

BOARD MEETING AGENDA

NOVEMBER 20 • 9:30AM TO 3:00PM



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

TRUSTEES

KELLY FOX, *CHAIR*
Olympia Fire Department

JACK SIMINGTON, *VICE CHAIR*
Kennewick Police Department

JEFF HOLY
Spokane Police Department (Ret)

MARK JOHNSTON
Vancouver Fire Department

PAT HEPLER
Snohomish County Fire District 1

GLENN OLSON
Kitsap County Administrator

PAUL GOLNIK
WA Fire Commissioners Association

WALLY LOUCKS
Spokane County Sheriff's Office

DAVID CLINE
City of Tukwila Administrator

SEN. JIM HONEYFORD
WA State Senator

REP. KEVIN VAN DE WEGE
WA State Representative

STAFF

Steve Nelsen, Executive Director
Tim Valencia, Deputy Director
Jessica Burkhart, Executive Assistant
Ryan Frost, Research Analyst
Greg Deam, Sr. Research & Policy Mgr
Paul Neal, Sr. Legal Counsel
Tammy Harman, Admin Services Mgr
Dawn Cortez, Assistant Attorney General

**THEY KEEP US SAFE,
WE KEEP THEM SECURE.**

- | | |
|---|-----------------|
| 1. Approval of Minutes | 9:30 AM |
| September 25 and October 16, 2013 | |
| 2. Asset Smoothing Method, Educational Briefing | 9:35 AM |
| Lisa Won, Senior Actuary | |
| 3. Adopting Administrative Factors, Initial Consideration | 10:15 AM |
| Paul Neal, Senior Legal Counsel | |
| 4. Promoting Individual Savings for Retirement, Comprehensive Follow-up | 10:45 AM |
| Paul Neal, Senior Legal Counsel | |
| 5. WSIPP Study Follow-up, Educational Briefing | 11:30 AM |
| Ryan Frost, Research Analyst | |
| 6. Administrative Update | 12:00 PM |
| <ul style="list-style-type: none">• SCPP Update• DRS Update• Outreach Activities• Correspondence | |
| 7. Washington State Investment Board Presentation | 12:30 PM |
| Allyson Tucker, Senior Investment Officer | |
| 8. Final Average Salary Protection, Comprehensive Follow-up | 1:15 PM |
| Ryan Frost, Research Analyst | |
| 9. Career Change, Comprehensive Follow-up | 1:45 PM |
| Paul Neal, Senior Legal Counsel | |
| 10. 2014 Meeting Calendar Adoption | 2:00 PM |
| 11. Agenda Items for Future Meetings | 2:30 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.



Asset Smoothing Methods, Educational Briefing

Report Type:

Educational Briefing

Presenter Name and Title:

Lisa Won, Senior Actuary & Aaron Gutierrez, Policy Analyst

Summary:

Presentation requested by the Board on actuarial practice of smoothing asset gains and losses over time.

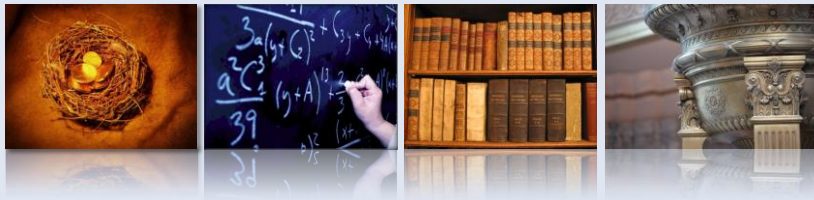
Strategic Linkage:

This item supports the following Strategic Priority Goals:

Goal 3 – Maintain the financial integrity of the plan. , Goal 4 – Inform the stakeholders.

ATTACHMENTS:

Description	Type
 Asset Smoothing Ecuational Briefing	Report



Asset Smoothing Methods

Lisa Won, ASA, FCA, MAAA
Senior Actuary

Aaron Gutierrez, MPA, JD
Policy Analyst



November 20, 2013

Recap of Previous OSA Presentation (Funding Methods)

- All funding methods have pros and cons
- LEOFF 2 funding method uses parts of both Aggregate and EAN funding methods
- No Unfunded Actuarial Accrued Liability (UAAL)
- Normal Cost Contribution Rate volatility managed in two ways
 - Rate floor (percentage of EANC)
 - Asset smoothing method



Today's Presentation: Asset Smoothing Methods

- What is an asset smoothing method and why might you want one?
- What are some considerations for choosing a method?
- How does asset smoothing method work in Washington?
- Comparing methods for LEOFF 2



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What Is An Asset Smoothing Method?

- Way of managing short term volatility in the investment market
- Provides more stable contribution rates
- Spreads impacts out over longer time horizon
 - If actual rate of return (ROR) is above or below the expected ROR, then a portion of the impact is deferred



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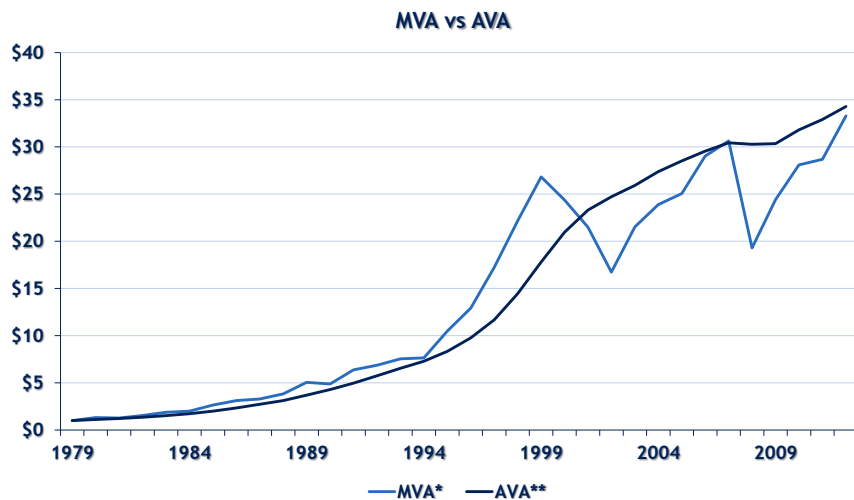
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Many Ways To Structure Smoothing Method

- For example, can spread gains/losses over years or decades
- Opinions differ on
 - Which measures to smooth
 - Whether any smoothing should take place
- As a practical matter, typically referring to a set portion of returns amortized over less than a decade



Sample Eight-Year Fixed Asset Smoothing



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

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



Considerations When Choosing An Asset Smoothing Method

- Integration with other components of funding method
 - Characteristics of actuarial cost method
 - Asset allocation of the Washington State Investment Board (WSIB)
- Constancy
 - Smoothing method should be a long-term choice
 - Otherwise could be used to “shop” for results
- Guidance from plan actuary
 - Adherence to Actuarial Standards of Practice (ASOPs)



Actuarial Standard Of Practice No. 44

- Consistent treatment of actuarial gains and losses
 - No bias in asset smoothing method
 - Gain or loss smoothed over the same period of time
- Actuarial assets fall within reasonable range around the market assets
 - Typically accomplished with a corridor (cap)
- Differences are recognized within a reasonable period of time

To What Degree Should We Smooth The Assets?

- Many combinations available
- Short or long-term
 - Typically range from three to ten years
- Width of corridor
 - Typically +/- 20 to 30 percent around market value
- Fixed or dynamic
 - All gains and losses smoothed over fixed amount of time, e.g. five years
 - Amount of smoothing varies by size of deviation from expected



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How Does Asset Smoothing Method Work?

- In Washington, smoothing depends on size of change and has boundaries
 - Length of smoothing ranges from one to eight years
 - Thirty percent corridor in place
 - Actuarial value must fall within 70 percent and 130 percent of market value
- RCW 41.45.035 - "changes to plan asset values that vary from the long-term investment rate of return assumption shall be recognized in the actuarial value of assets over a period that varies up to eight years depending on the magnitude of the deviation of each year's investment rate of return relative to the long-term rate of return assumption"



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Schedule of Asset Smoothing For LEOFF 2

Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition
14.5% and up	8 years	12.50%
13.5-14.5%	7 years	14.29%
12.5-13.5%	6 years	16.67%
11.5-12.5%	5 years	20.00%
10.5-11.5%	4 years	25.00%
9.5-10.5%	3 years	33.33%
8.5-9.5%	2 years	50.00%
6.5-8.5%	1 year	100.00%
5.5-6.5%	2 years	50.00%
4.5-5.5%	3 years	33.33%
3.5-4.5%	4 years	25.00%
2.5-3.5%	5 years	20.00%
1.5-2.5%	6 years	16.67%
0.5-1.5%	7 years	14.29%
0.5% and lower	8 years	12.50%



Smoothing Method Produces Actuarial Value of Assets

- Start with the Market Value of Assets (MVA)
- Subtract total deferred assets/losses
 - Prior year deferrals are rolled forward
 - Current year deferral added
- Result is Actuarial Value of Assets (AVA)
- AVA must fall within the corridor
 - Above 70 percent of MVA
 - Below 130 percent of MVA



Calculating the Actuarial Value of Assets – LEOFF 2

Calculation of Actuarial Value of Assets			
(Dollars in Millions)			LEOFF 2
a.	Market Value at 6/30/2012		\$6,640
b.	Deferred Gains and (Losses)		
Plan Year Ending	Years Deferred	Years Remaining	
6/30/2012	7	6	(334)
6/30/2011	8	6	524
6/30/2010	5	2	87
6/30/2009	8	4	(827)
6/30/2008	8	3	(184)
6/30/2007	8	2	116
9/30/2006	8	1	36
Total Deferral			(\$581)
c.	Market Value less Deferral (a - b)		\$7,222
d.	70% of Market Value of Assets		\$4,648
e.	130% of Market Value of Assets		\$8,633
f.	Actuarial Value of Assets*		\$7,222

Note: Totals may not agree due to rounding.

*Actuarial Value of Assets can never be less than 70% or greater than 130% of the market value of assets.



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The Mathematics Behind The Smoothing

Plan Year Ending June 30	2010	2011	2012
a) Actual Return	12.99%	21.08%	1.45%
b) Expected Return	8%	7.50%	7.50%
c) Asset Gain/(Loss)	219	699	(390)
d) Years to Smooth	5	8	7
e) Annual Recognition (c/d)	44	87	(56)
f) Years Remaining	2	6	6
g) Amount Deferred at 6/30/12 (e*f)	87	524	(334)



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Putting The Pieces Together

Calculation of Actuarial Value of Assets					
(Dollars in Millions)					
a.	Market Value at 6/30/2012				LEOFF 2 \$6,640
b.	Deferred Gains and (Losses)		0	0	
Plan Year Ending	Actual ROR	Gain/(Loss)	Years Deferred	Years Remaining	
6/30/2012	1.45%	(390)	7	6	(334)
6/30/2011	21.08%	699	8	6	524
6/30/2010	12.99%	219	5	2	87
6/30/2009	-22.64%	(1,653)	8	4	(827)
6/30/2008	-1.33%	(491)	8	3	(184)
6/30/2007	22.74%	464	8	2	116
9/30/2006	15.77%	285	8	1	36
Total Deferral					(\$581)
c.	Market Value less Deferral (a - b)				\$7,222
d.	70% of Market Value of Assets				\$4,648
e.	130% of Market Value of Assets				\$8,633
f.	Actuarial Value of Assets*				\$7,222

Note: Totals may not agree due to rounding.

*Actuarial Value of Assets can never be less than 70% or greater than 130% of the market value of assets.

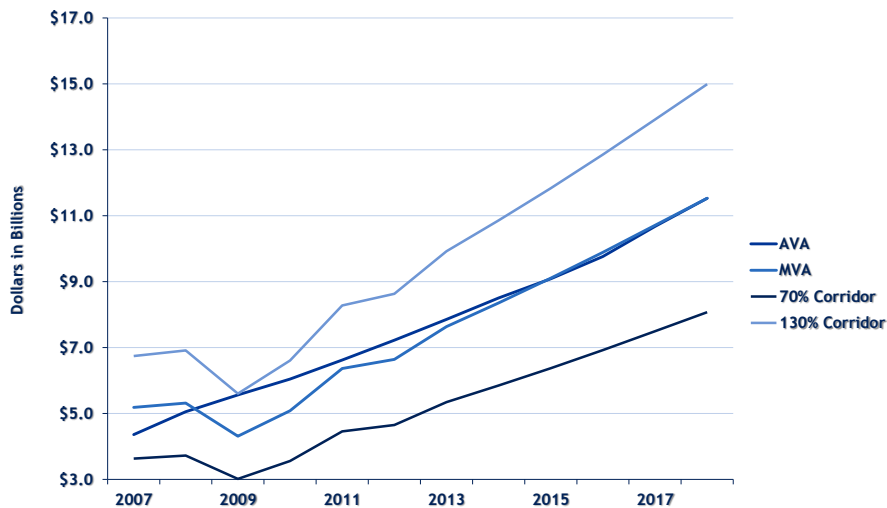


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Comparing The Actuarial Value to Market Value*



*Results after 2012 are based upon OSA's 2012 Projections, which include investment returns through 6/30/2013.



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A Hypothetical Look At Different Methods For LEOFF 2

- No asset smoothing
 - All gains and losses recognized immediately (no deferrals)
- Five-year fixed smoothing
 - Each year's gain or loss is smoothed over five years
 - Twenty percent corridor around the market value (80 percent - 120 percent)
- Eight-year graded smoothing (Current method)
 - Smoothing varies based on how large the gain/loss is
 - Maximum smoothing is eight years
 - Thirty percent corridor around the market value (70 percent - 130 percent)

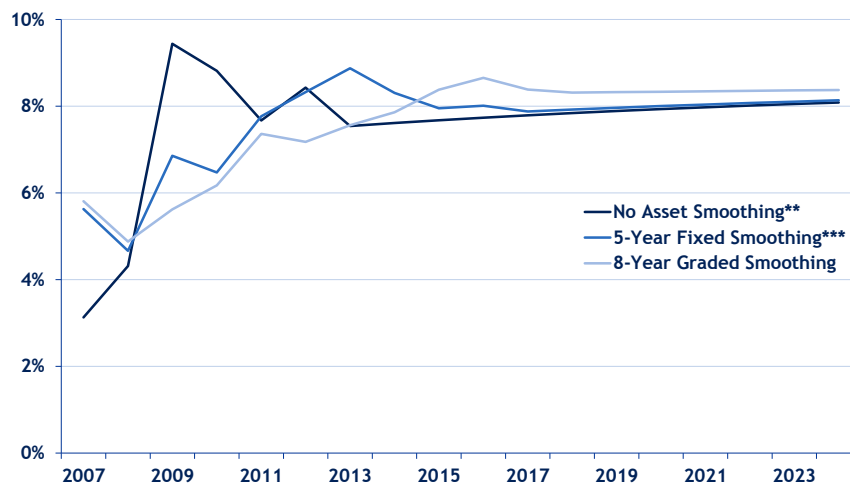


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Estimated LEOFF 2 Contribution Rates Under Various Methods*



*We assumed no contribution rate floors were in place for any of the methods.

**Under the "No Asset Smoothing" approach, we assumed there were no asset gains (or losses) prior to 2007.

***Under the "5-Year Fixed Smoothing" approach, we assumed the Board began smoothing assets over a fixed 5-year interval beginning in 2007.



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Summary

- Managing short-term volatility in gains and losses
- Promotes stable contribution rates
- Many options available
- Selecting a method involves
 - Integration with other components of funding method
 - Constancy: long-term decision
 - Guidance from plan actuary
- Washington smoothing depends on size of change and has boundaries
 - Length of smoothing ranges from one to eight years
 - Thirty percent corridor in place



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Questions



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Adopting Administrative Factors, Initial Consideration

Report Type:

Initial Consideration

Date Presented:

11/20/2013

Presenter Name and Title:

Paul Neal, Senior Legal Counsel

Summary:





The Board adopted new actuarial assumptions in 2011. OSA then revised actuarial factors, except the factors for costing restoration of withdrawn service credit after the deadline, using the new assumptions. The Board adopted those factors in 2012. Those remaining administrative factors are presented for the Board's consideration here for possible adoption at the December meeting.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Goal 3 – Maintain the financial integrity of the plan. , Goal 4 – Inform the stakeholders.

ATTACHMENTS:

Description	Type
 Adopting Administrative Factors	Report
 Adopting Administrative Factors - Appendix A	Appendix
 Adopting Administrative Factors - Appendix B	Appendix
 Adopting Administrative Factors	Presentation

ADOPTING ADMINISTRATIVE FACTORS

INITIAL CONSIDERATION

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

ISSUE

The Board adopted new administrative factors for LEOFF Plan 2 in 2012. At that time the State Actuary (OSA) noted the factors are used to compute the cost of restoring service credit for persons who have missed the statutory deadline (restoration factors) would be presented later. OSA has now provided the remaining factors and recommends the Board exercise its authority to adopt them.

PROPOSAL SUMMARY

The Board can either adopt the new administrative factors recommended by OSA or decline to do so.

MEMBERS IMPACTED

Any change to the existing LEOFF Plan 2 administrative factors could impact all active members, employers and the state. As of June 30, 2012 there were 16,720 active members as reported in the Office of the State Actuary's *2012 Actuarial Valuation Report*.

CURRENT SITUATION

The Board adopts any changes to the administrative factors. These can be done at any time, but usually follow changes in the economic or demographic assumptions. The most recent assumption changes adopted by the Board were effective in January 2012. The Board adopted the bulk of the factor changes flowing from that decision in 2012, but had yet to be presented with the revised restoration factors. Those factors are now before the Board for consideration.

BACKGROUND INFORMATION & POLICY ISSUES

Any time the underlying economic or demographic assumptions are changed, their impact on the administrative factors need to be reviewed and determined whether or not those factors should be changed. The Board adopted new factors effective January 1, 2010 based on the 2001-2006 demographic experience study.

When adopting last year's administrative factors the Board decided to coordinate the adoption of the LEOFF Plan 2 factors so they would be available for public review and adopted on the same schedule as the parallel factors adopted by DRS for the other plans. To track DRS's schedule for adoption of the

new restoration factors, the Board would publish the proposed factors on its website following the November meeting and adopt the factors at the December meeting to be effective October 1, 2014.

Restoring service credit after the deadline is roughly 6% more expensive under the new factors. There are two reasons for this increase in costs: 1) The Board's reduction of the long term interest rate assumption from 8% to 7.5%; and 2) a change in methodology to account for the increased cost due to subsidized early retirement factors¹.

The following examples show how the factor changes would affect members seeking to purchase service. For purposes of the example we looked at the average active member. We assumed a LEOFF Plan 2 member originally hired at age 29 who worked for 5 years, then quit and withdrew contributions. We further assumed the person returned to LEOFF employment 2 years later, worked an additional 9 years and is now 45.

Assuming the person's average final compensation is \$85,000, the change in cost to restore the withdrawn service credit is:

- Cost to restore the prior 5 years of service under the current factors: **\$95,412.50**
- Cost to restore the prior 5 years of service under the factors recommended by the Actuary: **\$100,835.50.**

Again, this is approximately a 6% increase.

