

# BOARD MEETING AGENDA

November 18, 2015 - 9:30 AM



## LOCATION

STATE INVESTMENT BOARD  
Large Conference Room, STE 100  
2100 Evergreen Park Drive S.W.  
Olympia, WA 98502  
Phone: 360.586.2320  
Fax: 360.586.2329  
recep@leoff.wa.gov

- |   |          |
|---|----------|
| <b>1. Approval of Minutes</b>   | 9:30 AM  |
| <b>2. Washington State Investment Board Annual Update</b><br>Theresa Whitmarsh, Executive Director<br>Washington State Investment Board                       | 10:15 AM |
| <b>3. Department of Retirement Systems Annual Update</b><br>Marcie Frost, Executive Director<br>Department of Retirement Systems                              | 10:45 AM |
| <b>4. LEOFF Plan 2 Actuarial Valuation Results</b><br>Lisa Won, Deputy State Actuary<br>Office of the State Actuary   | 11:15 AM |
| <b>5. Revised Administrative Factors</b><br>Lisa Won, Deputy State Actuary<br>Office of the State Actuary   | 11:45 AM |
| <b>6. Disaster Response Coverage</b><br>Ryan Frost, Research and Policy Manager<br>Colonel Kevin D. McMahan, Director of Manpower & Personnel                 | 9:35 AM  |
| <b>7. Administrative Update</b> <ul style="list-style-type: none"><li>• Quarterly Budget Update</li><li>• SCPP Update</li><li>• Outreach Activities</li></ul> |          |
| <b>8. Retiree Return to Work</b><br>Paul Neal, Senior Research and Policy Manager   | 12:30 PM |
| <b>9. Retiree Annuity Purchase</b><br>Paul Neal, Senior Research and Policy Manager   | 1:00 PM  |
| <b>10. 2016 Meeting Calendar Adoption</b>   | 1:30 PM  |
| <b>11. Agenda Items for Future Meetings</b>   | 2:00 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.*



## Disaster Response Coverage

**Report Type:**

Comprehensive Report Follow-up

**Date Presented:**

11/18/2015

**Presenter Name and Title:**

Ryan Frost, Research and Policy Manager

Colonel Kevin D. McMahan, Director of Manpower & Personnel

**Summary:**

LEOFF Plan 2 members who are called up to federal service to respond to natural disasters receive reduced non-duty death and disability benefits from LEOFF Plan 2 if they are killed or disabled in the course of that service.

**Strategic Linkage:**

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

**ATTACHMENTS:**

Description		Type
📎	<a href="#">Disaster Response Report</a>	Report
📎	<a href="#">Disaster Response Presentation</a>	Presentation
📎	<a href="#">Colonel Kevin D. McMahan Bio</a>	Report
📎	<a href="#">National Guard &amp; Reserve Overview</a>	Presentation



November 18, 2015

## Disaster Response Coverage

Comprehensive Report Follow-up

By Ryan Frost

Research and Policy Manager

360-586-2325

[ryan.frost@leoff.wa.gov](mailto:ryan.frost@leoff.wa.gov)

### ISSUE STATEMENT

LEOFF Plan 2 members who are called up to federal service to respond to natural disasters receive reduced non-duty death and disability benefits from LEOFF Plan 2 if they are killed or disabled in the course of that service.

### OVERVIEW

A number of LEOFF Plan 2 members were recently called into federal service with the National Guard, Military Reserves, and the National Disaster Medical System (NDMS) to respond to natural disasters such as the Oso mudslide and the Chelan wildfires. A LEOFF Plan 2 member called into federal service is classified as "on-leave" from their employer.

### POLICY ISSUES & BACKGROUND

#### Policy Issues

Currently, no in-service benefits are provided for LEOFF Plan 2 members disabled or killed while providing federal service responding to natural disasters. The survivor of a member killed in federal service responding to natural disasters has the same benefits as the survivor of a member who left employment for other reasons.

#### Washington State Benefits

A member who dies before retirement is entitled to a standard death benefit ranging from a refund of contributions, up to an actuarially reduced monthly benefit paid to a surviving spouse or minor child. The monthly benefit received by the survivor is determined by the number of years the member has in the system at the time of death.

In addition to the monthly benefit, if a member dies in the line of duty, as of July 1, 2015 a \$236,443 death benefit will be paid to their designated beneficiary. This death benefit is not available to members who are called into federal service and killed responding to natural disasters during a time of peace.

## Washington State Legislative History

The LEOFF Plan 2 Board and the Select Committee on Pension Policy previously recommended joint legislation to provide some pension benefit protections to members on leave for federal service in the military during a time of war:

1. A 2005 bill<sup>1</sup> permitted survivors of members of all plans to purchase up to 5 years of military service credit if the member died while in the uniformed services. This bill had no effect on contribution rates.
2. A 2009 bill<sup>2</sup> provided an unreduced survivor annuity to qualifying survivors of members of all systems and plans who leave public employment due to service in the National Guard or Military Reserves and die while honorably serving during a period of war. This bill had no effect on contribution rates.

The “period of war” language from the 2009 bill created a gap where members who are called by the National Guard, Military Reserves, or the NDMS to respond to natural disasters not having the unreduced survivor annuity option. Additional legislation with language allowing natural disaster responders to acquire the unreduced survivor annuity and to purchase up to five years of service credit would be required.

	Employees Responding to Natural Disasters	
	LEOFF 2 member assigned by employer	LEOFF 2 member called up by the National Guard, Military Reserves, or the NDMS
LEOFF 2 duty death benefit	X	
LEOFF 2 disability benefit	X	
Federal military benefits		X
Federal death & disability benefits	X	X
PSOB benefits	X	

Currently in 2015, there have been 60 fire fighter fatalities nationwide while responding to natural disasters.<sup>3</sup> Washington also just experienced the largest wildfire outbreak in state history.<sup>4</sup>

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<sup>1</sup> House Bill 1325 (2005)

<sup>2</sup> House Bill 1551 (2009)

<sup>3</sup> <http://apps.usfa.fema.gov/firefighter-fatalities/>

<sup>4</sup> <http://www.usatoday.com/story/news/2015/08/24/washington-wildfires-largest/32302927/>



## **NEXT STEPS - POLICY OPTIONS**

Option 1: Direct staff to present a Final Proposal (draft legislation with fiscal note) providing the unreduced survivor annuity and ability to purchase up to 5 years of service credit to members who are called up to federal service to respond to natural disasters, and are disabled or killed during that service.

Option 2: Take no further action.



# Disaster Response Coverage

Comprehensive Report Follow-Up  
November 18, 2015

# Issue

**LEOFF Plan 2 members who are called up to federal service to respond to natural disasters receive reduced non-duty death and disability benefits from LEOFF Plan 2 if they are killed or disabled in the course of that service**

# Overview

**A number of LEOFF Plan 2 members were recently called into federal service to respond to natural disasters such as the Oso mudslide and the Chelan wildfires. Members were called up to:**

- National Guard
- Military Reserves
- National Disaster Medical System (NDMS)

# Overview

**A LEOFF Plan 2 member called into federal service is classified as “on-leave” from their employer**

- No in-service benefits
- Same benefits as the survivor of a member who left employment for other reasons

# Legislative History

## **Joint legislation with the Select Committee on Pension Policy:**

- HB 1325 (2005) - Purchase of service credit, no effect on contribution rates.
- HB 1551 (2009) - Unreduced survivor annuity, no effect on contribution rates.

**Provided some pension benefit protections for periods of military service**

# Coverage Gap

**The unreduced survivor annuity does not apply to members called into federal service to respond to natural disasters because natural disasters are not a “period of war”**

**Additional legislation would be required to provide this benefit**

# Benefits

	Employees Responding to Natural Disasters	
	LEOFF 2 member assigned by employer	LEOFF 2 member called up by National Guard, Military Reserves, or the NDMS
<b>LEOFF 2 Duty Death Benefit</b>	X	
<b>LEOFF 2 Disability Benefit</b>	X	
<b>Federal Military Benefits</b>		X
<b>Federal Death &amp; Disability Benefits</b>	X	X
<b>PSOB Benefits</b>	X	



# Options

## **1. Direct staff to present a Final Proposal**

- Provide the unreduced survivor annuity and ability to purchase up to 5 years of service credit to members who are called up to federal service to respond to natural disasters; and are disabled or killed during that service.

## **2. Take no further action.**

# Questions?

## **Contact:**

Ryan Frost

Research and Policy Manager

(360) 586-2325

[ryan.frost@leoff.wa.gov](mailto:ryan.frost@leoff.wa.gov)

## **Colonel Kevin D. McMahan**



Colonel McMahan was commissioned as a 2<sup>nd</sup> Lieutenant in the United States Army Reserve in 1991 after graduating with a Bachelor of Science in Telecommunications and Masters of Public Administration from the University of Idaho.

He has held various leadership positions throughout his career to include Platoon Leader, Company Commander, Battalion Operations Officer, Brigade Executive Officer, and Battalion Commander.

In 2012 he was selected to attend the Bush School of Government and Public Service's Scowcroft Institute of International Affairs at Texas A&M University as a U.S. Army War College Fellow. Following his Fellowship he attended the Joint Forces Staff College and now serves as the Director of Manpower and Personnel (J-1) for the Washington National Guard.

Colonel McMahan's deployments include Baghdad, Iraq with the 3<sup>rd</sup> Brigade Combat Team, 1<sup>st</sup> Cavalry Division in 2005 and Ramadi, Iraq with the 81<sup>st</sup> Armor Brigade Combat Team in 2008. He has also trained in Germany, Egypt, Malaysia, and Thailand.

His military education includes Duel Status Commander course, the Joint and Combined Warfighting School; U.S. Army War College Fellowship; NATO Senior Reserve Officers Course; Command and General Staff College; Combine Arms and Staff Service School; Tank Commander's Course; Infantry Officer Advance Course; Signal Officer Basic Course; and Airborne School.

Colonel's McMahan's awards include the Bronze Star Medal (2<sup>nd</sup> Award), the Meritorious Service Medal (4<sup>th</sup> Award), the Army Commendation Medal, the Army Achievement Medal, the Army Reserve Components Achievement Medal (5<sup>th</sup> Award), and the Armed Forces Reserve Medal with silver hourglass and M devices. He also earned the Combat Infantry Badge, the Parachutist Badge, Honorable Order of Saint Maurice, and Honorable Order of St. George.



# LEOFF National Guard & Reserve Overview

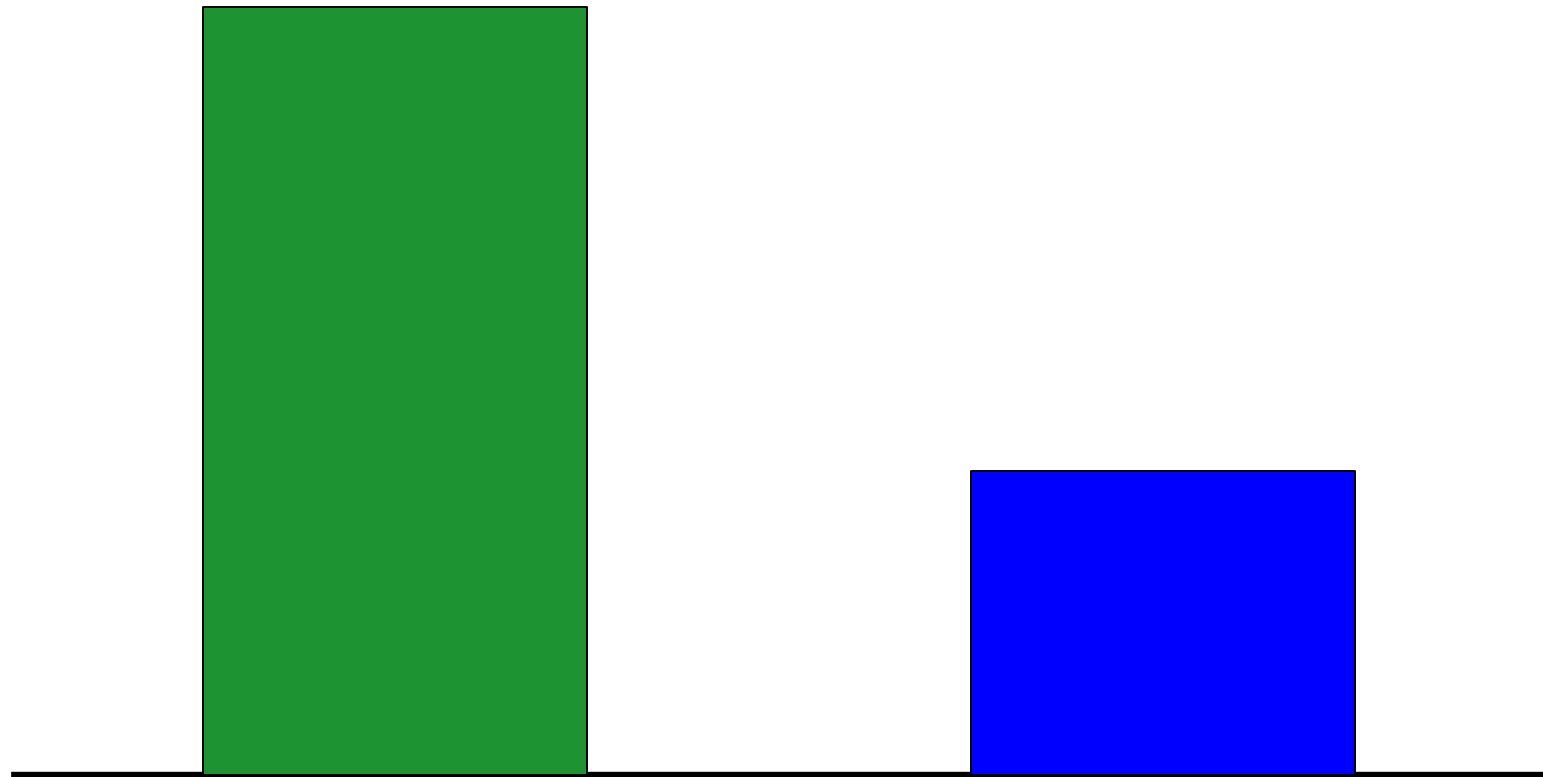
Colonel Kevin D. McMahan  
Director of Manpower and Personnel

# Agenda



- Overview of Washington National Guard
- Authorities and Status
- Guard & Reserve Differences
- Washington National Guard Entitlements
- Questions

