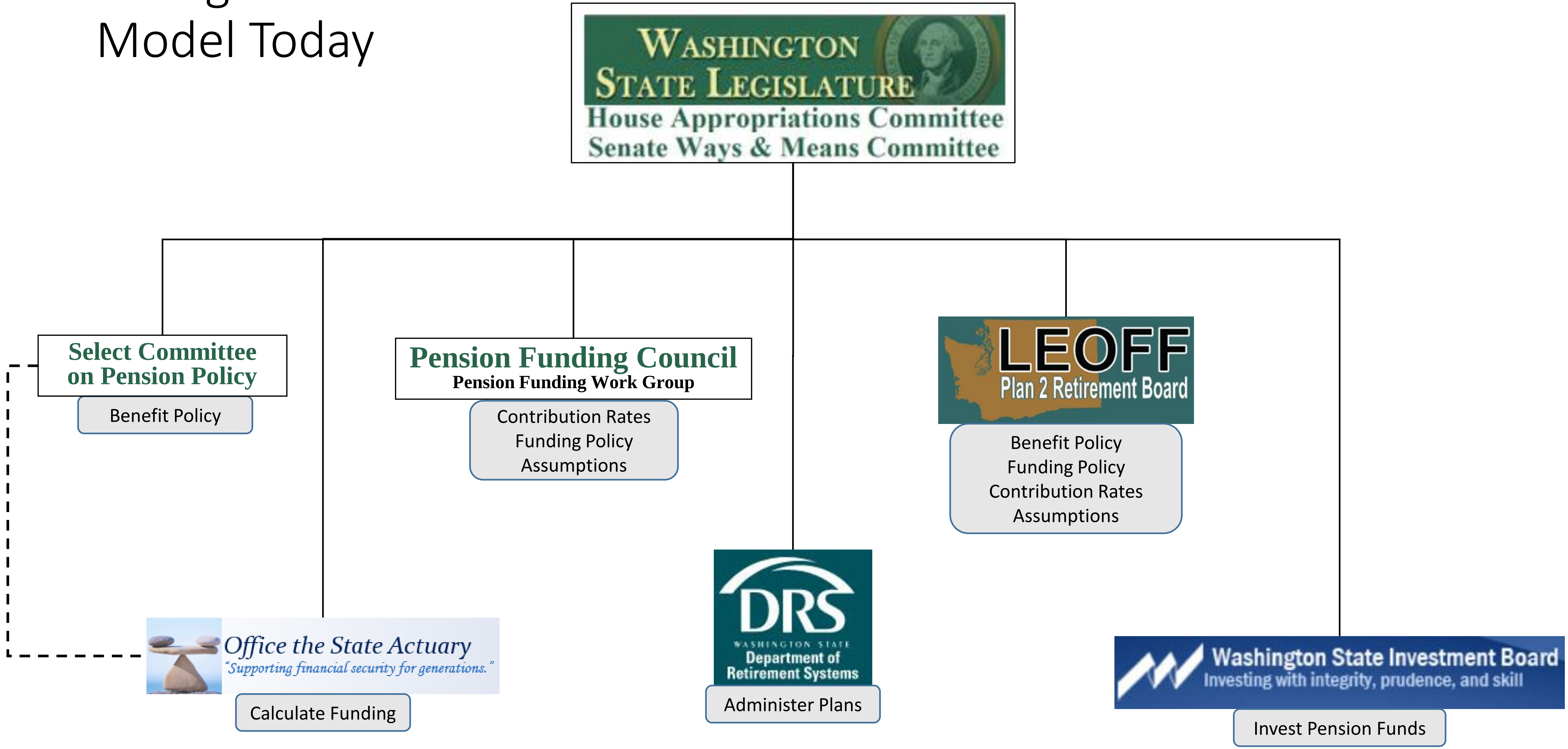
DoubleTree by Hilton Olympia
415 Capitol Way N.
Olympia, Washington 98501
Phone: 360.586.2320
Fax: 360.586.2329
recep@leoff.wa.gov

1. **Board Networking Breakfast**	8:30 AM
2. **Welcome & Agenda Overview** Steve Nelsen, Executive Director	9:00 AM
3. **Washington Pension Structure** Steve Nelsen, Executive Director	9:15 AM
4. **Strategic Plan Review & Discussion** Steve Nelsen, Executive Director	9:45 AM
5. **Funding Plan Discussion** Steve Nelsen, Executive Director & Lisa Won, OSA	10:30 AM
6. **Expectation Interview Results** Tim Valencia, Deputy Director	12:30 PM
7. **Plan Comparison Research** Ryan Frost & Paul Neal	1:00 PM
8. **2018 Proposed Meeting Calendar**	2:00 PM
9. **Wrap Up**	2:15 PM

Lunch is served as an integral part of the meeting.

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

Washington State Model Today



Legislative Accomplishment 2004-2017

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2004 Successful Policy Changes

Duty Disability Benefits - Minimum

Members who are disabled in the line of duty are entitled to receive a minimum benefit of 10% of their final average salary. This benefit is tax-free for the member's life. Or, instead of a monthly benefit, the member may choose to withdraw 150% of their retirement contributions with interest, tax-free. This benefit was made retroactive for three years so members who had previously retired would have the opportunity to file amended income tax returns.

Survivor Benefits

Spouses of LEOFF Plan 2 members killed in the line of duty are provided with a pension that is unreduced for "early retirement" if the member is younger than age 53 when they die.

Actuarial Funding

A limit has been put in place on the deferment of investment losses in order to help ensure adequate funding for all the retirement funds, including the LEOFF Plan 2 retirement fund.

2005 Successful Policy Changes

Duty Disability Benefits - Occupational

LEOFF Plan 2 members who become disabled in the line of duty and whose injuries prevent them from continuing their career as a law enforcement officer or fire fighter will no longer have their pension reduced for "early retirement" if they are younger than age 53. Members will instead receive the full pension benefit they earned prior to becoming disabled. For example, a member with 15 years of service will receive 30% of their average final salary to supplement their income from their new non-LEOFF career.

Purchase of Service Credit

This benefit allows a LEOFF Plan 2 member to purchase up to five years of service credit at the time of retirement, beginning on July 1, 2006. A member's deferred compensation assets can be rolled over tax-free to purchase the credit. This will be a useful retirement planning tool, for those who would like to use their deferred compensation account to improve their LEOFF Plan 2 pension.

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Career Change
A LEOFF Plan 2 member can now choose to receive their LEOFF Plan 2 pension or earn a new pension if they go to work in another public service job after retiring from LEOFF Plan 2. This legislation gives new choices to a person who moves from a law enforcement or fire fighting career covered under LEOFF Plan 2 to a job covered by one of the state's other public pension plans. For example, a LEOFF Plan 2 member who retires at age 53, and then works in a courtroom security or arson investigator job covered by the Public Employees' Retirement System (PERS) until they are 65, could earn a PERS pension for those 12 years. Or, the member could choose to receive their LEOFF Plan 2 pension while working in a PERS-covered job instead of earning a second pension.

Military Service
A member whose career is interrupted by a call to active duty military service has the ability to receive LEOFF Plan 2 service credit for their military time, even if they are injured or killed and can not return to their LEOFF-covered job.

Contribution Rate Stability Plan
The LEOFF Plan 2 Board adopted a four-year plan to return employer, state and member contribution rates to the level they need to be at to adequately fund LEOFF Plan 2. The rate stability plan includes a minimum contribution rate floor, so if there are better-than-expected investment gains for the retirement fund in the future, those gains will be left in the plan.

2006 Successful Policy Changes

Duty Disability Benefits – Catastrophic
A member who is severely disabled in the line-of-duty such that they are incapable of substantial gainful employment in any capacity in the future will be guaranteed to receive 70% of their salary, tax-free, for life from LEOFF Plan 2; or up to 100% of their salary when combined with Workers' Compensation and/or federal Social Security disability benefits for the same injury.

Survivor Health Insurance
Surviving spouses and children of LEOFF Plan 2 members, who were killed in the line-of-duty since January 1998, have the option to purchase health insurance from the State. The Board proposal extends the same option to purchase health insurance from the State to the surviving spouses of LEOFF Plan 2 members who were killed in the line-of-duty prior to 1998. In addition, the proposal allows the LEOFF Plan 2 retirement fund to reimburse survivors of all LEOFF 2 line-of-duty deaths for the cost of purchasing health insurance from the State.

$150,000 Death Benefit – Occupational Illness
Coverage for the $150,000 death benefit provided when a member dies as a result of a duty-related injury was extended to include members who die from a duty-related illness, such as an infectious disease or cancer, which results from job-related exposure.

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2007 Successful Policy Changes

Temporary Duty Disability Benefits

Members who are temporarily disabled in the line-of-duty previously were only able to purchase up to six months of service credit, and only if their employer provides a disability leave supplement. A LEOFF Plan 2 member who is receiving Workers' Compensation can now purchase up to twenty-four consecutive months of service credit for each temporary duty disability.

Service Credit Transfer Waiting Period

Emergency Medical Technicians (EMTs) who became members of LEOFF Plan 2 due to legislation in 2004 and 2006, were provided with the option to transfer past PERS service credit into LEOFF Plan 2. However, the legislation provided that the transfer of service was delayed until five years after the member elects to transfer their service credit. This five-year waiting period requirement has created unintended consequences for members who die or become disabled before their service has transferred. An exception was created to the five-year waiting period for members who die or retire due to disability a member's such that the past PERS service will be transferred to LEOFF Plan 2 and used to calculate their LEOFF Plan 2 pension. .