SUPPORTING INFORMATION

Appendix A:2012 Letter from the Office of the State Actuary
2012 letter reserving restoration factors for later adoption

Appendix B: Draft 2013 Letter from the Office of the State Actuary
Update of restoration factors

¹ When the original factors were developed there was no subsidized LEOFF Plan 2 early retirement, thus those costs were not included in the original model.



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November 21, 2012

Mr. Steve Nelsen, Executive Director
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board
PO Box 40918
Olympia, Washington 98504-0918

RE: LEOFF 2 ADMINISTRATIVE FACTORS UPDATE

Dear Steve:

We have completed our update of several administrative factors for use in the Washington Administrative Code (WAC). During the project to update these administrative factors, we amended them as a result of the changes to the economic assumptions adopted by the Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2) Retirement Board (Board) during the 2011 Interim. The amended administrative factors also include an update to the projected mortality improvements to reflect more current data.

As a result of this project, please find attached the following updated actuarial tables for the Boards approval.

- ❖ Early retirement factors for WAC 415-02-320 (**Appendix B**).
- ❖ Monthly benefit per \$1.00 of accumulation for WAC 415-02-340 (**Appendix C**).
- ❖ Joint and survivor option factors for WAC 415-02-380 (**Appendix D**).

Administrative factors should be reviewed and, if necessary, updated any time the underlying demographic or economic assumptions for the plan change. The tables will be updated again after our 2007-2012 *Demographic Experience Study*. They could also change with new member options or benefit changes in the future.

The attached appendices contain supporting information for each factor we updated. **Appendix A** supplies general information about data, assumptions, and methods used to develop the factors. **Appendices B through D** provide more detailed information about each of the individual factors. All of the appendices should be used together with this cover letter to form a complete actuarial communication.



LEOFF 2 Administrative Factors Update
Page 2 of 15

We developed the administrative factors based on our understanding of how the Department of Retirement Systems (DRS) applies them and according to policy decisions made by the Board. The policy decisions were documented in our previous letter dated August 26, 2009, and have been updated to reflect more current data. We intend this communication to be used by the Board and DRS only. If a party other than the Board or DRS reads this communication, they should address questions to the Board or DRS and seek professional guidance with the content and interpretation of this communication.

In my opinion, all of the data, assumptions, and methods we used in developing the administrative factors are reasonable and appropriate for this project. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results.

The economic assumptions we used for updating the factors were adopted by the Board in the 2011 Interim. We were responsible for the selection of the demographic assumptions. In my opinion, all methods, assumptions, and calculations are reasonable and in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter.

We have not included the service credit restoration factors for [WAC 415-02-370](#) in this communication. These factors will follow in a separate communication.



LEOFF 2 Administrative Factors Update
Page 3 of 15

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this letter and supporting attachments are intended to be complete, we are available to offer extra advice and explanations as needed.

Please let me know if you have any questions concerning these administrative factors or the assumptions and methods used to develop them.

Sincerely,

Lisa A. Won, ASA, FCA, MAAA
Actuary

cc: Kelly Fox,
LEOFF Plan 2 Retirement Board
Marcie Frost,
Department of Retirement Systems
Shawn Merchant,
Department of Retirement Systems
Matt Smith,
Office of the State Actuary
Kyle Stineman,
Office of the State Actuary

Attachments

Appendix A – General Data, Assumptions, and Methods
Appendix B – Early Retirement Factors
Appendix C – Monthly Benefit Per \$1.00 of Accumulation
Appendix D – Joint and Survivor Option Factors

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November 7, 2013

Mr. Steve Nelsen
Executive Director
LEOFF 2 Retirement Board
PO Box 40918
Olympia, Washington 98504

RE: PRELIMINARY — LEOFF 2 SERVICE CREDIT RESTORATION FACTORS

Dear Steve,

We are in the process of completing our update of the Service Credit Restoration Factors (SCRF) for use in the Washington Administrative Code (WAC). These factors allow the Department of Retirement Systems (DRS) to calculate the Actuarial Equivalent (AE) cost for members to restore prior service credit under RCW 41.50.165. The SCRF include changes to the underlying assumptions as part of the Office of the State Actuary's (OSA) 2001-2006 Demographic Experience Study (DES) and economic assumptions adopted by the Board.

Administrative factors should be reviewed and, if necessary, updated any time the underlying demographic or economic assumptions for the covered retirement systems change. For instance, the SCRF could change after our 2007-2012 DES. It could also change with new member options or benefit changes in the future.

The attached appendix contains supporting information for the development of the SCRF. **Appendix A** supplies general information about the data, assumptions, and methods we used to develop the SCRF. The appendix should be used together with this cover letter to form a complete actuarial communication.

We developed the SCRF based on our understanding of how DRS will apply it and according to policy decisions made by the Board. We intend this communication to be used by DRS and the LEOFF 2 Board only. If a party other than DRS or the Board reads this communication, they should address questions to OSA and seek professional guidance with the content and interpretation of this communication.

In my opinion, all of the data, assumptions, and methods we used in developing the SCRF are reasonable and appropriate for this project and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results. The economic assumptions



we used for updating the factors were adopted by the Board consistent with RCW 41.45.030. We were responsible for the selection of the demographic assumptions.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this letter and supporting attachments are intended to be complete, we are available to offer extra advice and explanations as needed.

Please let me know if you have any questions concerning this communication, the updated administrative factors, or the assumptions and methods used to develop them. We will provide an updated letter once these factors are finalized.

Sincerely,

Lisa A. Won, ASA, FCA, MAAA
Senior Actuary

cc: Michael Harbour, Office of the State Actuary



APPENDIX A – DEVELOPMENT OF THE SCRF

Purpose

We updated the prior Service Credit Restoration Factors (SCRF) as they apply to Plans 2/3 members and determined the adopted factors no longer achieve Actuarial Equivalence (AE) at the plan level. The previous factor development model was created prior to the early retirement benefit improvements, so the SCRF assumed benefits were deferred to Normal Retirement Age (NRA) with AE reductions for early retirement. In addition, all factors needed to be updated to include the assumption changes from the 2001-2006 Demographic Experience Study (DES) and economic assumptions adopted by the Board.

With our recommendation, the Department of Retirement Systems (DRS) agreed that we should develop new SCRF in a format that produces actuarial equivalence as defined in the Assumptions section below. The new SCRF produce a higher cost for members who have the opportunity to benefit from subsidized early retirement.

Data

We relied on the June 30, 2012, Actuarial Valuation Report (AVR) data whenever necessary to develop the administrative factors. Please see the *Actuarial Certification Letter* in the 2012 AVR for further considerations on the data we used.

Assumptions

We relied on the following key assumptions to develop the new SCRF.

- ❖ **Actuarial Equivalence:** We developed the new SCRF assuming members commence receiving their retirement benefits at NRA, or immediately for post-NRA restorations. We did not include assumptions for pre-retirement mortality, termination, or disability. Also, we applied an adjustment for members who have the opportunity to benefit from subsidized early retirement. Under these circumstances, we increased the age-based SCRF by the weighted average of (i) the increase in their benefit from more favorable ERFs and (ii) the likelihood that they will retire. We used the retirement rates as disclosed in the 2012 AVR.

In addition, we've added a second step that includes the cost for the increased value of the member's past service if it is available at a subsidized retirement age due to the addition of the restored service. This step will result in no additional cost if the restored service does not change the member's ability for subsidized retirement.



Preliminary – LEOFF 2 Service Credit Restoration Factors
Page 4 of 5

(Age/Service) System	Normal Retirement Eligibility	Early Retirement Eligibility	Subsidized Early Retirement
LEOFF 2	53/5	50/20	50/20

- ❖ **Economic Assumptions:** We used the following economic assumptions.

System	Interest	Annual COLA	Salary Growth
LEOFF 2	7.5%	3.0%	3.75%

- ❖ **Mortality Assumptions:** We used the projected mortality assumptions as disclosed in the AVR for the underlying mortality assumptions.

- ❖ **Mortality Blending:** These factors only apply for restorations by active members. Therefore, we did not blend disabled mortality rates with healthy mortality rates in their development.

- ❖ **Percent Male/Female:** We assumed percent male/female for primary members as shown in the table below. These percentages match those in the 2001-2006 DES.

System	Percent Male	Percent Female
LEOFF 2	90%	10%

- ❖ **Certain Period:** We apply a certain period to the NRA annuity factors to cover the guaranteed “refund of contributions provision” in the case that a member dies before all of their contributions have been paid out in the monthly benefits. This certain period matches the 2001-2006 DES.

System	Certain Period
LEOFF 2	5

Methods

Development of Underlying Annuity Factors

The next table displays detailed information about how we developed the deferred and immediate annuity factors.

Annuity Factor Details		
	Deferred Annuity	Immediate Annuity
Annuity Type	Single-Life	Single-Life
Payment Commencement	Deferred to NRA	Immediate
Payment Frequency	Monthly	Monthly
Payment Timing	End of Period	End of Period
COLA Increase Frequency	Annual	Annual



Other Information

The new format we developed for the SCRF includes a two-dimensional table. Specifically, the dimensions are *Current Age* by *Total Service After Restoration*. The cost paid by the member equals their AFC, times the sum of Part 1 plus Part 2.

- Part 1. (i) the number of years to be restored, times (ii) the table factor at their current age and service amount with the restoration;
Plus;
- Part 2. (iii) their service prior to the restoration, times (iv) the difference between
 - (a) the table factor including restored service, minus;
 - (b) the table factor based upon service before the restoration.

Part 2 of this equation accounts for the cost of receiving benefits on past service at a subsidized retirement age resulting from the restored service.

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Administrative Factors

**Initial Consideration
November 20, 2013**

Issue

- The Board has the authority to adopt administrative factors for LEOFF Plan 2 and based on recommendations from the Office of the State Actuary (OSA).
- The factors adopted by the Board in 2012 did not include restoration factors.

Background

- Board changed economic assumptions at the November 2011 Board meeting.

Assumption	Prior	Revised
Inflation	3.5%	3.0%
General Salary Growth	4.5%	3.75%
Annual Investment Return	8%	7.5%
Membership Growth	1.25%	1.25%

- Board adopted new factors in 2012. OSA notified Board it would present restoration factors during 2013 interim.

Example: Restoring Service After Deadline

“Average” LEOFF Plan 2 member:



Hired age 29



Worked 5 years



Quit and withdrew



Returned to membership 2 years later



Worked 9 more years; age 45; \$85,000 AFC

6% Increase in Cost to Restore After 5-year Deadline:

- \$95,412.50 under current factors
- \$100,835.50 under proposed factors



Adoption Schedule

- Board decided to adopt 2012 LEOFF Plan 2 administrative factors on same schedule DRS used for other plans.
- To track DRS schedule for adopting new factors Board would adopt the factors to be effective October 1, 2014.

Options

- Option 1: Adopt New Factors
 - Under this option, the Board would publish the new factors on its website in November, adopt the restoration factors in December to be effective October 1, 2014.
- Option 2: Retain Current Factors

Any Questions?

- **Contact:**

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Promoting Individual Savings for Retirement, Comprehensive Follow-up

Report Type:

Comprehensive Report Follow-up

Date Presented:

11/20/2013

Presenter Name and Title:

Paul Neal, Senior Legal Counsel

Summary:

The initial report presented at the August meeting examined federal laws encouraging retirement savings, the costs of saving for retirement, different mechanisms for annuitizing retirement savings, and a recent IRS ruling authorizing annuitizing retirement savings through LEOFF Plan 2. Options were presented at the September meeting, where the Board requested follow-up.

This presentation provides the Board with further discussion on options for facilitating member savings for retirement. Includes new information on the availability of Roth options within 457 plans.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Goal 1 – Enhance the benefits for the members.

ATTACHMENTS:

Description	Type
 Promoting Individual Savings for Retirement	Report
 Promoting Individual Savings for Retirement - Appendix D	Appendix
 Promoting Individual Savings for Retirement	Presentation



November 20, 2013

PROMOTING INDIVIDUAL SAVINGS FOR RETIREMENT

COMPREHENSIVE REPORT FOLLOW-UP

By Paul Neal
Senior Legal Counsel
360-586-2327
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ISSUE

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

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 members¹.

OVERVIEW

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.

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.

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 & SERS²) 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

¹ Membership number as of June 30, 2012; Office of the State Actuary 2011 LEOFF Plan 2 Valuation Report.

² Teachers' Retirement System (TRS); Public Employees' Retirement System (PERS); School Employees' Retirement System (SERS).

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 the 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

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 ruling³ 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 contributions⁴:

³ Internal Revenue Bulletin 2012-8; issued February 21, 2012.

⁴ 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.

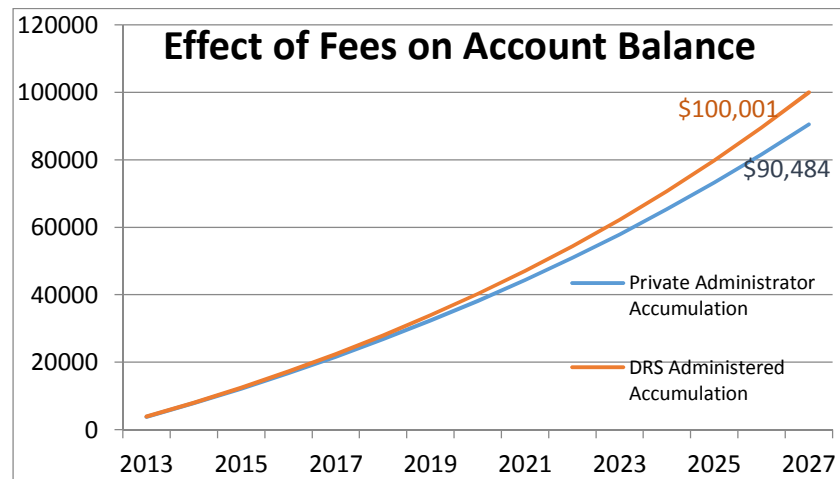


Figure 1

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 TRS⁵.

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 member⁶, 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%.⁷

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 retiree⁶ for \$100,000:

⁵ See Laws of 1991 c 278 § 2.]

⁶ Age 56 with 17 years of service credit and a final average salary of \$5000 per month.

⁷ 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
Average	\$404

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 \$578.14⁸. 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.

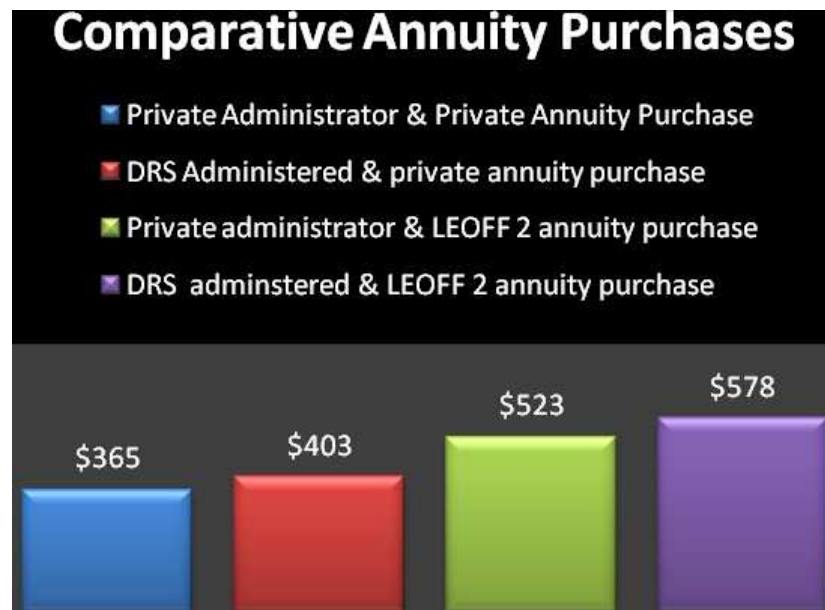


Figure 2

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.

⁸ \$100,000 x .0057814 (conversion factor from DRS table for 56 year-old LEOFF member) = \$578.14 monthly life annuity

NEWLY AVAILABLE ALTERNATIVES:

Annuitization 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 system⁹ 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 fund⁹.

Roth Contributions

The original 457 plan design allows employees deduct contributions from their salary pre-tax. The amounts are taxed at the time of distribution. A Roth¹⁰ 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:

⁹ See OSA fiscal note on 2010 annuity purchase proposal, Appendix C.

¹⁰ 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.

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.

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

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 MNDP – (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	
Contract Provider	Washington State
Minimum Purchase Price	\$25,000
Annuity Payment Frequency	Monthly
Rescission Period	15 calendar days from date of purchase
Single Life Annuity	<ul style="list-style-type: none"> • Provides regular payment for as long as annuitant lives. • Automatic 3% Annual Cost of Living Adjustment (COLA) • Conversion option to Joint Life Annuity • Balance Refund
Joint Life Annuity	<ul style="list-style-type: none"> • Provides regular payment for as long as member or joint annuitant is alive. • Joint annuitant survivorship options: 100%, 66 2/3%, or 50% • Automatic 3% Annual COLA • Monthly payment pops-up to Single Life Annuity amount if joint annuitant predeceases member. • Balance Refund
<p>Annuitant – The member/owner who purchases the annuity; the payee who receives lifetime monthly payments.</p> <p>Balance Refund – 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>Conversion Option – 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>Joint Annuitant – The person designated to receive an ongoing payment in the event of the annuitant's death.</p> <p>Pop-up – An increase from a joint annuity payment amount to the full single life annuity amount if the annuitant outlives the joint annuitant.</p> <p>Rescission Period – 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

APPENDIX D

OSA FISCAL NOTE OF 2010 ANNUITY PURCHASE PROPOSAL

Attached Separately

DRAFT

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:

CODE:

DATE:

PROPOSAL [NAME or Z-NUMBER]:

Office of the State Actuary

035

12/07/09

LEOFF 2 Annuity Purchase

WHAT THE READER SHOULD KNOW

The Office of the State Actuary (“we”) prepared this draft fiscal note based on our understanding of the proposal as of the date shown above. We intend this draft fiscal note to be used by the Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) Plan 2 Board throughout the 2009 Interim only. If a legislator introduces this proposal as a bill during the next Legislative Session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

We advise readers of this draft fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this draft fiscal note as a whole. Distribution of, or reliance on, only parts of this draft fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This proposal would authorize the Department of Retirement Systems (DRS) to provide optional actuarially equivalent annuity purchases from the Law Enforcement Officers’ and Fire Fighters’ (LEOFF) Plan 2 retirement fund to LEOFF Plan 2 members and survivors.

This proposal does not impact the expected actuarial funding of the system. Please see the body of this draft fiscal note for a detailed explanation.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This proposal impacts the LEOFF Plan 2 by authorizing DRS to provide optional actuarially equivalent annuity purchases from the LEOFF Plan 2 retirement fund to LEOFF Plan 2 members and survivors. The proposal allows members to purchase annuities prior to retirement. DRS would develop the life annuity benefit schedules no later than December 31, 2010.

Assumed Effective Date: 90 days after session.

What Is The Current Situation?

Plan 3 members may purchase a similar annuity with contributions invested in the Total Allocation Portfolio of the Washington State Investment Board (WSIB) investment program, but only at the time of retirement. LEOFF Plan 2 members may purchase up to five years of additional service by paying the full actuarial value of the service at the time of retirement.