# Washington National Guard

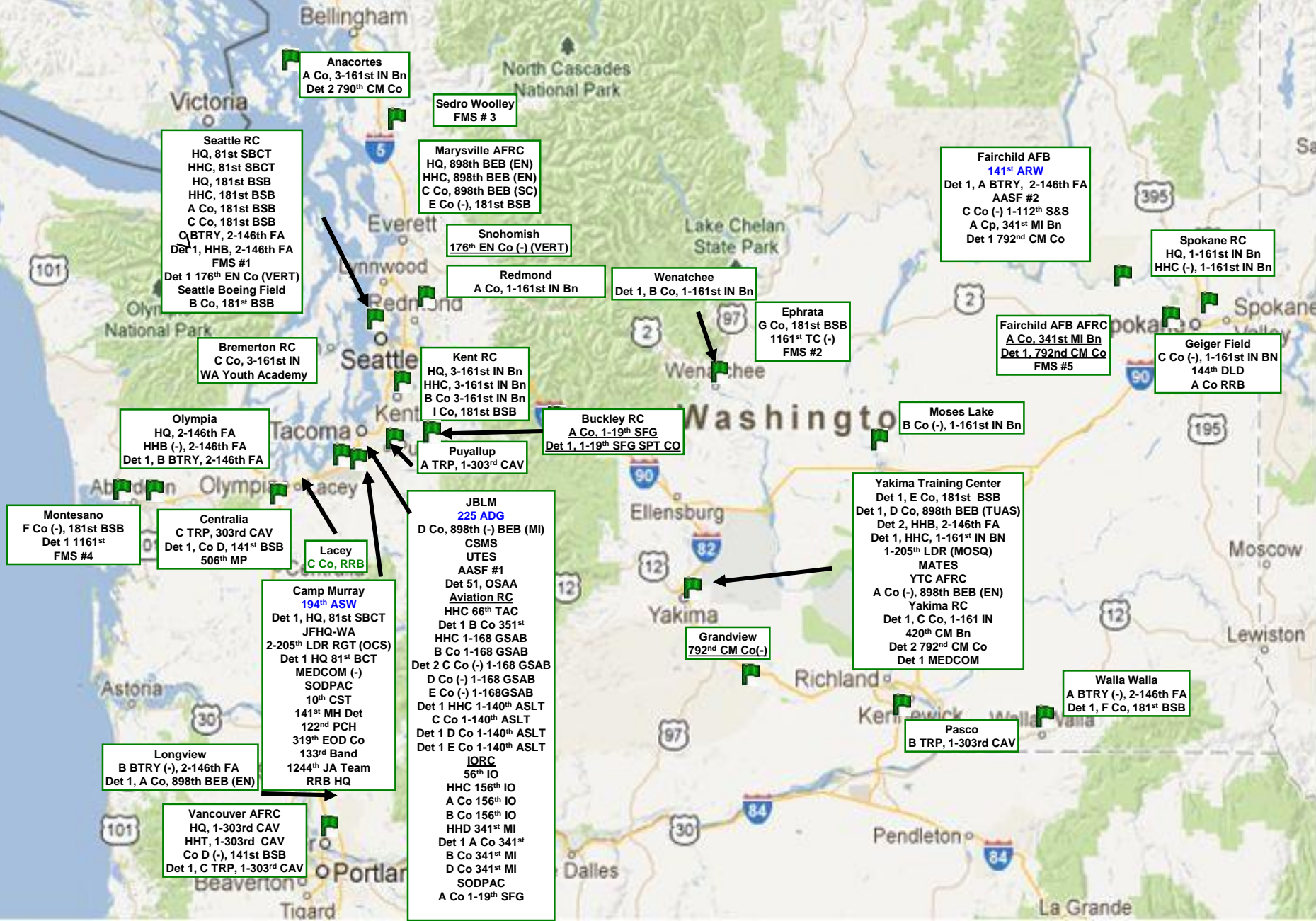


**6078 Army National Guard**

**2022 Air National Guard**

**8100 Washington National Guard Service Members**

# Washington National Guard Locations





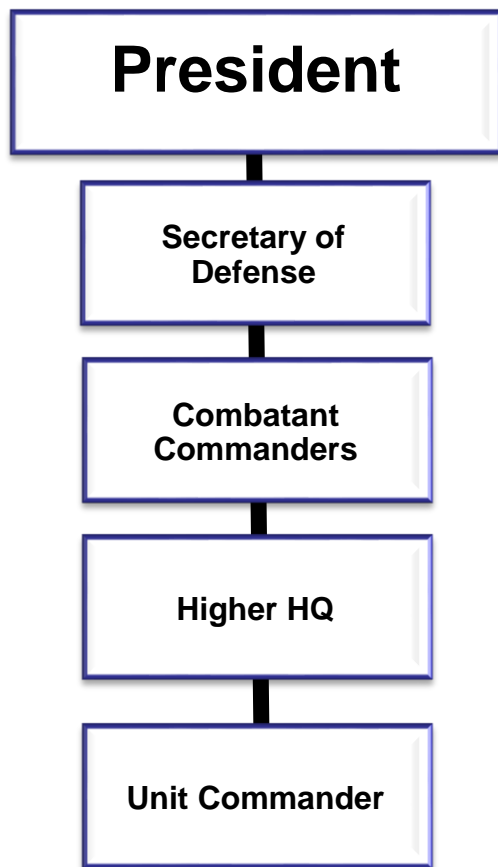


# National Guard & Authorities



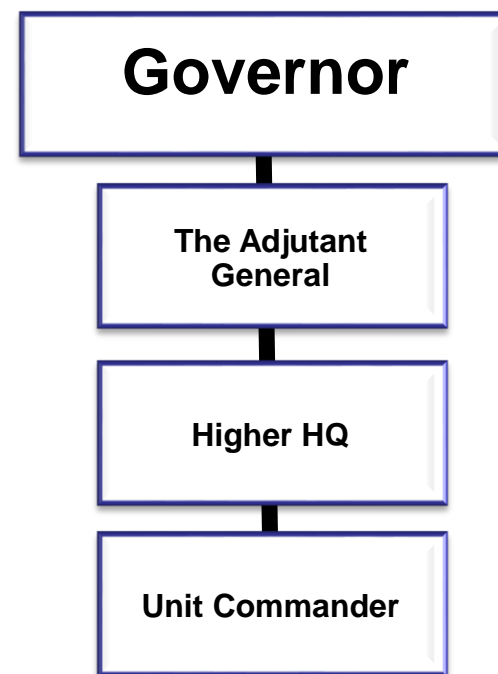
## Federal Authority

Primary Governing Law: Title 10 U.S. Code



## State Authority

Primary Governing Law: Title 32 U.S. Code and applicable state law



**The NG is subject to either Federal or State authority, not both at the same time**

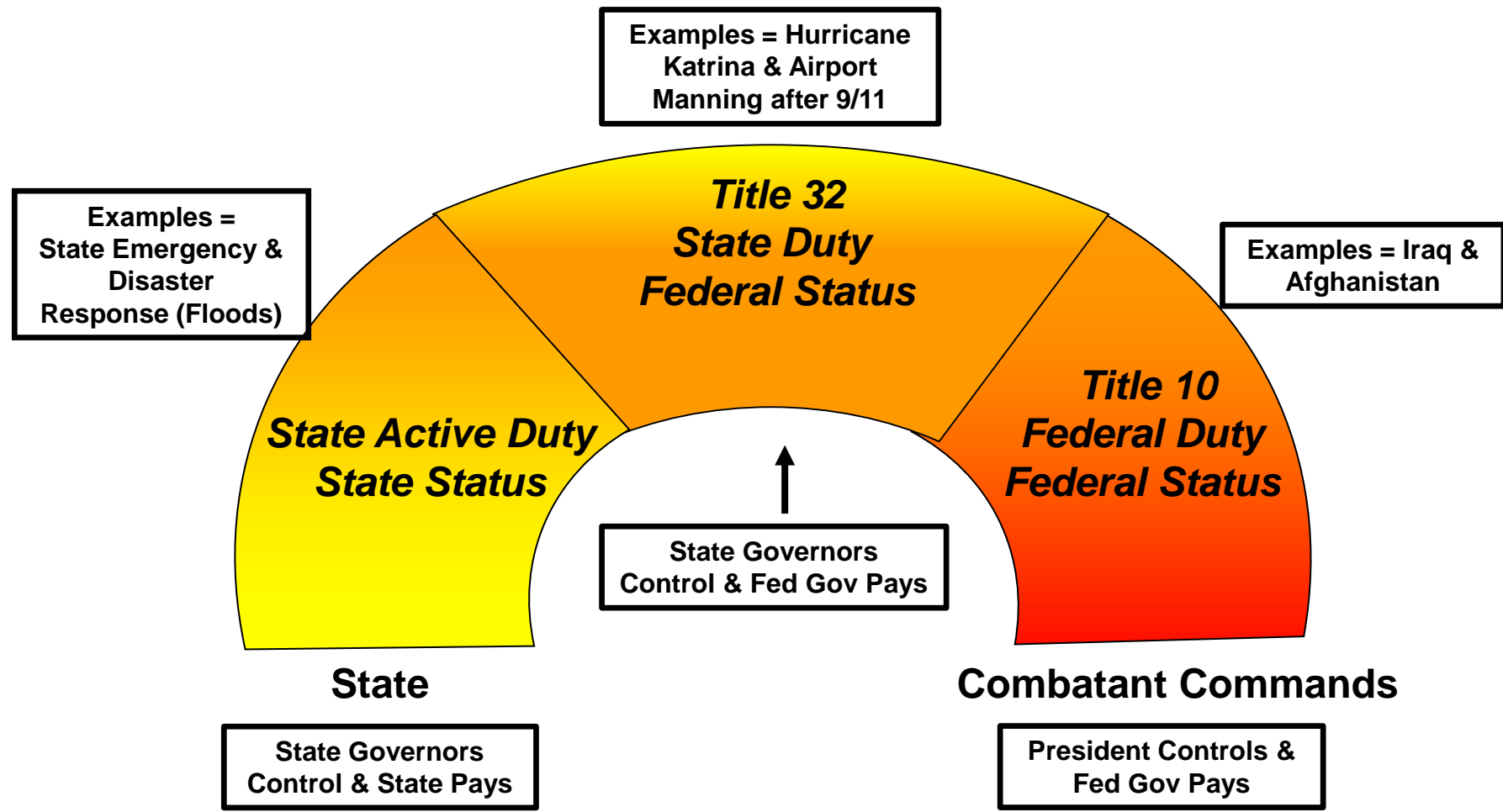




# National Guard Status

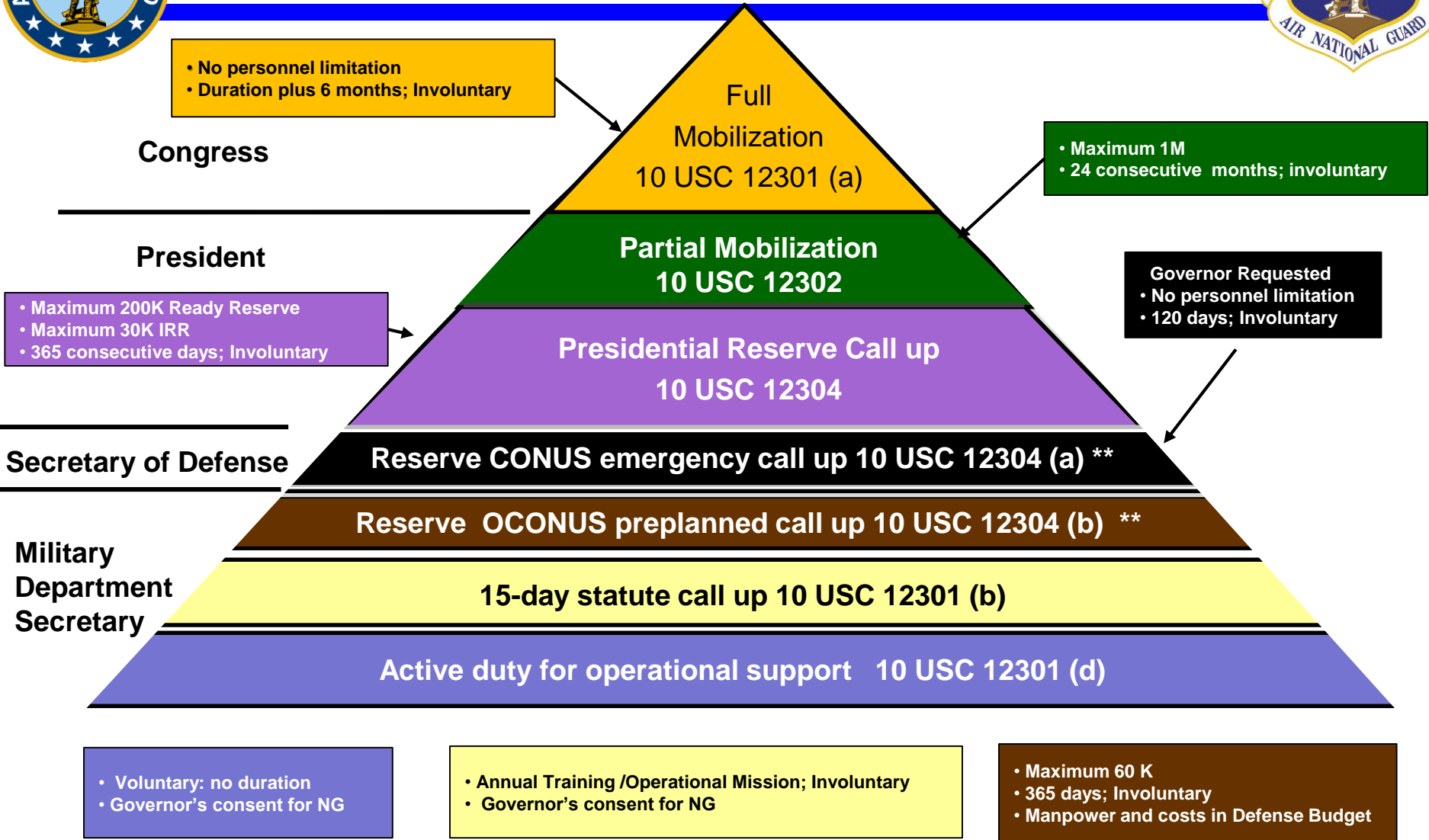


National Guard flexibility in the full spectrum  
of State and Federal missions





# Reserve Component Authorities





# Guard & Reserve Differences



## Status

## Command Relationships

## Force Structure

<b>Army National Guard</b>	<ul style="list-style-type: none"><li>• Serves in either Federal or State status</li><li>• No Posse Comitatus restrictions when in State status</li><li>• Most experienced DoD element at disaster response</li></ul>	<ul style="list-style-type: none"><li>• State-based; commanded by Governors for emergency response, or President for federal missions</li><li>• National Guard Bureau provides policy and resources to the 54 States, Territories, &amp; D.C</li><li>• Chief, National Guard Bureau a member of Joint Chiefs of Staff</li></ul>	<ul style="list-style-type: none"><li>• Balanced with combat, combat support, &amp; combat service support</li><li>• Mobilizes as units</li></ul>
<b>Army Reserve</b>	<ul style="list-style-type: none"><li>• Serves only in a Federal status</li><li>• Posse Comitatus applies</li><li>• May provide support to States if requested by governors and approved by SecDef</li></ul>	<ul style="list-style-type: none"><li>• Army Reserve Chief also serves as the Commanding General of US Army Reserve Command</li><li>• Subordinate command of US Army Forces Command, providing unified command over Army Reserve units and Soldiers at all times</li></ul>	<ul style="list-style-type: none"><li>• Principally combat support, combat service support &amp; echelons above Division capabilities</li><li>• Mobilizes as units &amp; individual Soldiers</li></ul>



# “Operational Title 32”



## 32 USC § 502(f)

- **Title 32 status has been typically used for training, but may also be employed for “other duty.”**
  - In 2006, Congress amended subsection 502(f) to specifically allow National Guard units to perform an operational mission in Title 32 status at the request of the President or SECDEF and with the concurrence of the Governor, while remaining under the C2 of the Governor.
- **Examples of use of this “Operational Title 32” status:**
  - Airport security post- 9/11
  - Support to US Customs and Border Protection on the SW Border since 2006.
  - Relief efforts following Hurricane Katrina



# Duty Status Entitlements



<b>Duty Status Entitlements</b>			
	<b>State Active Duty</b>	<b>Title 32</b>	<b>Title 10</b>
<b>Pay (Determined by)</b>	State Law	Federal	Federal
<b>Base Pay</b>	Paid either military daily rate (base pay + nat'l BAH + Special duty pay / 30) or SAD pay \$174.08 a day, whichever is greater.	Paid at rate based on rank and years in service.	Paid at rate based on rank and years in service.
<b>Basic Allowance Housing</b>		Paid based on Home Of Record location	Paid based on duty location
<b>USERRA</b>	IAW State Law	Yes	Yes
<b>SSCRA</b>	IAW State Law	Yes	Yes
<b>Discipline</b>	Washington Military Code	Washington Military Code	Uniformed Code of Military Justice
<b>Involuntary Order To Duty</b>	IAW State Law	Yes	Yes
<b>Voluntary Order To Duty</b>	IAW State Law	Yes	Yes
<b>Medical</b>	Any medical expense incurred will be reviewed by WMD for payment.	LOD completed for any injury/illness incurred while on duty.	TRICARE
<b>Direct Deposit</b>	No (check payment)	Yes	Yes
<b>INCAP Pay</b>	WMD will calculate and pay using L&I Worker's Compensation formula for lost wages claim.	Yes	Yes
<b>Leave</b>	No leave earned. Service Member is not paid for any days not performing duty.	Leave is accrued for tours longer than 30 days at a rate of 2.5 days per month. All leave must be taken prior to end of order.	Leave earned at a rate of 2.5 days per month. All leave must be taken prior to end of order.



# Duty Status Entitlements



<b>Duty Status Entitlements</b>			
	<b>State Active Duty</b>	<b>Title 32</b>	<b>Title 10</b>
<b>Service member Group Life Insurance (SGLI)</b>	Yes	Yes	Yes
<b>Death Gratuity</b>	Per RCW Title 51.32, Workers' Compensation Death Benefits a. \$4569.08 lump sum to spouse b. Up to \$9138.16 funeral expense Reimbursement	Title 32 drilling \$100,000 Title 32 non-drilling \$0	\$100,000
<b>Sick Call</b>	In compliance with workers' compensation rules (WAC 296), allowable Medical bills are paid by the Washington Military Department. Non-worker's compensation medical services are not covered.	Yes	Yes
<b>Dental</b>	In compliance with workers' compensation rules (WAC 296), allowable Dental bills are paid by the Washington Military Department. Non-worker's compensation medical services are not covered.	Yes	Yes
<b>Line Of Duty</b>	Temporary lost wages are calculated in compliance with RCW Title 51 utilizing L&I Form SIF5-A - Total monthly wages are multiplied by 60% for worker, 5% for spouse, and 2% per dependent up to 5 dependents. There is a minimum and maximum rate per the regulation.	Yes	Yes



# Duty Status Entitlements



<b><i>Duty Status Entitlements</i></b>			
	<b>State Active Duty</b>	<b>Title 32</b>	<b>Title 10</b>
<b>Awards</b>	WA Military Department State Awards	Federal Awards	Federal Awards
<b>Long Term Benefits</b>	Per RCW Title 51 allowable rates: a. Death benefits paid to spouse b. Death benefits paid to Guardian/Parent of Dependent Children c. Pension benefits to worker with permanent total disability d. Permanent Partial Disability rated in compliance with WAC 296 are paid by Washington Military Department.	Yes	Yes
<b>Unpaid Allowance</b>	No	Yes	Yes



Questions?

Thank You





## Washington State Investment Board Annual Update

**Report Type:**

Educational Briefing

**Date Presented:**

11/18/2015

**Presenter Name and Title:**

Theresa Whitmarsh, Executive Director  
Washington State Investment Board

**Summary:**

An annual investment update on the status of the commingled trust fund.

**Strategic Linkage:**

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

**ATTACHMENTS:**

Description	Type
 <a href="#">WSIB Update</a>	Presentation

## **Washington State Investment Board Update**



**Theresa Whitmarsh, Executive Director  
Washington State Investment Board  
November 18, 2015**



## Who We Are – At a Glance



**The Washington State Investment Board (WSIB) is one of the largest and most diversified institutional investment managers in the United States with more than \$106 billion of assets under management**

**The WSIB works closely with its clients to ensure its investment strategies meet their risk and return objectives**

**On their behalf, WSIB manages investments in:**

- ▣ 74 different countries
- ▣ Across 6 continents
- ▣ 49 currencies
- ▣ More than 12,000 investment holdings

**The WSIB delivers strong returns for:**

- ▣ 17 pension funds
- ▣ 5 Labor and Industry Funds
- ▣ 6 endowment funds
- ▣ 6 other government funds



## Who We Are – WSIB Has Scale Advantage

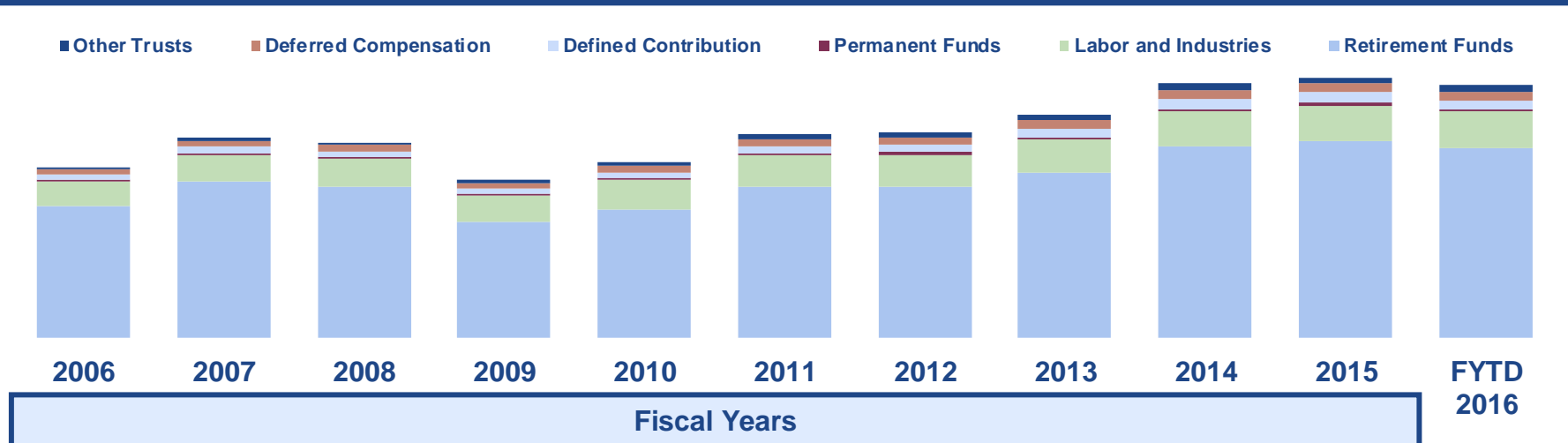
- DB plans and hybrid DB/DC plans commingled into one investment fund run by the WSIB

Defined Benefit Plans (as of September 30, 2015)	Market Value
Public Employees' Retirement System Plan 1 (PERS)	\$7,085,031,541
Public Employees' Retirement System Plan 2/3	\$29,661,683,280
Teachers' Retirement System Plan 1 (TRS)	\$5,640,791,308
Teachers' Retirement System Plan 2/3	\$14,152,221,988
Volunteer Fire Fighters' Relief & Pension Fund (VOLFF)	\$179,753,992
Washington State Patrol Retirement System Plan 1 (WSPRS)	\$1,019,549,273
Washington State Patrol Retirement System Plan 2	\$35,410,148
Law Enforcement Officers' & Fire Fighters' Plan 1 (LEOFF)	\$5,292,899,159
Law Enforcement Officers' & Fire Fighters' Plan 2	\$9,446,478,062
School Employees' Retirement System Plan 2/3 (SERS)	\$5,084,533,879
Public Safety Employees' Retirement System Plan 2 (PSERS)	\$342,199,118
<b>Total</b>	<b>\$77,940,551,748</b>

Defined Contribution Plans	Market Value
Deferred Compensation Program (DCP)	\$3,416,297,975
Judicial Retirement Account (JRA)	\$11,540,635
<b>Total</b>	<b>\$3,427,838,610</b>

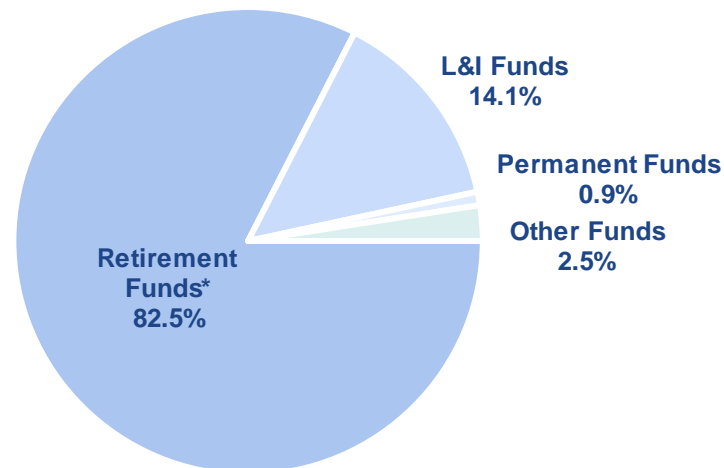
# Who We Are – Total Assets Under Management – September 30, 2015

## Past 10 Fiscal Years



## Market Values and Allocation (in billions)

Retirement Funds*	\$85.3	82.5%
L&I Funds	\$14.6	14.1%
Permanent Funds	\$1.0	0.9%
Other Funds	\$2.5	2.5%
<b>Total Assets Under Management</b>	<b>\$103.4</b>	



\*Commingled Trust Fund (CTF), DC Funds, and Higher Education Retirement Plan

# Who We Are – Strong Governance Structure



## Board comprised of 15 members

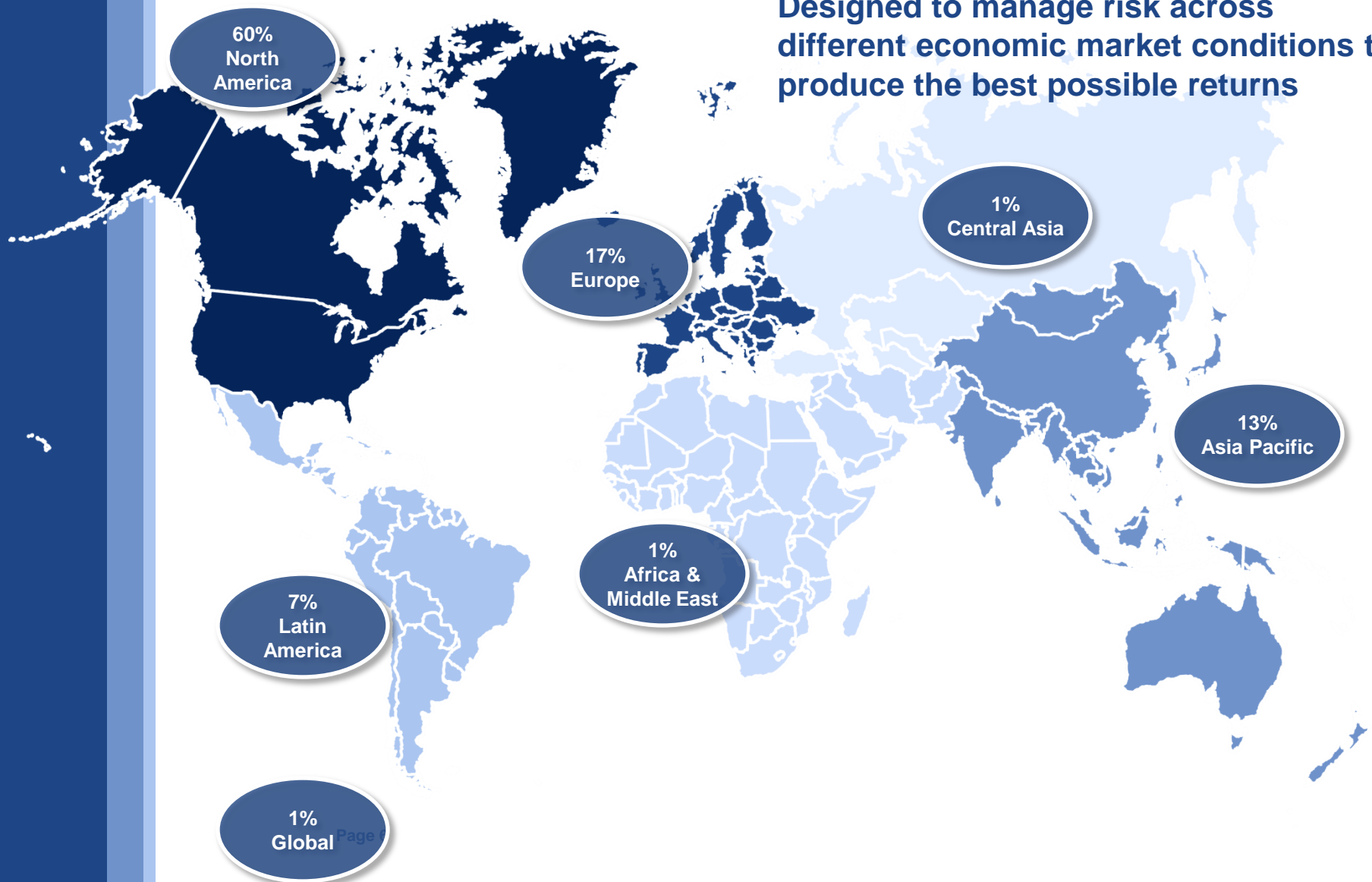
- 10 voting members drawn from a diverse group of system owners
- 5 non-voting investment experts selected by the voting members

