

Statutory Duties of the LEOFF Plan 2 Retirement Board

Background:

Initiative 790 created the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board and provided many of the powers and duties of the Board. I-790 was codified as Chapter 2, Laws of 2003. Substitute House Bill 2197 was enabling legislation for I-790 and provided some additional powers. SHB 2197 was codified as Chapter 92, Laws of 2003.

The Board is required to:

1. Adopt actuarial tables, assumptions and cost methodologies (I-790)
2. Adopt contribution rates for LEOFF Plan 2 (I-790)
3. Provide for the design and implementation of increased benefits (I-790)
4. Retain professional and technical advisors (I-790)
5. Consult with the Department of Retirement Systems for improving benefit administration (I-790)
6. Provide an annual actuarial funding status report to the Governor and Legislature (I-790)
7. Establish administrative rules and operating policies (I-790)
8. Hire an administrative staff and acquire office space (I-790)
9. Publish an annual summary of benefits (I-790)
10. Be fiduciaries of the plan (I-790)
11. Prepare an annual budget (I-790)
12. Have an independent CPA annually audit the expenses of the fund (I-790)

The Board is authorized to:

13. Recommend benefit changes to the Legislature (I-790)
14. Establish an Internet website (I-790)
15. Enter into interagency agreements (SHB 2197)
16. Execute necessary contracts (SHB 2197)

2. Adopt contribution rates for LEOFF Plan 2

Due date: No later than September 30, 2004

Board Meetings: This topic would be scheduled for a hearing on August 18, 2004 with executive action scheduled for September 15, 2004.

Background:

The Board is required to adopt member, employer and state contribution rates for LEOFF Plan 2 for use in the 2005-07 biennium. The Office of the State Actuary (OSA) will produce a 2004 Actuarial Valuation for all public retirement plans including LEOFF Plan 2. The OSA valuation will include recommended contribution rates. The Pension Funding Council (PFC) will issue an RFP in the spring for an independent actuarial firm to conduct a concurrent audit of the OSA valuation and report to the PFC on the appropriateness of the OSA actuarial methods and recommended rates. The PFC will adopt contribution rates for all the other public pension plans no later than September 30, 2004 for use in the 2005-07 biennium.

Key Decision Item(s):

A. Actuarial Support Model

This topic is scheduled for possible Board action on November 19, 2003.

Option One:

Enter into an interagency agreement with OSA to provide actuarial services to the Board. Use an independent actuarial firm to conduct a concurrent audit of the 2004 OSA valuation for LEOFF Plan 2. Preferably, the actuarial firm would be the same one used by the Pension Funding Council to audit the OSA 2004 valuation for the other public retirement plans.

Pros:

Independent validation of OSA recommended rates
Lower cost (Est. \$95,000/year plus \$20,000-\$80,000 for concurrent audit plus any independent audits related to proposed legislation)
Interagency agreement with OSA will provide additional services
Board audit coordinated with PFC

Cons:

Independent audit is not a full valuation

Option Two:

Use an independent actuarial firm to produce a 2004 actuarial valuation for LEOFF Plan 2 including recommended contribution rates for the 2005-07 biennium.

Pros:

Independent validation of OSA recommended rates
Full independent actuarial valuation

Cons:

Higher cost (Est. \$459,000 for annual valuations plus 275,000 for preparation of actuarial costs related to proposed legislation.)
Additional cost for other services such as cost of benefit proposals
Board audit could not be coordinated with PFC
Potential delay if Board actuary disagrees with OSA

Recommendation:

The Interim Executive Director recommends Option One. The cost savings are significant. The potential for missing the rate adoption deadline is minimized. OSA will only have to deal with one audit.

Staff Requirements:

- Interagency agreement with OSA (November 2003)
- RFP for independent actuarial services (Spring 2004)
- Coordination with Pension Funding Council (Spring 2004 through September 2004)