Dual Membership

Members who belong to more than one state-administered pension plan during their public service career can combine their service credit in multiple plans, and use salary earned while a member of one plan, for calculating their benefit from another plan. However, certain inconsistencies existed in applying these laws. The inconsistencies have been addresses by changing the definition of base salary to include payments that are reportable in both systems and were previously excluded, such as overtime. The "maximum benefit rule" (a rule designed to protect Plan 1 benefit caps) for members with less than fifteen years of service in a capped plan and service in an uncapped plan has been removed. In addition, LEOFF Plan 2 has been added to the list of retirement plans whose members can combine service credit for improved benefits tied to length of service.

Board Membership

The time periods when employer, legislative and retiree representatives join the Board have been amended. Employer terms have been staggered so no more than one position expires in the same year. Legislative terms are two years in length and run from January through December. The positions on the Board scheduled to be filled by retirees beginning in July 2007 can be filled by either active or retired members, but the board is required to have at least one retired member on the Board beginning January 2008.

Contribution Rate Process (2007)

Developed by the Office of the State Actuary and coordinated with the Pension Funding Council (PFC), the contribution rate adoption process described in the actuarial funding chapter was amended. Most significantly, it provides that contribution rate-setting will occur two months earlier than it does now.

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2008 Successful Policy Changes

Alternate Revenue

LEOFF Plan 2 has two sources of revenue to fund plan benefits; contributions and investment earnings. Any benefit improvement must be paid for by an increase in contributions by plan members, employers, and the State. Other public safety retirement plans around the country have developed alternate revenue sources as a means of funding improved plan benefits without raising contribution rates.

This bill provides additional shared revenues to LEOFF Plan 2 and local jurisdictions. When the general state revenues increase by more than five percent, an amount up to fifty million dollars would be divided equally between LEOFF Plan 2 for future benefit improvements and local jurisdictions for public safety purposes.

Beginning in 2011, and by September 30 of odd-numbered years in each subsequent fiscal biennium in which general state revenue collections increase by more than 5 percent from the prior fiscal biennium, the State Treasurer must transfer, subject to appropriation, funds for transfer to a new Local Public Safety Enhancement Account (LPSEA). The amounts of the transfers to the LPSEA are: $5 million for 2011; $10 million in 2013; $20 million in 2015; $50 million in 2017; and in subsequent fiscal biennium the lesser of one third of the general revenue increase amount or $50 million. Half of the funds moved to the LPSEA are to be transferred to a new Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes.

2009 Successful Policy Changes

Duty Disability Conversion

Members who retired as a result of duty related disabilities prior to the creation of duty disability retirements are not receiving the favorable tax treatment on their benefits to which they are entitled. This bill would reclassify eligible Service and Disability retirements to Occupational Disability retirements for the purpose of allowing affected retirees to take advantage of favorable tax treatment on the first 10% of the member's salary.

Fish & Wildlife Enforcement Officer Service Credit Transfer

FWEO members were not allowed to transfer their PERS Plan 2/3 service as Enforcement Officers to LEOFF Plan 2. This bill, developed jointly with the Select Committee on Pension Policy (SCPP), provides Enforcement Officers at the State Department of Fish & Wildlife the opportunity to transfer past service as Enforcement Officers from PERS Plan 2/3 to LEOFF Plan 2. Transferring members will be required to pay the difference in contributions that the member made to PERS 2/3 and what the member would have contributed in LEOFF 2, plus interest, or the entire balance of the member's PERS 3 defined contribution account. Member, employer, and state contribution rates will increase to the extent necessary to fund the difference in the value of the service credit transferred between PERS and LEOFF Plan 2, and the member contributions transferred into LEOFF Plan 2.

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No Cost Interruptive Military Service Credit
Members whose public employment is interrupted by military service are required to pay member contributions in order to purchase service credit. The member obligation to pay for interruptive military service credit if the member served during a period of war was eliminated and refunds the member contributions already paid by a member to purchase interruptive military service credit.

Military Service Death Benefit
Beneficiaries of members who die while serving on active duty with the United States Military do not qualify for duty-related death benefits. The actuarial reduction is eliminated for the survivor of a member who left the employ of a retirement system-covered employer to serve in the National Guard or military reserves, and who die while honorably serving in a defined period of war.

2010 Successful Policy Changes

Catastrophic Disability Medical Insurance
LEOFF Plan 2 members who suffer catastrophic duty-related disabilities will be reimbursed for the premiums they pay for employer-provided health insurance and Medicare parts A&B. Members eligible for Medicare coverage would be required to enroll in Medicare in order to be eligible for reimbursement.

Duty Related Death Benefit (Lakewood Bill)
This legislation does five things:

- Provides all survivors of duty-related deaths in LEOFF Plan 2 with the same choice currently provided only to survivors of members with 10 or more years of service (ongoing pension or withdrawal 150% of accumulated contributions).
- Eliminates the actuarial reduction for the joint and 100% survivor benefit for duty-related deaths in LEOFF Plan 2.
- Provides a 10% minimum pension benefit for duty-related deaths.
- Increases the $150,000 lump-sum duty-related death benefit to $214,000 reflecting inflation since 1996 when the benefit was established and adds an inflationary adjustment for the future.
- Requires state universities and community colleges to waive all tuition fees and services and activities fees for children and surviving spouses of any law enforcement officer or fire fighter who is killed or totally disabled in the line of duty.

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Service Credit for Shared Leave
Many employers have shared leave programs which allow members to donate and receive sick leave or annual leave under certain conditions. Currently, shared leave used by local government employees is not includable in their pension. This legislation allows shared leave to be reported to the Department of Retirement Systems as salary and count for service credit. This change would be prospective, but any shared leave previously reported to DRS would remain creditable if contributions were paid.

2011 Successful Policy Changes

No Legislation Passed

2012 Successful Policy Changes

No Legislation Passed

2013 Successful Policy Changes

Health Insurance for Catastrophic Disability (Wynn Loiland Act)
The LEOFF 2 trust fund reimburses catastrophically disabled members for post-retirement medical insurance premiums, limited to the amount of the premium for post-retirement insurance available through the employer or through Consolidated Omnibus Budget Reconciliation Act (COBRA) and/or Medicare. Eligibility was expanded to include members not eligible for employer-sponsored medical insurance, Medicare, or coverage under COBRA. The maximum reimbursement amount is pegged to the rate for post-retirement medical coverage under COBRA.

2014 Successful Policy Changes

Purchase of Annuity
Retirement is often described as a "three-legged stool" with a pension, Social Security, and individual savings as the three legs. Individual savings is particularly important for LEOFF Plan 2 members since most do not participate in Social Security. The Internal Revenue Service recently changed federal rules to allow members to roll over money from a deferred compensation savings plan to a retirement fund and convert that account balance into an actuarially equivalent lifetime annuity. The Department of Retirement Systems has been authorized to offer actuarially equivalent annuities in order to encourage members to use deferred compensation plans to save for their own retirement.

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Technical Correction – Definition of Fire Fighter
Emergency medical technicians (EMTs) were added to the definition of fire fighter in 2005, RCW 41.26.030(16). The original legislation which included an expiration date intended to put a time limit on the ability to transfer prior PERS credit into LEOFF. Due to a drafting oversight, the expiration date was applied to the entire bill including the amended fire fighter definition.
Remedial legislation corrected the expiration date issue.

2015 Successful Policy Changes

Remarriage Prohibition for Survivors
Surviving spouses of LEOFF Plan 2 and WSPRS members who are killed in the line of duty are entitled to receive a monthly benefit of at least 60% of member's wages from the state workers' compensation program. This benefit is terminated if the survivor remarries.

This legislation requires LEOFF Plan 2 to assume paying the survivor benefit if the surviving spouse of a LEOFF 2 member remarries. LEOFF plan 2 will also pay a benefit to surviving spouses whose benefits were previously suspended due to remarriage. The bill extends the same benefit to survivors of WSPRS members killed in the line of duty.

Public Employee Benefits Board Technical Corrections
Clarifies employee eligibility for benefits and conforms the eligibility provisions to federal law.

2016 Successful Policy Changes

Disaster Response Coverage
Provides LEOFF Plan 2 members who are called up into eligible federal service to respond to natural disasters (Oso, wildfires) or other federal emergencies (WTO riots) with similar benefit protections provided to members of the National Guard or Military Reserves who are called up during a time of war.

Eligible federal service means a member left the employ of an employer to enter the uniformed services of the United States or the federal emergency management agency or the national disaster medical system of the United States department of health and human services to perform service in response to a disaster, major emergency, special event, federal exercise or official training.

This proposal accomplishes that by doing the following:

- Provides the survivor of a member who is killed while providing eligible federal service with service credit at no cost for the period of service up until the member’s death.
- Provides a member who is disabled while providing eligible federal service with service credit at no cost for the period of service up until the member’s separation from that service.

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- Provides survivor retirement benefits which are not actuarially reduced for the survivor of a member who is killed while providing eligible federal service on or after March 22, 2014.
- Provides disability retirement benefits which are not actuarially reduced for a member who is killed while providing eligible federal on or after March 22, 2014.

Retiree Annuity Purchase
Allows LEOFF Plan 2 retirees who retired before October 1, 2014, a six month window to purchase an annuity through the LEOFF Plan 2 trust. The annuity would be offered under the same terms as the 2014 annuity bill including a built in COLA and survivor option.

2017 Successful Policy Changes

EMT'S Into LEOFFF Plan 2
Narrows the definition of new employees eligible for LEOFF Plan 2 membership to certain employees, including Emergency Medical Technicians (EMTs) that provide medical treatment at the scene of a medical emergency, or while transporting a patient to a medical facility. This bill also broadens the definition of LEOFF Plan 2 "employer" to include public corporations created by a city, town, or county. An EMT who provided emergency medical services for these employers will have the option to establish service credit for LEOFF 2 service earned after July 24, 2005.