Who Is Impacted And How?

We estimate this proposal could affect all 16,626 active members of LEOFF Plan 2 with the option of improved benefits.

We estimate this proposal will increase the benefits for a typical member by providing the option to annuitize their retirement savings. Annuitizing their money provides a member security against outliving their assets. In addition, the annuity offered to them through DRS will cost far less than an annuity bought from a private insurer. A private insurer calculates annuities based on a lower interest rate to account for risk and profit.

For example, 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 percent. For a member age 55 buying a \$10,000 life annuity, this would mean they would pay a private company about \$165,000, whereas they would pay DRS about \$110,000.

WHY THIS PROPOSAL DOES NOT HAVE A COST

Why This Proposal Does Not Have A Cost

This proposal does not have an expected cost because the member is paying the full actuarial value.

Who Will Pay For These Costs/Savings If They Arise?

The member will pay the actuarially equivalent value of the annuity.

However, as the experience of the system emerges, if the payment is more or less than the actual value of the annuity, then LEOFF Plan 2 contribution rates will increase or decrease accordingly.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed that the payments made by the members will equal the full actuarial value of the annuity. We would need to make several assumptions to determine the purchase price of the annuity:

- Expected rate of investment return.
- Expected rate of mortality for the annuitant.
- The annuity start date – the member’s retirement date (if purchased prior to retirement).

As with any actuarial calculation that involves estimating future events, actual experience may differ from the underlying assumptions made. When actual experience differs from what we assumed would occur, the system experiences an actuarial gain or loss. An actuarial gain would decrease plan liabilities (or increase assets); whereas, an actuarial loss would increase plan liabilities (or decrease assets). Therefore, we cannot say with certainty that this proposal will not impact plan liabilities in the future.

If the members who purchase annuities, on average, live shorter/longer than assumed, the system will experience actuarial gains/losses in the future. If the actual rate of investment return is more/less than the assumed rate, the system will experience actuarial gains/losses from this assumption as well. For these two assumptions, we will not know whether a gain or loss has occurred until DRS has made all payments under the annuity contract.

The assumed annuity start date, or member’s retirement date, will also produce a source of actuarial gain or loss for members who purchase annuities prior to their retirement date. For this particular assumption, we can determine whether an actuarial gain or loss has occurred at the time of retirement. DRS may have the option to adjust the purchase price or adjust the annuity amount (a “true up”) at the time of retirement to eliminate this source of gain/loss. Without such an adjustment, the potential for significant actuarial gain/loss, on an individual member basis, exists for this particular assumption.

Otherwise, we developed these costs using the same assumptions as disclosed in the 2008 Actuarial Valuation Report.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions selected for this pricing we varied the following assumptions:

- **Mortality rate** – We determined the cost to the system if the annuity amount was calculated based on higher mortality rates than what actually occurs over time (people lived longer than assumed). For this sensitivity we used 100 percent of scale AA mortality improvement rather than the assumed 50 percent.
- **Investment returns** – We determined the cost to the system if the annuity amount was calculated based on a higher investment returns than what actually occurs over time (investments pay less than assumed). For this sensitivity we used a 7.5 percent investment return rather than the assumed 8 percent.
- **Annuity start date** – We determined the cost to the system if the annuity amount was calculated based on a later retirement date than what actually occurs over time (people start collecting the annuity earlier than assumed). For this sensitivity we used a start age of 53 rather than an assumed age of 55.
- **All of the above** – We determined the cost to the system if all three of the assumptions are incorrect, as described above, at the same time.

The table below shows the expected results versus the four sensitivity runs outlined above. The example outlines the impact due to one member currently age 40 who purchases an annuity with \$100,000. When all three occur at once, the liability is larger than the sum of each of the three individually because of the interaction of these assumptions.

Sensitivity Example – 40-Year- Old Male Purchases Retirement Annuity With \$100,000			
Scenario	Cash Paid From Member To Plan	Present Value of Plan Annuity	Cost to the System
1) Expected	\$100,000	\$100,000	\$0
2) Lower Mortality Than Expected	\$100,000	\$102,549	\$2,549
3) Lower Asset Returns Than Expected	\$100,000	\$112,980	\$12,980
4) Earlier Retirement Age Than Expected	\$100,000	\$120,794	\$20,794
5) Scenarios 2, 3, and 4	\$100,000	\$138,777	\$38,777

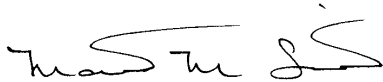
Assumes annuity calculation based on 3% COLA, and 90%/10% male/female mortality blend.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this draft fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods and assumptions may also be reasonable, and might produce different results.
5. This draft fiscal note has been prepared for the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board.
6. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page one of this draft fiscal note.

This draft fiscal note is a preliminary actuarial communication and the results shown may change. While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA
State Actuary

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.



Promoting Individual Savings for Retirement

Comprehensive Report Follow-up
November 20, 2013

Issue

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

2012 IRS Ruling

- **Internal Revenue Bulletin 2012-8 issued February 21, 2012.**
 - Allows a member of a 401(a) defined benefit plan to annuitize tax deferred retirement savings.
 - Allow employees to maintain a “sidecar” savings account within defined benefit trust fund.

2010 Federal Legislation

The Small Business Jobs Act of 2010 authorized governmental 457 plans to adopt Roth provisions.

- Contributions are taxed in the year earned, distributions after retirement are not taxed.
- DRS could authorize:
 - Roth contributions; and/or
 - Conversion of conventional balance to Roth account.
Taxable in year of conversion.
- No Legislation required.

Option 1

Authorize LEOFF Plan 2 to annuitize roll-overs of tax deferred savings. Additional information:

- Permissible rollovers can come from any tax deferred savings plan (457, 403(b), 401(a)).
- There is no IRS limit on the amount annuitized other than overall sec. 415 limits.

Option 3

Require LEOFF Employers to Offer DRS's Deferred Compensation Program to LEOFF Members.

- Board directed staff to move forward.
- Draft legislation being reviewed by DRS.
- DRS Director asked SCPP to consider similar legislation.

Option 4

Implementation of new option authorizing Roth contributions and/or conversions within DRS's 457 plan:

- Option 4(a): Direct staff to draft legislation requiring Roth option;
- Option 4(b): Ask DRS to exercise its authority to develop Roth option;
- Option 4(c): Take no action at this time.

Any Questions?

- **Contact:**

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WSIPP Study Follow-up, Educational Briefing

Report Type:

Educational Briefing

Date Presented:

11/20/2013

Presenter Name and Title:

Ryan Frost, Research Analyst

Summary:

The Washington State Institute of Public Policy presented a report to the Board in December of 2012 that, among other things, ranked public safety retirement systems based on level of income replacement.

The Board recognized that other bases of comparison could provide a more robust relative ranking of public safety retirement systems and directed staff to gather additional data on other bases of comparison.

This report is an initial presentation of that data.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Goal 4 – Inform the stakeholders.

ATTACHMENTS:

Description		Type
☐	WSIPP Study Follow-Up	Report
☐	WSIPP Study Follow-up	Presentation



EDUCATIONAL BRIEFING

By Ryan Frost
Research Analyst
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ISSUE STATEMENT

A presentation was given at the June 19th, 2013 board meeting asking for direction on other factors that could be compared between plans. From that meeting, a list was composed of other important factors to consider when determining the success and health of a retirement plan. Items such as funded status, average retirement benefit, and contribution rates were discussed and are included in this report.

STRATEGIC LINKAGE

This report supports the following Strategic Priority Goals:

Goal 1 – Enhance the benefits for the members: Compares plans from other states and relevant organizations; Assesses existing benefits.

Goal 2 - Provide the stakeholders with a voice in the plan governance: Maintains stakeholder confidence in the integrity of the plan.

Goal 3 – Maintain the financial integrity of the plan: Identifies best practices from other states and organizations; Provides information on the fiscal reality of the plan; Promotes fiduciary education.

Goal 4 - Inform the Stakeholders: Increases member understanding of the benefits provided in the plan.

BACKGROUND & POLICY ISSUES

At the December 12, 2012 Board Meeting, the Washington State Institute for Public Policy (WSIPP) gave a presentation regarding how LEOFF Plan 2 compared with peer plans throughout the United States. Their peer comparison report focused solely on income replacement as a plan ranking criteria. In order to have a more accurate ranking of plans, it is necessary to look at the many other factors which signify whether a plan is successful. The Board was presented with a follow-up study of possible factors to consider in addition to income replacement.

Since retirement plans within each state may have various designs and multiple variables, it is extremely difficult to find a single measure to compare plans. Recognizing that difficulty, WSIPP chose income replacement as the most comparable area to evaluate plans. Income replacement is the percentage of a worker's salary replaced by the pension at the time of retirement. The report ranked LEOFF Plan 2 thirty-third out of forty-two comparison plans in the area of income replacement.

While income replacement allows an "apples to apples" comparison, examining only income replacement provides a limited scope of review and may not be the best way to measure the effectiveness of a plan. An analysis that includes other measures and expanded analysis could provide a more comprehensive comparison of a plans' adequacy and sustainability. For example, additional measures could include a plan comparison of average salary, contribution rates, benefit multiplier, averaging period, disability benefits, and funding ratio.

The Board asked for further comparison between plans on the previously listed measures.

FINDINGS

Results are particularly strong for LEOFF 2 in the areas of average annual benefit, average salary, funded status, FAS period, and normal retirement age.

- The average annual benefit for LEOFF 2 retirees was \$34,930 at the time of this study.
 - Places LEOFF 2 8th out of the 53 plans studied.
- Also of note is the high average salary of LEOFF 2 active members.
 - The number of just over \$86,000 puts LEOFF 2 with the 3rd highest average salary in the country.
- Behind the closed LEOFF 1 plan, LEOFF 2 is the best funded plan allowing policeman and firefighters in the country.
- LEOFF 2 is still a young plan.
 - It currently is the 45th largest plan in the country that allows police and fire, yet its market assets of \$7,222,000 ranks as the 34th largest of the plans.
- Employee contribution rates are on the higher end of the plans.
- The longer FAS periods works to dwindle the risk of pension spiking.
- LEOFF 2 has the lowest normal retirement age of the plans studied.

SUPPORTING INFORMATION

Appendix A: Membership by plan

Appendix B: Average benefit paid out yearly to retirees

Appendix C: Employer and employee contribution rates by plan

Appendix D: Funded rations by plan

Appendix E: Average salary by plan

Appendix F: Market value assets by plan

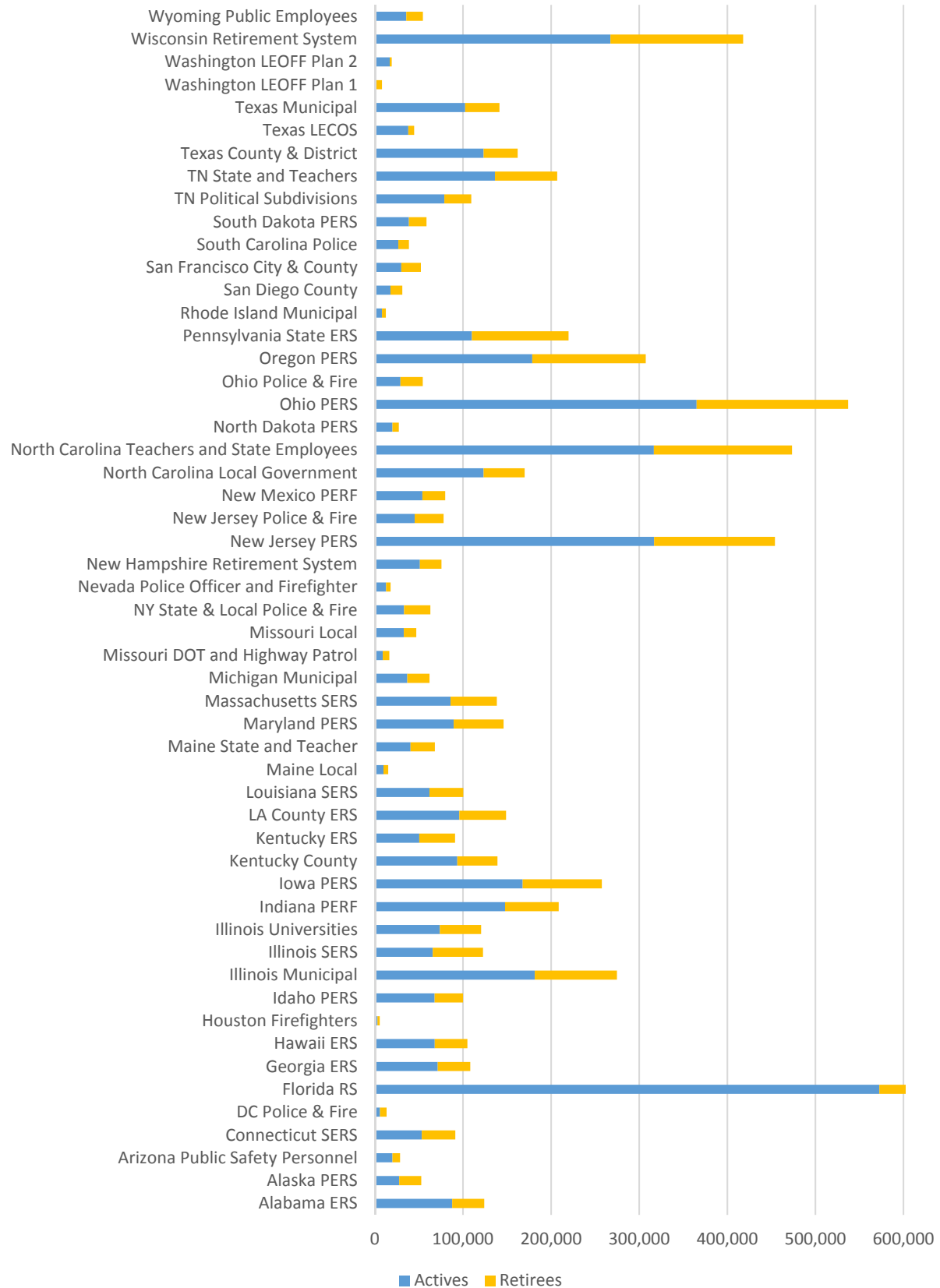
Appendix G: Normal retirement age by plan

Appendix H: FAS period by plan

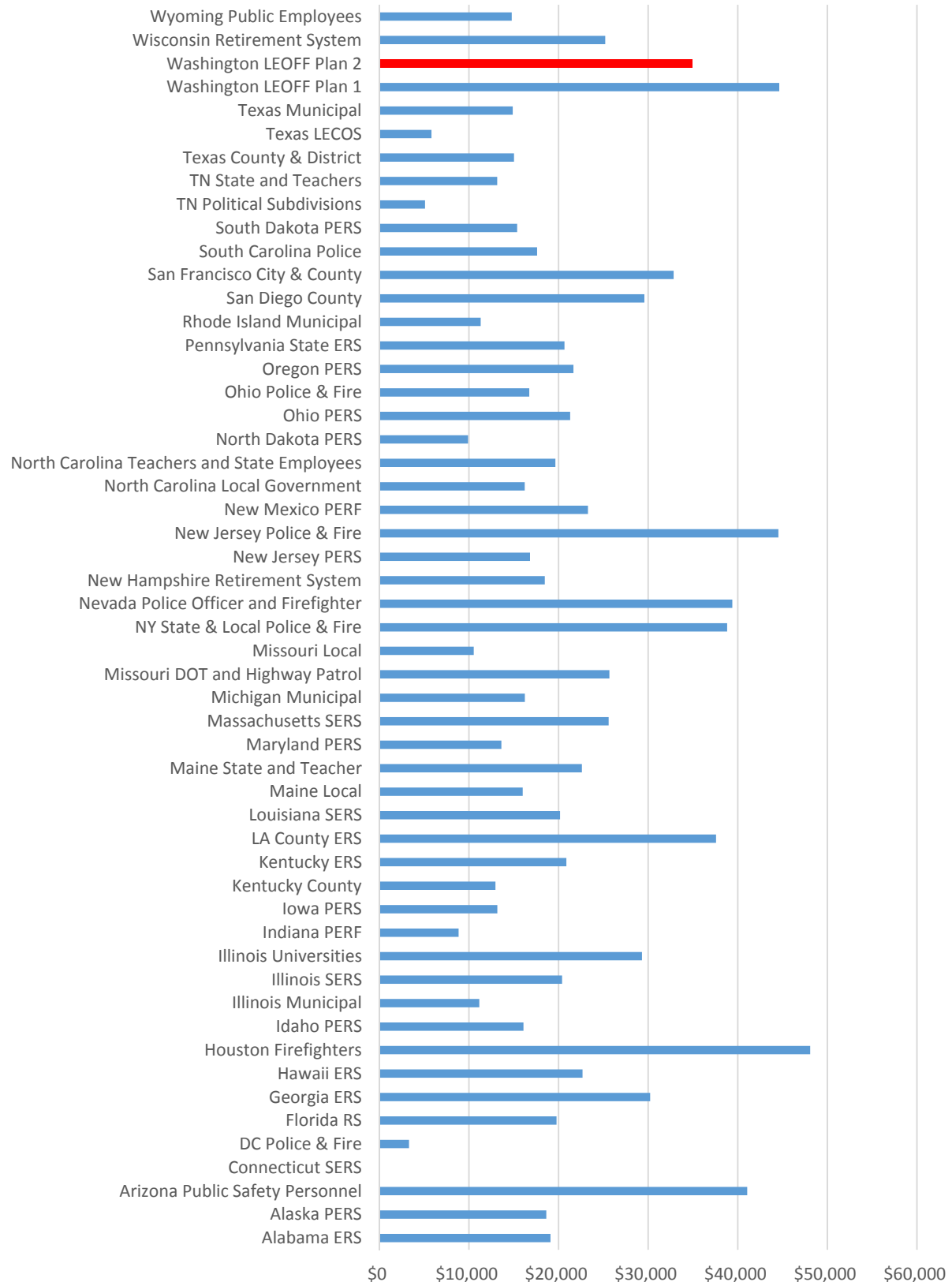
Appendix I: Vesting years needed by plan