## 90 professional staff

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

## Who We Are – Global Investor

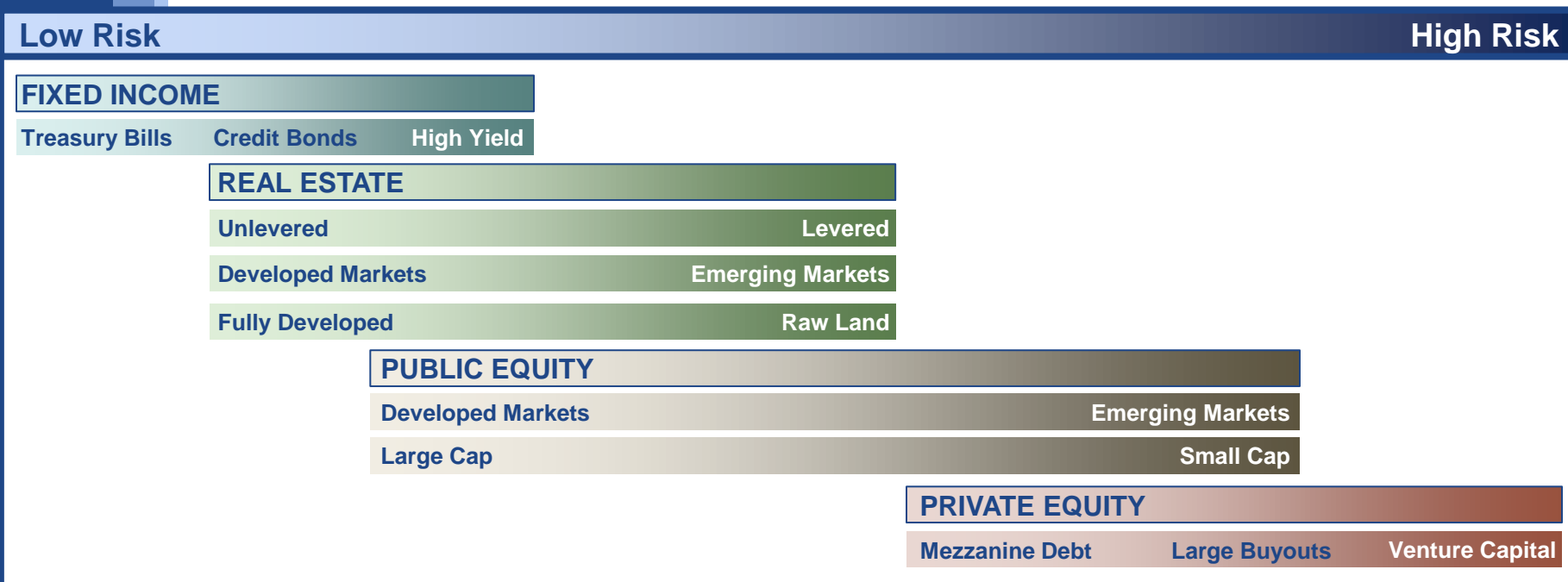
Designed to manage risk across different economic market conditions to produce the best possible returns



# What We Do – Market Risk Spectrum



- WSIB seeks diversification across the portfolio and within each asset class
- Implementation within each asset class will determine how risk is concentrated
- Weight of each asset class must match risk profile







## What We Do – Managing Public Assets

### Public Equity

#### Objective

- ▣ Capital appreciation
- ▣ Liquidity

#### Approach

- ▣ Externally managed
- ▣ Significant passive management
- ▣ Globally oriented
- ▣ Scale creates significant cost advantages

### Fixed Income

#### Objective

- ▣ Diversification
- ▣ Liquidity

#### Approach

- ▣ Actively internally managed
- ▣ High quality portfolio
- ▣ Credit oriented
- ▣ Emerging markets exposure



## What We Do – Managing Private Assets

### Private Equity

- ❑ The portfolio is well diversified by fund, by general partner, by geography, by strategy sub-sector, by industry, by vintage year
- ❑ Portfolio is primarily composed of private equity/buyouts and very little exposure to venture capital, which is a higher risk sub-class
- ❑ Allocation to distressed debt, a subclass that generally performs well when equity strategies perform poorly, provides somewhat of a hedge during market downturns

### Real Estate

- ❑ Broadly diversified across multiple investment partners, property types, and geographies
- ❑ Direct stake in hundreds of properties in a diversity of markets
- ❑ Strong focus on fundamental human needs – agriculture, energy, and social essentials

# What We Do – More Ways to Manage Risk in Private Markets

## Public Markets Toolkit

Buy Decision

Sell Decision

## Private Assets Toolkit

Buy Decision

Deal Structure

Governance Rights

Financial Leverage

Operating Restructuring

Management Incentives

Strategic Direction

Sell Decision

Private assets toolkit provides various levers to create value in transactions



## Our Results – WSIB is a Low-Cost Agency



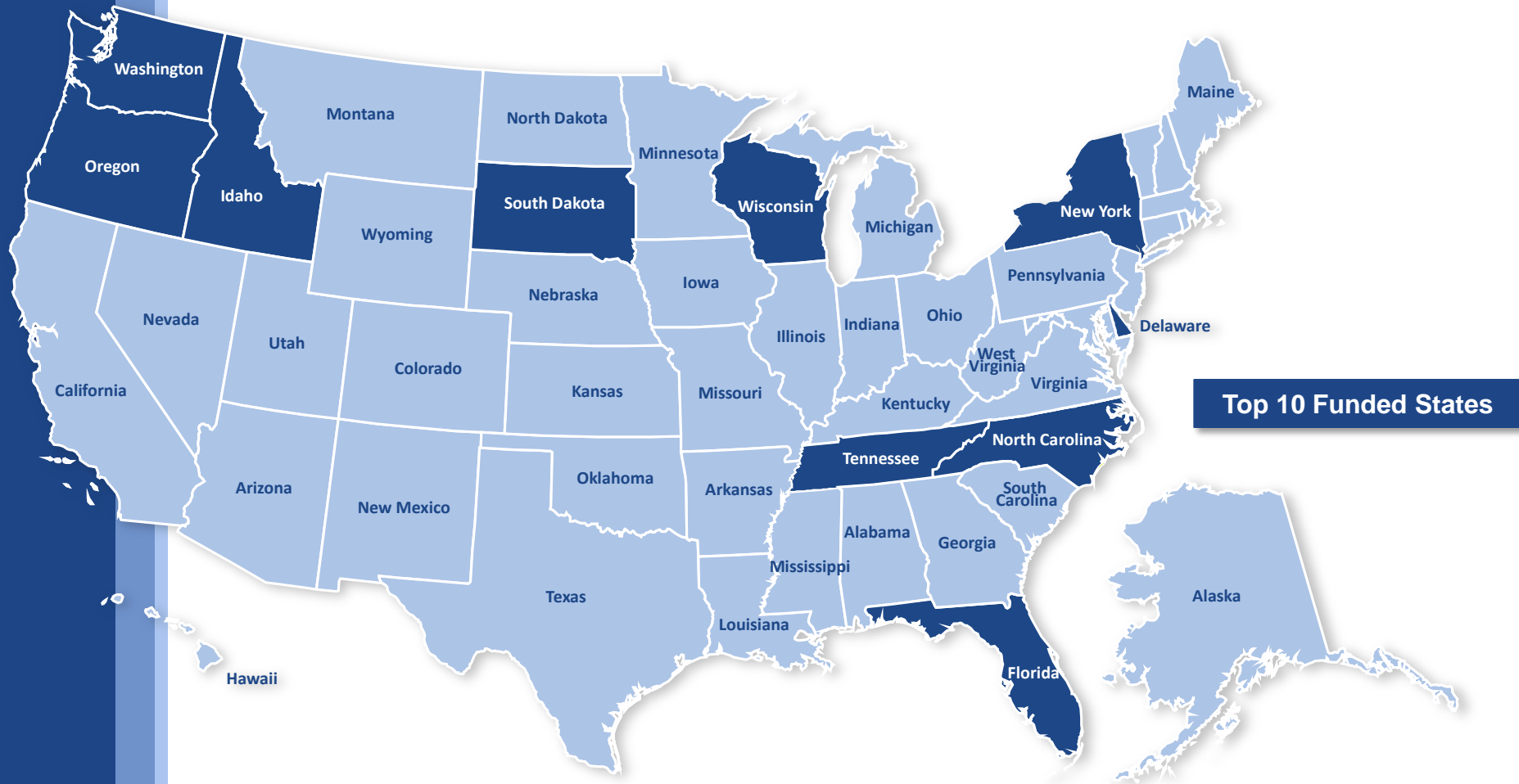
**WSIB's total investment cost was 63.4 basis points\* (bps) compared to estimated peer costs of 83.7 bps**

- ▣ This is a cost savings of 20.3 bps – considerably less than our peers
- ▣ Our peer universe consists of 57 U.S. public pension funds

**WSIB staffing is well below the global and U.S. peer medians**

# Our Results – A Strong Reputation

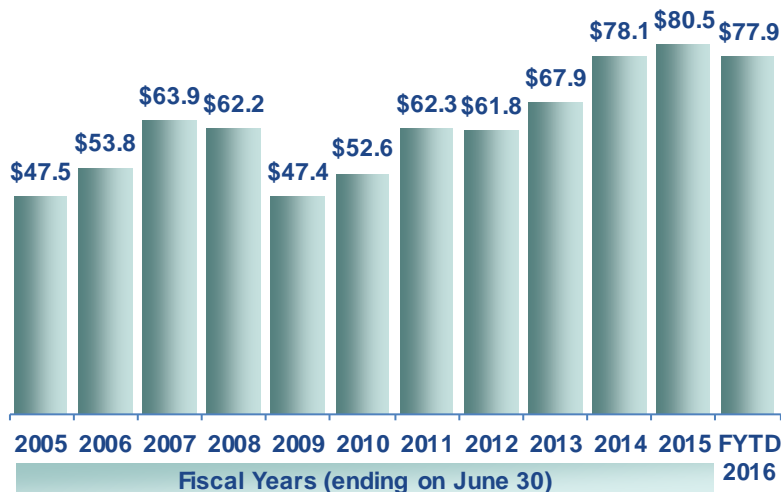
*One of the Best Funded Pension Systems in the Nation*



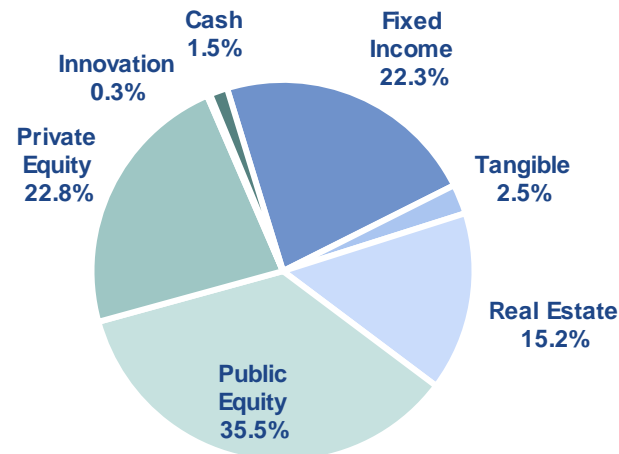
# Our Results – Commingled Trust Fund Performance and Market Values

## September 30, 2015

### Historical Market Value (billions)



### Actual Allocation



### Historical Fund Returns

**Return Since Inception of the  
Commingled Trust Fund (CTF)**  
(Since June 1992):

**8.57%**

### Market Values and Returns

#### Commingled Trust Fund (CTF) Market Values and Returns

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$77,940,551,748	1.73%	8.76%	8.87%	6.73%
Fixed Income	\$17,386,719,074	-1.49%	0.57%	2.63%	5.10%
Tangibles	\$1,958,391,085	-1.23%	2.97%	3.56%	N/A
Real Estate	\$11,811,353,263	14.51%	14.41%	14.11%	8.77%
Public Equity	\$27,649,106,952	-5.37%	8.05%	7.75%	5.02%
Private Equity	\$17,757,072,348	10.31%	15.44%	14.23%	11.44%
Innovation	\$210,739,357	-23.72%	10.21%	6.98%	N/A
Cash	\$1,167,169,670	0.12%	0.12%	0.14%	1.48%



## Department of Retirement Systems Annual Update

**Date Presented:**

11/18/2015

**Presenter Name and Title:**

Marcie Frost, Executive Director  
Department of Retirement Systems

**ATTACHMENTS:**

Description	Type
 <a href="#">DRS Year in Review</a>	Presentation

**Department of Retirement Systems**

# **Year in Review**

***Marcie Frost, Director***

**LEOFF 2 Board  
November 18, 2015**





## •Dollars Collected

- Members – \$1.1 B last FY
- Employers - \$1.6 B last FY

## •Dollars Paid

- \$338 M in June 2015
- \$4.1 B last FY

## •Team Members – 238

## •Employers – 1,321

## •Plan Members

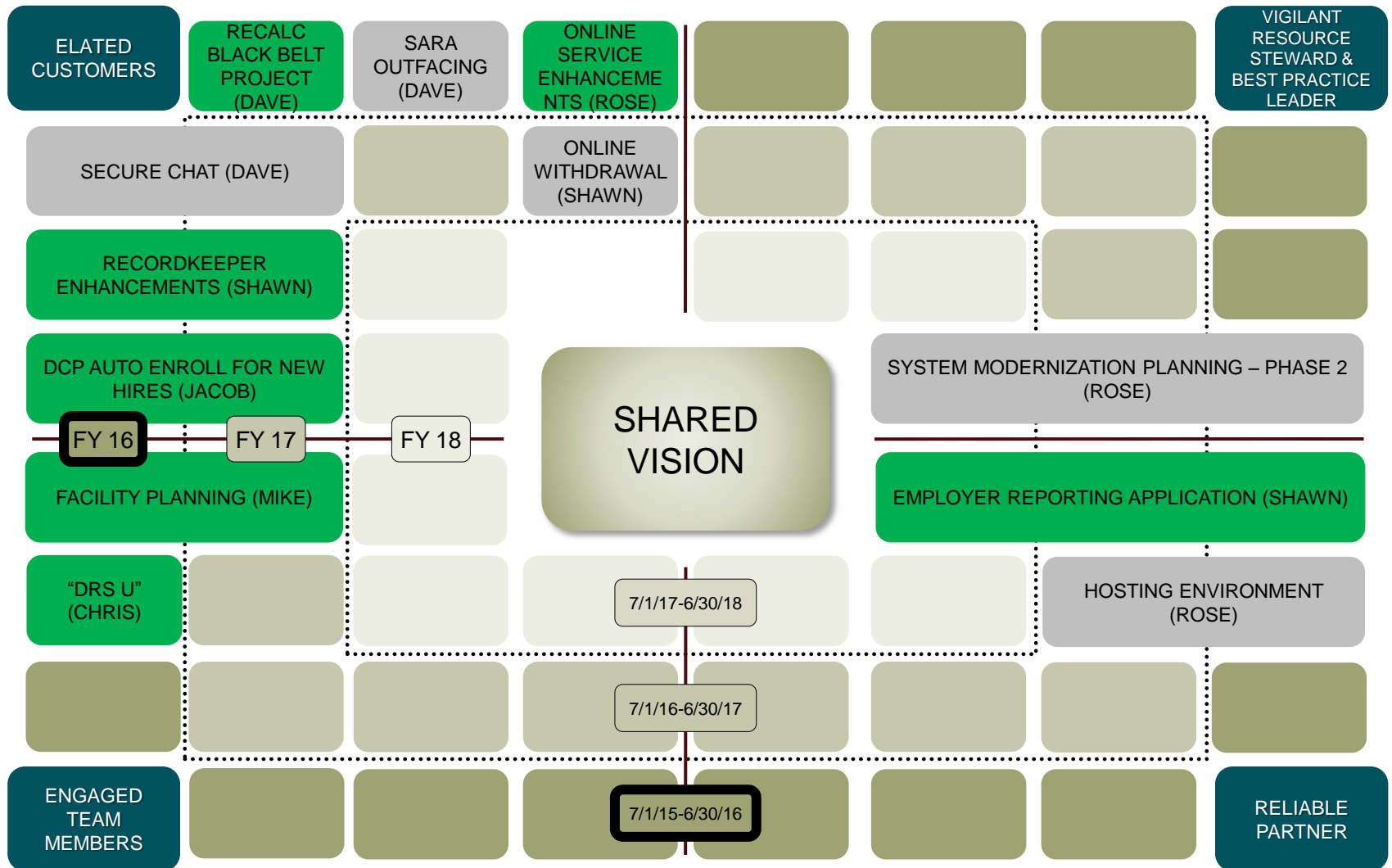
- Active – 301,331
- Annuitants – 164,555
- Inactive – 241,276
- Total – 707,162

## •Work Load

- Phone Calls – 117,000
- Walk-Ins – 6,224
- Emails – 17,000
- Estimates – 22,072
- Calculations – 11,127
- Recalculations – 5,198

## Annual cycle for strategic planning

- New initiatives or operational capability improvements
- Clarity to the organization about resource allocation/priorities
- Provides direction to the Project Management Division



## A year focused on operational excellence

- Customer satisfaction with high levels of team engagement
- Emphasis on connecting every team member into the management system
- High levels of self and team accountability
- Problem solving by everyone – common language
- Leadership that is supportive and engaged – facilitating style

### O1-Customer Satisfaction (Dave)

RESPECT	Valued Customer	96	97	98	96
	Carefully Guided	90	90	91	94
	Informed of Issues	89	90	88	93
RESPONSIVE	Quick Access	95	92	96	96
	Timely Response	91	89	93	93
	Informed Status	80	77	73	87
	Anticipate Needs	93	91	93	95
	Online Tools	88	90	90	91
RIGHT	Accurate Info	94	94	96	97
	Correct/Timely \$	95	94	97	97
		QTR10	QTR11	QTR12	QTR13

- 260 interviews were conducted in the quarter
- 93.01% of ELT members completed interviews
- The new ORA Tracker/Status page was implemented in June. The current quarter's interviews reflect this improvement – specifically in Responsive/Informed of Status.

## O2-Team Engagement (Marcie)

Customer Focused	80	78	85	84	
People & Team Focused	78	76	77	76	
Supportive & Engaged Leadership	81	75	80	83	
Open & Transparent Communication	64	63	70	67	
Learning & Growth	76	75	83	83	
Accountability	80	76	77	71	
Pursuit of Excellence	88	83	85	83	
	Q9	Q10	Q11	Q12	Q13

- Due to the transition to new Guiding Team members, no interviews were conducted last quarter

DRS Team Members

Home
Search Ideas
Search

# DRS Team Members

Another IdeaScale Community

Submit New Idea

Campaigns

All Ideas

General

Enhancing Services and Value for Customers

Increasing Efficiency / Preventing Waste

Reinforcing a Positive, Productive Work Environment

Social Web

Like

Sign Up to see what your friends like.