Interruptive Military Service Credit Study
The LEOFF Plan 2 Retirement Board must study the requirement that members of LEOFF 2, who are veterans of specified conflicts, make contributions to the plan for periods of interruptive service credit where the member was not awarded a campaign badge or medal. The Board must report the findings of the study to the appropriate committees of the Legislature by January 1, 2018.

L2B History of Legislation and Funding Policy Changes
2004 - 2017

Year	Title/Issue
2004	Duty Disability Minimum Benefit
	Duty Survivor Benefit Bill
	Actuarial Smoothing Market Corridor
	Adopted Annual Contribution Increases for 2005-2009
2005	Duty Disability Prior to Normal Retirement Age
	Interruptive Military Service Credit when Unable to Return to Employment
	Post-LEOFF Plan 2 Employment
	Purchase of Service Credit
2006	Catastrophic Disability Benefit
	Survivor Health Care Insurance
	Fish & Wildlife Enforcement Officer Service Credit Transfer (2006, 2007, 2008, 2009)
	$150K Death Benefit – Occupational Disease
	Adopted Strategic Plan for 2006-2010
2007	Service Credit Transfer Waiting Period
	Retiree Health Care Insurance Access
	Board Membership
	Temporary Duty Disability
	Dual Membership
	$150K Death Benefit Adjustment (2007, 2008, 2009, 2010)
	Contribution Rate Setting Process
2008	Alternate Revenue
	Deferred Compensation as Salary
	Military Service Death Benefit (2008, 2009)
	No Cost Interruptive Military Service Credit (2008, 2009)
	Adopted a Fixed Contribution Rate for 2009-2013
	Adopted Results of Demographic Experience Study
2009	Survivor Remarriage Prohibition for L&I Benefits (2009, 2010, 2011, 2012, 2015)
	Duty Disability Conversion
	Catastrophic Disability Medical Insurance (2009, 2010)
	Domestic Partner Benefits
2010	Omnibus Duty Related Death Benefits [Vesting, Survivor Reduction, Min Ben, $150k, Tuition, Remarriage Prohibition]
	Service Credit for Shared Leave
2011	Duty-Related Presumption for Heart Attack & Stroke (2011, 2012)
	Adopted Recommended Changes to Long Term Economic Assumptions – Inflation 3.50% to 3.00%, Salary Growth 4.50% to 3.75%, Annual Investment Return 8.00% to 7.50%
2012	LEOFF Plan 1 & LEOFF Plan 2 Merger (2012)
	Adopted Rates for 2013-2017 - 100% of the Entry Age Normal Cost
2013	HCA Technical Corrections (2013, 2015)

	Catastrophic Disability Medical Insurance (Wynn Loiland Act)
2014	Career Change Provisions/Clarifications
	Annuity Purchase
	Correction – Definition of Fire Fighter/EMT
	Adopted Rates for 2015-2019 - 100% of the Entry Age Normal Cost
	Adopted Results of Demographic Experience Study
2016	Retiree Purchase of Annuity
	Disaster Response Benefits
	Adopted New Rates for 2017-2021 – 100% of Entry Age Normal Cost
2017	Public Hospital District EMTs into LEOFF Plan 2
	Interruptive Military Service Credit Study

LEGEND

- Bill Passed
- Bill Failed
- Funding Policy Changes

LEOFF Plan 2 Retirement Board
2005 Interim Summary - Frequently Requested Items

Issue	Summary of Proposal/Options	Total Rate Impact[1]
Multiplier	1. Increase multiplier to 2.25% for all service.	4.40%
	2. Increase multiplier to 2.50% for all service.	**8.80%**
	Increase multiplier to 2.50% for all service. [2017 Pricing Update]	**12.34%**
	3. Increase multiplier to 2.75% for all service.	13.20%
	4. Increase multiplier to 3.00% for all service.	17.58%
	5. Increase multiplier to 2.25% for all service earned after September 2003.	2.25%
	6. Increase multiplier to 2.50% for all service earned after September 2003.	**4.49%**
	Increase multiplier to 2.50% for all service earned after July 2015. [2017 Pricing Update]	**4.88%**
	7. Increase multiplier to 2.75% for all service earned after September 2003.	6.73%
	8. Increase multiplier to 3.00% for all service earned after September 2003.	8.96%
	9. Multiplier determined by number of years in career – all service: • 2.00% multiplier if less than 20 years • 2.50% multiplier if 20 to 24 years • 2.75% multiplier if 25 to 29 years • 3.00% multiplier if 30 or more years	12.46%
	10. Apply different multipliers to tiers/years of service – all service: • 2.00% multiplier applied to years 1-9 • 2.25% multiplier applied to years 10-14 • 2.5% multiplier applied to years 15-19 • 2.75% multiplier applied to years 20 – 24 • 3.00% multiplier applied to years 25 and over	6.34%
	11. Apply different multipliers to tiers/years of service – for all service earned after effective date: • 2.00% multiplier applied to years 1-9 • 2.25% multiplier applied to years 10-14 • 2.50% multiplier applied to years 15-19 • 2.75% multiplier applied to years 20 – 24 • 3.00% multiplier applied to years 25 and over	5.14%
Final Average Salary	1. Change Final Average Salary period from 5 years to 2 year - all service	2.64%
	2. Change Final Average Salary period from 5 years to 3 year - all service	1.74%
	3. Change Final Average Salary period from 5 years to 2 year – for all service earned after effective date	1.28%
	4. Change Final Average Salary period from 5 years to 3 year – for all service earned after effective date	0.84%
Retirement Age	1. Normal retirement at Age 50 with 20 years – all service unreduced	0.82%
	2. Normal retirement at Age 50 with 5 years – all service unreduced	1.10%
	3. Normal retirement with 25 years of service – all service unreduced	1.20%
	4. Normal retirement with 20 years of service – all service unreduced	2.80%
	5. Normal retirement at Age 50 with 20 years – all service after effective date unreduced	0.36%
	6. Normal retirement at Age 50 with 5 years – all service after effective date unreduced	0.60%
	7. Normal retirement with 25 years of service – all service after effective date unreduced	0.44%
	8. Normal retirement with 20 years of service – all service after effective date unreduced	1.26%

[1] Total Rate Impact is the combined rate required to be paid by members (50%), employers (30%), and the State (20%).

Issue	Summary of Proposal/Options	Total Rate Impact
Survivor Benefits	1. No cost joint and 100% survivor benefit for all retirees (retro)	6.54%
	2. No cost joint and 100% survivor benefit for retirees after effective date (prospective)	4.36%
	3. No cost joint and 50% survivor benefit for all retirees (retro)	3.28%
	4. No cost joint and 50% survivor benefit for retirees after effective date (prospective)	2.76%
	5. No cost joint and 66.67% survivor benefit for all retirees (retro)	1.84%
	6. No cost joint and 66.67% survivor benefit for retirees after effective date (prospective)	1.38%
Retiree Health Care	1. Active members would pay for retiree health care	3.00% – 16.00%

2017 – 2019 Strategic Plan

LEOFF
Plan 2 Retirement Board

Contents

GUIDING PRINCIPLES

Who We Are

Mission

- The mission of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board is to responsibly govern the pension plan for the benefit of the members.

Vision

- Well Designed, Professionally Managed

Organizational Values

- We will treat those we serve and each other with respect, fairness, and honesty.
- We will communicate openly and professionally.
- We will foster a climate of innovation, integrity, accountability, and excellence.
- We will work with those we serve to meet their needs.

PRIORITY GOALS

What We Want to Accomplish

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

PRIMARY STRATEGIES

What We Will Do To Achieve Our Goals

Goal One: Enhance the benefits for the members.

Objectives

- Add benefits that are affordable for stakeholders
- Identify viable alternative revenue sources for benefit enhancements

Key Tactics

- Propose legislation that improves the plan for the stakeholders
- Compare plans from other states and relevant organizations
- Obtain stakeholder input for needed changes in the plan
- Research and monitor Federal pension and tax laws
- Monitor benefits for workers injured in the line of duty
- Assess, evaluate, modify or revise existing benefits

Goal Two: Provide the stakeholders with a voice in plan governance.

Objectives

- Enhance communication media for the stakeholders
- Maintain stakeholder confidence in the integrity of the plan

Key Tactics

- Provide opportunities for member communication/feedback
- Take a leadership role in making presentations to stakeholder groups
- Solicit information about stakeholder priorities and issues
- Make presentations at public hearings
- Maintain a wide range of communication media such as Web site, newsletter, social media, and e-mail
- Inform stakeholders about opportunities for communication/feedback

Goal Three: Maintain the financial integrity of the plan.

Objectives

- Maintain prudent financial policies
- Identify additional funding mechanisms
- Maintain the stability of contribution rates

Key Tactics

- Adopt adequate contribution rates
- Adopt financially sustainable budget for board operations
- Adopt economic assumptions, actuarial tables and cost methodologies
- Commission independent audits
- Research other options for revenue
- Identify best practices from other states and organizations
- Consult with strategic partners regarding rate stability
- Ensure the reliability of rate projections
- Provide information on the fiscal reality of the plan
- Promote Fiduciary education

Goal Four: Inform the stakeholders.