Appendix J: Plan Database

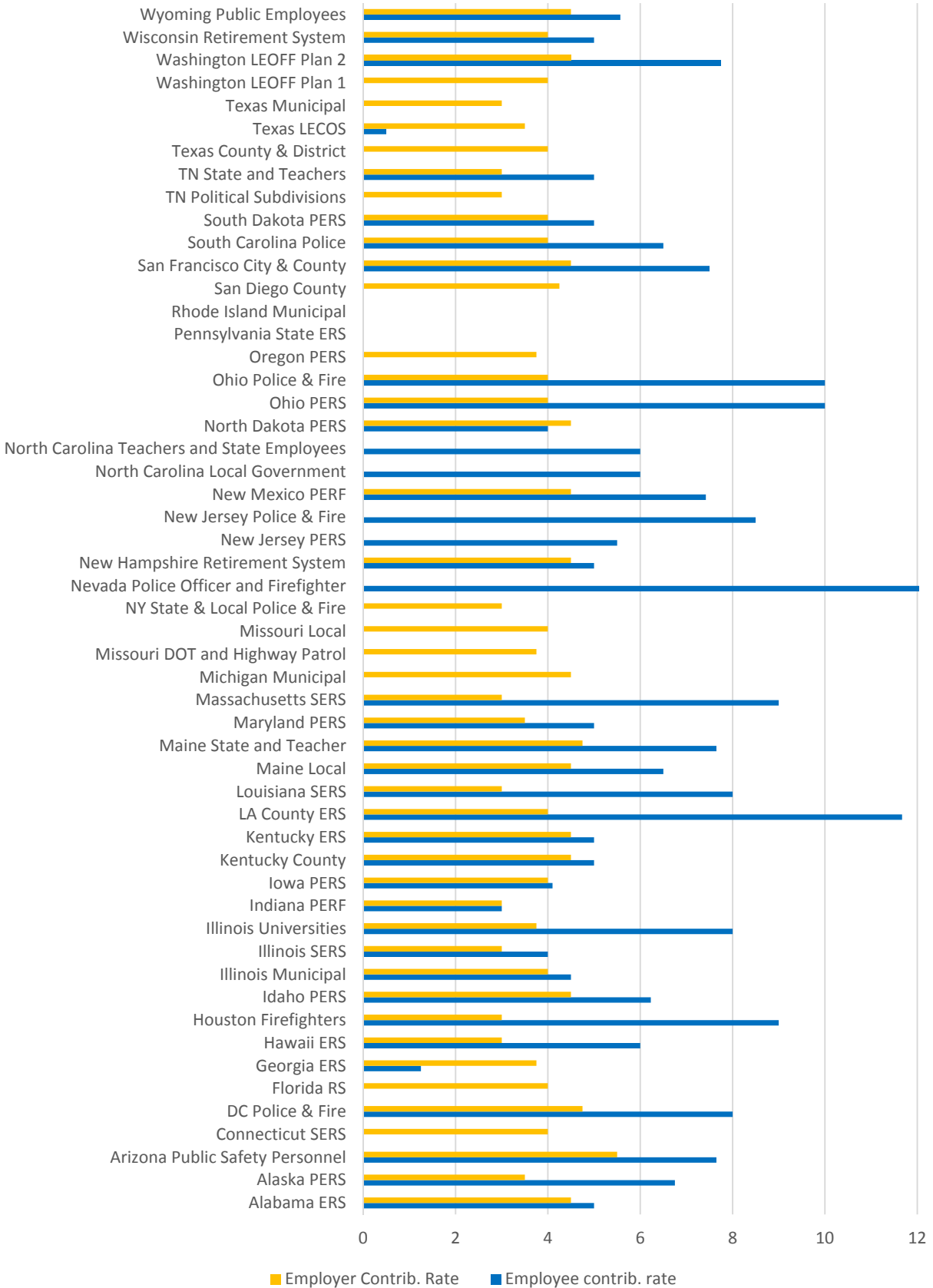
Appendix A: Membership by Plan



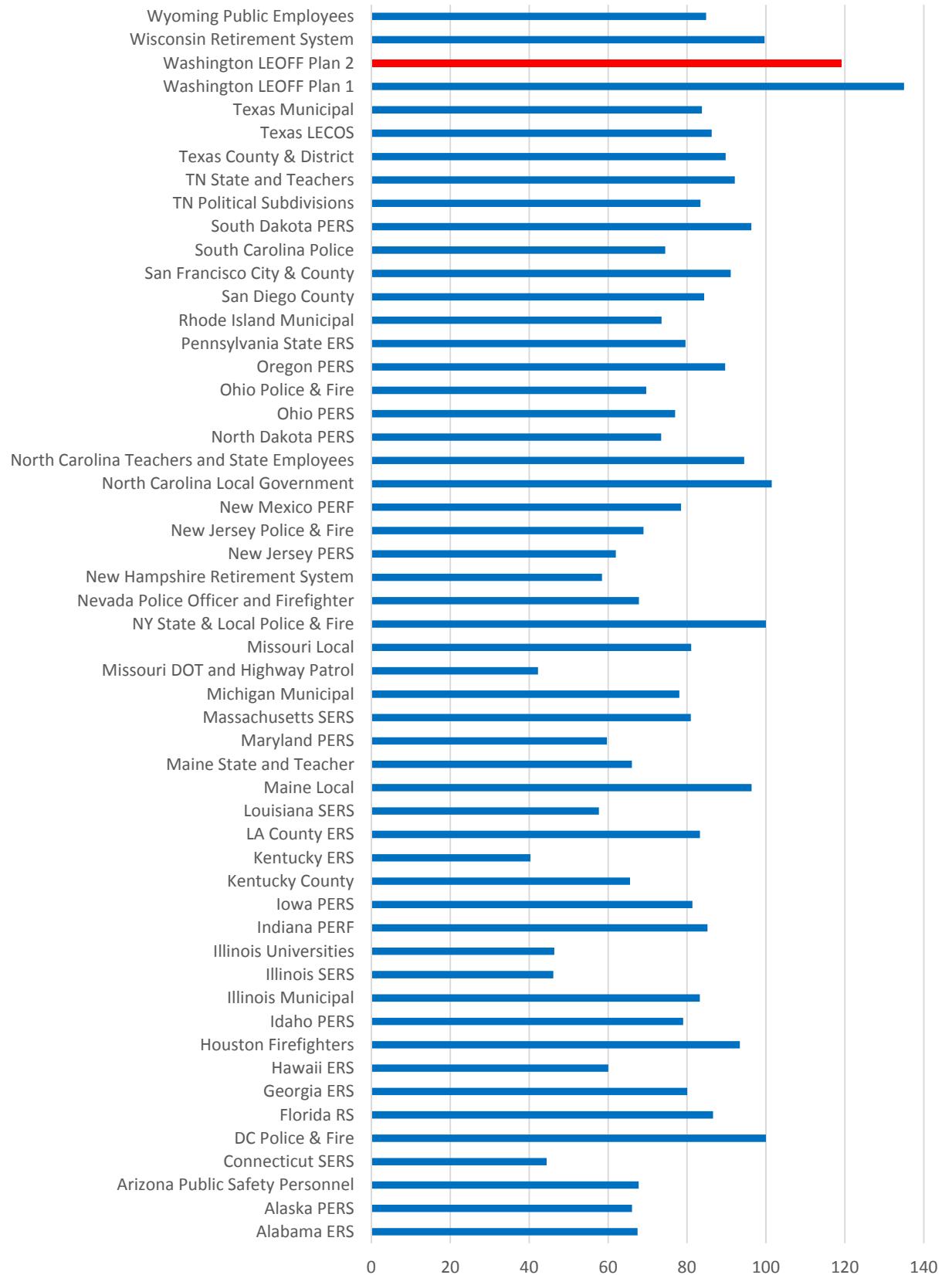
Appendix B: Average Yearly Benefit



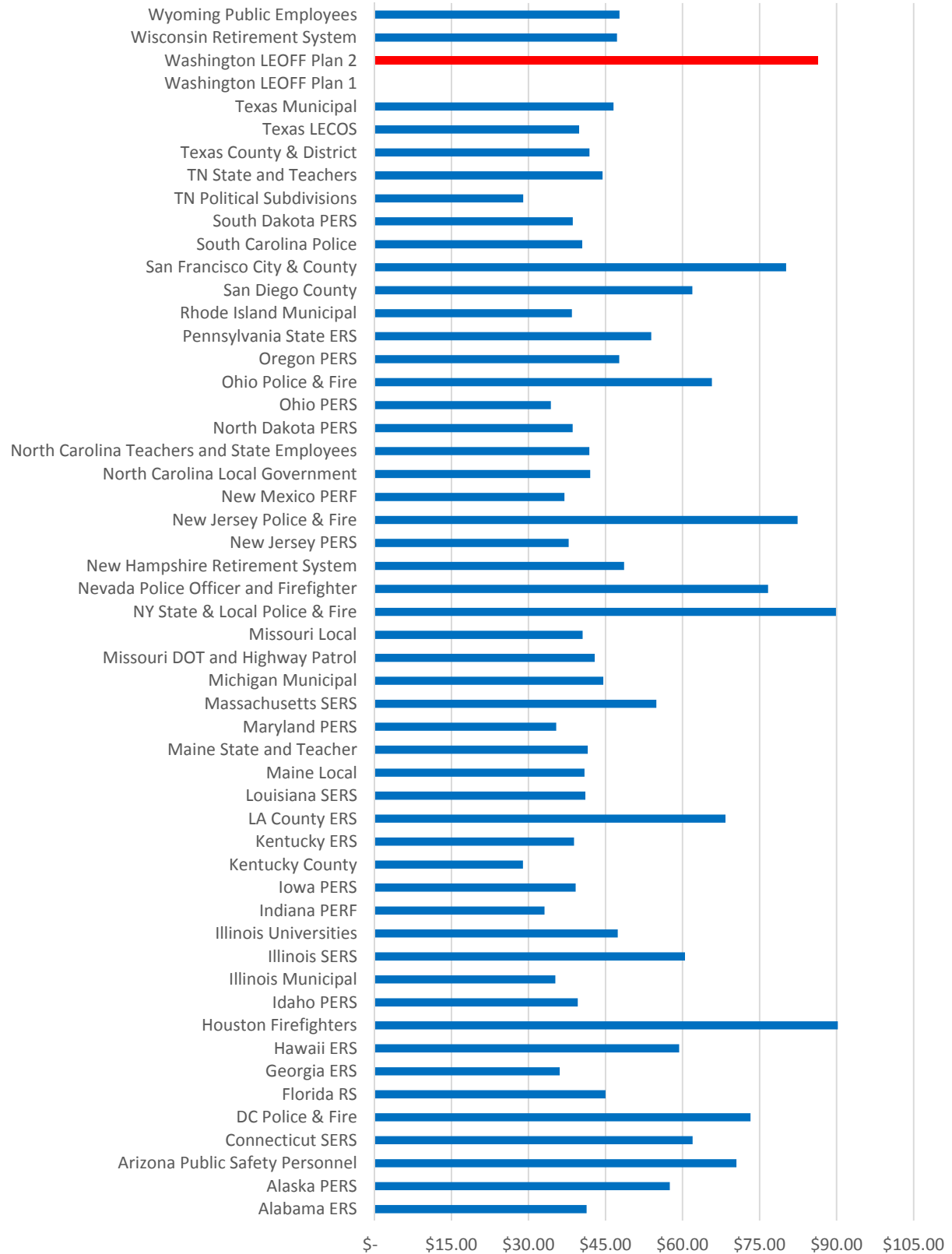
Appendix C: Contribution Rates



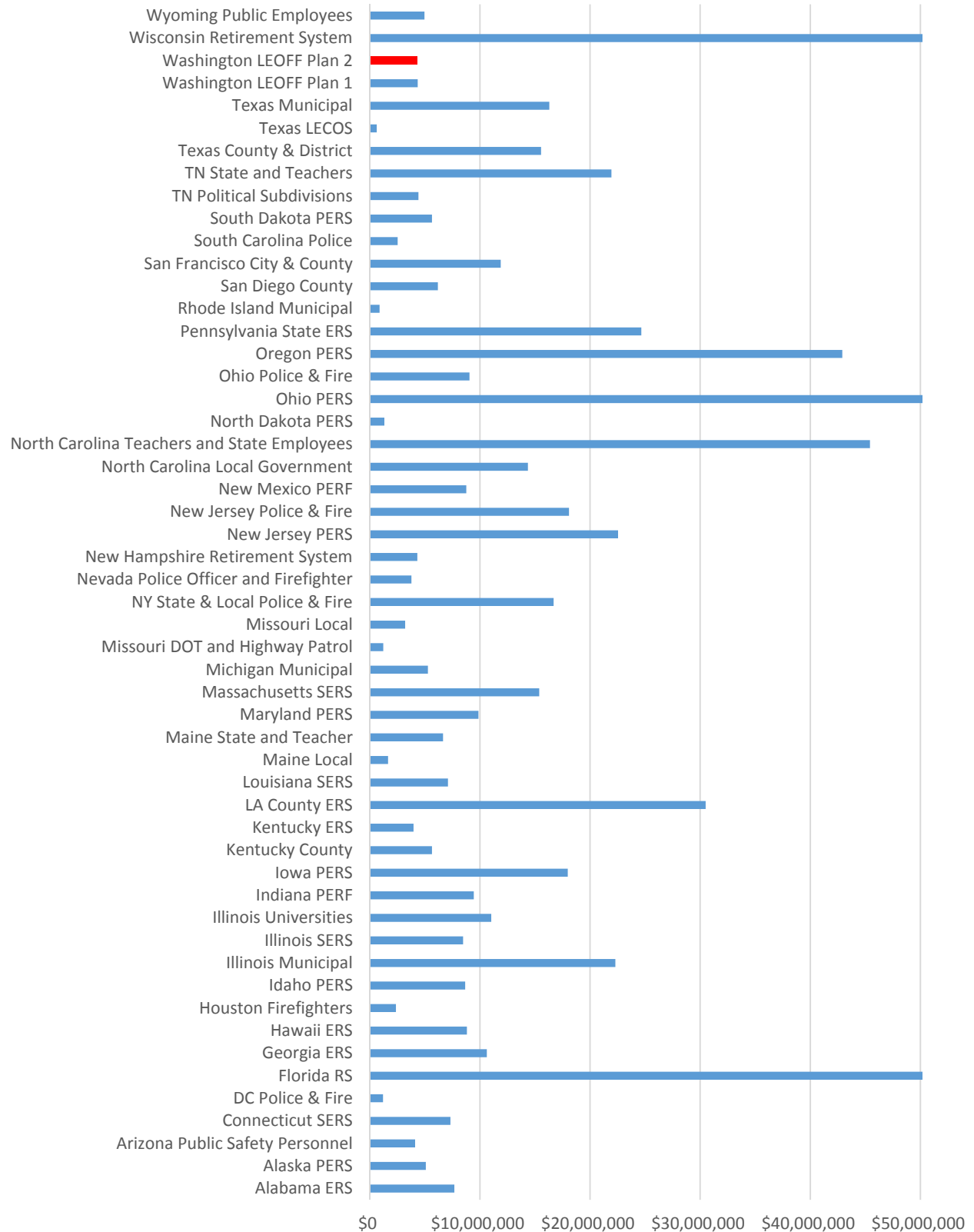
Appendix D: Funded ratio



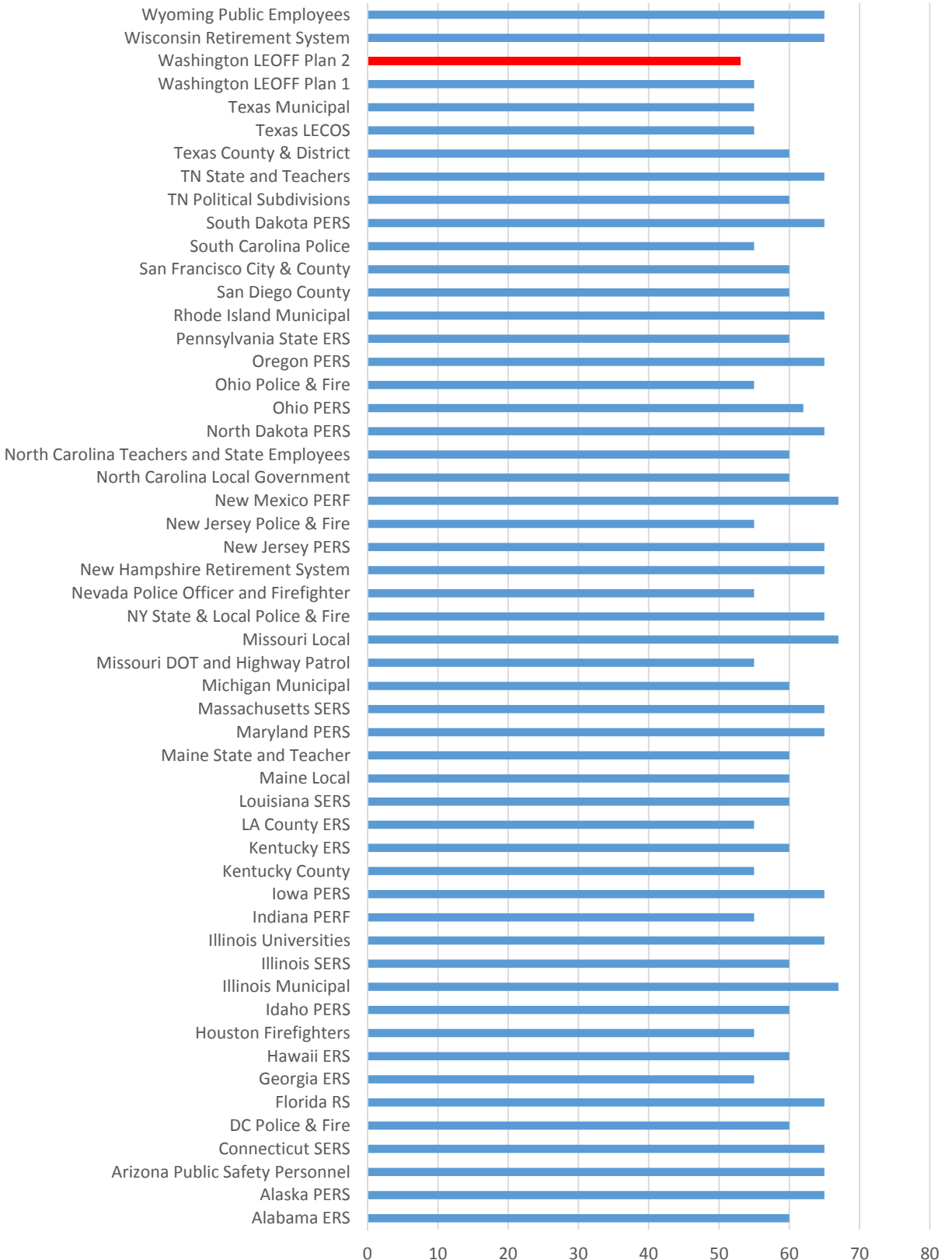
Appendix E: Average Salary (in thousands)