Recent (139)

Popular (139)

Hot (9)

In Review (42)

In Progress (25)

Completed/Closed (84)

I agree

Feedback Score

1

I disagree

GENERAL »

Employer access to Org account balances in E-services

When an employer is trying to reconcile their organization's account with DRS it is helpful for them to know their current account balances. Within employer E-services if they had a link to an accounts receivables section that basically was a pretty version of the MonAcct screen it would provide them the detail they need. Currently they only receive their balances once a month in a paper document that is mailed or by ... more »

1 comment

Submitted by sethm 2 days ago

I agree

Feedback Score

2

I disagree

ENHANCING SERVICES AND VALUE FOR CUSTOMERS »

ORA for W/D Dual Mbrs

Working with a customer in their online account access recently I noticed that even though they had w/drawn contributions from their PERS 2 account and were now in LEOFF 2, the system would not let them use ORA to apply for retirement - they rec'd a message stating they couldn't since they were a dual mbr. What I then noticed was that in the PERS 2 account menu/information there was a link to "apply for retirement" but ... more »

Add your comment

Submitted by jeffd 7 days ago

I agree

Feedback Score

8

I disagree

INCREASING EFFICIENCY / PREVENTING WASTE »

Automatic Retirement Statements

Often times customer phone calls are a sign that we aren't providing the customer with the information they need. As a way to reduce the requests for estimates I think we should provide system generated emails to members with DB Access accounts every year in the month of their birthday after they turn 55 that shows them what their retirement benefit would be if they work until 65 and if they stop working now and collect ... more »

5 comments

Submitted by alanas 9 days ago

HIGH VALUE – LOW COST

MAGIC

HIGH VALUE – HIGH COST

STRATEGIC

LOW VALUE – LOW COST

QUICK WIN

LOW VALUE – HIGH COST

OPPORTUNITY

TOTAL VALUE

TOTAL COST

O8-Ideas Implemented (Shawn)

Quarter	Red (%)	Yellow (%)	Green (%)
Jul-Sep 2014	10	5	15
Oct-Dec 2014	10	5	15
Jan-Mar 2015	10	5	15
Apr-Jun 2015	10	5	15
Jul-Sep 2015	10	5	15
Oct-Dec 2015	10	5	15
Jan-Mar 2016	10	5	15
Apr-Jun 2016	10	5	15

- DRS implemented 51 ideas this quarter

# Team Engagement



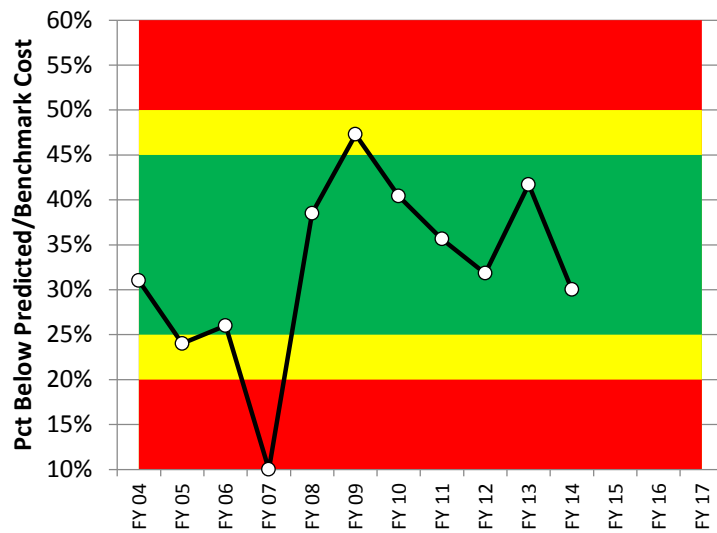
# Fundamentals Map



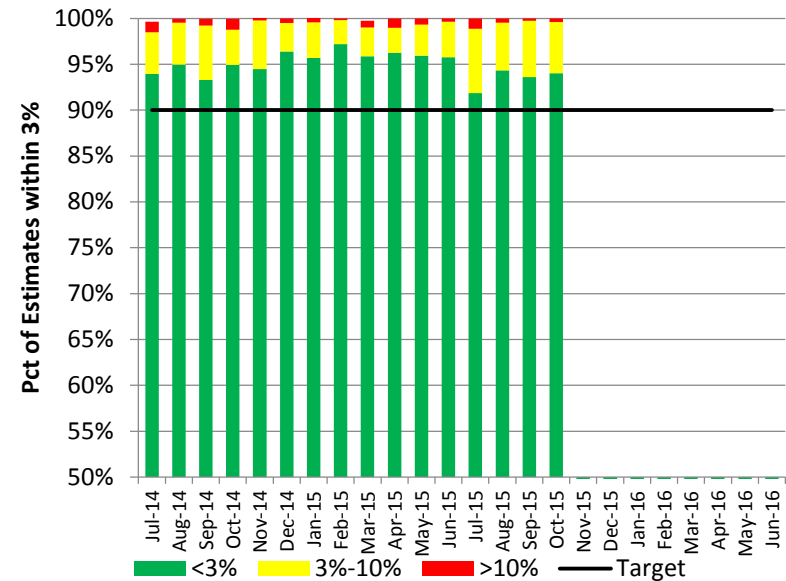
## 2+ years into Quarterly Target Reviews

- Transparency is key to engagement
- What gets measured gets managed
- Creating an environment where everyone is responsible for performance
- Now recorded so all team members can view
- High levels of accountability by agency leadership

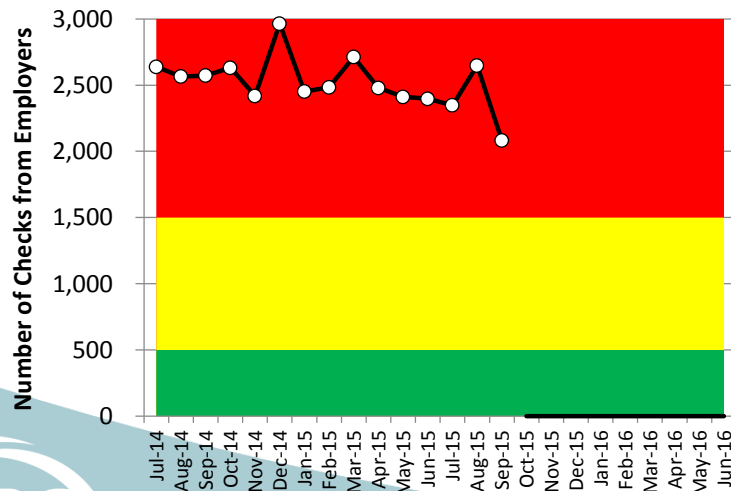
### O11-Cost Effectiveness (Mark)



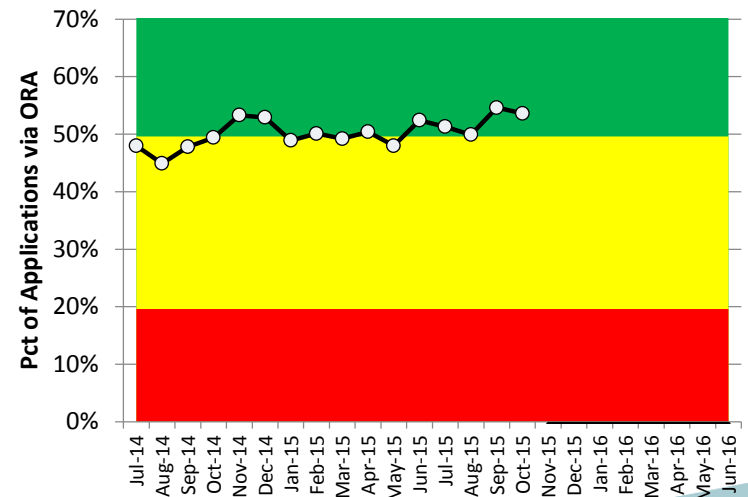
### OP1c-Estimate Accuracy (Dave)

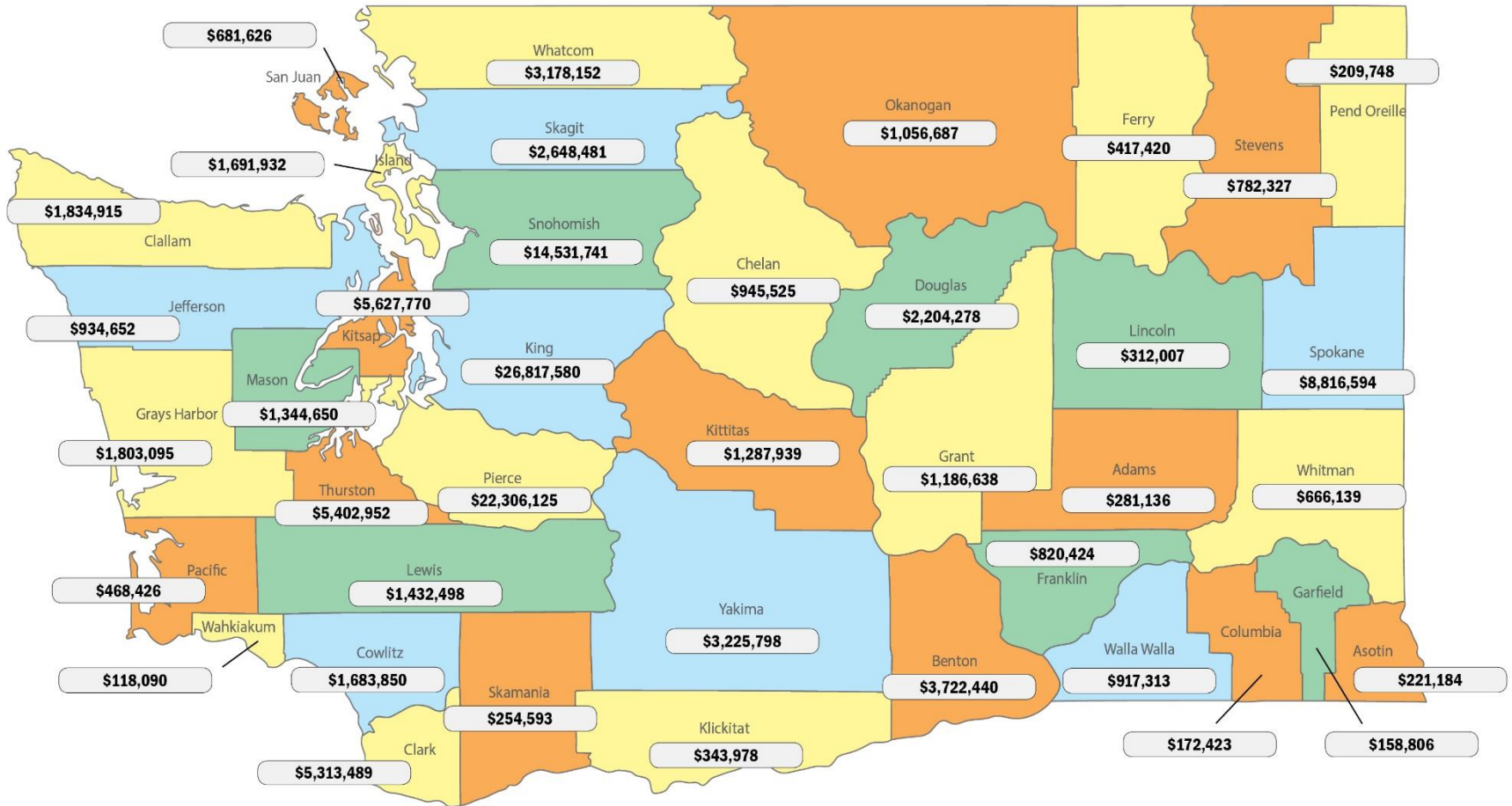


### OP3g-# of Employer Paper Checks (Mike)

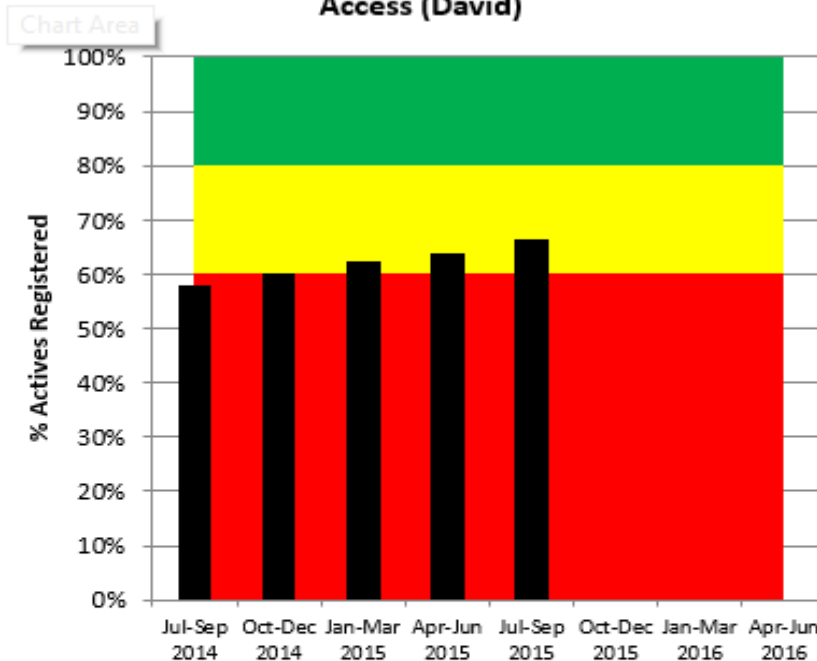


### OP4d-Online Retirement Applications (David)





**OP4c-% Members Registered for Online Acct  
Access (David)**



- Percent of Active Members that are registered
  - Grew from 64% to 66.4%
- Highest level since measure began

## ACTIVE MEMBERS

### View information by system and plan

Plan Summary  
Service Credit Detail  
Employment History  
Annual Statements  
DRS News

### Calculators Available

Benefit Estimator  
Purchase Service  
Purchasing Annuity  
IRS Withholding

### Retirement

Request benefit estimate  
Apply for retirement  
Track status of retirement application process  
Receive retirement application status email messages

## RETIREES

### View information by system and plan

Service Credit Detail  
Annual Statements  
Benefit Summary  
Download pension verification letter  
DRS News  
View return to work information

### Make changes to their account

Change when to receive paper benefit statements  
Change IRS withholding tax



[DRS Home](#) | [Contact Us](#) | [Log Off](#)

## Online Account Access

### WELCOME

#### PERS 2 ▼

Plan Summary  
Service Credit Detail  
Annual Statement  
Employment History  
Benefit Estimator  
Purchasing Service

#### RETIREMENT

Steps to Retirement  
View Estimates  
Track My Retirement

#### MY INVESTMENTS ▼

DCP

#### MY DOCUMENTS

#### MY ACCOUNT

#### OTHER ▼

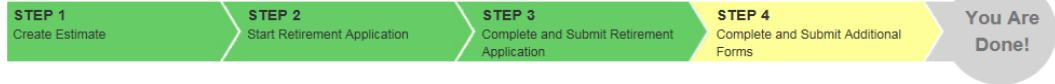
DRS News  
Glossary  
IRS Withholding  
Calculator

## Apply For PERS 2 Retirement

[Steps to Retirement](#) | [Plan for Retirement](#) | [View Estimates](#) | [Track My Retirement](#)

➤ [What to do next](#)

➤ [What you can expect from us](#)



### Retirement Tracker

#### Retirement Application

[Print](#) [View](#) [Cancel](#)

#### Application Details

Retire Date: 01/01/2016

Submitted Via: Web

Date Submitted: 09/14/2015

Status: Submitted

In addition to your application please submit the following:

Forms or Documents Still Required

Form or Document	Date Received	Status
Photocopy of Evidence of Birth Date		Not Received

[Upload Documents](#)

Copyright 2015 Washington State Department of Retirement Systems | 800.547.6657 |



# Online Account Access

- **Increasing Complexity and Volume**

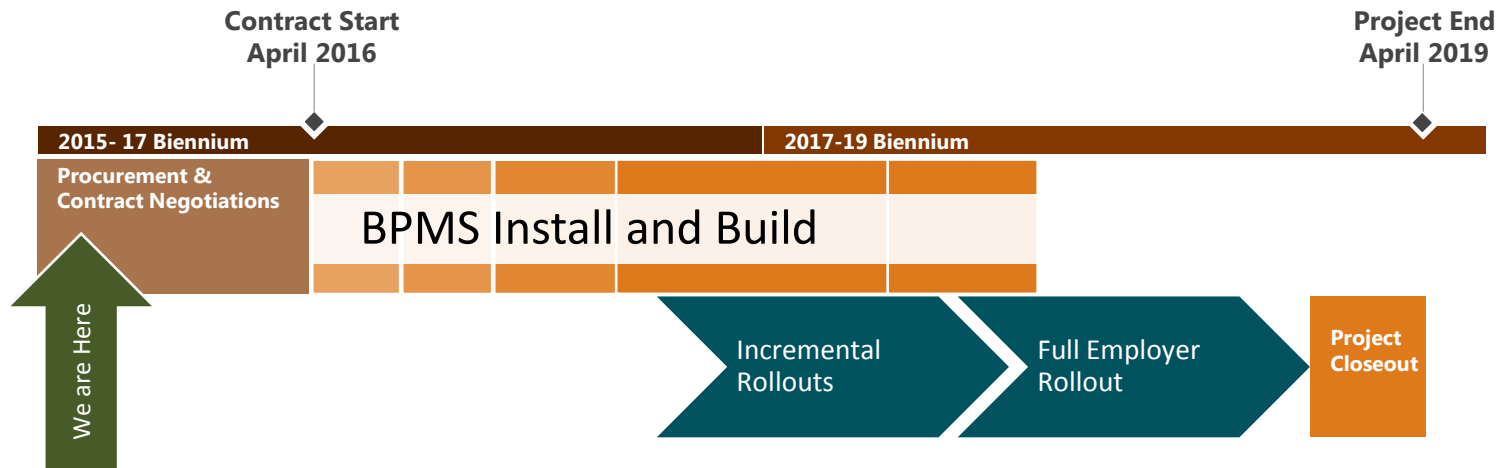
- PTSD claims becoming more frequent
- Multi causal claims increasing as population ages

- **Evaluating Ways to Make Determinations**

- Increased Use of Independent Medical Evaluations
- Other Sources of Medical Review

- Tax exemption provided to PSO if health care is deducted from pension benefit
- Worked with Health Benefit Exchange to allow retirees to receive deduction if using carrier through the HBE
- Statute changed in 2015 to restrict payments to carriers from HBE
  - Payments now must be made directly to carrier
- DRS will work with carriers to make payments for retirees
  - Most carriers accept deducted payments from DRS, but some don't
- DRS can't require carriers to take payment from a deduction

# Preliminary\* Employer Reporting Application Timeline



\* Each Bidder's proposal is based on their unique toolset and methodology. Project dates and phases provided are preliminary until contract signature.



# Questions?





## LEOFF Plan 2 Actuarial Valuation Results

**Date Presented:**

11/18/2015

**Presenter Name and Title:**

Lisa Won, Deputy State Actuary  
Office of the State Actuary

**Summary:**

The Office of the State Actuary presents it's latest valuation report which includes updated contribution rate recommendations.

**Strategic Linkage:**

This item supports the following Strategic Priority Goals:

Provide the stakeholders with a voice in plan governance., Maintain the financial integrity of the plan., Inform the stakeholders.

**ATTACHMENTS:**

Description	Type
 <a href="#">LEOFF 2 Actuarial Valuation Report</a>	Presentation

# LEOFF 2 Actuarial Valuation Results

Lisa Won, ASA, FCA, MAAA  
Deputy State Actuary



## Today's Presentation

- 2014 Actuarial Valuation Highlights
- OSA Interactive Web Reports
- Informational - no Board action needed today

## Purpose Of The 2014 Actuarial Valuation

- “Off-cycle” valuation - not used for contribution rate-setting
  - Current rates adopted through 2015-17 Biennium
- Update contribution rates with new data, assets, and legislation
- Check funding progress
- Certify the underlying data, assumptions, and methods are reasonable and conform with current actuarial standards of practice

## Summary Of The 2014 Valuation Results

- 18.89 percent return on Market Value of Assets (MVA)
  - July 1, 2013, through June 30, 2014
- Actuarial Value of Assets (AVA) includes deferred asset gains of \$613 million
  - Deferred losses in prior valuation were \$225 million
- Calculated contribution rates decreased since last valuation
- Funded status declined to 107 percent
  - Plan remains healthy
- Underlying data, assumptions, and methods remain reasonable

## Change In Participant Data From Last Valuation

LEOFF 2	2013	2014	Difference
Number of Actives	16,687	16,773	86
Average Annual Salary	\$95,694	\$99,048	\$3,354
Average Attained Age	43.5	43.6	0.1
Average Service	14.6	14.7	0.1
Number of Annuitants	2,782	3,235	453

## Update Asset Values

- MVA reported by WSIB
- Calculate 2014 asset gain (or loss) based on 7.5 percent expected return
- Develop AVA by smoothing past and current asset gains (or losses)
  - Smooth gain (or loss) over a period up to eight years
  - AVA limited to 30 percent “corridor” around MVA
  - Smoothing method reduces contribution rate and funded status volatility



## Change In Assets From Last Valuation

	LEOFF 2		
<i>(Dollars in Millions)</i>	2013	2014	Difference
Market Value of Assets (MV)	\$7,637	\$9,251	\$1,614
Contributions less Disbursements*	\$162	\$147	(\$15)
Investment Return	\$825	\$1,456	\$631
Return on Assets**	12.36%	18.89%	6.53%

\*Includes transfers, restorations, and payables.

\*\*Time-weighted return on market value of assets.