Objectives

- Manage expectations
- Increase member understanding of the balance between desired enhancements and fiscal realities
- Increase member understanding of the benefits provided in LEOFF 2 Plan

Tactics

- Provide stakeholder access to understandable fiscal and policy analysis
- Provide additional DRS LEOFF 2 seminars and workshops throughout the state
- Develop simple and direct forms of communication to the members
- Provide comparison information to best practices in other states
- Provide the LEOFF Actuarial Valuation Report as a tool for members

PERFORMANCE MEASURES

How We Will Measure Our Success

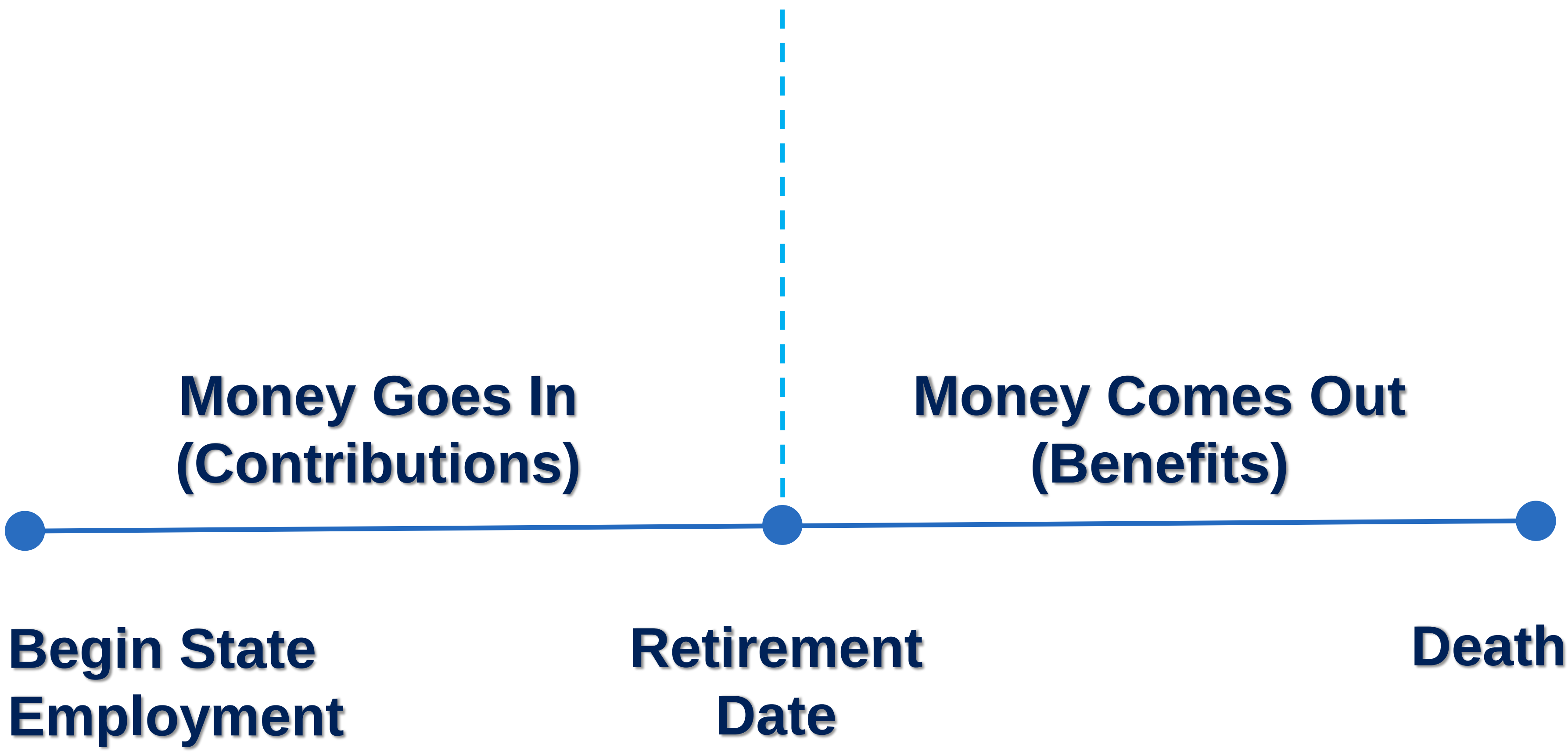
Goal	Method of Measurement	Target
4	Seminars and workshops devoted to the priorities of the Board	Make a minimum of five presentations before stakeholders each year
1	Board proposals that are approved by the Legislature	100% approval rate
1 & 2	Research supporting proposals	Every proposal includes a research component
2 & 4	Comprehensive communication program with targets and schedule	Web site Redesign by December 31, 2017
2 & 4	Feedback from the membership	Perform a membership education/engagement survey
2 & 3	Independent audits: • Board expenses • Actuary's assumptions	Audit Targets • Board expenses—no findings • Actuary's assumptions—performed on timely basis
3	Deviation from the expected long-term cost of the plan	Maintain deviation within 10% of long-term cost
3	Current and appropriate funding policies	Review, revise and adopt funding policies for LEOFF Plan 2
3	Funded ratio under actuarial standards	At least 100%
3	Actual performance vs. projections in key planning areas	Actual expenditures will not exceed projected expenditures
2 & 4	Newsletter	Minimum of two per year
2 & 4	Web site	Review a report on Web site activity quarterly

A Discussion On Actuarial Funding

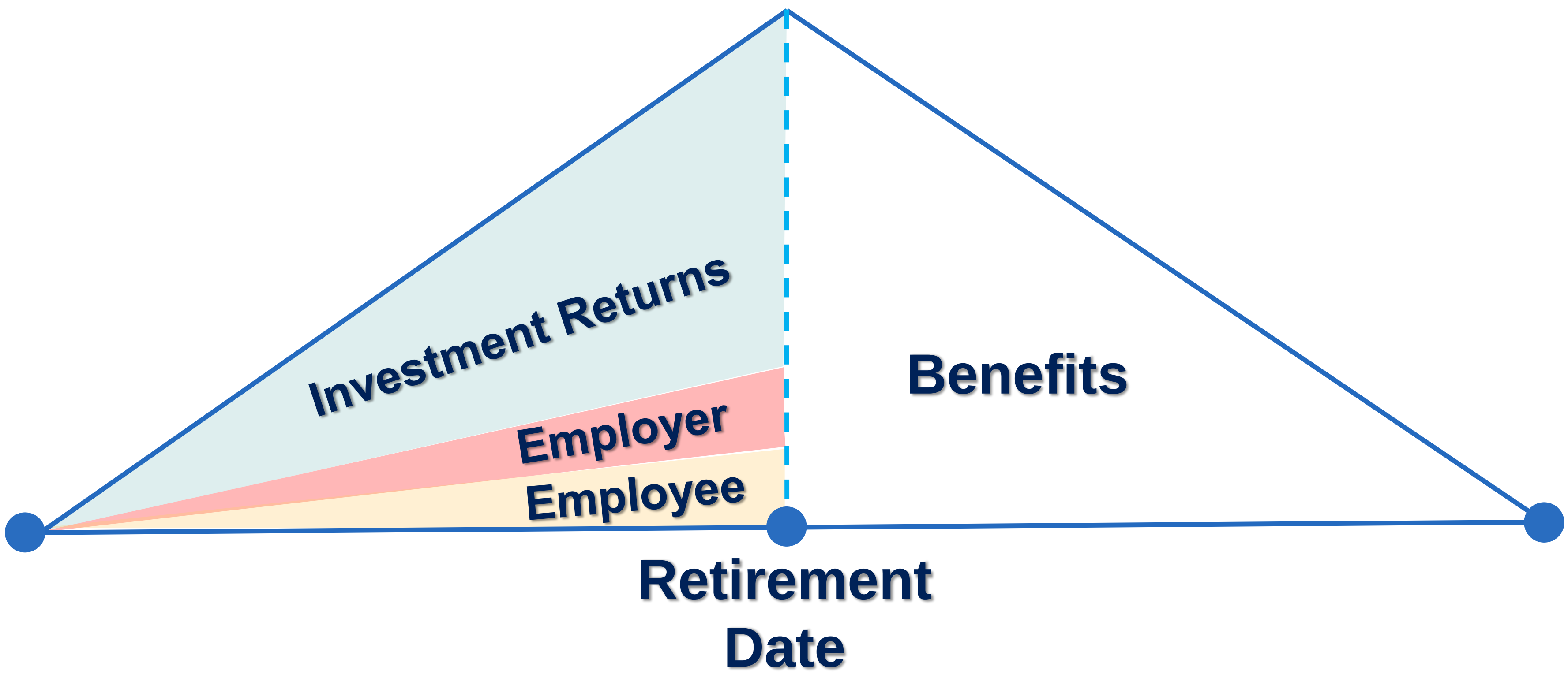
Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