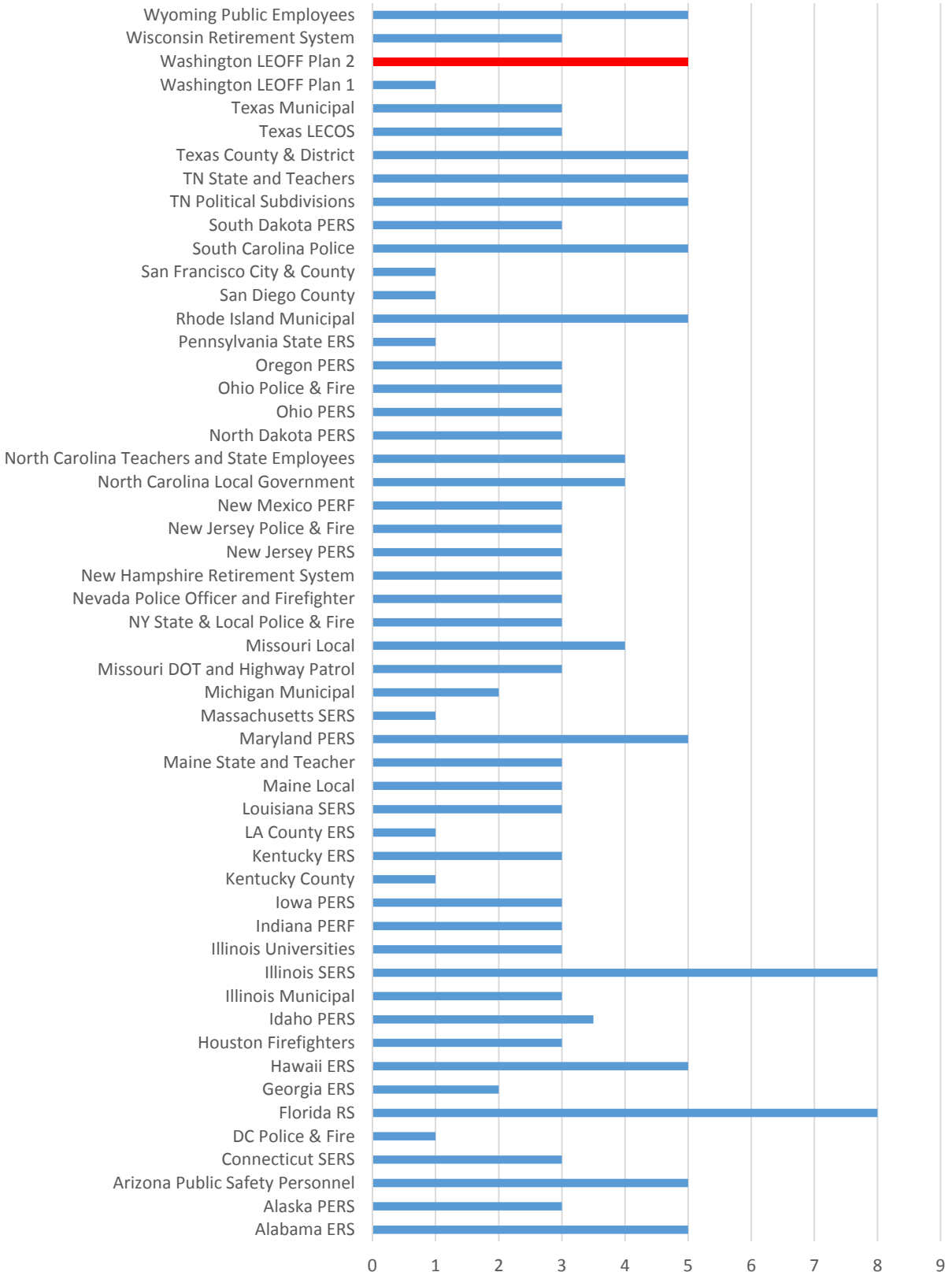
Appendix F: Market assets



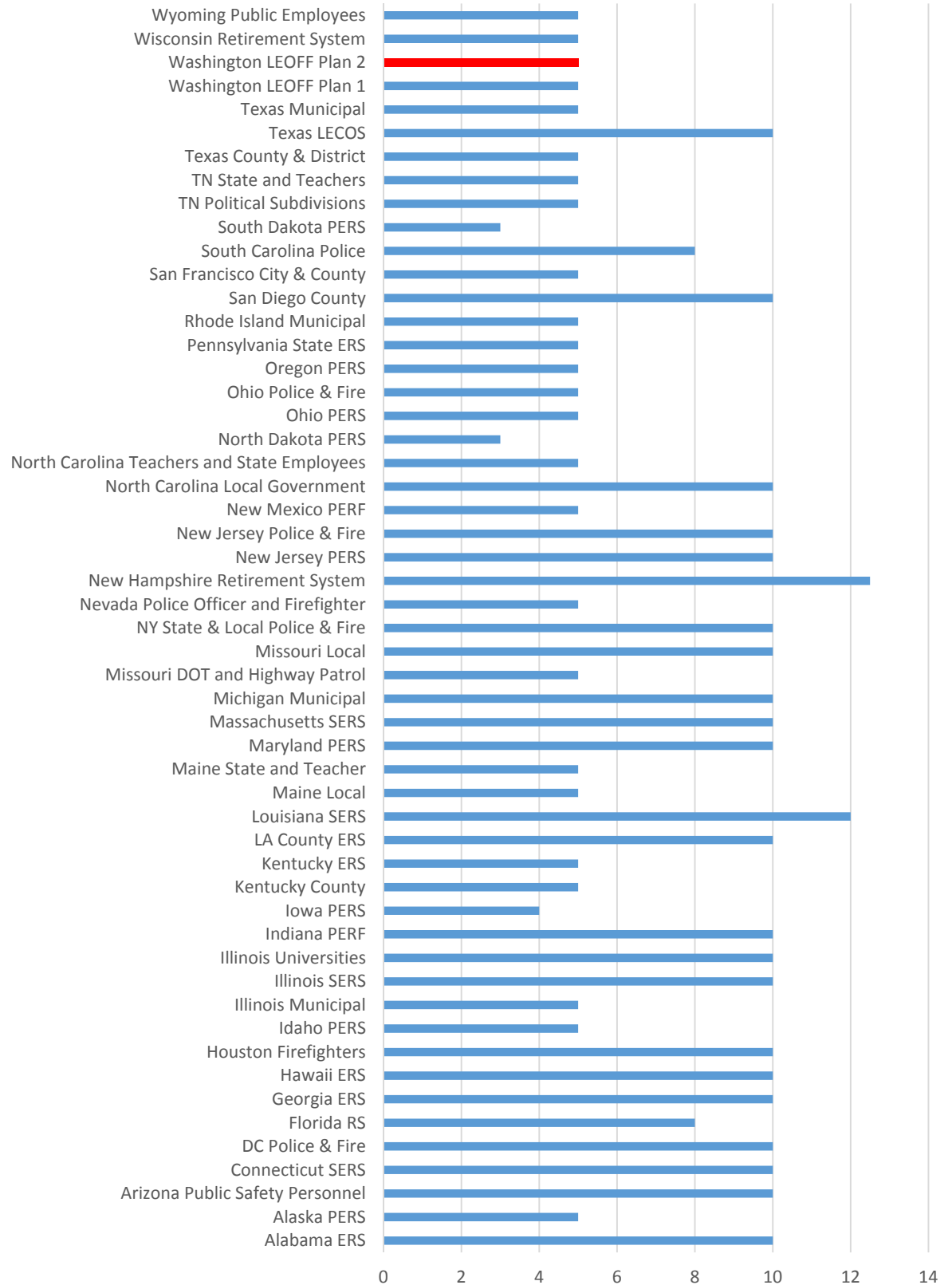
Appendix G: Normal Retirement Age



Appendix H: FAS Period



Appendix I: Vesting



Planname	Actives	Retirees	Inactive vested	All members	Employee Contrib. Rate	Employer Contrib. Rate	Avg. benefit	Market assets	Funded ratio	Asset smoothing period	Drop plan	COLA	Normal Ret Age	Avg Salary (thousands)	FAS	Payroll	Vesting
Alabama ERS	87,647	36,413	11,791	138,222	5	4.5	\$19,098	\$7,679,005	67.47	5	Y	Ad-hoc	60	\$ 41.30	5	\$ 3,620,243.00	10
Alaska PERS	27,565	25,015	6,566	73,772	6.75	3.5	\$18,632	\$5,090,440	66.05	5	N	CPI-linked	65	\$ 57.52	3	\$ 1,585,490.00	5
Arizona Public Safety Personnel	19,867	8,609	1,145	30,665	7.65	5.5	\$41,060	\$4,115,701	67.73	7	Y	Investment based	65	\$ 70.50	5	\$ 1,400,544.00	10
Connecticut SERS	53,196	38,093	1,592	92,881	0	4	-	\$7,322,780	44.41	1	N	CPI-linked	65	\$ 61.95	3	\$ 3,295,666.00	10
DC Police & Fire	5,788	7,421	113	13,638	8	4.75	\$3,311	\$1,204,391	100	7	N	Ad-hoc	60	\$ 73.23	1	\$ 423,854.00	10
Florida RS	572,591	286,674	89,481	981,667	0	4	\$19,777	\$96,503,162	86.59	1	Y	Automatic	65	\$ 45.00	8	\$ 25,765,362.00	8
Georgia ERS	71,272	36,968	4,104	112,344	1.25	3.75	\$30,220	\$10,626,096	80.06	7	N	Ad-hoc	55	\$ 36.07	2	\$ 2,571,042.00	10
Hawaii ERS	67,912	36,999	6,016	110,927	6	3	\$22,680	\$8,817,953	60.03	4	N	Automatic	60	\$ 59.34	5	\$ 4,030,100.00	10
Houston Firefighters	2,870	2,550	8	6,507	9	3	\$48,084	\$2,368,961	93.39	1	Y	Automatic	55	\$ 90.23	3	\$ 258,949.00	10
Idaho PERS	67,813	32,197	10,067	123,144	6.23	4.5	\$16,088	\$8,663,012	79.03	Market Based	N	CPI-linked	60	\$ 39.59	3.5	\$ 2,684,400.00	5
Illinois Municipal	181,380	93,298	11,703	386,826	4.5	4	\$11,154	\$22,302,839	83.25	-	N	Automatic	67	\$ 35.24	3	\$ 6,391,164.70	5
Illinois SERS	65,599	57,099	4,672	127,370	4	3	\$20,394	\$8,477,852	46.12	5	N	Automatic	60	\$ 60.48	8	\$ 3,967,704.00	10
Illinois Universities	73,699	46,810	71,280	191,789	8	3.75	\$29,310	\$11,032,973	46.37	5	N	Automatic	65	\$ 47.37	3	\$ 3,491,071.00	10
Indiana PERF	147,792	60,740	10,670	223,561	3	3	\$8,837	\$9,442,336	85.19	-	N	Ad-hoc	55	\$ 33.13	3	\$ 4,896,013.00	10
Iowa PERS	167,717	89,852	32,297	324,411	4.1	4	\$13,167	\$17,974,038	81.37	1	N	CPI-linked	65	\$ 39.18	3	\$ 6,571,182.00	4
Kentucky County	93,481	45,564	9,731	201,842	5	4.5	\$12,951	\$5,651,570	65.55	5	N	CPI-linked	55	\$ 28.92	1	\$ 2,703,404.04	5
Kentucky ERS	50,391	40,531	37,571	128,496	5	4.5	\$20,875	\$3,973,552	40.31	5	N	CPI-linked	60	\$ 38.87	3	\$ 1,958,704.33	5
LA County ERS	95,788	53,069	8,051	156,908	11.67	4	\$37,585	\$30,498,981	83.26	5			55	\$ 68.36	1	\$ 6,547,616.00	10
Louisiana SERS	61,991	38,253	1,947	104,874	8	3	\$20,166	\$7,100,333	57.66	4	Y	Automatic	60	\$ 41.08	3	\$ 2,546,457.00	12
Maine Local	9,719	5,382	1,092	17,832	6.5	4.5	\$15,992	\$1,656,980	96.35	1	N	CPI-linked	60	\$ 40.90	3	\$ 397,506.57	5
Maine State and Teacher	40,486	27,544	6,599	74,629	7.65	4.75	\$22,604	\$6,652,767	66.03	1	N	CPI-linked	60	\$ 41.54	3	\$ 1,681,593.43	5
Maryland PERS	89,380	56,610	28,608	174,598	5	3.5	\$13,619	\$9,872,074	59.7	5	N	CPI-linked	65	\$ 35.40	5	\$ 3,163,684.00	10
Massachusetts SERS	85,839	52,486	3,779	142,104	9	3	\$25,596	\$15,390,692	80.96	5	N	CPI-linked	65	\$ 54.89	1	\$ 4,711,563.00	10
Michigan Municipal	36,713	25,232	6,463	68,408	-	4.5	\$16,244	\$5,276,645	78.05	10	N	Automatic	60	\$ 44.58	2	\$ 1,636,500.00	10
Missouri DOT and Highway Patrol	8,813	7,480	1,737	18,030	0	3.75	\$25,670	\$1,221,134	42.22	3	Y	CPI-linked	55	\$ 42.90	3	\$ 378,063.01	5
Missouri Local	32,831	14,150	940	47,921	-	4	\$10,533	\$3,217,034	81.05	5	N	CPI-linked	67	\$ 40.55	4	\$ 1,331,226.34	10
NY State & Local Police & Fire	33,052	29,905	3,156	66,113	-	3	\$38,816	\$16,695,434	100	6	N		65	\$ 89.86	3	\$ 2,970,000.00	10
Nevada Police Officer and Firefighter	12,633	5,200	620	18,453	17.25	-	\$39,398	\$3,777,561	67.81	5	N	Automatic	55	\$ 76.65	3	\$ 968,353.12	5
New Hampshire Retirement System	51,032	24,501	1,391	76,924	5	4.5	\$18,464	\$4,315,256	58.45	5	N	Investment- based	65	\$ 48.62	3	\$ 2,481,383.62	12.5
New Jersey PERS	316,849	137,186	1,433	455,468	5.5	-	\$16,817	\$22,542,812	61.96	1	N	CPI-linked	65	\$ 37.81	3	\$ 11,981,354.78	10
New Jersey Police & Fire	45,150	32,860	61	78,071	8.5	-	\$44,535	\$18,088,930	68.95	1	N	CPI-linked	55	\$ 82.40	3	\$ 3,720,534.37	10
New Mexico PERF	53,866	25,950	3,018	82,834	7.42	4.5	\$23,279	\$8,759,819	78.48	4	N	Automatic	67	\$ 37.01	3	\$ 1,993,516.92	5

Planname	Actives	Retirees	Inactive vested	All members	Employee Contrib. Rate	Employer Contrib. Rate	Avg. benefit	Market assets	Funded ratio	Asset smoothing period	Drop plan	COLA	Normal Ret Age	Avg Salary (thousands)	FAS	Payroll	Vesting
North Carolina Local Government	123,398	46,557	38,076	208,031	6	-	\$16,221	\$14,360,337	101.48	1	N	Ad-hoc	60	\$ 42.01	4	\$ 5,184,128.03	10
North Carolina Teachers and State Employees	316,647	156,791	97,474	577,845	6	-	\$19,653	\$45,421,796	94.49	1	N	Ad-hoc	60	\$ 41.85	4	\$ 13,252,029.52	5
North Dakota PERS	19,943	7,188	3,270	30,423	4	4.5	\$9,901	\$1,320,003	73.43	5	N	Ad-hoc	65	\$ 38.60	3	\$ 769,710.11	3
Ohio PERS	365,229	171,955	-	953,732	10	4	\$21,291	\$57,630,424	76.99	4	N	Automatic	62	\$ 34.36	3	\$ 12,548,000.00	5
Ohio Police & Fire	28,927	25,317	122	56,884	10	4	\$16,735	\$9,056,794	69.66	5	Y	Automatic	55	\$ 65.71	3	\$ 1,900,935.00	5
Oregon PERS	178,606	128,811	-	351,086	0	3.75	\$21,654	\$42,904,809	89.67	Market	N	Ad-hoc	65	\$ 47.66	3	\$ 8,512,200.00	5
Pennsylvania State ERS	110,107	109,639	6,190	225,936	-	-	\$20,662	\$24,661,949	79.62	5	N	Ad-hoc	60	\$ 53.91	1	\$ 5,935,988.00	5
Rhode Island Municipal	7,952	4,389	2,430	14,771	-	-	\$11,306	\$892,168	73.55	5	N	Automatic	65	\$ 38.46	5	\$ 305,813.68	5
San Diego County	17,699	13,453	5,238	36,390	-	4.25	\$29,584	\$6,179,829	84.34	5		CPI-linked	60	\$ 61.90	1	\$ 1,095,582.00	10
San Francisco City & County	29,919	22,294	4,986	57,255	7.5	4.5	\$32,849	\$11,886,729	91.08	5	Y	CPI-linked	60	\$ 80.18	1	\$ 2,398,823.00	5
South Carolina Police	26,598	11,950	11,832	50,380	6.5	4	\$17,602	\$2,530,632	74.48	5	N	CPI-linked	55	\$ 40.47	5	\$ 1,076,467.00	8
South Dakota PERS	38,596	19,949	7,418	72,531	5	4	\$15,378	\$5,648,767	96.3	1	N	Automatic	65	\$ 38.63	3	\$ 1,491,098.18	3
TN Political Subdivisions	78,792	30,565	-	103,915	-	3	\$5,097	\$4,420,493	83.39	10	N	CPI-linked	60	\$ 28.96	5	\$ 2,282,081.57	5
TN State and Teachers	136,329	70,598	21,032	227,959	5	3	\$13,145	\$21,948,733	92.09	10	N	CPI-linked	65	\$ 44.41	5	\$ 6,054,527.72	5
Texas County & District	123,446	38,511	-	217,913	-	4	\$15,029	\$15,555,540	89.79	Market	N		60	\$ 41.86	5	\$ 5,168,000.00	5
Texas LECOS	37,819	6,647		44,505	0.5	3.5	\$5,813	\$634,779	86.26	1	-		55	\$ 39.87	3	\$ 1,507,950.00	10
Texas Municipal	102,419	38,980	39,564	180,963	-	3	\$14,883	\$16,305,676	83.78	Market	N		55	\$ 46.56	3	\$ 4,769,000.00	5
Washington LEOFF Plan 1	186	7,845	0	8,499	0	4	\$44,640	\$4,355,913	135	8	N	CPI-linked	55	\$ -	1		5
Washington LEOFF Plan 2	16,720	2,344	689	20,653	7.74	4.5	\$34,930	\$4,308,880	119	8	N	CPI-linked	53	\$ 86.27	5	\$ 1,442,500.00	5
Wisconsin Retirement System	267,293	150,671	144,424	562,388	5	4	\$25,205	\$69,996,296	99.64	5	N	Investment-based	65	\$ 47.22	3	\$ 12,622,200.00	5
Wyoming Public Employees	35,593	18,916	5,272	78,730	5.57	4.5	\$14,772	\$4,971,155	84.85	5	N	CPI-linked	65	\$ 47.73	5	\$ 1,698,835.82	5