# Actuarial Value Of Assets

## Calculation of Actuarial Value of Assets

### LEOFF 2

(Dollars in Millions)

2014

Market Value of Assets

\$9,251

Deferred Gains and (Losses)

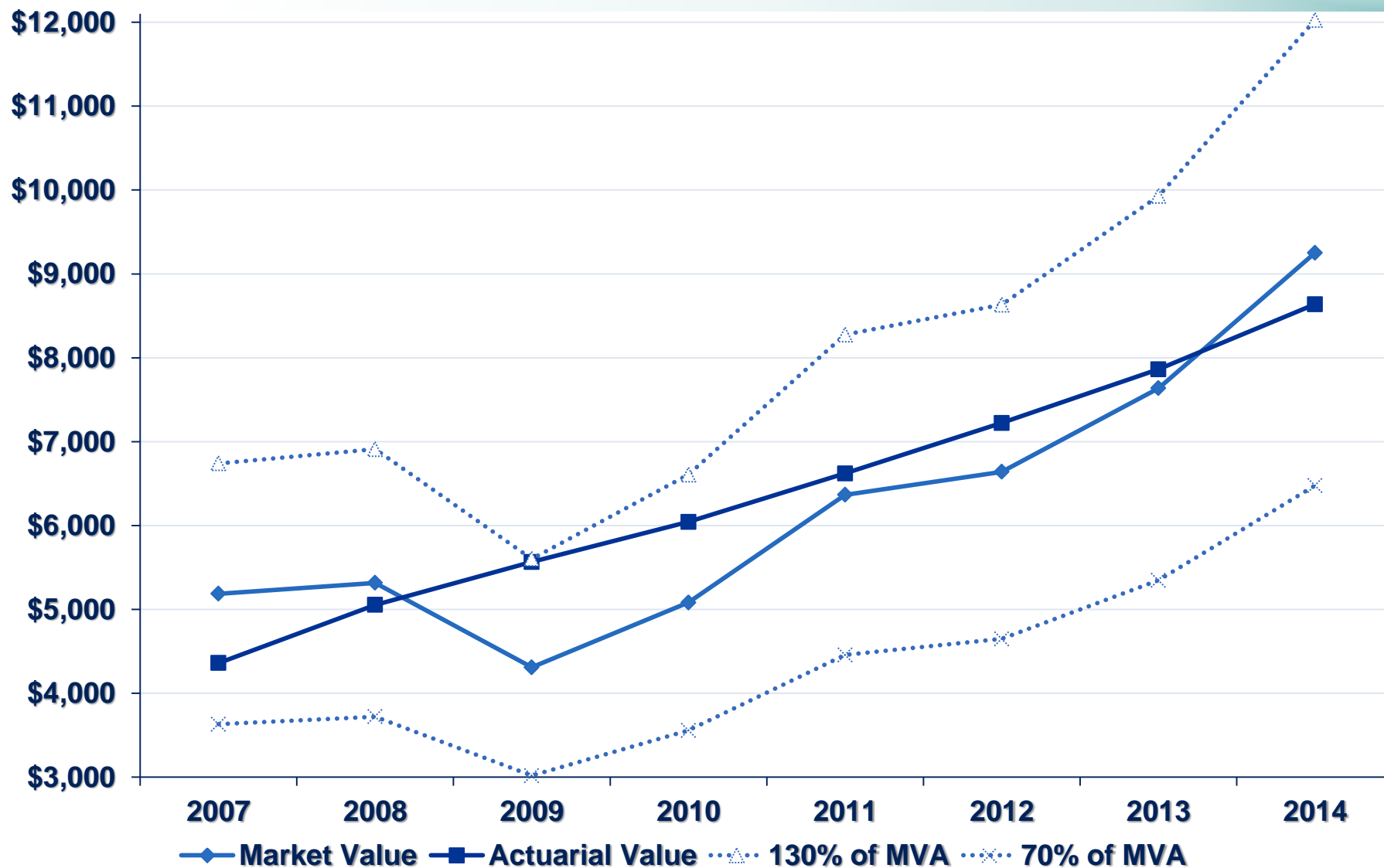
Plan Year Ending	Return on Assets*	Years Deferred	Years Remaining	Amount Deferred**
6/30/2014	18.89%	8	7	768
6/30/2013	12.36%	5	3	193
6/30/2012	1.40%	7	4	(223)
6/30/2011	21.14%	8	4	350
6/30/2010	13.22%	5	0	0
6/30/2009	(22.84%)	8	2	(413)
6/30/2008	(1.24%)	8	1	(61)
Total Deferral				613
<b>Actuarial Value of Assets***</b>				<b>\$8,638</b>

\*Dollar-weighted rate of return.

\*\*Amount of asset gains and (losses) left to recognize, or apply, in future valuations.

\*\*\*Actuarial Value of Assets can never be less than 70% or greater than 130% of the Market Value of Assets.

# A Comparison Of Market And Actuarial Value Of Assets



## Change In Liabilities From Last Valuation

LEOFF 2			
<i>(Dollars in Millions)</i>	2013	2014	Difference
Present Value of Fully Projected Benefits*	\$10,314	\$11,205	\$891
Present Value of Earned Benefits**	\$7,220	\$8,069	\$849
Valuation Interest Rate	7.50%	7.50%	--

\*Today's value of all future plan benefits for current members.

\*\*Today's value of all future plan benefits that have been earned as of the valuation date by current plan members.

## Change In Contribution Rates From Last Valuation

LEOFF 2				
Member Rates	2013	2014	Difference	Adopted 2015-17
Aggregate Rate	6.98%	7.09%	0.11%	
90% EANC Rate	7.97%	7.91%	(0.06%)	
100% EANC Rate	8.85%	8.78%	(0.07%)	8.41%

## Funded Status Is A Measure Of Plan Health

- Funded status =

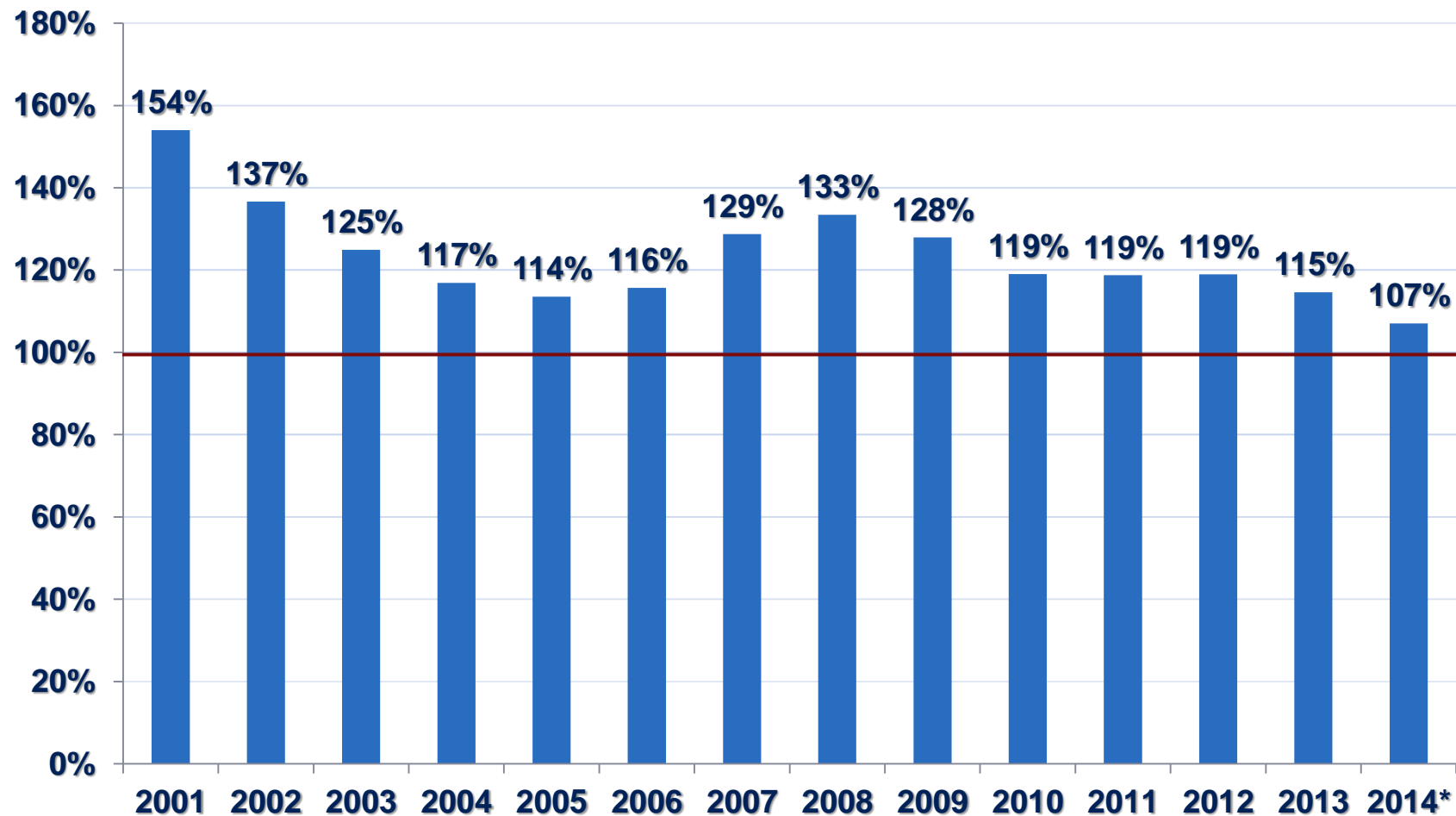
$$\frac{\text{Actuarial Value of Assets}}{\text{Today's Value of Earned Benefits}}$$

- If the funded status exceeds 100 percent, the plan has more than \$1 of assets for every \$1 of earned benefits

## Change In Funded Status From Last Valuation

	LEOFF 2			
<i>(Dollars in Millions)</i>	2013 PUC	2014 PUC	2014 EAN	Difference
Today's Value of Earned Benefits	\$6,859	\$7,629	\$8,069	\$1,210
Actuarial Value of Assets	\$7,862	\$8,638	\$8,638	\$776
Unfunded Liability	(\$1,003)	(\$1,009)	(\$569)	\$434
Funded Status	115%	113%	107%	(8%)

## Historical Funded Status



*\*Liabilities valued using Entry Age Normal actuarial cost method starting in 2014.*



## Summary Of 2014 Actuarial Valuation

- Calculated contribution rates below current adopted rates
  - Both rates remain reasonable
- Current funded status exceeds 100 percent and is considered healthy
- Actuarial valuation is snap-shot in time
- Actuarial Value of Assets now recognizing asset gains
- Accrued liability and funded status results now use Entry Age Normal actuarial cost method
  - Same measure used for financial reporting

## Interactive Web Reports

- OSA has moved some elements from the actuarial valuation report to our website
- Provides the ability to use different inputs to see how the results change
- Current reports include:
  - Funded Status
  - Future Value and Present Value of Benefit Payments
- New reports in the queue:
  - Contribution Rates
  - Age/Service Distributions

# Questions





## Revised Administrative Factors

**Date Presented:**

11/18/2015

**Presenter Name and Title:**

Lisa Won, Deputy State Actuary  
Office of the State Actuary

**Summary:**

An update from OSA on the possibility of adopting new administrative factors for the following:

- Early retirement factors
- Joint and Survivor option factors
- Monthly benefit per \$1.00 of accumulation (annuity) factors
- Service credit restoration factors

**Strategic Linkage:**

This item supports the following Strategic Priority Goals:

Provide the stakeholders with a voice in plan governance., Maintain the financial integrity of the plan., Inform the stakeholders.

**ATTACHMENTS:**

Description	Type
 <a href="#">Administrative Factors</a>	Presentation

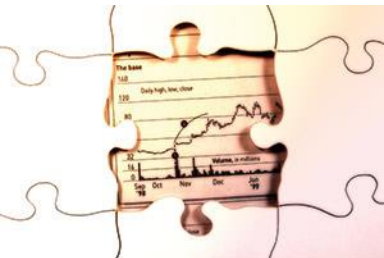
# Revised Administrative Factors

Lisa Won, ASA, FCA, MAAA  
Deputy State Actuary



# Today's Presentation

- Background on administrative factors
- Revisions made to prior factors
- New factor comparisons
- Recommendations
- Next steps



## Background – What Are Administrative Factors?

- Administrative factors adjust pensions for optional payment forms
  - Optional payments should be cost-neutral to the plan as a whole - “Actuarial Equivalence”
- Factors cover all plan members
  - Best actuarial equivalence includes all members in the development of the factors

## Background – Why Is This Before The Board?

- The Board has authority to adopt factors
  - DRS adopts factors for all other plans
- The Board adopted new factors in September
  - OSA discovered corrections/improvements after factors were adopted



## Three Revisions Recommended

- Correct the application of future mortality improvements
  - Prior factors presented in September incorrectly applied mortality improvements in the valuation model
- We determined we could use generational mortality improvements instead of estimating an equivalent static year
- Add return of contributions death benefit to “Monthly Benefit per \$1.00 of Accumulation Factors” (aka annuity purchase factors)
  - If member purchases additional annuity at retirement and dies before receiving monthly benefits at least equal to the cost of the purchase, the excess is paid in a lump sum



## **LEOFF 2 Has Four Sets Of Factors**

- Early Retirement Factors (ERFs)
  - Joint and Survivor Option Factors (J&S factors)
  - Monthly Benefit per \$1.00 of Accumulation (Annuity) Factors
  - Service Credit Restoration Factors (SCRFs)
- 
- Background on each factor provided in September presentation to the Board and attached in the Appendix

## Early Retirement Factor Comparison

- Compares the value of an annuity that starts at Normal Retirement Age (NRA) to an annuity that starts immediately
- ERFs reduce a member's benefit to recognize additional cost to pay benefits for a longer period of time

Percent Change From 2012		
	Prior	Revised
<b>MIN</b>	0.44%	<b>0.22%</b>
<b>AVG</b>	4.78%	<b>3.35%</b>
<b>MAX</b>	8.41%	<b>6.54%</b>

## Early Retirement Factor Example

- Impact on benefit for non-duty disability retirement:
  - Member age = 45
  - Accrued benefit = \$1,500/month

	Current	Prior	Revised
<b>ERF</b>	0.497	0.512	<b>0.506</b>
<b>Monthly Benefit</b>	\$746	\$768	<b>\$759</b>

## Joint & Survivor Factor Comparison

- Compares the value of a single life annuity to a joint life annuity
- J&S factors reduce a member's benefit to recognize additional cost of providing a benefit payable on two lives

Percent Change From 2012						
	J&S 100%		J&S 50%		J&S 66.67%	
	Prior	Revised	Prior	Revised	Prior	Revised
<b>MIN</b>	(0.18%)	<b>(0.71%)</b>	(0.09%)	<b>(0.37%)</b>	(0.12%)	<b>(0.48%)</b>
<b>AVG</b>	2.35%	<b>0.04%</b>	1.31%	<b>0.03%</b>	1.68%	<b>0.04%</b>
<b>MAX</b>	5.19%	<b>1.41%</b>	2.97%	<b>0.82%</b>	3.77%	<b>1.04%</b>

## Joint & Survivor Factor Example

- Impact on \$2,700 monthly retirement benefit for member electing J&S 100 percent (age difference = 3):

	Current	Prior	Revised
<b>J&amp;S Factor</b>	0.859	0.872	<b>0.855</b>
<b>Monthly Benefit</b>	\$2,319	\$2,354	<b>\$2,309</b>

## Annuity Factor Comparison

- Also called “Monthly Benefit per \$1.00 of Accumulation” factors
- Converts lifetime benefit into lump sum payment
- Payment occurs at retirement

Percent Change From 2012		
	Prior	Revised
<b>MIN</b>	2.31%	<b>1.97%</b>
<b>AVG</b>	5.54%	<b>4.48%</b>
<b>MAX</b>	11.71%	<b>9.36%</b>

*Note: Only includes ages 65 and below.*

## Annuity Factor Example

- Impact on cost to purchase additional \$600 monthly benefit (five years “airtime”) for age 55 member:

	Current	Prior	Revised
<b>Annuity Factor</b>	0.0053643	0.0049520	<b>0.0050474</b>
<b>Lump Sum Cost</b>	\$111,900	\$121,200	<b>\$118,900</b>



## Service Credit Restoration Factor Comparison

- Converts expected lifetime benefit into lump sum payment
- Payment occurs prior to retirement
  - Estimate amount of benefit at retirement
  - Use plan retirement assumptions and new ERFs
  - Purchase may qualify member for subsidized early retirement

Percent Change From 2012		
	Prior	Revised
<b>MIN</b>	11.48%	<b>8.44%</b>
<b>AVG</b>	12.37%	<b>8.80%</b>
<b>MAX</b>	15.52%	<b>9.37%</b>

*Note: Only includes ages 65 and below.*

## Service Credit Restoration Factor Example

- Impact on cost to restore 15 years of service for age 45 member with five years of current service and a salary of \$50,000

	Current	Prior	Revised
<b>SCRF (Factor 1)</b>	0.2358	0.2630	<b>0.2559</b>
<b>SCRF (Factor 2)</b>	0.2325	0.2601	<b>0.2530</b>
<b>Lump Sum Cost</b>	\$177,675	\$197,975	<b>\$192,650</b>

## Recommendations

- We recommend adopting revised administrative factors
  - Best estimate of life expectancies for impacted members
  - Best actuarial equivalence (accuracy) for cost of optional benefits
  - Consistent with assumptions used in the actuarial valuation to determine funding requirements of the plan

## Next Steps

- OSA has provided additional information and tables of revised factors
- Board adopts final factors
- DRS will communicate factor changes to members and implement new factors effective October 2016

# Questions?



## Appendix

### ■ Additional information on LEOFF 2 Administrative Factors

## Early Retirement Factors

- ERFs reduce a member's benefit for early commencement
- Applies to non-duty disability or death benefits prior to NRA, age 53
- When benefits start earlier, they are paid longer and the total cost of a member's expected lifetime benefits increases

## Joint And Survivor Option Factors

- J&S factors reduce a member's benefit to provide an ongoing benefit for their survivor
- Three types of survivor benefits available under the plan:
  - J&S 100 percent
  - J&S 50 percent
  - J&S 66 2/3 percent



## Monthly Benefit Per \$1.00 Of Accumulation Factors

- Factors convert a lifetime monthly benefit to a lump sum
- Calculation is made at retirement
- Applies to cash-out of small monthly pension or purchase of additional pension
  - “Airtime” - up to five years
  - Optional life annuity purchase

## Service Credit Restoration Factors

- Factors used to calculate the cost of the increase in a member's benefit if they restore prior service credit
  - Service withdrawn in the past and member wants to restore it after window to pay contributions with interest
- Purchase is made sometime before retirement



## Quarterly Budget Update

### ATTACHMENTS:

	Description	Type
	<a href="#">Quarterly Budget Update</a>	Report

**341 LEOFF Plan 2 Retirement Board Monthly Financial Status Report, BiYTD Through September 2015**

<u>Category</u>	<u>BI Allotment</u>	<u>BITD Allotment</u>	<u>BITD Expenditures</u>	<u>BITD Variance</u>	<u>BI Variance</u>
Salaries and Wages	1,195,344	148,086	148,086	0	1,047,258
Employee Benefits	376,964	46,371	22,803	23,568	354,161
Professional Service Contracts	71,394	5,000	6,530	-1,530	64,864
Goods and Other Services	604,442	75,574	91,059	-15,485	513,383
Travel	96,252	14,664	9,900	4,764	86,352
Capital Outlays	5,604	1,326	0	1,326	5,604
<b>Total Dollars</b>	<b>2,350,000</b>	<b>291,021</b>	<b>278,378</b>	<b>12,643</b>	<b>2,071,622</b>

<u>Category</u>	<u>FM Allotment</u>	<u>FM Expenditure</u>	<u>FM Variance</u>	<u>BITD Allotment</u>	<u>BITD Expenditures</u>	<u>BITD Variance</u>
<b>Salaries and Wages</b>	<b>49,362</b>	<b>49,362</b>	<b>0</b>	<b>148,086</b>	<b>148,086</b>	<b>0</b>
AA State Classified	33,717	33,717	0	101,151	101,151	0
AC State Exempt	15,645	15,645	0	46,935	46,935	0
<b>Employee Benefits</b>	<b>15,457</b>	<b>15,466</b>	<b>-9</b>	<b>46,371</b>	<b>22,803</b>	<b>23,568</b>
BA Old Age and Survivors Insurance	3,060	2,994	66	9,180	8,970	210
BB Retirement and Pensions	5,519	5,519	0	16,557	16,556	1
BC Medical Aid & Industrial Insurance	282	282	0	846	845	1
BD Health, Life & Disability Insurance	5,880	5,880	0	17,640	17,640	0
BE Allowances	0	92	-92	0	92	-92
BH Hospital Insurance (Medicare)	716	700	16	2,148	2,098	50
BT Shared Leave Provided Sick Leave	0	0	0	0	2,792	-2,792
BU Shared Leave Provided Per Holiday	0	0	0	0	713	-713
BV Shared Leave Provided Annual Leave	0	0	0	0	5,189	-5,189
BW Shared Leave Received	0	0	0	0	-32,091	32,091
<b>Professional Service Contracts</b>	<b>0</b>	<b>6,530</b>	<b>-6,530</b>	<b>5,000</b>	<b>6,530</b>	<b>-1,530</b>
CA Management and Organizational Services	0	0	0	0	0	0
CB Legal/Expert Witness Services	0	0	0	0	0	0
CC Financial Services	0	6,530	-6,530	5,000	6,530	-1,530
CD Computer/Information Services	0	0	0	0	0	0
<b>Goods and Other Services</b>	<b>25,183</b>	<b>21,840</b>	<b>3,343</b>	<b>75,574</b>	<b>91,059</b>	<b>-15,485</b>
EA Supplies and Materials	300	-778	1,078	900	-671	1,571
EB Communications/Telecommunications	1,048	1,258	-210	3,144	3,299	-155
EC Utilities	466	491	-25	1,398	1,119	279
ED Rentals and Leases - Land & Buildings	3,830	3,830	1	11,490	11,489	2
EF Printing and Reproduction	1,559	57	1,502	4,677	26,267	-21,590
EG Employee Prof Dev & Training	2,500	2,850	-350	7,500	7,310	190
EH Rental & Leases - Furn & Equipment	523	391	132	1,569	1,138	431
EJ Subscriptions	259	108	151	777	332	446
EK Facilities and Services	352	-61	413	1,056	1,409	-353
EL Data Processing Services (Interagency)	1,125	650	475	3,375	1,126	2,249
EM Attorney General Services	1,833	1,450	383	5,499	2,910	2,589
EN Personnel Services	223	40	183	669	329	340
EP Insurance	0	0	0	25	25	0
ER Other Contractual Services	11,090	11,115	-25	33,270	33,339	-69
EW Archives & Records Management Svcs	6	0	6	18	37	-19
EY Software Licenses and Maintenance	31	408	-377	93	1,167	-1,074
EZ Other Goods and Services	38	33	5	114	435	-321
<b>Travel</b>	<b>4,888</b>	<b>4,163</b>	<b>725</b>	<b>14,664</b>	<b>9,900</b>	<b>4,764</b>
GA In-State Subsistence & Lodging	1,255	765	490	3,765	1,462	2,303
GB In-State Air Transportation	186	0	186	558	0	558
GC Private Automobile Mileage	789	421	368	2,367	1,962	405
GD Other Travel Expenses	358	257	101	1,074	469	605
GF Out-Of-State Subsistence & Lodging	1,500	1,262	238	4,500	4,242	258
GG Out-Of-State Air Transportation	800	1,459	-659	2,400	1,766	634
<b>Capital Outlays</b>	<b>442</b>	<b>0</b>	<b>442</b>	<b>1,326</b>	<b>0</b>	<b>1,326</b>
JA Noncapitalized Assets	417	0	417	1,251	0	1,251
JB Noncapitalized Software	25	0	25	75	0	75
<b>Total Dollars</b>	<b>95,332</b>	<b>97,361</b>	<b>-2,029</b>	<b>291,021</b>	<b>278,378</b>	<b>12,643</b>



## Retiree Return to Work

**Report Type:**

Comprehensive Report Follow-up

**Date Presented:**

11/18/2015

**Presenter Name and Title:**

Paul Neal, Senior Research and Policy Manager

**Summary:**

Follow up on Board direction to present option to resubmit prior legislation proposing restricting current ability of LEOFF Plan 2 retirees to return to work as a law enforcement officer or firefighter.