Discussion with:
Steve Nelsen and the LEOFF Plan 2 Retirement Board

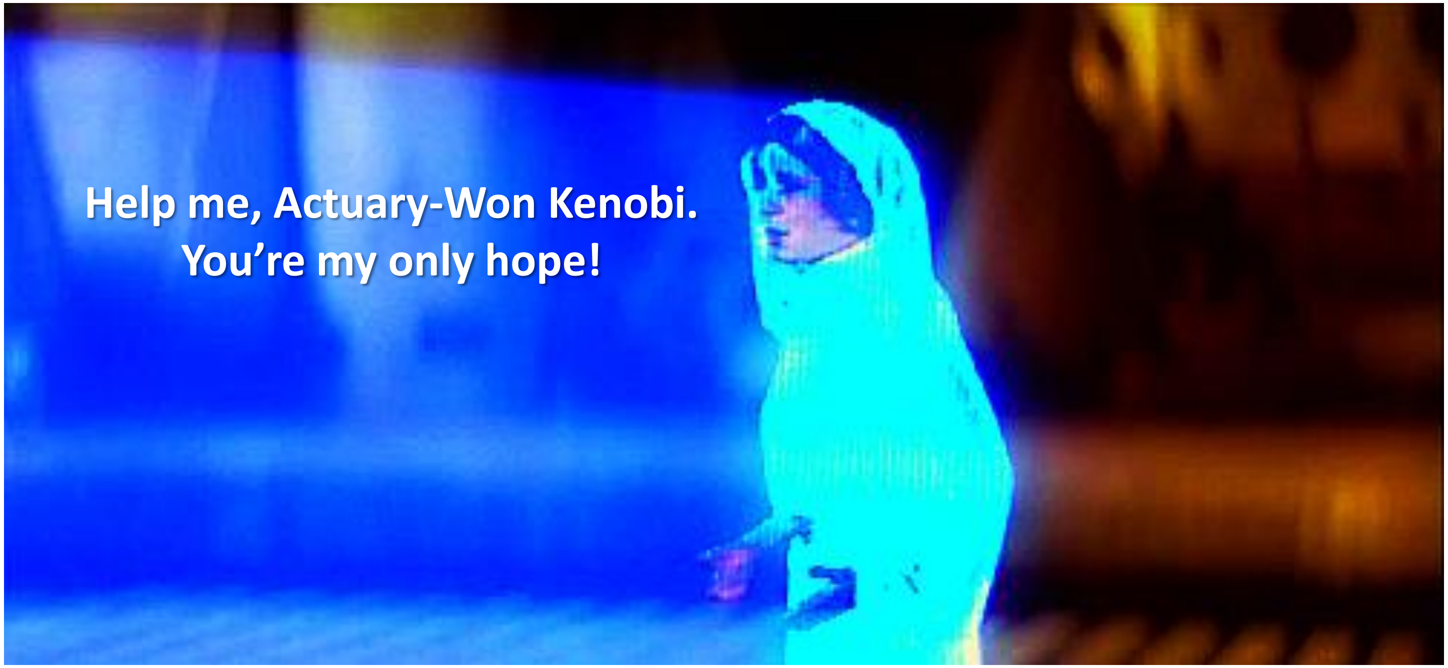
Background: Pension Funding 101



Background: Pension Funding 101



Actuarial Cost Method Used To Determine Amount And Timing Of Contributions



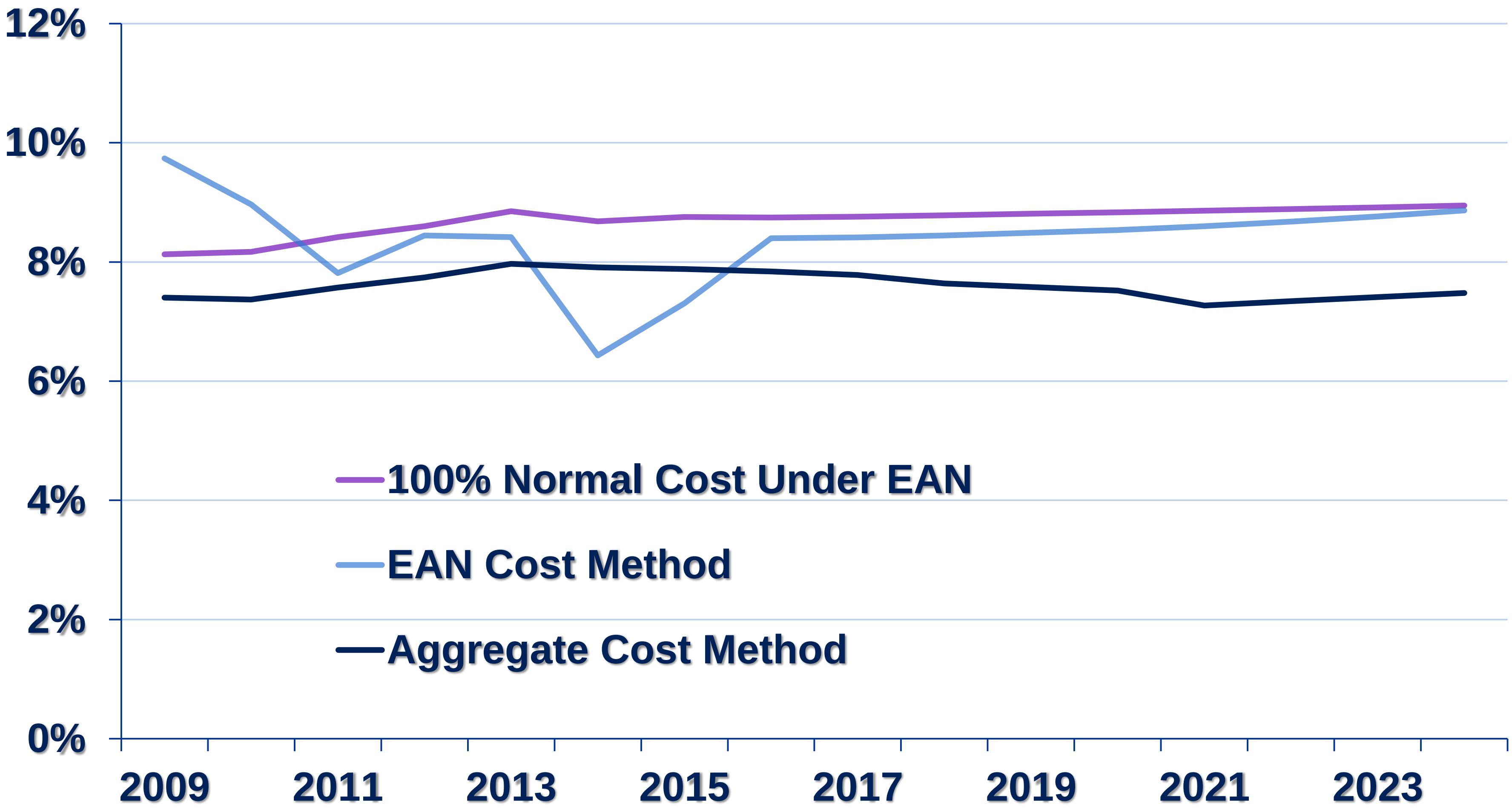
Entry Age Normal (EAN) Cost Method Has Two Components

- Normal Cost (NC)
  - Funded over period from entry age to retirement age
  - Recalculated when projected benefits change
    - Changes in assumptions, benefit provisions, or demographics of plan
- Unfunded Actuarial Accrued Liability (UAAL)
  - Compares benefits members have "earned" for past service to assets already set aside to pay for those benefits
  - Difference between the two must be amortized over select time period
  - Volatility from investment returns and plan experience
- Pros: Stable NC rates and cost method required for financial reporting
- Cons: Includes UAAL and can weaken intergenerational equity

Aggregate Cost Method Only Has A Normal Cost

- NC includes volatility from investment returns and plan experience
  - All unfunded benefits are amortized over future active payroll
- Most Washington State plans use this method
- Pro: No UAAL
- Con: NC can be volatile

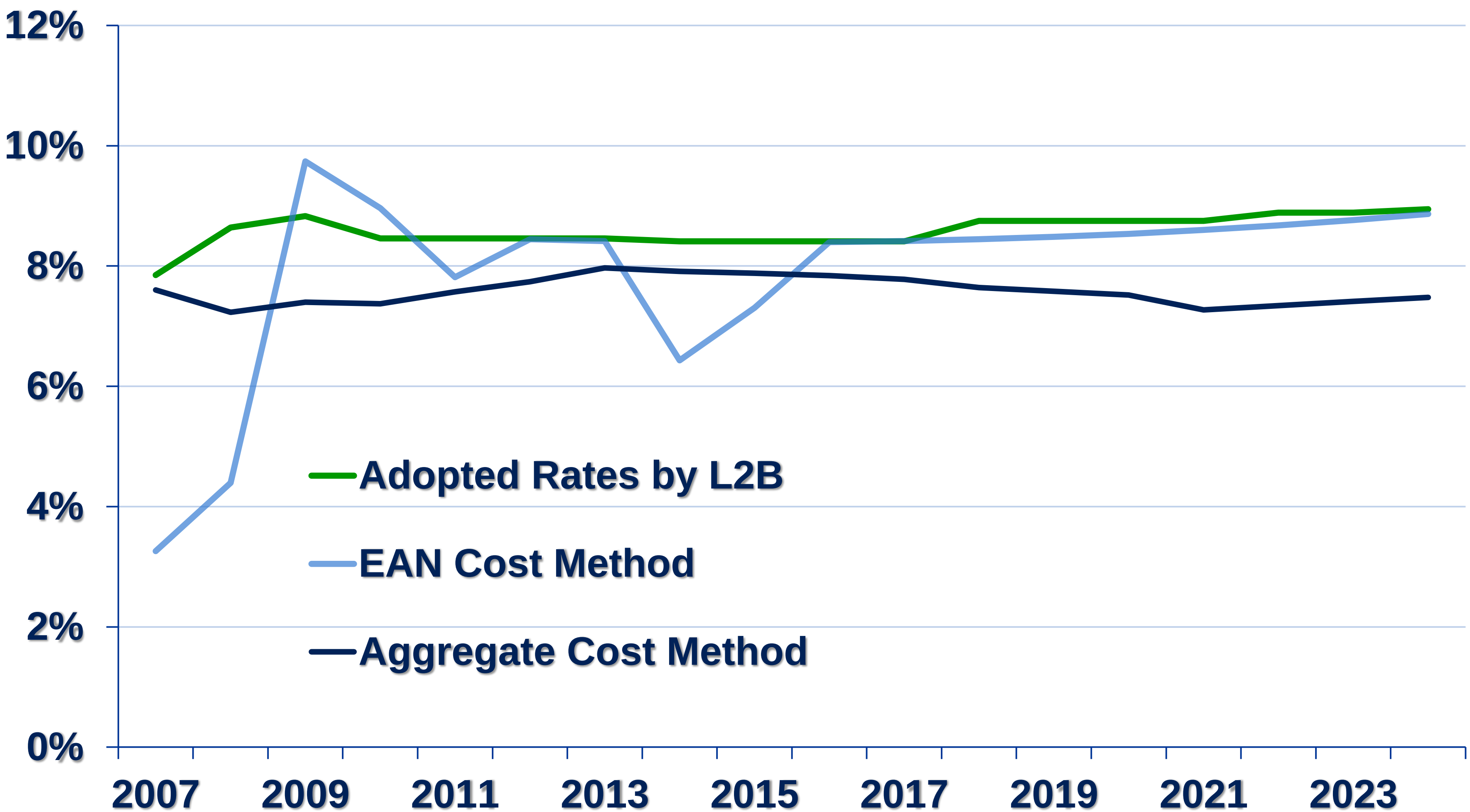
Estimated LEOFF 2 Employee Contribution Rate Path