WSIPP Study Follow-up

**Educational Briefing
November 20, 2013**

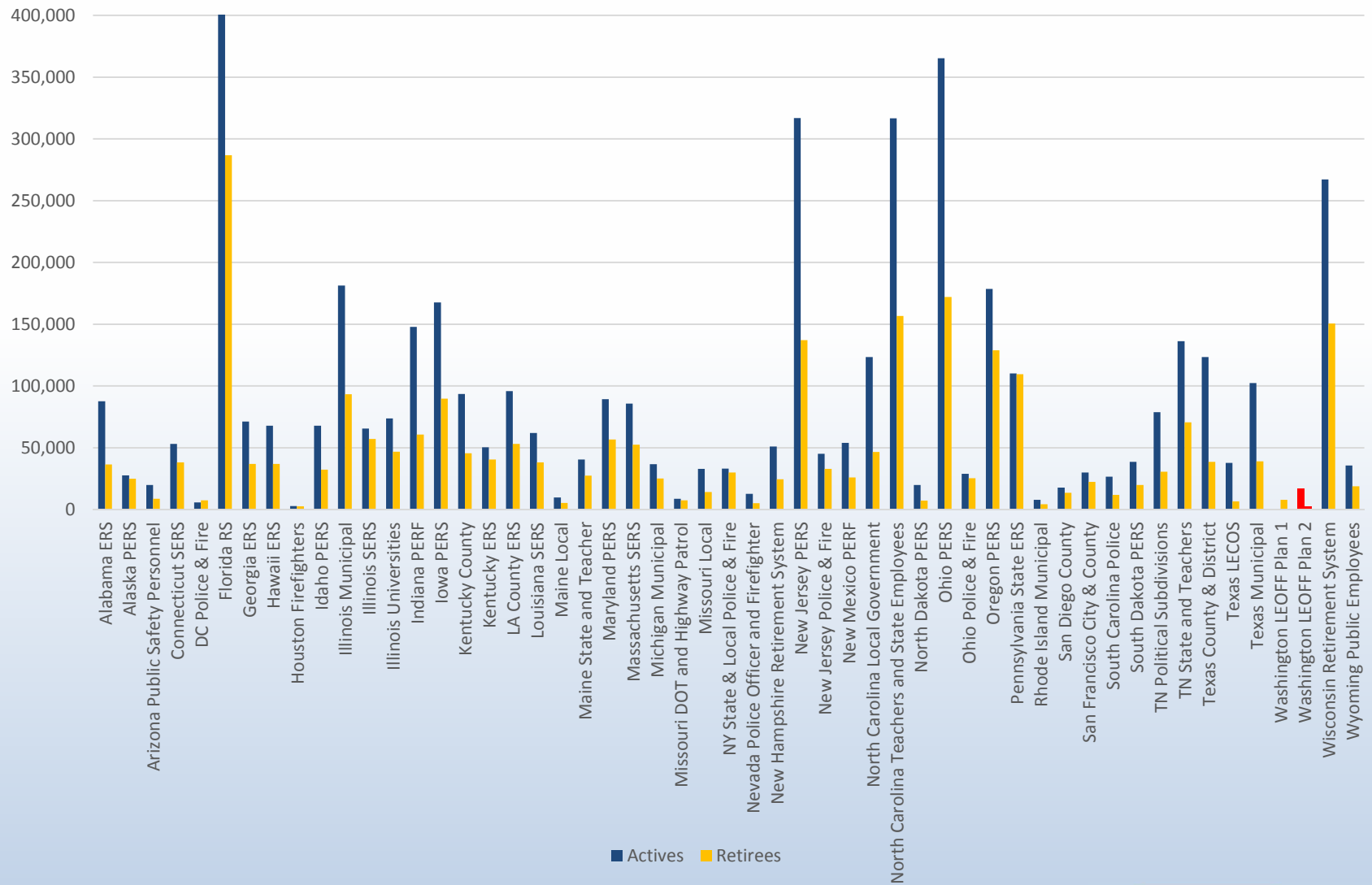
WSIPP Report

- WSIPP report was presented at December 12, 2012 Board meeting
- Focus of report
 - Benefit levels
 - Portability
 - Excess compensation

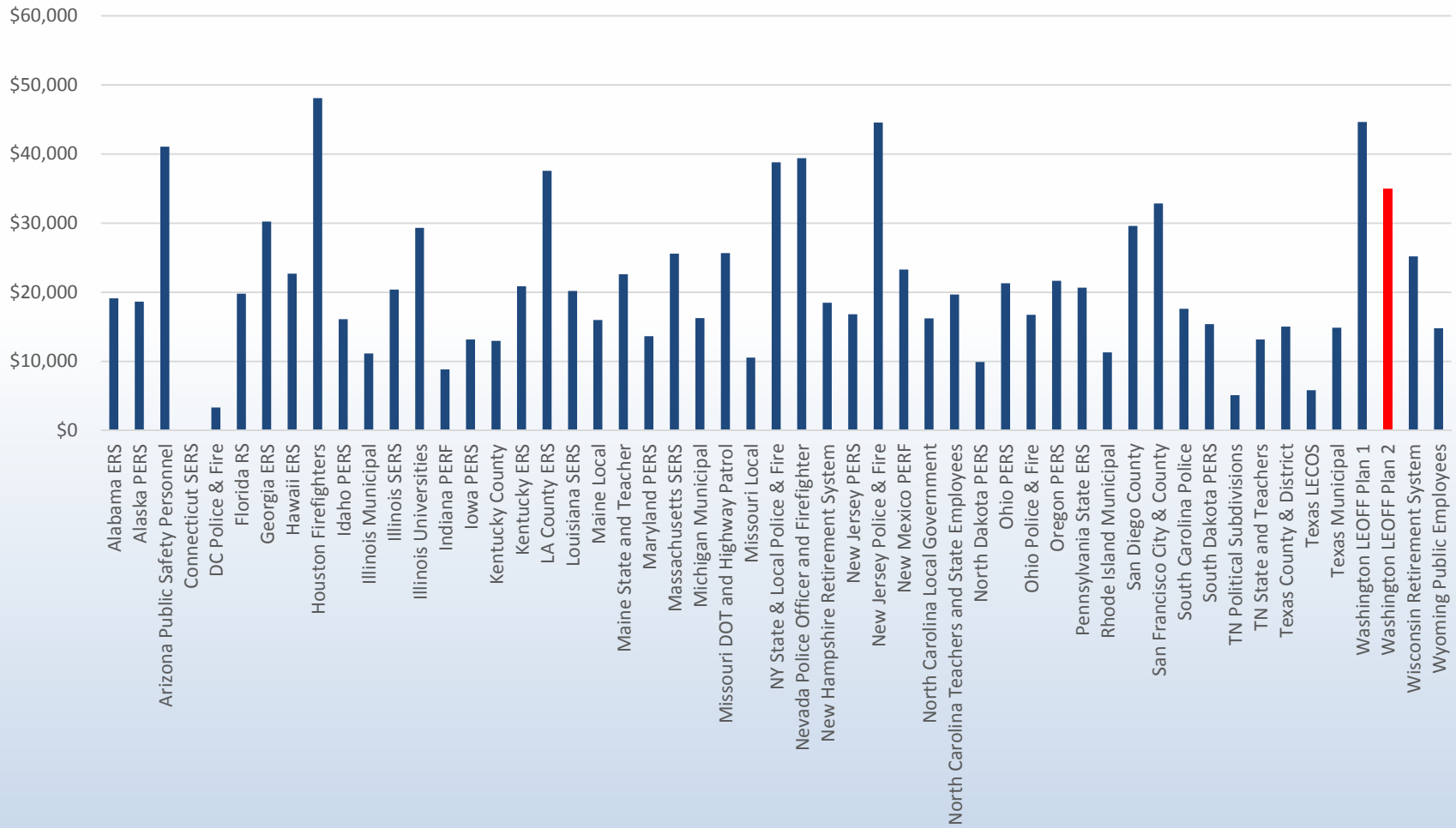
WSIPP Follow-Up

- Follow-up at the June 19th, 2013 Board meeting
 - Danger of judging plans on one factor
 - Further options were presented and approved