**Strategic Linkage:**

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

**ATTACHMENTS:**

Description		Type
 <a href="#">Retiree Return to Work Report</a>		Report
 <a href="#">Retiree Return to Work Presentation</a>		Presentation



## COMPREHENSIVE REPORT FOLLOW-UP

By Paul Neal  
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### ISSUE STATEMENT

The LEOFF Plan 2 Board's (Board) 2014 proposal to tighten the career change law revealed tension between the policies of: 1) Maintaining public confidence that LEOFF Plan 2 is well designed and professionally managed; and 2) Facilitating smaller jurisdictions' access to highly trained and experienced LEOFF Plan 2 retirees.

### OVERVIEW

During the 2013 interim the Board learned some LEOFF Plan 2 retirees were using the 2005 career change law to work as law enforcement officers or fire fighters while drawing their pensions. Some employers facilitated this expansion of the law's original intent by redefining historically LEOFF positions to avoid LEOFF eligibility. Some felt this was inappropriate.

The Board proposed curtailing the ability of a LEOFF Plan 2 retiree to draw a pension and work in a historically LEOFF position. The Board's proposal was introduced in 2014 as HB 2479. The Legislative debate revealed tension between the Board's original policy goal and the goal of allowing smaller jurisdictions to compete for law enforcement officers and fire fighters they would not otherwise be able to afford.

The Board revisited this issue during 2014 but voted to table it until the 2015 interim.

### MEMBERS IMPACTED

Two hundred sixty-five LEOFF Plan 2 retirees have utilized the provisions of the career change law since its inception in 2005<sup>1</sup>. A similar number of members would be impacted by any changes to the law if those utilization numbers remain constant. Additionally, there are public trust issues addressed by the original bill that impact all LEOFF Plan 2 members.

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<sup>1</sup> Data from November 2013 on career change usage report produced by the Department of Retirement Systems (DRS).

## BACKGROUND & POLICY ISSUES

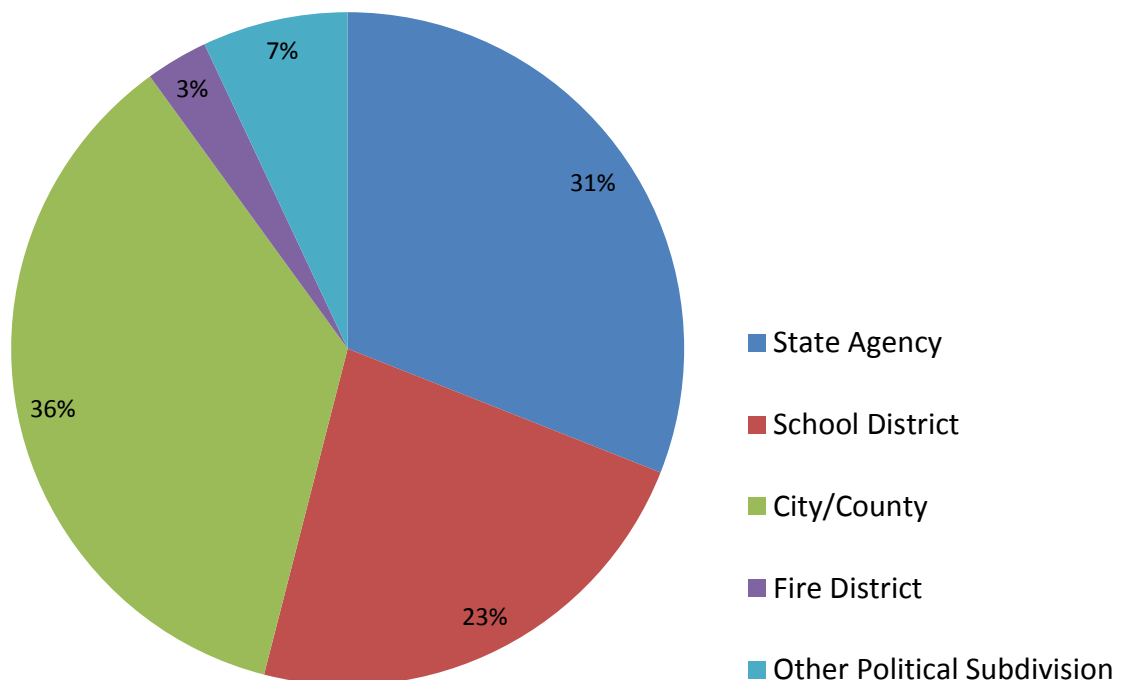
### Career Change

Before 2005 a LEOFF Plan 2 retiree's pension stopped if they worked in a job covered by any state-wide public retirement system. The Board recognized member's may no longer be able to fulfill the physical demands of law enforcement or firefighting before they were ready, or could afford to stop working. The Legislature passed the Board's proposed Career Change legislation in 2005 enabling retired LEOFF Plan 2 retirees to start a second career in non-LEOFF public employment. A retiree accepting such a job can either establish membership in another public system, thus suspending their LEOFF Plan 2 pension, or waive membership in the new system and continue receiving their pension.

The Board intended to facilitate transition from a physically demanding profession to a second less strenuous career. The Board did not contemplate enabling retirees to continue working as a law enforcement officer or fire fighter while receiving their pension.

The vast majority of participating retirees use Career Change as intended: to facilitate public employment as something other than a law enforcement officer or fire fighter. Recent DRS data shows 265 LEOFF Plan 2 retirees working in public employment with an average annual salary of \$28,268. Sixty-one percent work for non-LEOFF employers. Most of those retirees working for LEOFF employers do not work in historically LEOFF positions:

**LEOFF Plan 2 Retirees: Second Public Career Distribution**



As discussed during the 2013 Career Change briefings, some employers seeking the benefit of the years of training and experience possessed by LEOFF Plan 2 retirees have redefined LEOFF positions as PERS positions. For instance, some employers have redefined full-time police chief and fire chief positions as “part-time.” This allows LEOFF Plan 2 retirees to hold those positions without losing receipt of their pensions.

An example of this appeared in 2015 involving the Tenino Chief of Police. He retired under LEOFF Plan 2 and subsequently went to work as the Tenino Police Chief. His contract required him to work 159 hours per month, one hour below the threshold of 160 hours which would have made him full-time, requiring reentry into LEOFF Plan 2 and suspension of his pension. DRS found that the chief was working additional hours such that he qualified as a full time employee. It stopped his pension and billed the City for \$82,462 in pension overpayments.

### **Proposal to Curtail Abuse**

The Board proposed curtailing the ability of a LEOFF Plan 2 retiree to draw a pension and work in a historically LEOFF position. The proposal was introduced in 2014 as HB 2479. After passing the House, the bill failed to pass the Senate, in part because of concerns raised by stakeholder groups about the desirability of providing smaller jurisdictions access to highly trained and experienced fire chiefs and police chiefs they could not otherwise afford.

## **THE VALUE OF EXPERIENCE**

Perhaps more than other public professions, law enforcement and firefighting require continuous, specific training. Over the course of a 25 year career a fire fighter’s employer spends approximately \$142,500 on training<sup>2</sup>. Law enforcement employers also incur significant training costs. In addition to specific training, the years of field experience possessed by LEOFF Plan 2 retirees has great potential value to employers.

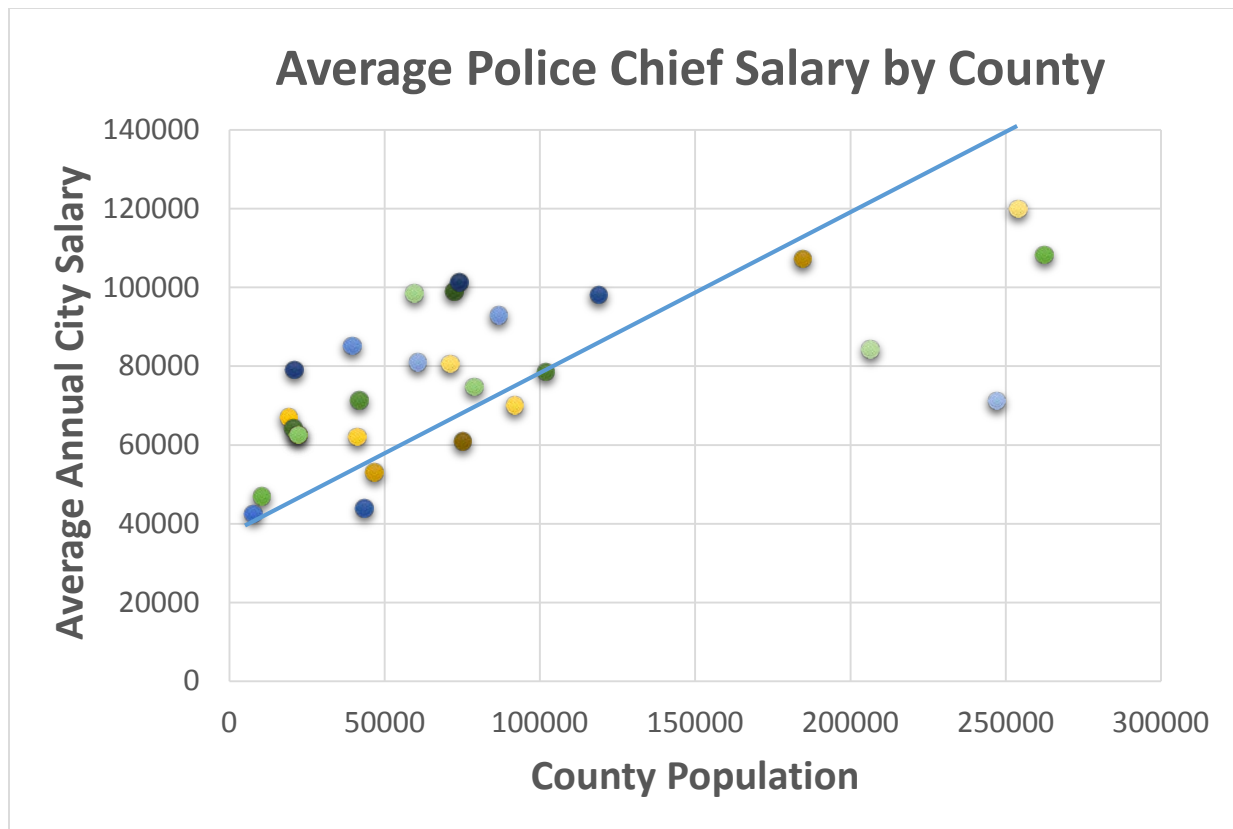
LEOFF employers are, by definition, mostly political subdivisions. Local government budgets, and hence public safety salaries, vary widely across Washington depending in large part on the tax base. The 2014 career change analysis looked at chief salaries by employer population. While salary ranged significantly between many small jurisdictions and large jurisdictions, a better predictor of salary range was a city’s location, i.e. urban vs. rural.

In an effort to examine the urban vs rural distinction, the data is sorted below by population of the county the city is in, rather than the city itself.

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<sup>2</sup> The South King County Fire Training Coalition, which provides training to fire fighters from 8 different jurisdictions, charges employers \$5700 per year per fire fighter.  $\$5700 \times 25 \text{ years} = \$142,500$ .





While there is not a one-to-one correlation, the overall trend is that cities in counties with higher populations tend to pay higher salaries. This lends some support to the idea that allowing LEOFF Plan 2 retirees some ability to work while receiving their pensions could help lower paying jurisdictions compete for highly trained and experienced law enforcement officers and fire fighters.

### IMPORTANCE OF A WELL DESIGNED AND PROFESSIONALLY MANAGED PLAN

Public perception of pension abuse can be exacerbated when benefits appear to flow disproportionately to highly placed employees. Public displeasure over perceived abuses undermines public confidence in the retirement system as a whole.

#### Uninterrupted Employment

If an employee appears to retire, then comes back to work in the same or similar position with their former employer, it raises questions whether the person ever actually retired. Both state retirement law and the Internal Revenue Code require a full separation from service before qualifying for a retirement allowance. These requirements exist to guard against pseudo-retirements, where a person goes through the process of retiring in order to qualify for their pension, but has only briefly, or in some cases never, left their employer.

#### Public Pension + Public Salary

Receiving both a public pension and a public salary at the same time is a common hot-button with the general public.

Newspaper articles have featured the total compensation received by LEOFF Plan 2 retirees who return to law enforcement officer or fire fighter employment. A recent Seattle Times report on LEOFF Plan 2 retirees working as police chiefs and fire chiefs described a LEOFF Plan 2 retiree working a fire chief collecting a \$100,000 a year pension and a \$90,000 a year salary. See Appendix A.

One could argue adding together pensions for previous service and the salaries earned for current service is mixing apples and oranges. LEOFF Plan 2 pensions, unlike salaries for current service, are not paid out of current revenues. Those pensions are fully funded at retirement by employer and employee contributions paid over the course of the employee's career, plus earnings on those contributions<sup>3</sup>.

When a public employee retires and goes to work in the private sector or for a public entity in another state, no objections are heard. Some question why the result is different if that same public retiree goes to work in the public sector. Judging from the comments posted in response to recent newspaper articles, many members of the public do not find this analysis persuasive.

### **Perceived Favoritism**

Some of the public anger over allegations of abuse flow from a perceived misuse of authority. Articles often feature persons working in upper management negotiating with the mayor and/or city council to create a position description allowing them to earn a salary as a law enforcement officer or fire fighter while drawing a LEOFF pension.

The vast majority of LEOFF Plan 2 retirees utilizing the career change law do not work as law enforcement officers or fire fighters and make less than in their first careers. For example, a retired police officer providing part-time security at a middle school. These are not the cases reported in the paper.

## **BALANCING OPTIONS**

During Board discussions in 2014, many Board members saw the value of allowing LEOFF Plan 2 retirees to share the value of their experience with smaller employers, but were uncomfortable with the current situation where position descriptions for LEOFF positions were modified to facilitate employment of LEOFF retirees.

The Board directed staff to develop options which maintain LEOFF Plan 2 as a well-designed and professionally managed plan while providing a "bright line" defining when a LEOFF Plan 2 retiree could work in a historically LEOFF position without suspension of their entire pension.

### **Make Benefit Generally Available**

An issue with the current situation is the appearance of a "work around" where an employer takes specific action to accommodate a specific employee. This perceived dynamic appears where the employee continues with the same employer. It also appears when the benefit appears limited to persons with a motivated prospective employer.

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<sup>3</sup> According to the Washington State Investment Board, 86% of every dollar paid out in LEOFF Plan 2 pension benefits comes from investment earnings.

These issues could be addressed by:

- Requiring the LEOFF Plan 2 retiree work for a different employer than they retired from;
- Openly provide the benefit so specific employer action would no longer be required.

This could be done by:

- Making the benefit available to a specific class of employees, i.e. chiefs; or
- Making the benefit generally available to all LEOFF Plan 2 retirees.

### **Not Encouraging Earlier Retirement**

Making the benefit generally available could incentivize employees to retire earlier to utilize the new standard. This could negatively impact the original employer and create an actuarial cost. The Actuary bases future costs in part by projecting when people will retire, i.e. how long they will draw a benefit. If the new standard creates enough incentive to retire earlier, this could create an actuarial cost.

A minimum service credit requirement, possibly 20 or 25 years, could help address this issue and ensure that persons eligible for LEOFF reemployment were highly experienced employees.

### **Limiting Total of Pension plus Salary**

The public shows concern when a retiree's total income, pension plus salary, appears excessive. Concern is especially likely if the combination doubles or nearly doubles the person's compensation. While the objection is debatable, it is clearly an area of public concern.

This issue could be addressed by limiting the combined amount of a LEOFF Plan 2 retiree's salary and pension. Possible alternatives include:

- Limiting total compensation to a percentage of Final Average Salary: Limiting total pension and salary to a set percentage of Final Average Salary (FAS) would ensure that the retiree's total compensation would be similar to what he or she earned prior to retirement. This could address perceptions of abuse. On the other hand, requiring DRS to develop and track a new, LEOFF Plan 2 specific, post-retirement employment standard could generate an administrative cost.
- Limit the Timeframe for Collecting Both Pension and Salary: The State's other Plan 2 systems allow retirees to work in a system-covered position for up to 867 hours per year (approximately 5 months). Once a retiree reaches that point, their pension stops for the remainder of the calendar year. It restarts at the beginning of the next year, stopping again if the retiree works another 867 hours. DRS has systems and reporting requirements in place to track the 867 hour rule for the State's other Plan 2 systems.

Adopting this same standard for LEOFF Plan 2 retirees working in historically LEOFF positions would effectively limit the combined salary and pension, thus mitigating the "double-dipping" issue. It would be consistent with current policy in the State's other plan 2 systems. Finally, it would be easier for DRS than administering a new standard.

## **NEXT STEPS – OPTIONS**

The Board voted 6 to 4 at its September meeting to request reintroduction of HB 2479 for the 2016 Legislative session. The Board further reviewed and discussed the LEOFF 2 return to work issue at its October off-site retreat. In keeping with the Board's September direction an updated draft of the original bill updated for the 2016 session is attached as Appendix B.

Option 1: Direct staff to present a Final Proposal (reintroduction of HB 2479 for the 2016 Legislative session) with fiscal note for Board action at the December 16<sup>th</sup> Meeting.

Option 2: Take no further action.

## **SUPPORTING INFORMATION**

Appendix A: *Fire, police officials get retire-rehire deals*, Seattle Times, November 21, 2013.

Appendix B: Updated Code Reviser Draft with same language as HB 2479 updated for introduction in 2016 Legislative session.

## APPENDIX A

### Seattle Times Article: *Fire, police officials get retire-rehire deals*

Published in Seattle Times:

Updated: 8:25 a.m. Thursday, Nov. 21, 2013 | Posted: 8:25 a.m. Thursday, Nov. 21, 2013

#### **Fire, police officials get retire-rehire deals**

By MIKE BAKER

The Associated Press

SEATTLE —

A couple years after retiring as Lakewood fire chief at age 58, Paul Webb returned to the profession and his former job title — this time at Orting Valley Fire and Rescue.

Hired under a contract without some of the typical employee benefits, Webb's arrangement at the end of 2009 allowed him to draw more than \$100,000 in annual pension payments while also earning up to \$90,000 in yearly pay. It was an interim position, according to his contracts. He stayed in the job for three years.

It wasn't long before six of Webb's past colleagues followed similar paths, retiring and taking jobs in various contract positions, according to records.

In recent years, Washington lawmakers changed laws to crack down on retire-rehire arrangements, seeking to prevent pensioners from double-dipping when they return to similar government jobs.

But The Associated Press found that gaps in the special rules created for law enforcement officers and firefighters have allowed them to draw salaries alongside their pension. And those retirees generally retire much younger and with much larger retirement plans than teachers or other government workers.

According to local and state records obtained by AP under public records law, dozens of public safety retirees around the state became contractors. Some took part-time jobs such as polygraph consultants or pilots or instructors, while others returned to prominent managerial positions.

Other retirees in those two retirement systems reserved for law enforcement officers and firefighters — called LEOFF-1 and LEOFF-2 — took jobs that had them work slightly less than full time or with slightly less benefits, also allowing them to bypass rules that would have halted pension payments.

Local governments gain from the arrangements because officials can hire someone with experience at either a discounted pay rate or without having to cover some typical benefits.

DuPont Mayor Michael Grayum recently worked closely with the Department of Retirement Systems to ensure the city was following the rules in the hiring of a police chief who had retired from a different department. The city didn't seek out pensioners, but three of the top candidates for the job were retirees.

"We were able to hire more experienced leadership for a lower cost than we have historically," he said. The new chief is able to keep his pension because his job is only 35 hours a week instead of 40.

The Legislature established retire-rehire rules for many government workers in 2003 due to concerns about the frequency and cost of those arrangements. In 2011, lawmakers placed even tighter controls on those deals, closing what some political leaders derided as "loopholes."

Rules for members of the newer LEOFF system were established in 2005 with the intent of preventing retire-rehire arrangements in similar jobs but designed to allow transition to less-demanding occupations in government.

Steve Nelsen, executive director of the LEOFF-2 Retirement Board, said the rules weren't meant to allow retirees to return to work in similar LEOFF jobs. "This was not the intent of the bill," Nelsen said. He said several Board members have expressed concern about the DuPont case that surfaced in the wake of a previous AP story and that the Board is now exploring the issue.

LEOFF rehire rules revolve around the issue of eligibility. Workers are eligible for the LEOFF system if they are fully compensated in full-time positions as a law enforcement officer, firefighter or supervisor. A retiree who gets rehired into a similar LEOFF-eligible position would have their pensions benefits halted.

But if a LEOFF retiree returns to a position that's less than full-time or not fully compensated, they technically would not qualify for the system and can avoid disruption of their benefits, according to the state.

Some have seized on that potential.

— In Maple Valley, in King County, Larry Rude was hired in 2007 to a contract position as assistant fire chief. He started in the new position the same day he retired from the state system, according to records.