Current Board Funding Policy

- Board has two policies in place
  - Long term: Aggregate, with rate floor of 90% EAN Cost
  - Short term: Aggregate, with rate floor of 100% EAN Cost
- Aggregate plus one component of the EAN funding method
  - Aggregate as the underlying method, no UAAL
  - Adding stability in the NC by applying the EAN Cost as a rate floor
- Asset smoothing method also in place to help limit annual volatility in the Aggregate NC

Estimated LEOFF 2 Employee Contribution Rate Path



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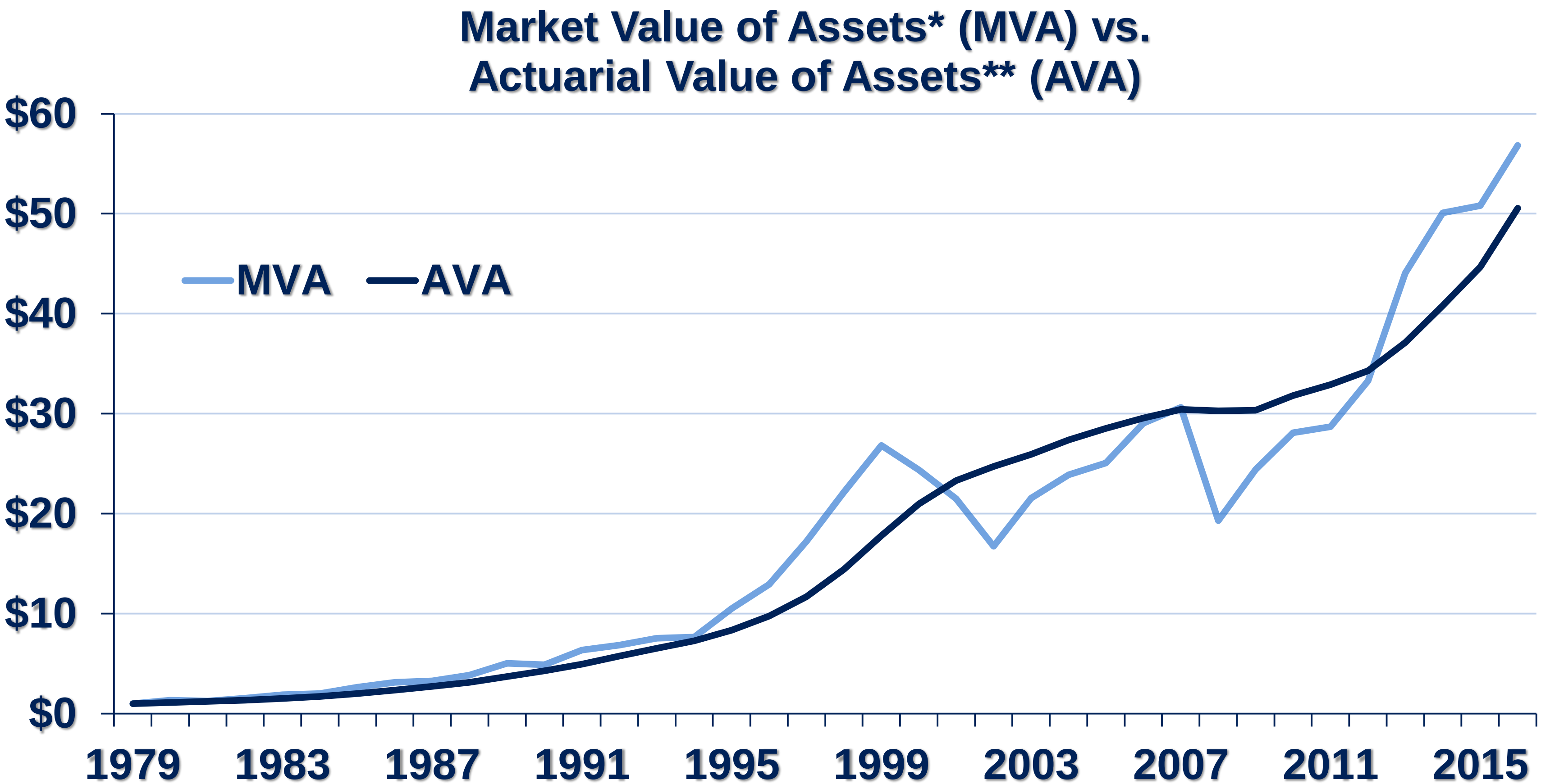
Sample Eight-Year Fixed Asset Smoothing



**We assumed MVA increased by the S&P 500 returns.*

***We smoothed the AVA over a fixed 8 year period beginning in 1980. We assumed an investment rate of return of 7.50% during this time period.*

Funding Policy Considerations

- Funding policy determines contribution rates
  - Adequacy, stability, affordability
- Complexity of the policy can impact understandability and administration
- Continue with current policy
  - Aggregate cost method with 90% or 100% EAN Cost rate floor for stability
  - Regularly monitor funded status progress including future expectations
- Adopt new funding policy
  - Change underlying actuarial cost method
  - Adopt new rate stability measure(s)
  - Consider options and pros/cons

Summary

- Many funding method options
  - Ways of determining how much to set aside each year to pay future benefits
  - Can choose method that best represents the Board's values
- EAN
  - Pro: Stable NC
  - Con: Allows creation of UAAL
- Aggregate
  - Pro: No UAAL
  - Con: Volatility in the NC
- Current Board funding policy - Aggregate with NC from EAN
  - Pro: Stable NC and no UAAL
  - Con: Possible overfunding, weakening intergenerational equity

Appendix: Assumptions and Methods

- Contribution rates through 2015 are from Actuarial Valuation Reports (AVRs). Rates from 2016 to 2024 are projected rates. Projected contribution rates were developed using assets, data, assumptions, and methods consistent with the *2015 AVR* and assumptions found on our website. We also assumed a 2.65% return for Fiscal Year 2016.

Entry Age Normal Cost Method

- Estimated the projected Market Value of Assets based upon calculated contributions under this funding method.
- Assumed no smoothing of assets.
- Amortized UAAL over 15 years with a discount rate consistent with the valuation year discount assumption.
- Employees and employers share equally in the contribution rate increase or reduction from amortizing any UAAL.