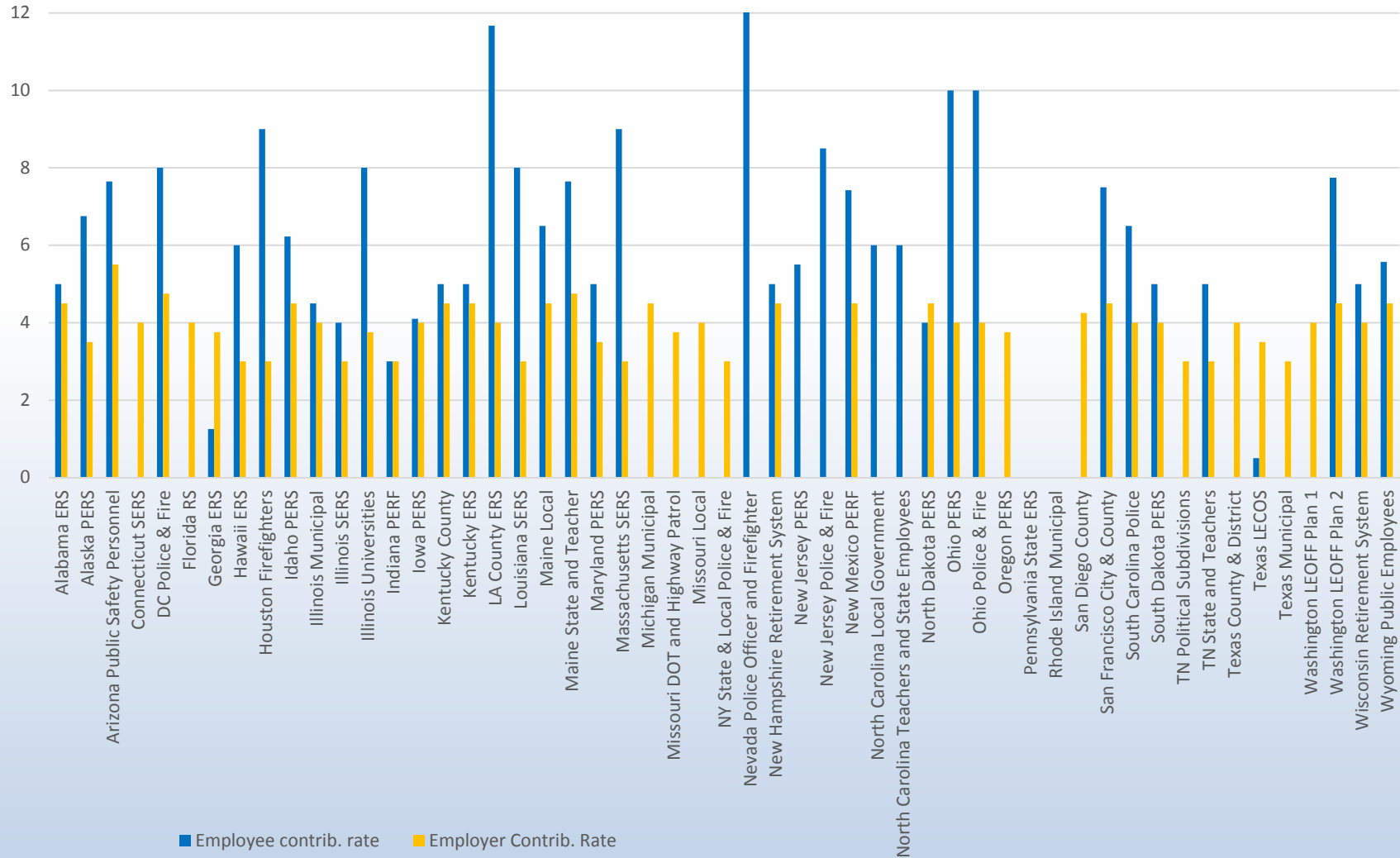
Appendix A: Membership by Plan



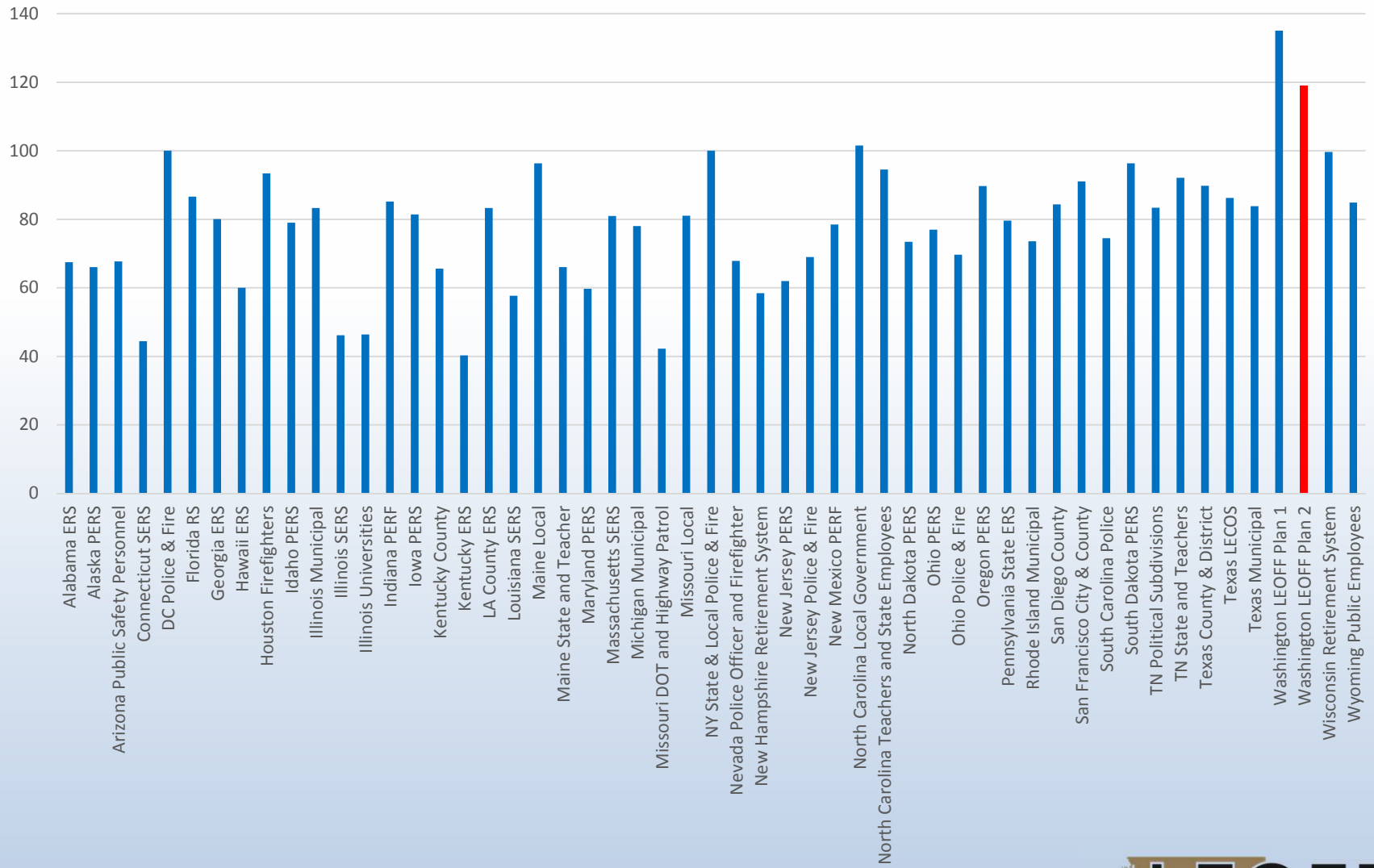
Appendix B: Average Yearly Benefit



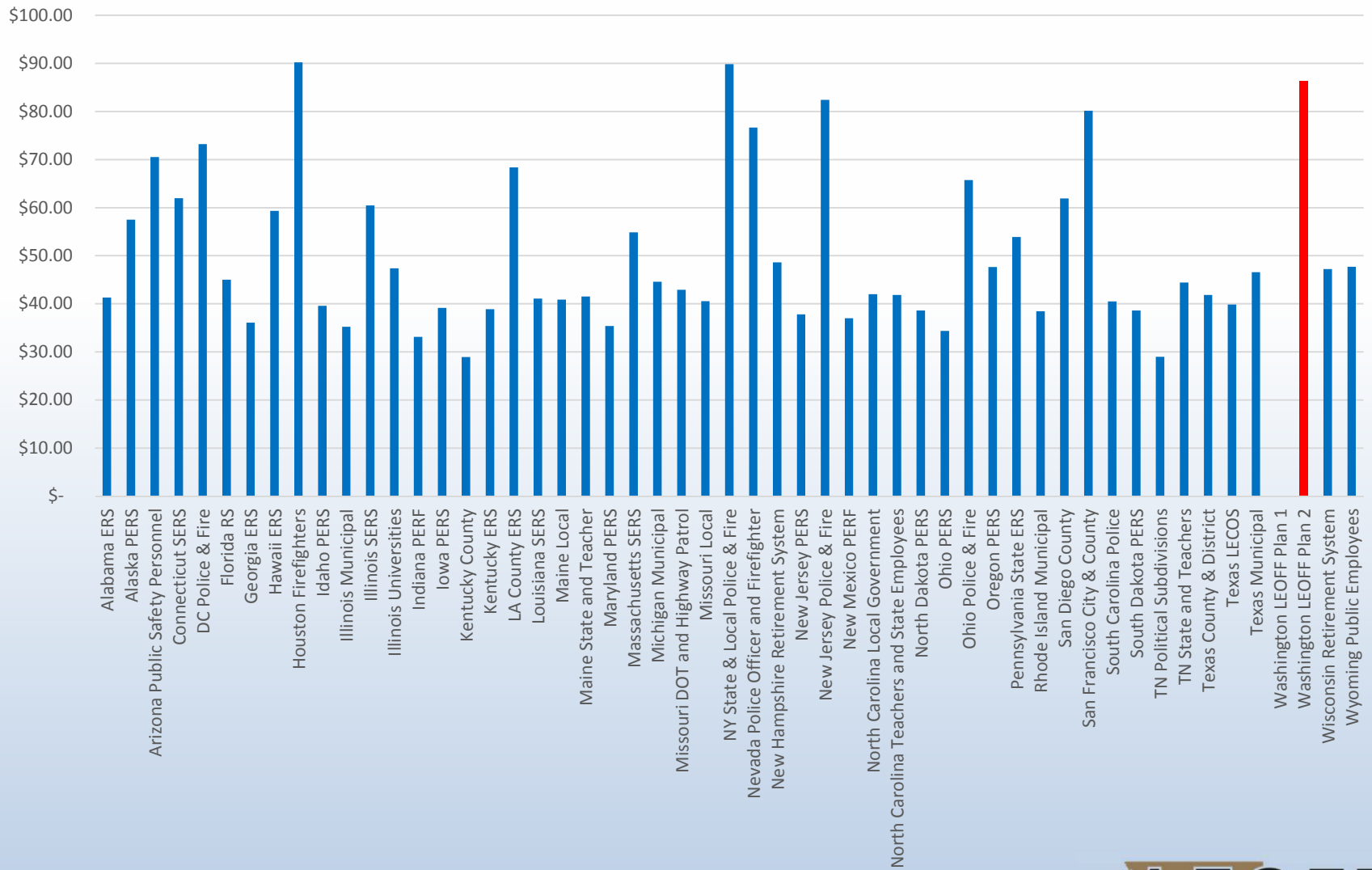
Appendix C: Contribution Rates



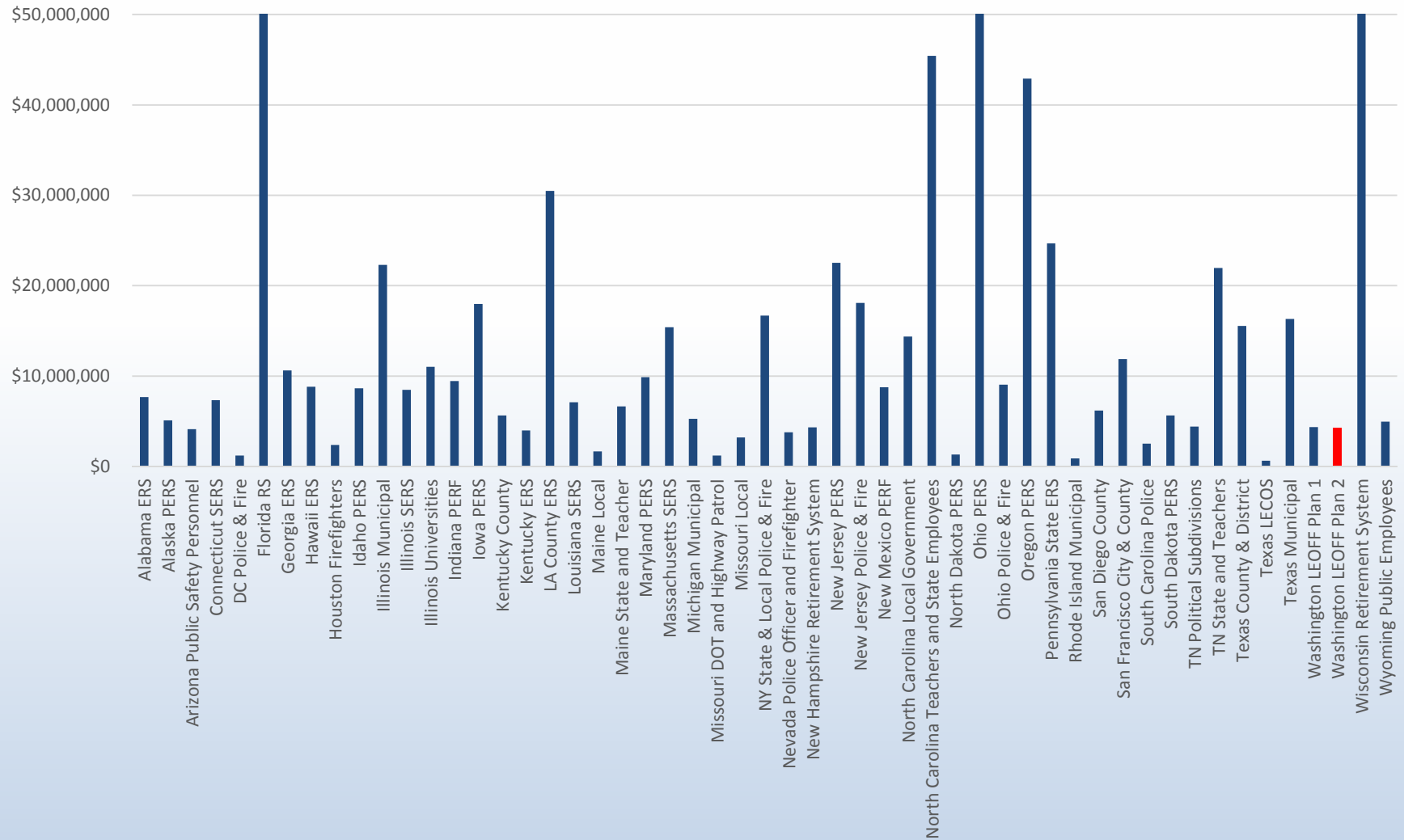
Appendix D: Funded Ratio



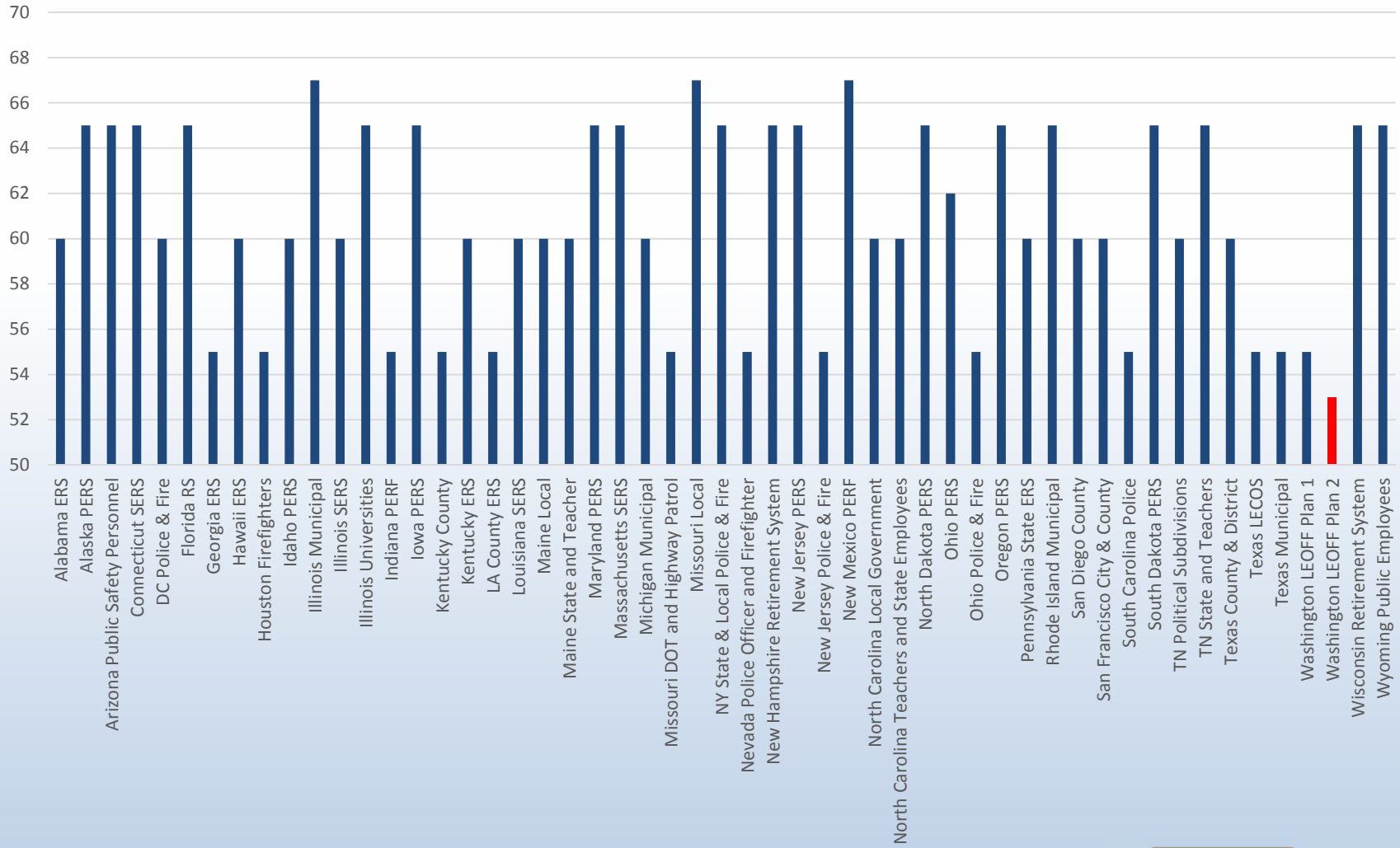
Appendix E: Average Salary (in thousands)



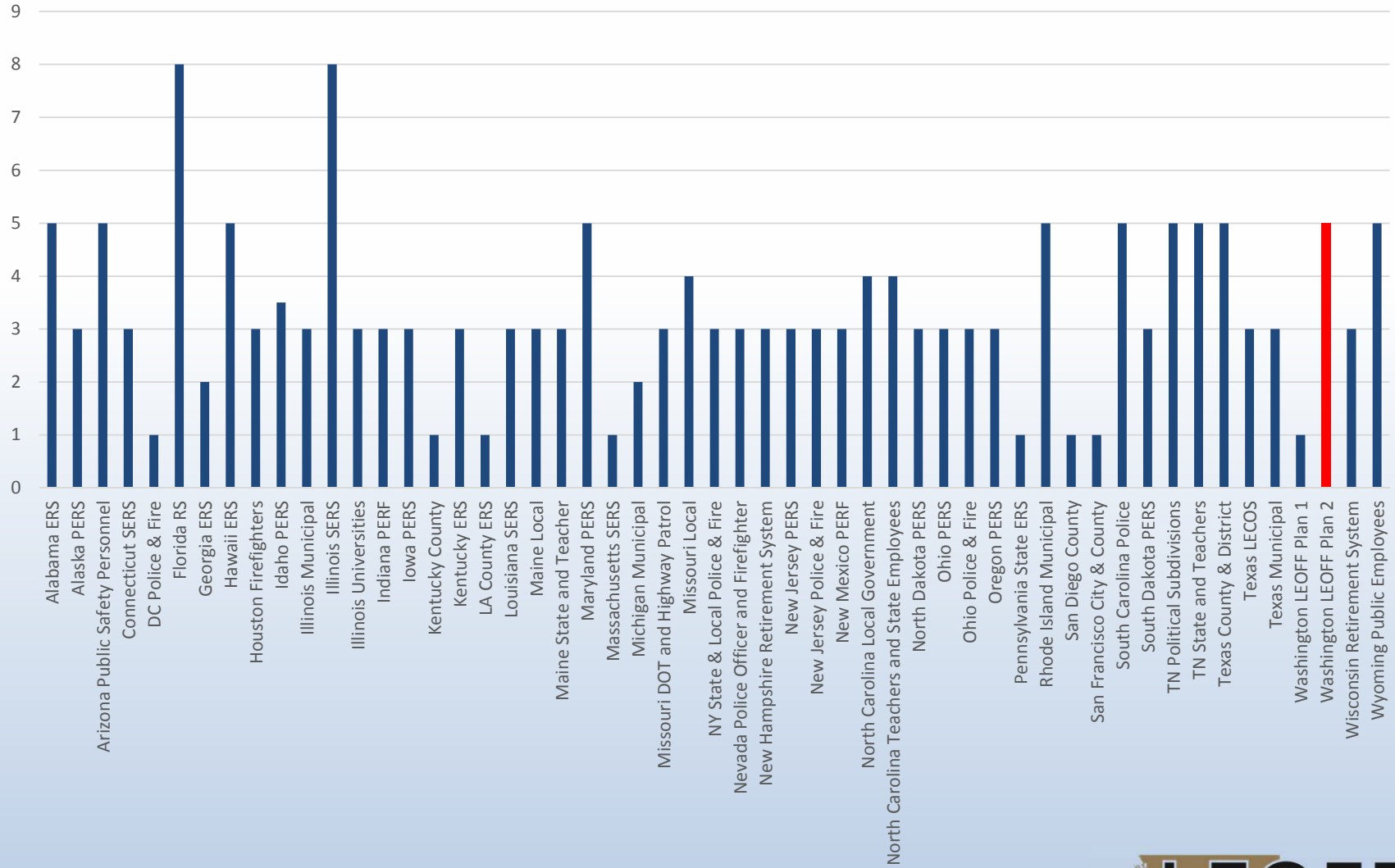
Appendix F: Market Assets



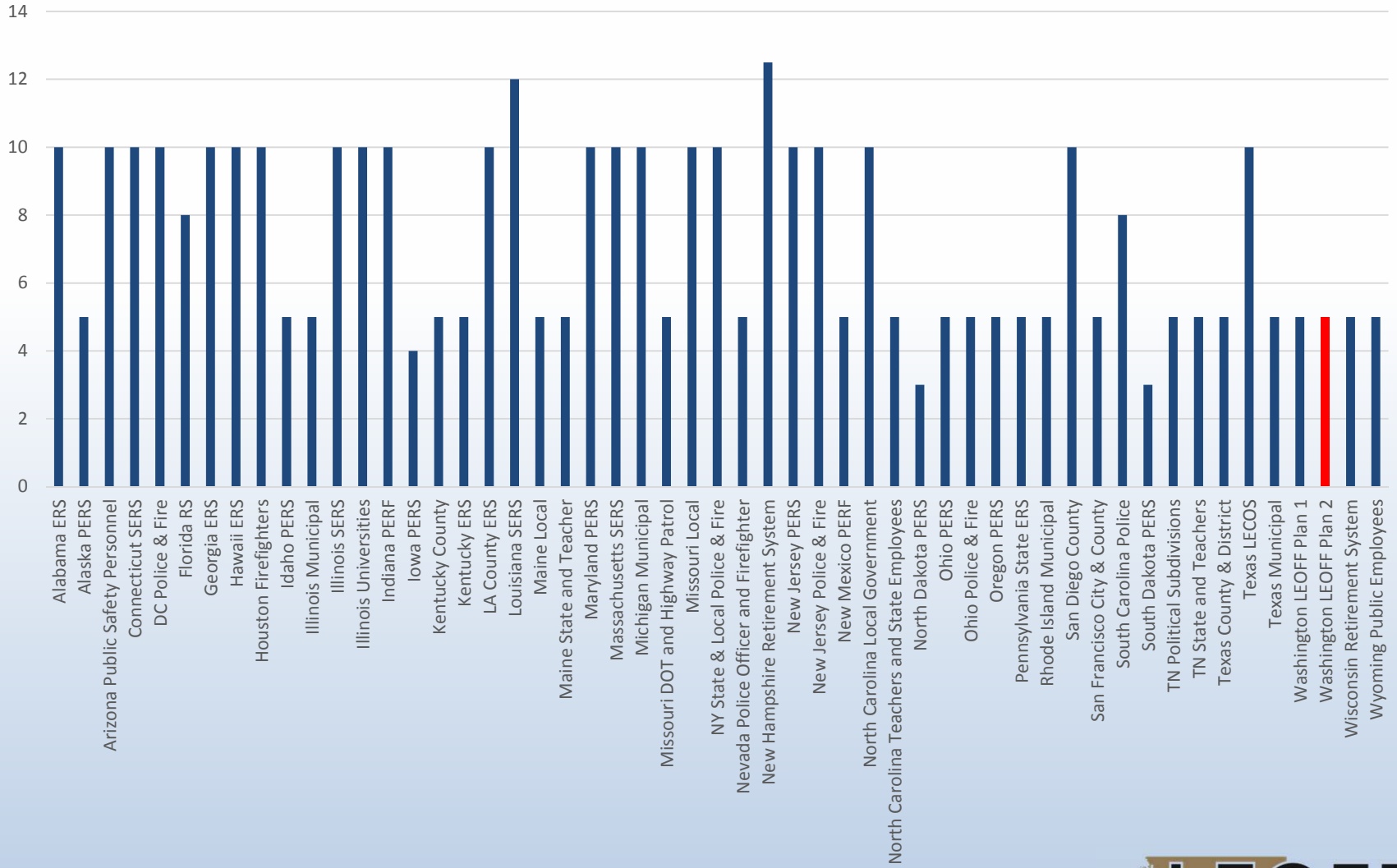
Appendix G: Normal Retirement Age



Appendix H: FAS Period



Appendix I: Vesting



Initial Findings

- Results that are particularly strong for LEOFF 2
 - Average annual benefit
 - 8th out of 53
 - Average salary
 - 3rd out of 53
 - Funded status
 - 2nd out of 53 (LEOFF 1 is 1st)
 - Low normal retirement age
 - 1st out of 53

Initial Findings Cont...

- Longer FAS period
 - Dwindles the risk of pension spiking
- Low retirement age
 - Ranked 1st out of 53 on age eligible to retire

Any Questions?

- **Contact:**

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Washington State Investment Board Report

Report Type:

Educational Briefing

Date Presented:

11/20/2013

Presenter Name and Title:

Allyson Tucker, Senior Investment Officer

Summary:

This presentation is a follow-up to the WSIB Annual Update presented at the August 2013 meeting. This presentation will provide more detail including asset allocations and asset classes. The presentation will also discuss capital market assumptions, volatility, and risk.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Goal 3 – Maintain the financial integrity of the plan.

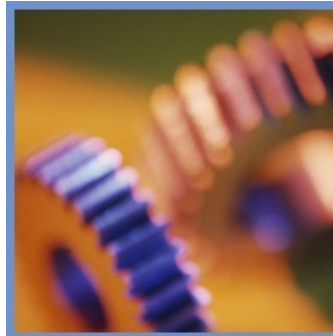
ATTACHMENTS:

Description	Type
 SIB Presentation	Report



**Washington State
Investment Board**

Presentation to the LEOFF Plan 2 Retirement Board



**Allyson Tucker, CFA
Senior Investment Officer
Risk Management and Asset Allocation
November 2013**



Overview



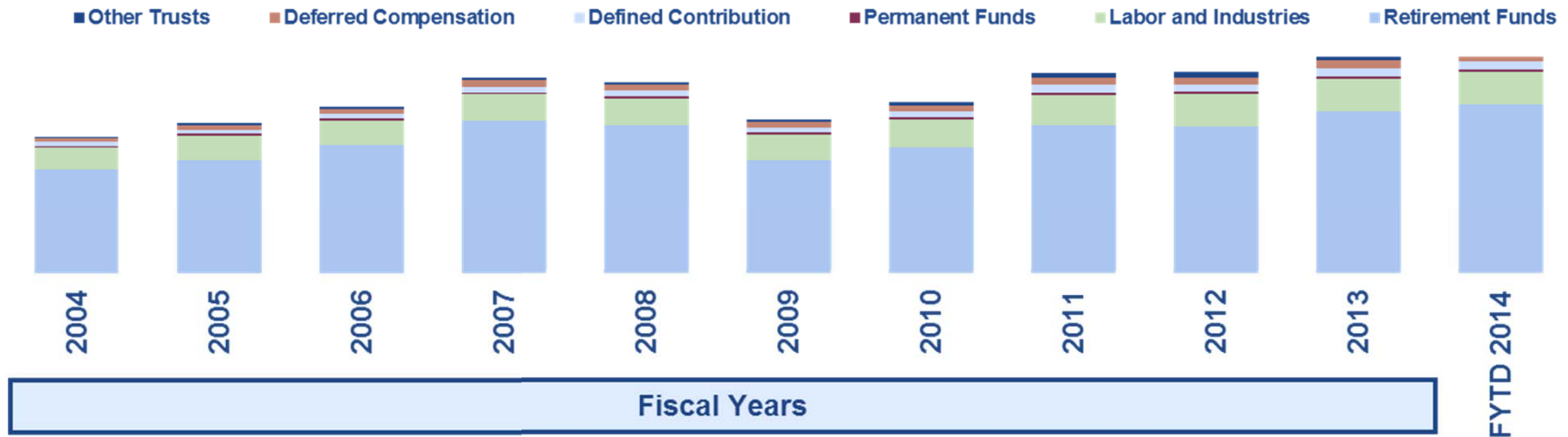
- ▣ **WSIB Stakeholder Assets Overview**
- ▣ **Commingled Trust Fund (CTF) Market Values, Allocation, and Returns**
- ▣ **Asset Allocation Overview**
 - ▣ **Why It's Important**
 - ▣ **Definition and Process**
 - ▣ **Key Considerations**
 - ▣ **Strategic versus Tactical Asset Allocation**
- ▣ **CTF Asset Class Overview**
- ▣ **Building Capital Market Assumptions (CMAs)**
 - ▣ **Role of CMAs**
 - ▣ **Definitions of Key Components**
 - ▣ **Building Blocks**
- ▣ **2013 CTF Asset Allocation Review**
- ▣ **CTF Volatility Over Time**
- ▣ **CTF Return and Risk in Comparison to Major Pension Funds**
- ▣ **Relevant Risks Outside CMA Framework**