For three years, Rude earned more than \$100,000 a year in salary — plus other benefits — along with a similar amount in retirement payments. Rude said he was allowed to draw pension and salary because he was only working in a part-time position, saying it "wasn't very many" hours a week.

Rude said he didn't have a specific number of hours that he typically worked, although the final contract he signed said Rude could work up to 159 hours a month — an average of about 37 hours a week.

— In Soap Lake, in central Washington, officials chose Glenn Quantz as an interim police chief last year, bringing him on as a contractor. Quantz had retired in 2009 at age 53 from the Thurston County Sheriff's Office.

Mayor Raymond Gravelle told state officials in a letter obtained by AP that Quantz was working 32 hours a week — making it a part-time job that wouldn't disrupt his benefits. However, Quantz is earning the full salary of the police chief and the same amount as the previous chief, according to records provided by the city's finance director.

Quantz declined to comment about his situation. Gravelle said the city is small enough that Quantz doesn't need to work full-time, but he said officials will be going back to review records to ensure they are compliant.

— In the Orting Valley case, documents show Webb consulted with the state about his rehire transition because he didn't want it to disrupt his retirement benefits. While Webb was working in a full-time post, a state official told him that there would be no impact because he didn't qualify for sick leave cash-outs and some other benefits.

"It was definitely full-time, but it wasn't fully compensated," Webb said in an interview.

Dave Nelsen, the legal and legislative services manager at the Department of Retirement Systems, said it's not clear what the review entailed at the time but said the issue of what qualifies as "fully compensated" is subjective and could be interpreted differently by other officials.

— At North Highline Fire District in the Seattle area, Steve Marstrom was hired to a contract as the administrative chief. Marstrom had retired from the Lakewood Fire District more than a decade before at age 50.

Marstrom's contract said he did not have set hours but would be paid \$8,000 a month. He could also get \$1,500 a month for housing. Marstrom said his role at North Highline was strictly an administrative one, since he was supervising personnel and not participating in any firefighting activities.

Because he wasn't personally involved in firefighting, Marstrom said the role didn't qualify for the LEOFF system so it wouldn't disrupt his LEOFF benefits.

Other LEOFF retirees in the system managed to get hired in similar roles that are technically in other pension systems. Some fire officials transitioned to become fire inspector or deputy fire marshal. Police officials transitioned to work as a "violence prevention" leader or agency security manager.

Depending on the circumstances, state officials could decide that workers hired as contractors should have been reported to the state as actual employees, potentially leading to a halting of pension payments. By hiring as contractors, however, the employees are more difficult for state pension managers to track.

One worker in the larger group of Lakewood retirees who became contractors had a part-time salary of \$90 per hour, while another was hired back as the department's full-time "emergency preparedness coordinator." Nelsen, the retirement system manager, said the agency was further examining the cases of Rude, Marstrom and Webb.

Earlier this year, after an AP report that described the case of former Lakewood official Greg Hull as part of a larger story about how some workers boosted their pensions with pre-retirement raises, the state audited files related to Hull and determined that he had been improperly classified as a contractor in his newer job at DuPont.

Retirement system managers are now seeking to recover more than \$550,000 in excess pension payments from that city.

Retirees in the two systems dedicated for law enforcement officers and firefighters have different rules than most other retirees. Many retired teachers, for example, would be unable to work more than 867 hours a year in a government job without having their benefits disrupted, but law enforcement and firefighter retirees could conceivably work more than 1,800 hours a year.

Law enforcement and firefighters also get more leeway even though their pay and benefits are typically much greater than other government workers. The median worker who retired over the last 10 years into a LEOFF system currently gets about \$45,000 per year in pension payments. By comparison, the median retiree into the teacher pension systems has a benefit about half that size — \$24,000.

Despite the much larger pension values, the median LEOFF retiree departed the job at age 56 while the median teacher retiree worked until age 61.

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AP Writer Mike Baker can be reached on Facebook: <http://on.fb.me/HiPpEV>  
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## APPENDIX B

### *Updated Retire-Rehire Bill – Code Reviser Draft*

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#### BILL REQUEST - CODE REVISER'S OFFICE

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BILL REQ. #: Z-0646.1/15

ATTY/TYPIST: LL:eab

BRIEF DESCRIPTION: Placing restrictions on retired law enforcement officers and firefighters employed in certain public positions.

AN ACT Relating to retired law enforcement officers and firefighters employed in certain public positions; amending RCW 41.26.500; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** The legislature has recognized the physical demands of law enforcement officer and firefighter duties by providing for earlier retirement from the law enforcement officers' and firefighters' retirement system than from other state retirement systems. Chapter 372, Laws of 2005 facilitates transition of firefighters and law enforcement officers to other careers, recognizing those career professionals could still provide valuable public service in positions other than law enforcement and firefighting.

It is not the intent, nor is it a reasonable expectation of members, that chapter 372, Laws of 2005 allow plan 2 retirees of the law enforcement officers' and firefighters' retirement system to continue in a law enforcement officer or firefighter career and still collect their retirement allowance.

**Sec. 2.** RCW 41.26.500 and 2005 c 372 s 2 are each amended to read as follows:

(1) Except under subsection (3) of this section, a retiree under the provisions of plan 2 shall not be eligible to receive such retiree's monthly retirement allowance if he or she is employed in an eligible position as defined in RCW 41.40.010, 41.32.010, 41.37.010, or 41.35.010, or as a law enforcement officer or firefighter as defined in RCW 41.26.030. If a retiree's benefits have been suspended under this section, his or her benefits shall be reinstated when the retiree terminates the employment that caused

his or her benefits to be suspended. Upon reinstatement, the retiree's benefits shall be actuarially recomputed pursuant to the rules adopted by the department.

(2) The department shall adopt rules implementing this section.

(3) A member or retiree who becomes employed in an eligible position as defined in RCW 41.40.010, 41.32.010, 41.35.010, or 41.37.010 shall have the option to enter into membership in the corresponding retirement system for that position notwithstanding any provision of RCW 41.04.270.

(a) A retiree who elects to enter into plan membership shall have his or her benefits suspended as provided in subsection (1) of this section.

(b) A member or retiree who does not elect to enter into plan membership shall be eligible to initiate or continue to receive his or her benefits without interruption except as provided in (c) of this subsection.

(c) This subsection (3) does not apply to retirees or members in positions that would otherwise be eligible for the law enforcement officers' and firefighters' retirement system except that:

(i) The position is less than full-time;

(ii) The position is less than fully compensated;

(iii) The position is not fully commissioned;

(iv) The position includes additional duties that would make the position ineligible for the law enforcement officers' and firefighters' retirement system; or

(v) The retiree or member is designated as an independent contractor.

--- END ---



# Retiree Return to Work

Comprehensive Report Follow-up  
November 18, 2015



# Issue

**Career Change legislation is sometimes used inappropriately**

**Board proposal to remedy revealed tension**

- Public confidence in well designed and professionally managed public pension plan
- Access to highly trained and experienced LEOFF Plan 2 retirees for small jurisdictions



# Issue History

## **2013 interim - Proposed Return to Work legislation (HB 2479)**

- Passed House; No hearing in Senate; Did not pass

## **2014 interim – Studied/No action taken**

## **2015 interim**

- September and October 2015 meetings
- 6 to 4 vote to update HB 2479 for reintroduction in 2016



# **Proposed Changes**

## **HB 2479 (2014)**

**LEOFF Plan 2 retirees cannot draw a pension if working in a position that would qualify for LEOFF but for the fact that it is:**

- Less than full time
- Less than fully compensated
- Not fully commissioned
- Includes additional non-LEOFF duties
- Worker is an independent contractor



# Next Steps - Options

## **1. Direct staff to present a Final Proposal**

- Reintroduction of House Bill 2479
- Draft legislation with fiscal note

## **2. Take no further action**

# Questions?

## Contact:

Paul Neal

Senior Research and Policy Manager

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## Retiree Annuity Purchase

**Report Type:**

Comprehensive Report Follow-up

**Date Presented:**

11/18/2015

**Presenter Name and Title:**

Paul Neal, Senior Research and Policy Manager

**Summary:**

Potential legislation allowing LEOFF Plan 2 retirees a window period to purchase an annuity from the trust fund

**Strategic Linkage:**

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

**ATTACHMENTS:**

Description	Type
 <a href="#">Retiree annuity purchase report</a>	Report
 <a href="#">Retiree Annuity Purchase presentation</a>	Presentation



## COMPREHENSIVE REPORT FOLLOW-UP

By Paul Neal  
Senior Research and Policy Manager  
360-586-2327  
paul.neal@leoff.wa.gov

### ISSUE STATEMENT

Current state law does not allow retirees to roll over tax deferred savings into LEOFF Plan 2 to purchase an annuity.

### OVERVIEW

At the time of retirement, members can roll their retirement savings from a tax qualified plan into LEOFF Plan 2. The Department of Retirement Systems (DRS) will convert this rollover into a monthly life annuity. Because members are rolling over from a tax qualified savings plan, they do not have to pay taxes at the time the annuity is purchased. Instead, the money will be included in their taxable income as they receive it.

Members receive their pension dollars as well as this annuity in one monthly check from DRS. If they were to pass away before receiving the initial cost to purchase the annuity, the designated beneficiary receives the balance.

Following passage of the 2014 legislation allowing purchase of annuity at the time of retirement, existing retirees inquired whether they could also roll over and purchase an annuity after retirement. The current law does not allow existing retirees to purchase an annuity. An annuity can only be purchased *at* the time of retirement.

### BACKGROUND & POLICY ISSUES

A 2012 IRS revenue ruling<sup>1</sup> allowed pension plan members to roll money from a deferred compensation account into the member's defined benefit plan to purchase an annuity if authorized by the plan document (i.e. the LEOFF Plan 2 statutes).

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<sup>1</sup> Internal Revenue Bulletin 2012-8; issued February 21, 2012.

After studying the issue, the Board recommended legislation in 2014 which was passed unanimously by the Legislature. The legislation allows members of LEOFF Plan 2 who are retiring to purchase an optional actuarially equivalent life annuity from the LEOFF Plan 2 trust fund with a minimum payment of \$25,000. The payment may be made through an eligible or direct rollover, or trustee-to-trustee transfer from a tax-qualified plan offered by a governmental employer.

Existing retirees (retired before the 2014 Annuity Purchase legislation) began to raise questions about their ability to purchase an annuity. Neither the original revenue ruling nor the Board's legislation discussed whether existing retirees could also be given the opportunity to purchase an annuity.

Staff has since determined that federal tax law would allow retirees to purchase an annuity from the pension fund, if authorized in statute.

### **Value of an Annuity Purchase**

Purchasing an annuity increases a retiree's monthly benefit for the rest of their life. An "annuity" is an investment on which a retiree receives fixed payments for their lifetime. If an annuity is purchased, the retiree would continue to receive the annuity portion of their monthly benefit even if they returned to work, or returned to membership.

Similar to a monthly benefit, the annuity portion may also be passed along to a survivor if a survivor option is selected at the time of retirement. If a survivor option is not selected, any portion of the annuity remaining at the time of death will be paid to the designated beneficiary or the retiree's estate. If the retiree is eligible for an annual Cost-of-Living Adjustment (COLA) on their monthly benefit, they will receive the same COLA percentage on their purchased annuity.

Many private annuity companies offer their own versions of this benefit. However, LEOFF's higher interest rate assumption (7.5% - compared to around 4% for a private annuity company) translates into a larger annuity from the same lump sum. Additionally, administrative costs to the member are much lower.

Analysis supporting the Board's 2014 Annuity Purchase proposal is included from the December 18, 2013 Final Proposal as Appendix B.

### **Board Action**

At the June and September (2015) meetings, the Board discussed the possibility of opening a window allowing an annuity purchase by persons who retired prior to the 2014 legislation.

Representatives of LEOFF Plan 1 retirees and WSPRS retirees expressed interest in being included in such a bill. The Board directed staff to draft legislation limited to LEOFF Plan 2 retirees, while leaving open the possibility of considering expansion.

The Select Committee on Pension Policy (SCPP) discussed allowing retirees from plans other than LEOFF Plan 2 a window to purchase an annuity. The SCPP decided to include that issue on its interim agenda. Given the SCPP action, it would be duplicative for the Board to consider the including WSPRS and LEOFF Plan 1 retirees.

A bill draft authorizing LEOFF Plan 2 retirees a limited window of time to purchase an annuity is attached as Appendix A.

## **NEXT STEPS - OPTIONS**

Option 1: Direct staff to present a Final Proposal authorizing LEOFF Plan 2 retirees a one-time limited window of time to purchase an annuity (draft legislation with fiscal note) for Board action at the December 16<sup>th</sup> meeting

Option 2: Take no further action

## **SUPPORTING INFORMATION**

Appendix A: Draft bill authorizing LEOFF Plan 2 retirees to purchase an annuity

Appendix B: Promoting Individual Savings for Retirement – Final Proposal, December 18, 2013

## APPENDIX A: BILL DRAFT AUTHORIZING WINDOW FOR RETIREE PURCHASE OF ANNUITY

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### BILL REQUEST - CODE REVISER'S OFFICE

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BILL REQ. #: Z-0645.1/15

ATTY/TYPIST: LL:lel

BRIEF DESCRIPTION: Allowing certain law enforcement officers' and firefighters' plan 2 retirees to purchase annuities.

AN ACT Relating to allowing certain law enforcement officers' and firefighters' plan 2 retirees to purchase annuities; and adding a new section to chapter 41.26 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW under the subchapter heading "plan 2" to read as follows, but because of its temporary nature is not codified:

A plan 2 retiree whose retirement was effective on or before October 1, 2014, may purchase an annuity under the provisions of RCW 41.26.463 between January 1, 2017, and June 1, 2017.

--- END ---

## APPENDIX B: PROMOTING INDIVIDUAL SAVINGS FOR RETIREMENT – FINAL PROPOSAL, DECEMBER 18, 2013



### DECEMBER 18, 2013 PROMOTING INDIVIDUAL SAVINGS FOR RETIREMENT

#### FINAL PROPOSAL

By Paul Neal  
Senior Legal Counsel  
360-586-2327  
paul.neal@leoff.wa.gov

#### ISSUE

Members are not able to take advantage of a recent IRS ruling which provides new options for managing savings in retirement.

#### PROPOSAL SUMMARY<sup>1</sup>

At the November 20<sup>th</sup> meeting the Board directed staff to prepare proposals on:

- Option 1: Authorize LEOFF Plan 2 to annuitize roll-overs of tax deferred savings;
- Option 3: Require LEOFF Employers to Offer DRS's Deferred Compensation Program to LEOFF Members; and
- Option 4: Encourage DRS to offer a Roth option as part of its 457 deferred compensation plan.

Those options are being presented for Board action at the December 18<sup>th</sup> meeting.

#### MEMBERS IMPACTED

New options encouraging member's retirement savings as part of LEOFF Plan 2 would be available to all 16,720 active LEOFF Plan 2 members<sup>2</sup>.

#### OVERVIEW

The LEOFF Plan 2 defined benefit Plan, the first leg of the three-legged retirement stool, provides a defined lifetime payout that does not vary with investment return. Retirees must devise their own distribution strategy for the second leg of the stool, individual retirement savings. Members can reduce the risk of outliving their assets if they convert at least some of those assets into a lifetime annuity.

<sup>1</sup> The Board initially considered this issue at the August 28, 2013 Board meeting. At the September follow-up the Board looked at three options and requested additional information on: Annuitization of additional amounts rolled over into LEOFF Plan 2; and requiring LEOFF employers to participate in DRS's 457 plan. Staff also researched authorized "Roth" accumulations in governmental 457 plans.

<sup>2</sup> Membership number as of June 30, 2012; Office of the State Actuary 2011 LEOFF Plan 2 Valuation Report.

LEOFF Plan 2 members may purchase an additional monthly benefit through the LEOFF Plan 2 trust fund by buying up to 5 years of additional service credit at the time retirement. Under current law, only Plan 3 members (TRS, PERS & SERS<sup>3</sup>) can convert contributions to an annuity from their retirement system.

Leveraging the existing LEOFF Plan 2 infrastructure to authorize accumulation of savings and/or converting that account to a monthly benefit through the LEOFF Plan 2 trust fund would provide a cost-effective mechanism to encourage retirement savings. This can be particularly important for LEOFF Plan 2 members since many do not participate in social security through their employer.

This report examines federal laws encouraging retirement savings, the costs of savings for retirement, different mechanisms for annuitizing retirement savings, a recent IRS ruling authorizing annuitizing retirement savings through LEOFF Plan 2, and provides options for further action.

## BACKGROUND INFORMATION & POLICY ISSUES

The LEOFF Plan 2 Retirement Board began studying ways to encourage increased retirement savings during the 2004 Interim. The Board recommended legislation allowing purchase of up to five years of service credit at retirement. The Legislature passed that recommendation in 2005 (HB 1269).

That same year the Department of Retirement Systems (DRS) began offering annuities through the Plan 3 programs. The Purchase of Annuity topic was studied by the Board during the 2006, 2007, 2008 and 2009 Interims reaching the Final Proposal stage in 2006, 2008 and 2009, but no legislation was recommended. The topic was deferred for joint consideration with the Select Committee on Pension Policy (SCPP) for the 2009 Interim. No further action was taken.

*The paradox is that investors recognize that their retirement savings will need to last longer than ever before but they aren't making plans to ensure they will actually have the money they need. There tends to be a false sense of security when it comes to Planning for retirement. We hope that the money will somehow be there when we need it but we're not taking the action required to ensure it is. This is a serious problem, and addressing it must become an urgent priority.*

Noel Archard, Head of BlackRock  
Canada. July 2013

## SAVING FOR RETIREMENT

### Federal Law Encouraging Retirement Savings

<sup>3</sup> Teachers' Retirement System (TRS); Public Employees' Retirement System (PERS); School Employees' Retirement System (SERS).



The federal tax code encourages individuals to save for, and invest in, retirement:

- Qualified deferred compensation plans, such as the IRS §457 plan offered through the Department of Retirement Systems (DRS) deferred compensation program, permit an individual to authorize pre-tax salary deductions for deposit into a personal investment account. Many LEOFF Plan 2 employers offer these types of plans to employees. Upon separation from employment a member may leave the funds invested or select a distribution option.
- Members may transfer funds between government defined benefit pension Plans like LEOFF Plan 2 and deferred compensation accounts such as 457, 403(b), and 401(k) Plans. This helps members manage retirement savings as they change employers.
- Purchase of up to five years of service credit or "air-time" was authorized in the Federal Pension Protection Act.
- A recent IRS revenue ruling<sup>4</sup> allows members with funds in a deferred compensation account maintained by an employer to roll the funds over into their defined benefit plan and convert those funds to an annuity from the defined benefit Plan.
- The Small Business Jobs act of 2010 authorized governmental 457 plans to include a Roth option.

Using these federal provisions, some state and local government pension plans allow member fund transfers, including funds from tax-deferred accounts, into the primary defined benefit plans to purchase additional service credit or an annuity.

### THE COST OF SAVING - DEFERRED COMPENSATION FEES

DRS operates a deferred compensation program under 26 U.S.C. §457, commonly called a "457 Plan". Washington's political subdivisions may participate in DRS's 457 Plan, or use another administrator, such as ICMA-RC. Administrative fees vary significantly. Comparing private administrator fees to DRS's annual .13% fee can be challenging since private administrators tend to use variable fee schedules rather than the flat fee charged by DRS, as demonstrated by the fee comparison table included as Appendix A.

The average net annual fee of the private 457 plan administrators examined in Appendix A is 1.29%, nearly 10 times the .13% charged by DRS. DRS's lower fees facilitate a larger accumulation from the same member contributions<sup>5</sup>:

<sup>4</sup> Internal Revenue Bulletin 2012-8; issued February 21, 2012.

<sup>5</sup> The comparison assumes \$3,602 per year contribution for 15 years, earning interest at LEOFF PLAN 2's assumed rate of 7.5%, less annual fees.



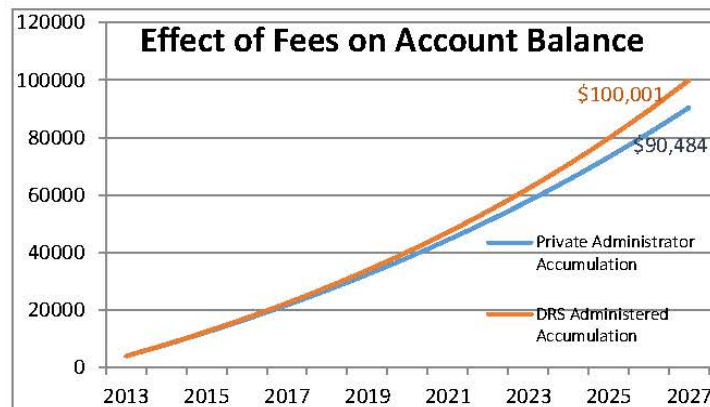


Figure 1

## ANNUITIZING ASSETS

Annuities can convert retirement savings into a guaranteed monthly income (this process is called annuitization) for a specified period of time. A life annuity provides that income for the member's lifespan in exchange for a lump-sum dollar amount paid up front. Deferred compensation plans do not normally allow for the distribution of assets in the form of an annuity directly from the fund. LEOFF Plan 2 members wishing to annuitize their retirement savings must purchase the annuity through an insurance company.

The price/value of the annuity depends in part upon the features selected by the purchaser. The terms and conditions of an annuity contract specify features such as whether the annuity will be for a single life or a joint annuity (like a survivor benefit feature), the payment frequency, adjustments for cost of living, and death provisions. Different methods for annuitizing assets are listed below, though not all are currently available to LEOFF Plan 2 members.