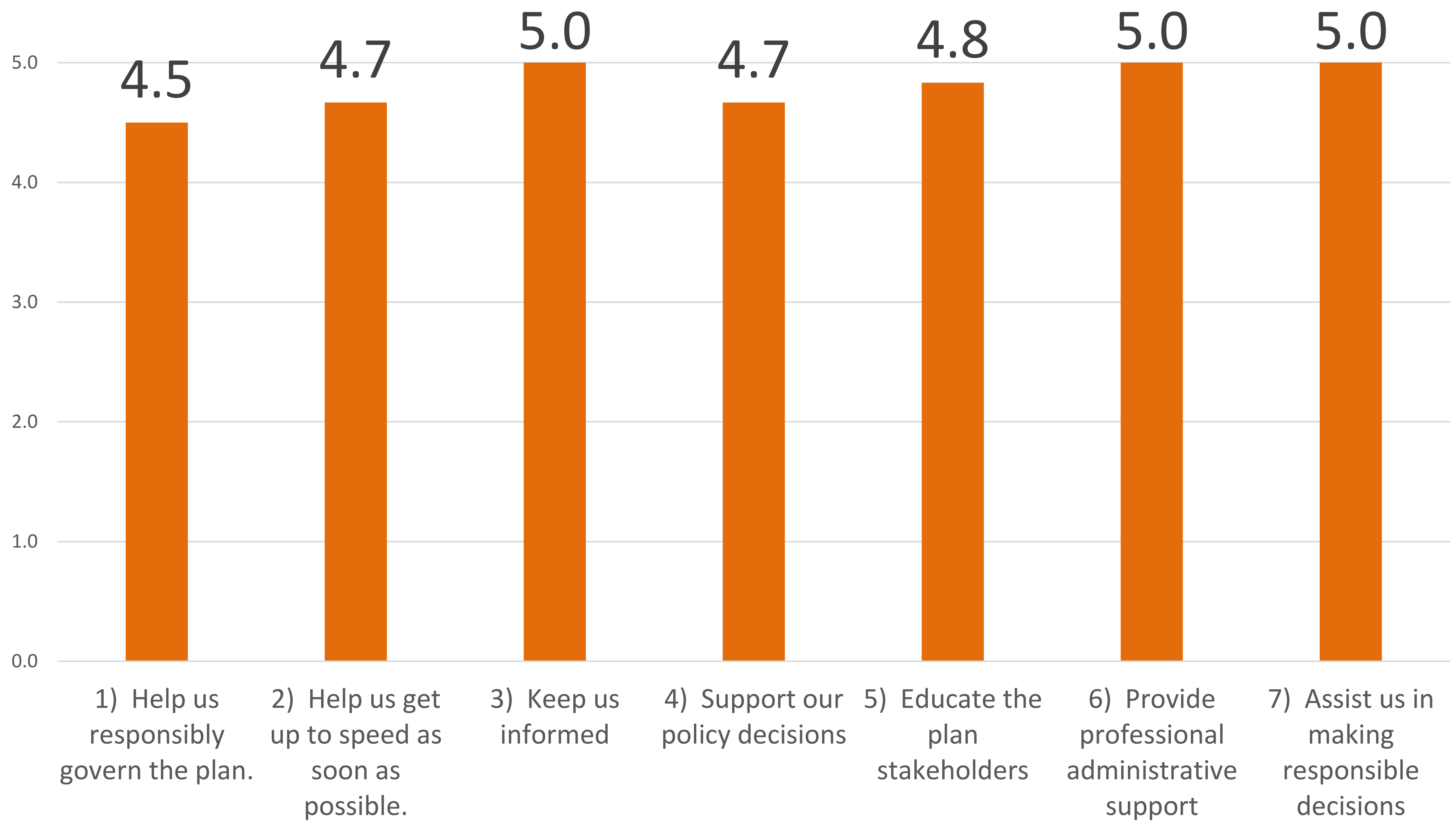
Board Member Expectations

Excellence Starts with Understanding Expectations

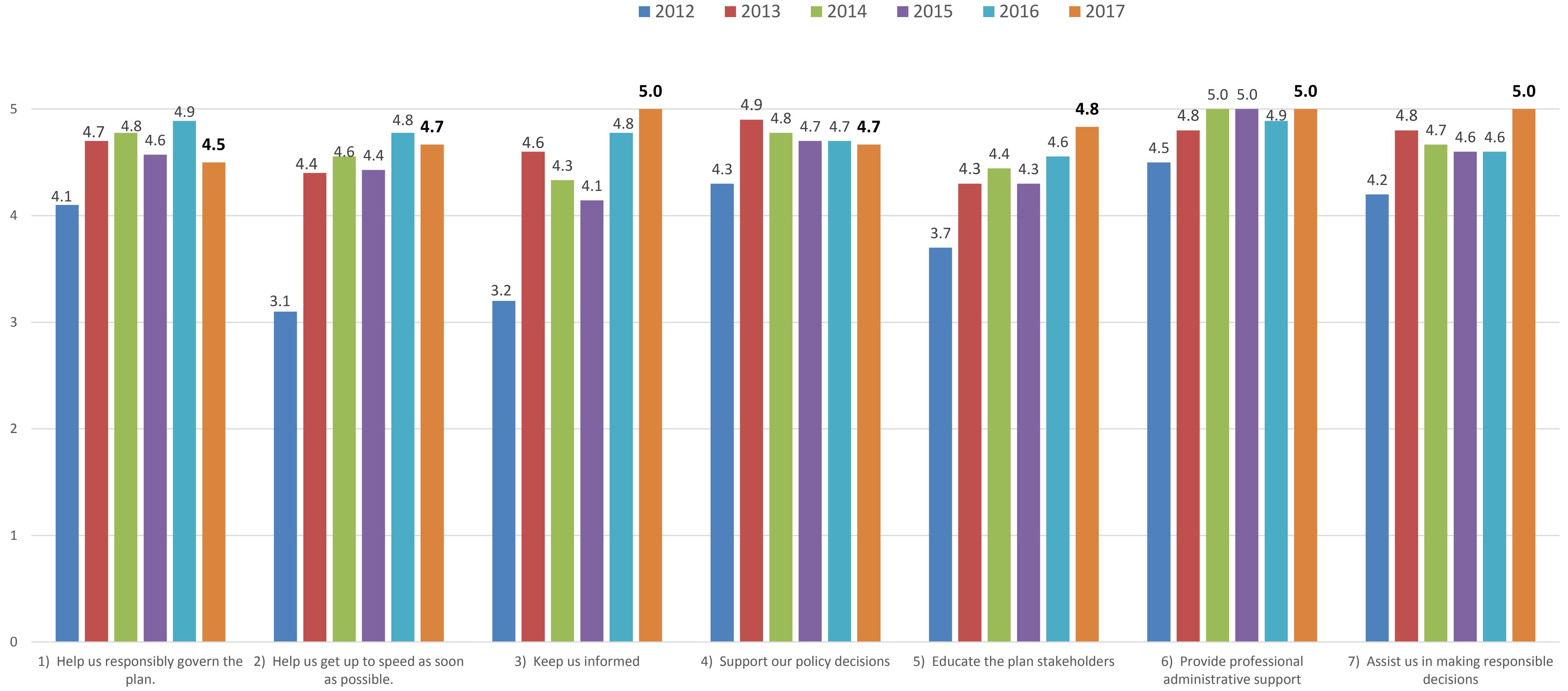
- You are our primary customers
  - Success for the team means meeting or exceeding your expectations
  - The team needs to be clear about Board member expectations as we develop processes to support your mission
  - The team needs feedback to ensure we are on the right track

Board Expectations

Expectation Survey Results - 2017



Expectation Survey Results - 2017



LEOFF Plan 2 Retirement Board

Next Steps - Discussion

- Clarity regarding expectations is key to success.

  - What improvements will exceed your expectations?
  - Have any expectations changed or new expectations emerged?

LEOFF
Plan 2 Retirement Board

Board Member Expectations

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Board Expectations

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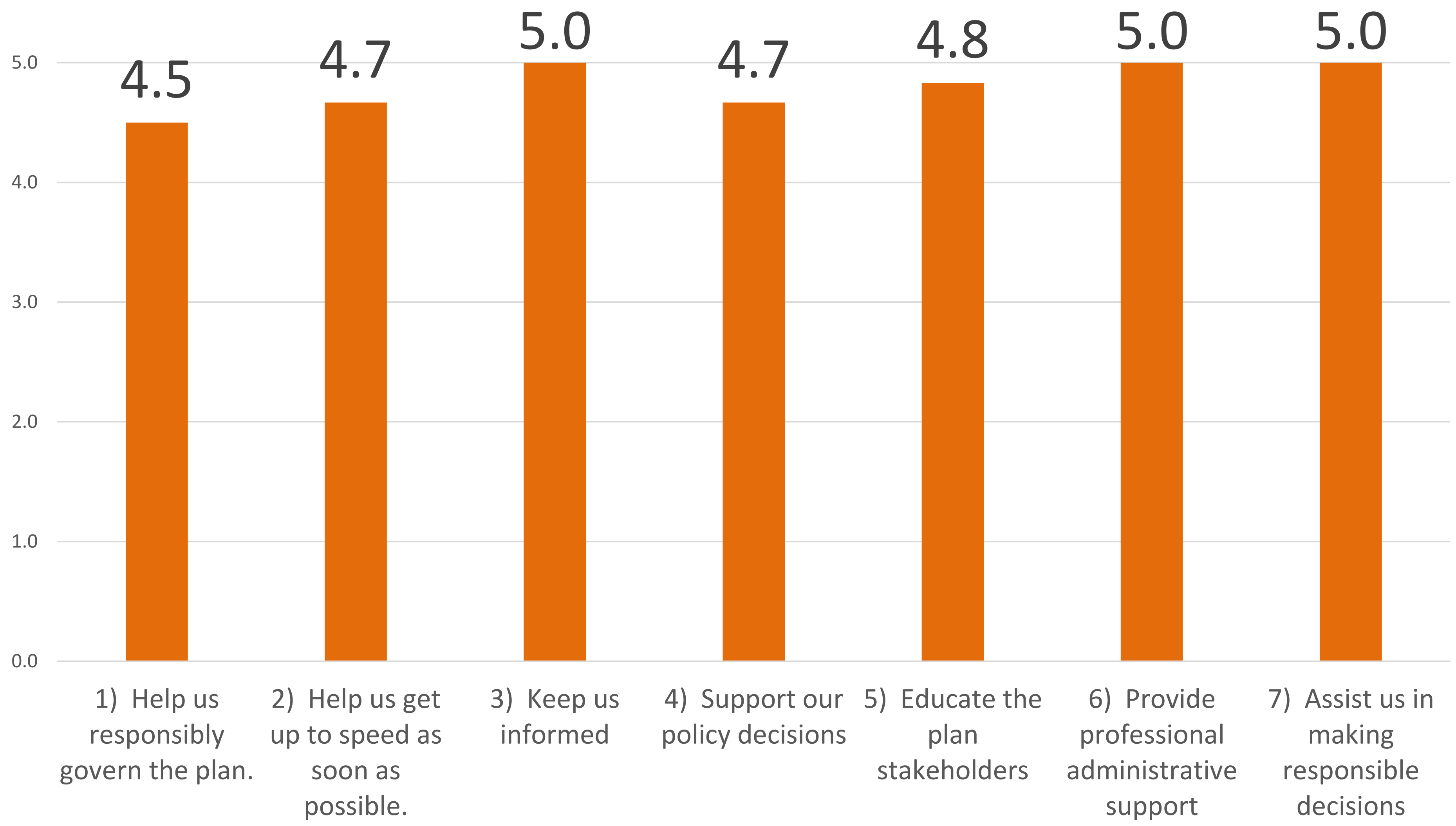
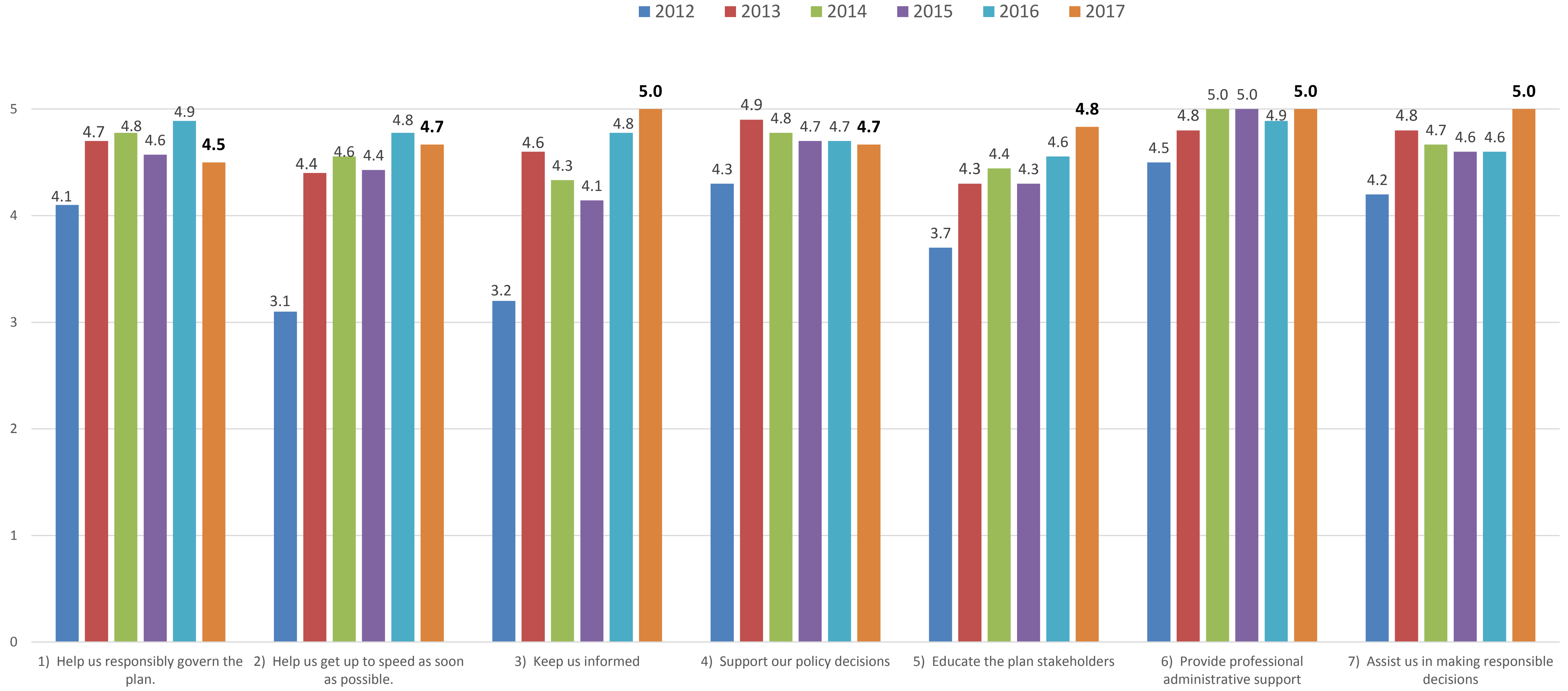