### Trust Fund Annuity Purchase

TRS Plan 3, SERS Plan 3, and PERS Plan 3 members and survivors may convert some or all of the funds from their Plan 3 member account to a life annuity, RCW 41.50.088. The features and options of the Plan 3 annuities administered by DRS are detailed in Appendix B. This option is not available to LEOFF Plan 2 members.

DRS calculates the annuity that can be purchased for a given lump sum using an age based actuarial table to compute the monthly benefit per \$1.00 of accumulation for defined benefits. There is no limit on the amount of funds in the member account that can be converted to an annuity.

RCW 41.32.067 also allows TRS Plan 1, 2 and 3 members to purchase additional benefits through a member reserve contribution which is actuarially converted to a monthly benefit at the time of retirement. The statute was passed to provide teachers with out-of-state service credit a mechanism for transferring contributions from a prior system into TRS<sup>6</sup>.

### **Service Credit Purchase**

LEOFF Plan 2 members can annuitize retirement savings by purchasing up to five years of additional service credit at the time of retirement. To purchase service credit under this option the member pays the actuarial present value of the resulting increase in the member's benefit. A member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. For more information on the history and methodology for calculating service credit purchases, see Appendix C.

The federal 5-year "air time" limit works out to a maximum of \$86,484 that could be converted to a monthly benefit by the average LEOFF Plan 2 member<sup>7</sup>, see Appendix C. This is a key difference between a Plan 3 annuity conversion and a service credit purchase: the Plan 3 conversion does not have a maximum amount limit.

### **Commercial Market Annuity**

Retirement savings can be annuitized by purchasing an annuity policy through insurance agents, financial planners, banks and life insurance carriers. However, only life insurance companies issue policies. Generally, commercial market annuities do not offer all the same features as the Plan 3 trust fund annuity and do not provide as favorable a payout. A primary reason for the payout difference is the different interest rate used to calculate the value of the annuity. Private insurers use a lower interest rate, due in part to the inclusion of a reasonable profit:

[A] private insurer will provide the annuity based on an interest rate of about 4 percent, whereas DRS will provide the annuity based on an interest rate of about 8%.<sup>8</sup>

The interest rate differential drives a significant difference in payout amounts between private annuity contracts and contributions annuitized through the trust fund. Five different insurance companies quoted the monthly annuity with a 3% annual COLA they would provide the average LEOFF Plan 2 retiree<sup>6</sup> for \$100,000:

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<sup>6</sup> See Laws of 1991 c 278 § 2.]

<sup>7</sup> Age 56 with 17 years of service credit and a final average salary of \$5000 per month.

<sup>8</sup> 2010 State Actuary 2010 fiscal note on the Board's purchase of annuity proposal.

Insurance Company	Quote
American General	\$389
Aviva	\$402
Fidelity & Guaranty Life	\$421
Genworth Life Insurance	\$406
Integrity Life Insurance	\$400
<b>Average</b>	<b>\$404</b>

If that same average LEOFF Plan 2 member were able to leverage the institutional advantages of the retirement system by annuitizing \$100,000 within the LEOFF Plan 2 system, the payout would be \$578.14<sup>9</sup>. That's a 43% increase over the average commercial quote, or \$174 more per month for life.

The chart below uses the 15 year accumulations calculated in figure 1 and estimates the annuity those accumulations would purchase from either an insurance company or the LEOFF Plan 2 trust fund.

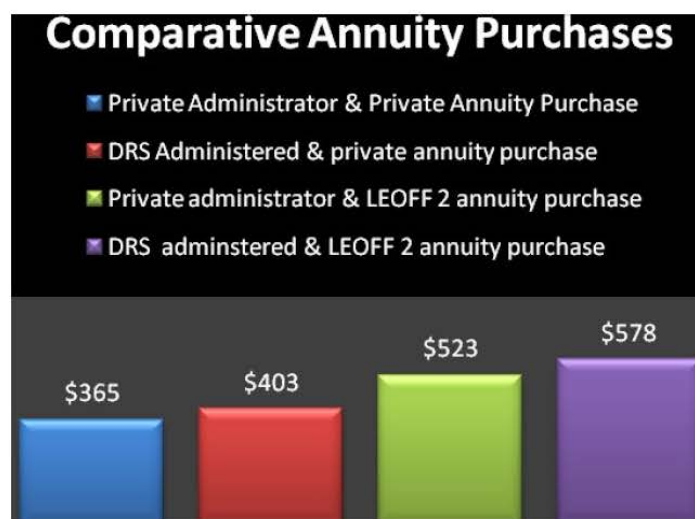


Figure 2

Current state law does not allow annuitization of retirement savings through the LEOFF Plan 2 trust fund. A recent IRS ruling gives the green light to such a program.

<sup>9</sup> \$100,000 x .0057814 (conversion factor from DRS table for 56 year-old LEOFF member) = \$578.14 monthly life annuity

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## **NEWLY AVAILABLE ALTERNATIVES:**

### **Annuity through 401(a) plan**

Federal tax law allows public defined benefit plans to add a member savings account within the plan, sometimes referred to as a companion account or "sidecar". Contributions to the employee savings account may be made by the employer or the employee and may be either pre-tax or after tax depending on plan design.

Under the recent IRS ruling cited above, a retirement savings account can be annuitized within the 401(a) defined benefit plan to obtain an additional monthly benefit paid through the trust fund. This can be done either through a employee savings account administered within the 401(a) plan or by rolling over retirement savings from another plan such as a 457 plan.

A "sidecar" plan administered through LEOFF Plan 2 could leverage the institutional advantages available to active members as participants in an existing state-administered Plan. Those advantages include the lower fees charged by DRS to administer the savings plan, and the more favorable annuity payout when purchased through the existing LEOFF Plan 2 trust fund.

### **Potential Risks**

The purchase of an annuity through the LEOFF Plan 2 trust fund would not have a cost to the system<sup>10</sup> under current actuarial assumptions. There is, however, a potential risk to the fund if those assumptions change or actual experience falls below assumed levels. When an annuity is purchased, the member locks in the actuarial assumptions in place at that time. A subsequent change in assumptions may knock the annuity out of actuarial equivalency.

For instance, the Actuary's 2010 fiscal note assumed a trust fund annuity would be calculated using the fund's 8% interest assumption. The Board has since reduced that assumption to 7.5%. An annuity locked in with an 8% interest assumption would be "too high" under a 7.5% assumption, causing a \$12,980 actuarial loss to the fund<sup>9</sup>.

### **Roth Contributions**

The original 457 plan design allows employees to deduct contributions from their salary pre-tax. The amounts are taxed at the time of distribution. A Roth<sup>11</sup> plan reverses that system by taxing contributions, but then disbursing contributions and earnings tax free after retirement.

Governmental 457 plans were not originally allowed to offer a Roth option. The Small Business Jobs Act of 2010 authorizes government sponsored 457 plans to offer designated Roth accounts. Federal law now allows governmental 457 plans to permit participants to:

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<sup>10</sup> See OSA fiscal note on 2010 annuity purchase proposal, Appendix C.

<sup>11</sup> Named after Senator William Roth of Delaware, the chief legislative sponsor of the original legislation in the Taxpayer Relief Act of 1997 (Public Law 105-34).



- Designate a Roth elective deferral account within the plan; and/or
- Convert conventional pre-tax contributions into Roth contributions within the same plan. Participants wishing to convert existing contributions would have to pay taxes on amounts converted at the time of conversion.

Participants in DRS's 457(b) plans cannot take advantage of in-plan conversions/rollovers to designated Roth accounts unless DRS formally adopts those options in their plan document. DRS has the authority to do this under current law, though they are not required to.

### **POLICY OPTIONS**

The specifics of options available to the Board are in many ways a function of federal tax laws. DRS has received some guidance from the law firm of Ice Miller as of this writing. The LEOFF Plan 2 Board staff had additional questions which are still pending at this time. The options presented below, while accurate in broad strokes, may have to be modified in subsequent presentations depending on future tax law guidance. Additionally, option 1 could be combined with either option 2 or option 3.

#### **Option 1: Propose Legislation authorizing LEOFF Plan 2 to accept roll-overs of tax deferred savings and annuitize those amounts through the plan upon retirement.**

Under this option the Board would direct staff to develop legislation authorizing DRS to accept roll-overs from LEOFF Plan 2 members for annuitization at the time of retirement. Further guidance is required to determine what types of roll-overs are allowable under federal tax laws and what limitations, if any, there are on annuitization of rolled over amounts.

#### **Option 2: Propose Legislation establishing a 410(a) savings plan within LEOFF 2 to accept contributions from LEOFF Plan 2 members.**

Under this option the Board would direct staff to develop legislation establishing a "sidecar" savings plan within LEOFF Plan 2 that could accept member contributions for distribution following retirement. Preliminary research indicates that this vehicle would be less flexible than a 457 plan such as that administered by DRS's Deferred Compensation Program. Member contributions may be required to follow the same rules as Plan 3 contributions. A member could be required to select a rate upon enrollment. Like the Plan 3 contribution rates, once selected the rate could not be changed except upon change of employment. Voluntary member contributions, which could apparently fluctuate, would be after-tax.

### Option 3: Require LEOFF Employers to Offer DRS's Deferred Compensation Program to LEOFF Members.

This option provides a more flexible plan than the 401(a) option. The Board would propose legislation requiring all LEOFF Plan 2 employers to offer the state administered 457 plan. This would ensure that LEOFF Plan 2 members can avail themselves of a plan with the lowest possible administrative fees.

### SUPPLEMENTAL POLICY OPTION INFORMATION

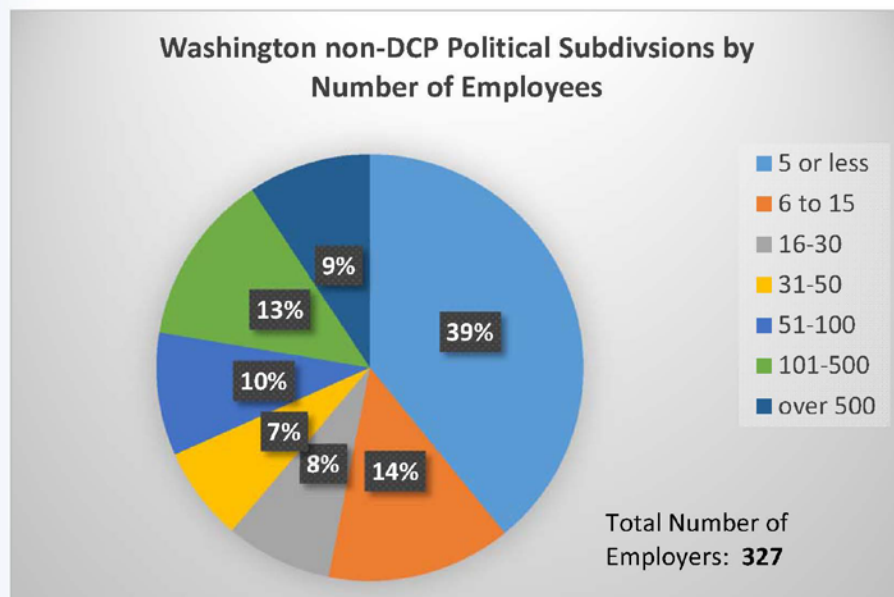
The Board requested additional consideration of options 1 and 3. A fourth option has been developed based on the additional information about Roth plans.

#### Option 1:

Staff has confirmed that the IRS will permit rollovers from any authorized tax-deferred savings plan (457, 403(b), 401(a)) into LEOFF 2 for purposes of purchasing an annuity. Further, there are no IRS limits on the amount that may be rolled over and annuitized, except that the total payout cannot exceed the IRS's section 415 limits on maximum allowable benefit.

#### Option 3:

Staff has drafted proposed legislation that is currently being reviewed by DRS for comments. DRS Director Marcy Frost has asked the Select Committee on Pension Policy to consider a similar directive for all Washington Public Employers. Additional data from DRS identifies Washington political subdivision that do not offer the State administered 457 plan:



**Option 4: Roth Contributions to Governmental 457 plan.**

The Board may wish to take action on the Roth option:

**Option 4(a): Amend Deferred Compensation Statute to Require Roth Option.**

Submit legislation requiring DRS to develop a Roth option as part of its deferred compensation plan. The Board may want to direct staff to work with DRS on bill language.

**Option 4(b): Ask DRS to Offer a Roth Option**

If the Board wished DRS to develop a Roth option without a bill, it may be sufficient to send a letter from the Board to DRS requesting them to take action.

**Option 4(c): Take No Action at this Time**

The Board could decline to take any action on the Roth option at this time.

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## **SUPPORTING INFORMATION**

- Appendix A: Deferred Compensation Fee Comparison
- Appendix B: Plan 3 annuity purchase option features
- Appendix C: Service Credit Purchase history and example
- Appendix D: OSA draft fiscal note - 2009
- Appendix E: Bill Draft re: annuitization of savings
- Appendix F: Bill Draft re: Required participation in DRS 457 plan
- Appendix G: Letter to DRS re: offering Roth option
- Appendix H: OSA draft fiscal note -2013



## Appendix A

### DEFERRED COMPENSATION FEE ANALYSIS

An approximation of annual fees for private administration of a 457 deferred compensation plan was derived by working from a table developed by The City of Duluth in 2013 to allow employees to compare costs of 4 different 457 Plan administrator. Fees were highly variable. Board staff averaged the fees of each provider and then averaged those to derive a net average estimated annual fee. Given the small sample and the assumptions that had to be made in averaging, this is a “ball park” figure provided solely for purposes of comparison.

	Hartford Life Deferred Compensation Plan		ICMA Retirement Corporation Deferred Compensation Plan		Minnesota State Deferred Compensation Plan MNDCCP – (Great West)		NationwideDeferred Compensation Program	
	Original data	Average fee	Original data	Average fee	Original data	Average fee	Original data	Average fee
Annual Account Fees	No	0 %	No.	0%	No	0%	No.	0%
Daily Asset-Based Charges	75 - 90 bps	.825 %	0.55% administration fees on all assets; additional 0.15% fee on assets in non-proprietary funds.	.55%	0.10% annual administrative fee, charged only on the first \$100,000 in an individual account.	.1%	0.50% annual administrative fee on all variable fund assets. 0.25% annual administrative fee on fixed account option.	.375%
Fund Operating Expenses	Varies by investment option, from 0.0% to 2.42%	1.21%	Fund expenses range from 0.46% to 1.40%	.93%	Fund expenses range from 0.01% to 0.93%.	.47%	Fund expenses range from 0.00% to 1.40%.	.7%
Net fee estimate	2.035%		1.48%		.57%		1.075%	
Average for all plans	1.29%							

## APPENDIX B

### CURRENT ANNUITY PURCHASE FEATURES

The purchase of annuity currently administered by DRS through the Plan 3 programs includes the following features:

WSIB Investment Program Annuity Features and Options	
<b>Contract Provider</b>	Washington State
<b>Minimum Purchase Price</b>	\$25,000
<b>Annuity Payment Frequency</b>	Monthly
<b>Rescission Period</b>	15 calendar days from date of purchase
<b>Single Life Annuity</b>	<ul style="list-style-type: none"> <li>• Provides regular payment for as long as annuitant lives.</li> <li>• Automatic 3% Annual Cost of Living Adjustment (COLA)</li> <li>• Conversion option to Joint Life Annuity</li> <li>• Balance Refund</li> </ul>
<b>Joint Life Annuity</b>	<ul style="list-style-type: none"> <li>• Provides regular payment for as long as member or joint annuitant is alive.</li> <li>• Joint annuitant survivorship options: 100%, 66 2/3%, or 50%</li> <li>• Automatic 3% Annual COLA</li> <li>• Monthly payment pops-up to Single Life Annuity amount if joint annuitant predeceases member.</li> <li>• Balance Refund</li> </ul>
<p><b>Annuitant</b> – The member/owner who purchases the annuity; the payee who receives lifetime monthly payments.</p> <p><b>Balance Refund</b> – Any remaining balance equal to the original purchase price minus the total of all annuity payments made to the single or joint annuitants, may be refunded to the specified beneficiary.</p> <p><b>Conversion Option</b> – If a single life annuity is purchased and then a subsequent marriage occurs, a one-time opportunity is available to convert to a joint life annuity with the new spouse as the joint annuitant. If a joint annuity is purchased with someone other than a spouse named as the joint annuitant, the annuity may be converted to a single life annuity after payments have begun.</p> <p><b>Joint Annuitant</b> – The person designated to receive an ongoing payment in the event of the annuitant's death.</p> <p><b>Pop-up</b> – An increase from a joint annuity payment amount to the full single life annuity amount if the annuitant outlives the joint annuitant.</p> <p><b>Rescission Period</b> – A period of time (typically 7 to 15 days) during which the terms of the contract may be canceled or altered</p>	

## APPENDIX C

### SERVICE CREDIT PURCHASE

Since the inception of the service credit purchase of “air time” benefit (2005), 214 service credit purchase billings have been requested from DRS and paid in full. The average cost of all billings was \$118,876.

LEOFF Plan 2 SC Purchases at Time of Retirement									
Year Paid	2006	2007	2008	2009	2010	2011	2012	2013	Grand Total
Number of PSC Bills Paid	6	10	11	15	30	42	57	43	214
Average Cost of PSC Bill	\$106,853	\$102,102	\$85,391	\$99,161	\$119,527	\$123,924	\$120,245	\$132,699	\$118,876
Average SC Months of PSC Bill	55	53	44	48.5	54.6	51.8	48.4	54.3	51.3



# Retiree Annuity Purchase

Comprehensive Report Follow-up  
November 18, 2015

# Issue

**Current state law does not allow retirees to roll over tax deferred savings into LEOFF Plan 2 to purchase an annuity.**

- *Retiring LEOFF Plan 2 members may purchase an annuity under 2014 LEOFF Plan 2 Board proposal enacted by Legislature*

# Retirees Asked to Be Included

**Federal tax law allows benefit to be offered to retirees**

## **Requires legislation**

- LEOFF Plan 1 and WSPRS retirees asked to be included
- SCPP is working on non-LEOFF 2 retirees
- Possible session amendment combining bills

# Options

## **1. Direct staff to present a Final Proposal**

- Allowing LEOFF Plan 2 retirees a one-time limited window to purchase an annuity
- Draft legislation with fiscal note

## **2. Take no further action**

# Questions?

## Contact:

Paul Neal

Senior Research and Policy Manager

(360) 586-2327

[paul.neal@leoff.wa.gov](mailto:paul.neal@leoff.wa.gov)





## 2016 Meeting Calendar Adoption

**Date Presented:**

11/18/2015

**Summary:**

LEOFF 2 Board Meeting Dates for 2016

**ATTACHMENTS:**

Description

Type

📎 [2016 Board Meeting Dates](#)

Report



# 2016 BOARD 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						
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					

MARCH						
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		

APRIL						
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MAY						
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15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

JUNE						
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19	20	21	22	23	24	25
26	27	28	29	30		

JULY						
S	M	T	W	T	F	S
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17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

AUGUST						
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SEPTEMBER						
S	M	T	W	T	F	S
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OCTOBER						
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30	31					

NOVEMBER						
S	M	T	W	T	F	S
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DECEMBER						
S	M	T	W	T	F	S
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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

## 2016 MEETING DATES

### STATE HOLIDAYS

JANUARY 27

FEBRUARY 24

MARCH 23

APRIL 27

MAY 25

JUNE 22

JULY 27

AUGUST 24

SEPTEMBER 28

OCTOBER 18

NOVEMBER 23

DECEMBER 28

### MEETING LOCATION

STATE INVESTMENT BOARD  
Large Conference Room  
2100 Evergreen Park Drive SW  
Suite 100  
Olympia, WA 98502

### CONTACT

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recep@leoff.wa.gov



## Agenda Items for Future Meetings

### ATTACHMENTS:

Description	Type
 <a href="#">2015 Agenda Items calendar</a>	Report

MEETING DATE	AGENDA ITEMS
<b>January 28</b>	2015 Legislative Update
<b>February 25</b>	2015 Legislative Update
<b>March 25</b>	2015 Legislative Update
<b>April 22</b>	2015 Legislative Update
<b>May 27</b>	2015 Legislative Review 2015 Interim Planning Supplemental Rate Adoption
<b>June 24</b>	Supplemental Rate Adoption Experience Study Timing – Lisa Won, OSA Retiree Purchase of Annuity Income Leveling Option Increasing Retirement Age Disaster Response Coverage Final Legislative Update
<b>July 22</b>	PEBB Access - Mary Fliss, HCA DRS Update, CEM Benchmarking – Mark Feldhausen, DRS Economic Experience Study Overview – Lisa Won, OSA Administrative Factors – Lisa Won, OSA Pension Garnishment Pension Forfeiture Individual Health Savings Accounts Final Legislative Update
<b>August 26</b>	CANCELLED
<b>September 23</b>	LEOFF Audit Results FY 2015 – Steve Davis, Davis Accounting, Tax & Audit Service Supplemental Contribution Rate Adoption Economic Experience Study Recommendations – Lisa Won & Graham Dyer, OSA Administrative Factors Adoption – Lisa Won, OSA Career Extension National Disaster Response Retiree Annuity Purchase Alternate Revenue Board & Administrative Committee Elections 2015 Meeting Dates
<b>October 15</b>	Work Session 1: LEOFF Plan 2 Funding Method Work Session 2: Retiree Return to Work Work Session 3: Disaster Response Coverage
<b>November 18</b>	2016 Meeting Calendar Adoption WSIB Annual Update – Theresa Whitmarsh, WSIB Annual AG Training – Dawn Cortez, AGO DRS Annual Update – Marcie Frost, DRS Admin Factor Update – Lisa Won, OSA LAVR – Lisa Won, OSA National Disaster Response Retiree Annuity Purchase Retiree Return to Work



# 2015

## AGENDA ITEMS CALENDAR

December 16	
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