Expectation Survey Results - 2017



Next Steps - Discussion

- Clarity regarding expectations is key to success.

  - What improvements will exceed your expectations?
  - Have any expectations changed or new expectations emerged?

LEOFF Plan 2 Retirement Board

October 18, 2017

Plan Comparison

EDUCATIONAL BRIEFING

By Ryan Frost

Research and Policy Manager

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OVERVIEW

At the December 12, 2012 Board Meeting, the Washington State Institute for Public Policy (WSIPP) gave a presentation regarding how LEOFF Plan 2 compared with peer plans throughout the United States. Since retirement plans within each state may have various designs and multiple variables, it is extremely difficult to find a single measure to compare plans. WSIPP chose income replacement as the most comparable area to evaluate plans. Income replacement is the percentage of a worker's salary replaced by the pension at the time of retirement. The report ranked LEOFF Plan 2 33rd out of 42 comparison plans in the area of income replacement.

While income replacement allows an "apples to apples" comparison, examining only income replacement provides a limited scope of review and may not be the best way to measure the effectiveness of a plan. In order to have a more accurate ranking of plans, it is necessary to look at the many other factors which signify whether a plan is successful. The Board was presented with a follow-up study of possible factors to consider in addition to income replacement.

At the September 21, 2016 Board Meeting, staff gave an updated presentation comparing LEOFF 2 to 159 other public pension funds across the country in an attempt to get a look at that whole picture and attempt to answer the question of "how do you measure if a pension plan is successful?" You can compare how the pension benefit is calculated, or what pension benefit you end up with. To compare calculations, you start with the benefit formula:

- Years of Service x Final Average Salary x Multiplier = Pension Benefit

Isolating one factor in that equation without considering how they interact can distort the comparison. For instance, LEOFF Plan 2 uses a 2% multiplier. Compare that to the New Mexico police and firefighter plan, ranked number one in the WSIPP study, which has a 3% multiplier. That's 50% higher than the LEOFF multiplier, so some may assume that they would have a higher benefit in New Mexico. By only looking at the multiplier, and not the entire picture, you'd miss that New Mexico has an average salary $50,000 lower than in Washington State. Even with a 2% multiplier, a career in Washington State gives you a higher pension than the same career in New Mexico.

HOW DO YOU MEASURE IF A PENSION PLAN IS SUCCESSFUL?

As written previously, WSIPP ranked LEOFF Plan 2 33rd out of 42 plans in income replacement, but how does that ranking change if we simply use the total pension dollars each retiree receives? Using an average benefit metric, LEOFF 2 would've ranked 8th out of 42 plans.

What if two plans have the same benefit? If a retiree from jurisdiction A gets a $60,000 pension and a retiree from jurisdiction B gets a $60,000 pension, whose pension is better? Does a member really care how that pension is calculated if they will receive the same amount?

There are a couple relevant questions that must be asked when measuring the success of a pension plan. First, how much are you contributing into your plan, and how stable are those contributions? Using New Mexico again as a comparison, the employee contribution rate in that plan is nearly twice what you're paying for LEOFF plan 2. That's a real impact to your take-home pay, and your employers' bottom line.

Second, how well funded is your plan, and why should you care about funding? The great recession showed us all how that issue can come home to roost with both employers and employees. Underfunded plans got hammered, simultaneously raising contribution rates and lowering benefits for future members and members who had already retired.

LEOFF 2 MEASURES

CONTRIBUTION RATE STABILITY

LEOFF Plan 2 was the only Washington State pension plan, and the only state-wide pension plan in the nation, to make it out of the great recession without an increase in contribution rates, or benefit reductions.

FUNDING

LEOFF Plan 2 is ranked as the highest funded public pension plan in the country, with a funded ratio of 107%. The average funded status nationwide is 73%.

AVERAGE SALARY

The average salary in LEOFF Plan 2 is $99,048, while the national average is at $56,354.

Video Production Schedule

Purpose:

Produce and distribute informational videos answering member benefit questions.

Productions to Date:

COLA Timing – *How retiring before or after July 1 effects your COLA*

Enhancing Your Benefit – *Compare and contrast service credit purchase and annuity purchase benefits*

Windfall Elimination Provision - *Social Security benefit reductions applicable to LEOFF 2 members.*

Government Pension Offset - *Social Security survivor benefit reduction.*

Career Change - *Post-retirement employment in Washington's public sector.*

Comparing LEOFF Plan 2 – Comparison of LEOFF Plan 2 to 160 other plans nationwide.

Future Production Schedule:

Video Project	Production Schedule
What is the LEOFF Plan 2 Board? • Formation • History of Proposed Legislation	January 2018
Ombudsman Program	April 2018
Retirement Planning • FAS Calculation • Benefit Calculation	September 2018
LEOFF Disability Benefit Overview • Nonduty • Duty • Catastrophic	December 2018
LEOFF Survivor Benefit Overview	April 2019

LEOFF Plan 2 Retirement Board

2018 PROPOSED MEETING DATES

JANUARY

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	**17**	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

FEBRUARY

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25	26	27	**28**			

MARCH

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25	26	27	**28**	29	30	31

APRIL

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29	30					

MAY

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13	14	15	16	17	18	19
20	21	22	**23**	24	25	26
27	28	29	30	31		

JUNE

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17	18	19	**20**	21	22	23
24	25	26	27	28	29	30

JULY

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29	30	31				

AUGUST

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SEPTEMBER

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23	24	25	**26**	27	28	29
30						

OCTOBER

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28	29	30	31			

NOVEMBER

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11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	**28**	29	30	

DECEMBER

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9	10	11	12	13	14	15
16	17	18	**19**	20	21	22
23	24	25	26	27	28	29
30	31					

STATE HOLIDAYS

PROPOSED DATES

JANUARY 17

FEBRUARY 28

MARCH 28

APRIL 25

MAY 23

JUNE 20

JULY 25

AUGUST 22

SEPTEMBER 26

OCTOBER 24

NOVEMBER 28

DECEMBER 19

MEETING LOCATION

State Investment Board
Large Conference Room
Suite 100
2100 Evergreen Park Drive SW
Olympia, WA 98502

CONTACT

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recep@leoff.wa.gov