Manage Key State Assets

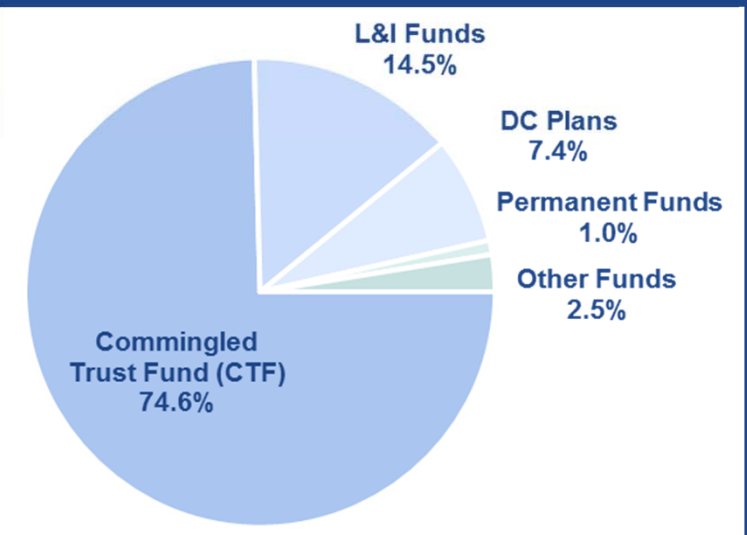
September 30, 2013

Past 10 Fiscal Years



Market Values and Allocation (in billions)

Commingled Trust Fund (CTF)	\$70.6	74.6%
L&I Funds	\$13.7	14.5%
DC Plans	\$7.0	7.4%
Permanent Funds	\$0.9	1.0%
Other Funds	\$2.4	2.5%
Total Assets Under Management	\$94.6	





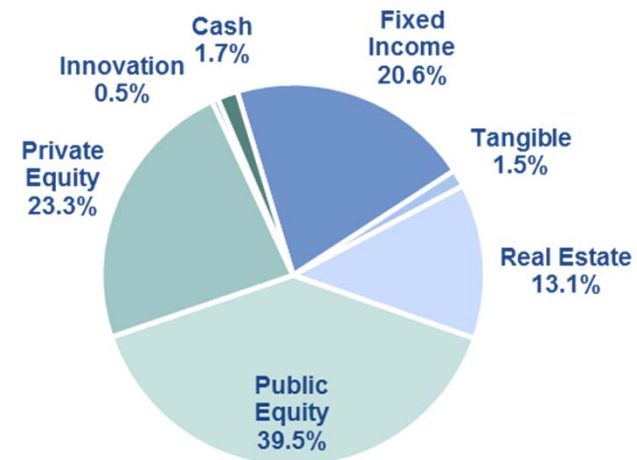
Commingled Trust Fund Market Values, Allocation and Returns

September 30, 2013

Historical Market Value (billions)



Actual Allocation



Historical Fund Returns



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	\$70,553,386,422	12.57%	10.20%	6.49%	8.41%
Fixed Income	\$14,499,964,971	-1.71%	3.24%	7.07%	5.58%
Tangibles	\$1,025,442,613	0.32%	3.05%	1.37%	N/A
Real Estate	\$9,209,226,634	13.03%	13.45%	0.81%	9.35%
Public Equity	\$27,840,025,921	19.39%	11.19%	8.44%	8.05%
Private Equity	\$16,410,498,256	16.54%	13.79%	6.81%	13.79%
Innovation	\$369,037,043	50.03%	6.21%	N/A	N/A
Cash	\$1,199,190,983	0.14%	0.15%	0.28%	1.77%

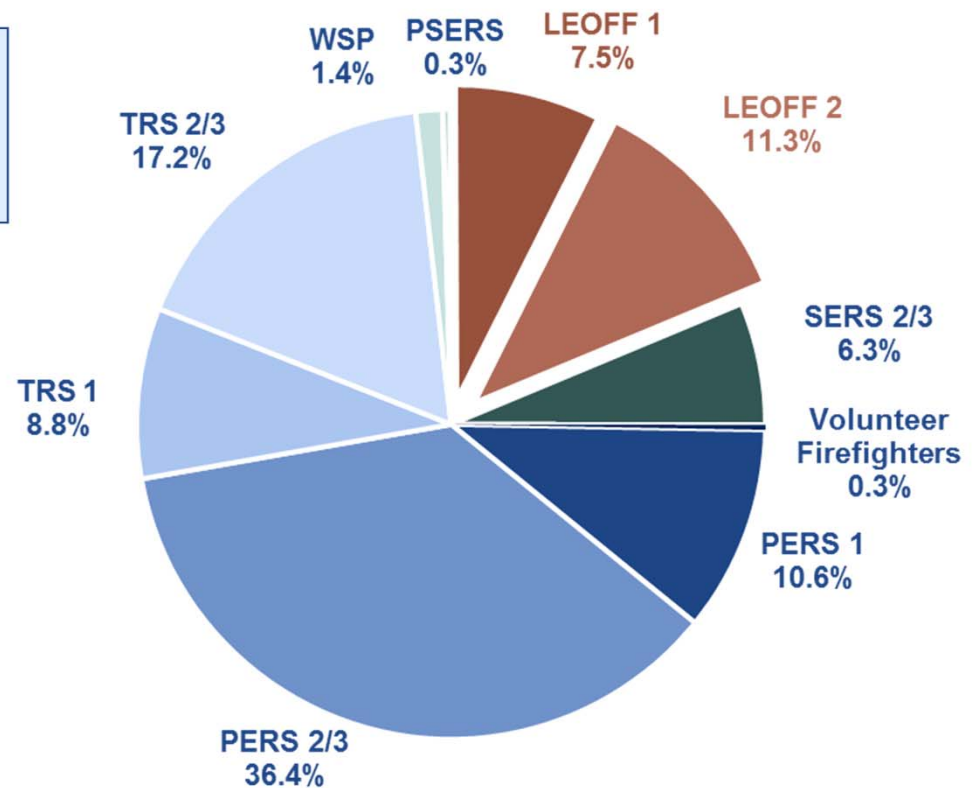


CTF Stakeholders and Asset Mix

The CTF has 17 stakeholder funds

- ▣ 14 Defined Benefit
- ▣ 3 Defined Contribution

CTF Assets
as of September 30, 2013
\$ 70.6 Billion





Why Is Asset Allocation Important?

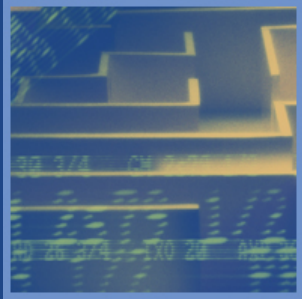


“Data from 91 large U.S. pension plans indicate that investment policy dominates investment strategy (market timing and security selection), explaining on average 93.6% of the variation in total plan return.”

Brinson et al. 1986



CTF Asset Allocation Definition and Process



Asset allocation is a term used to describe the process of dividing a portfolio among major asset categories such as bonds, stocks, or cash

The purpose of asset allocation is to construct a portfolio that has the highest level of return at a set level of risk through diversification – the concept of diversification is the foundation of a strategic asset allocation process

It is important to understand that asset allocation is a combination of art and science. There is no one right answer

The CTF Asset Allocation policy calls for a formal review at least every four years



Asset Allocation Key Considerations



Return Objectives

- ▣ Understanding of Program Goals

Risk Tolerance

- ▣ Volatility of Return
- ▣ Investment Risk

Other Considerations

- ▣ Time Horizon
- ▣ Liquidity Constraints
- ▣ Other Circumstances or Preferences



Strategic versus Tactical Asset Allocation



Strategic Asset Allocation

- ▣ A way to meet the goals of the fund under normal market conditions and over a full market cycle
- ▣ The predominant contribution to the variation in a fund's return comes from strategic asset allocation
- ▣ A longer term approach

Tactical Asset Allocation

- ▣ An attempt to take advantage of opportunities on a large scale when they appear
- ▣ Tactical asset allocation is an effort to beat the market over shorter time frames
- ▣ A more active approach



Retirement Commingled Trust Fund (CTF) Asset Classes



The CTF is currently invested in 7 asset classes

■ Fixed Income

- Invests in interest-producing debt securities with varying maturity, structure, and credit ratings
- Provides liquidity and diversification, in combination with other CTF assets, and strives to meet or exceed the performance of the Barclays Capital Universal Index

■ Tangible Assets

- Investments in four primary sectors: minerals and mining; energy; agriculture; and society essentials
- Focuses primarily on creating high-quality, long-term, stable income streams and on meeting or exceeding the return of CPI (inflation) + 4%

■ Real Estate

- Invests in commercial real estate properties (i.e., office, residential, retail, and industrial) primarily using a real estate operating company structure
- Focuses primarily on creating high-quality, long-term, stable income streams with a secondary goal of capital appreciation, and on meeting or exceeding the return of 8% over 10 years



Retirement CTF Asset Classes



■ Public Equity

- Invests in both publicly traded U.S. and non-U.S. equity passively and actively
- Investment goal is to exceed the performance of the MSCI All Country World Investable Market Index

■ Private Equity

- Invests in equity investments that are not listed on a public exchange, ranging from capital in start-up enterprises to leveraged buyouts of mature corporations. The investments are typically long-term commitments
- Investment goal is to exceed the performance of the Russell 3000 + 3%

■ Innovation

- Invests in investment ideas that fall outside the current asset class programs or priorities
- Investment goals customized for each investment idea

■ Cash

- Used to manage cash flows



Building Capital Market Assumptions (CMAs)



Role of CMAs

Definitions of CMAs Terms

- ▣ Return
- ▣ Risk
- ▣ Correlation

Developing a CMAs Recommendation

- ▣ Gather and examine consultant data
- ▣ Discuss and customize data to WSIB classes
- ▣ Perform scenario analysis

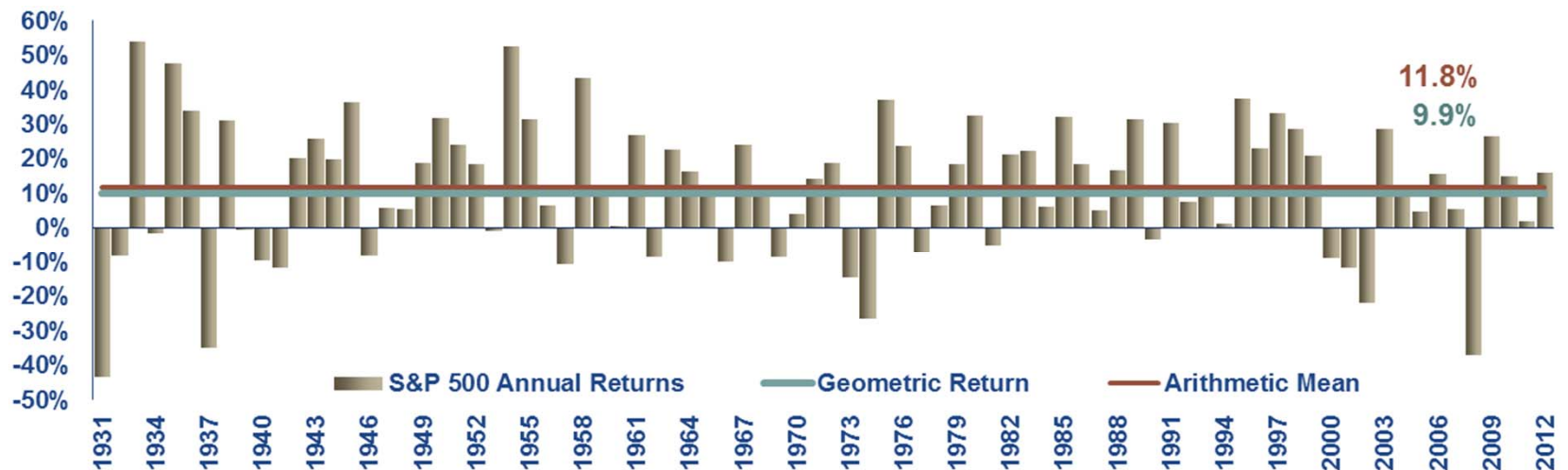


CMAAs – Return Defined

Return is an arithmetic mean, a simple average of the returns.
It is not the same as a geometric return shown on performance reports

It is usually derived from a combination of:

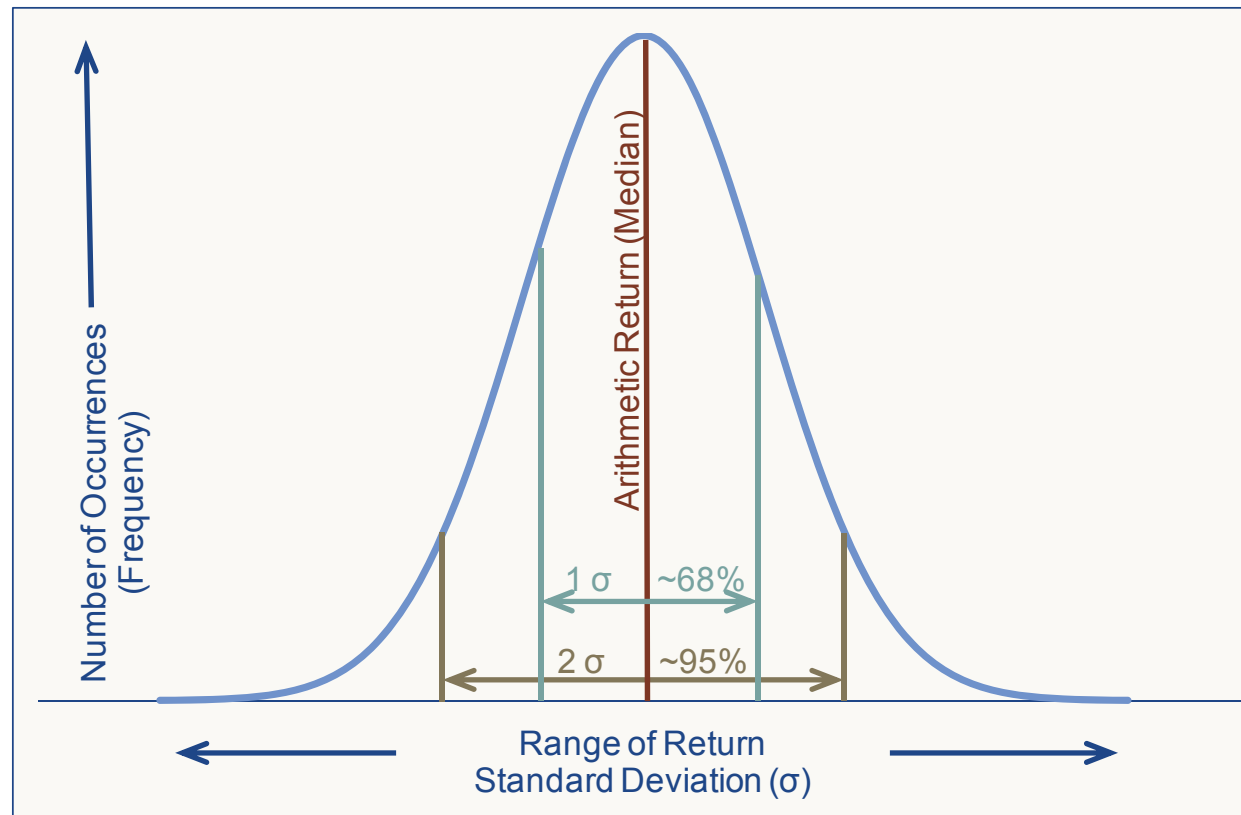
- ▣ Historical capital market data
- ▣ Current interest rates
- ▣ Market expectations for future inflation
- ▣ Other economic variables
- ▣ Traditional financial theory





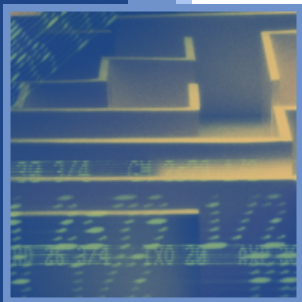
CMAs – Risk Defined

The risk number in CMAs only focuses on one type of risk—volatility (also called standard deviation), which measures how much the return moves, both upward and downward





Capital Market Assumption – Correlation Defined



Correlation is how the asset classes move in relationship to each other over a given time period. The correlation relationship is quantified into a number between one and negative one

- ▣ +1.0 means they have always moved in the same direction
- ▣ -1.0 means they have always moved in opposite directions

Assets that turn out to have a low correlation to each other create the most diversified portfolios

Correlation assumptions are usually derived by using historical data



Asset B has a positive correlation with Asset A as they are both moving in the same direction at the same time.



Asset C has a zero or low correlation with Asset A it is moving independently, sometimes with sometimes opposite Asset A.

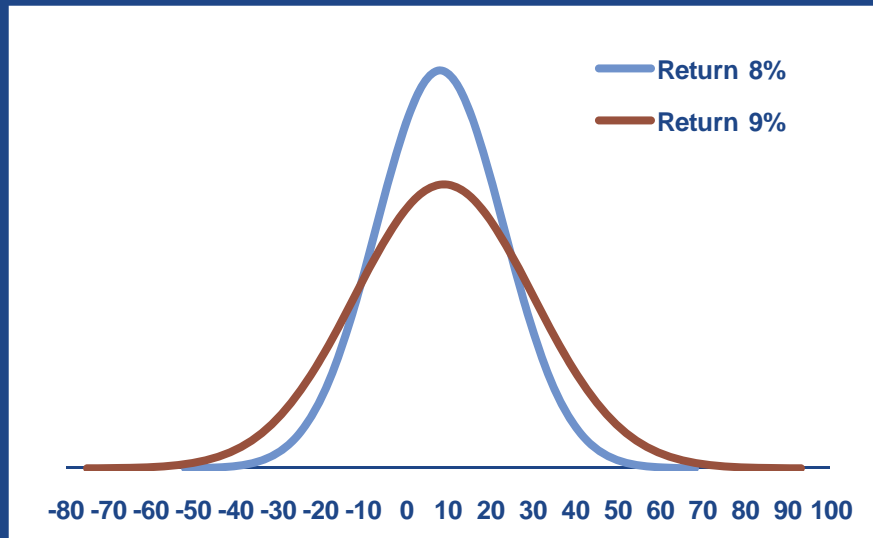


Asset D has a negative correlation with Asset A as it is moving in the opposite direction.



Return and Standard Deviation Together

Different Assumptions Same Geometric Return



Arithmetic return and standard deviation must be looked at together

An 8% arithmetic return with a standard deviation of 15% has the same geometric return as a 9% arithmetic return with a standard deviation of 21%

The arithmetic return is always equal to or higher than the geometric return



Developing CMAs



Process

- ❑ Gather a broad array of consultant expectations for asset class returns, risk, and correlations
- ❑ Compare to one another, compare to history
- ❑ Overlay staff views on the average generic asset class expectations
- ❑ Model and customize expectations for WSIB's specific asset class structure and views

Considerations

- ❑ Looking for reasonable expectations, not a perfect number
- ❑ Estimates contain subjectivity
- ❑ These are model inputs
- ❑ Models attempt to provide understanding of a complex system
- ❑ Models are always a simplification of reality

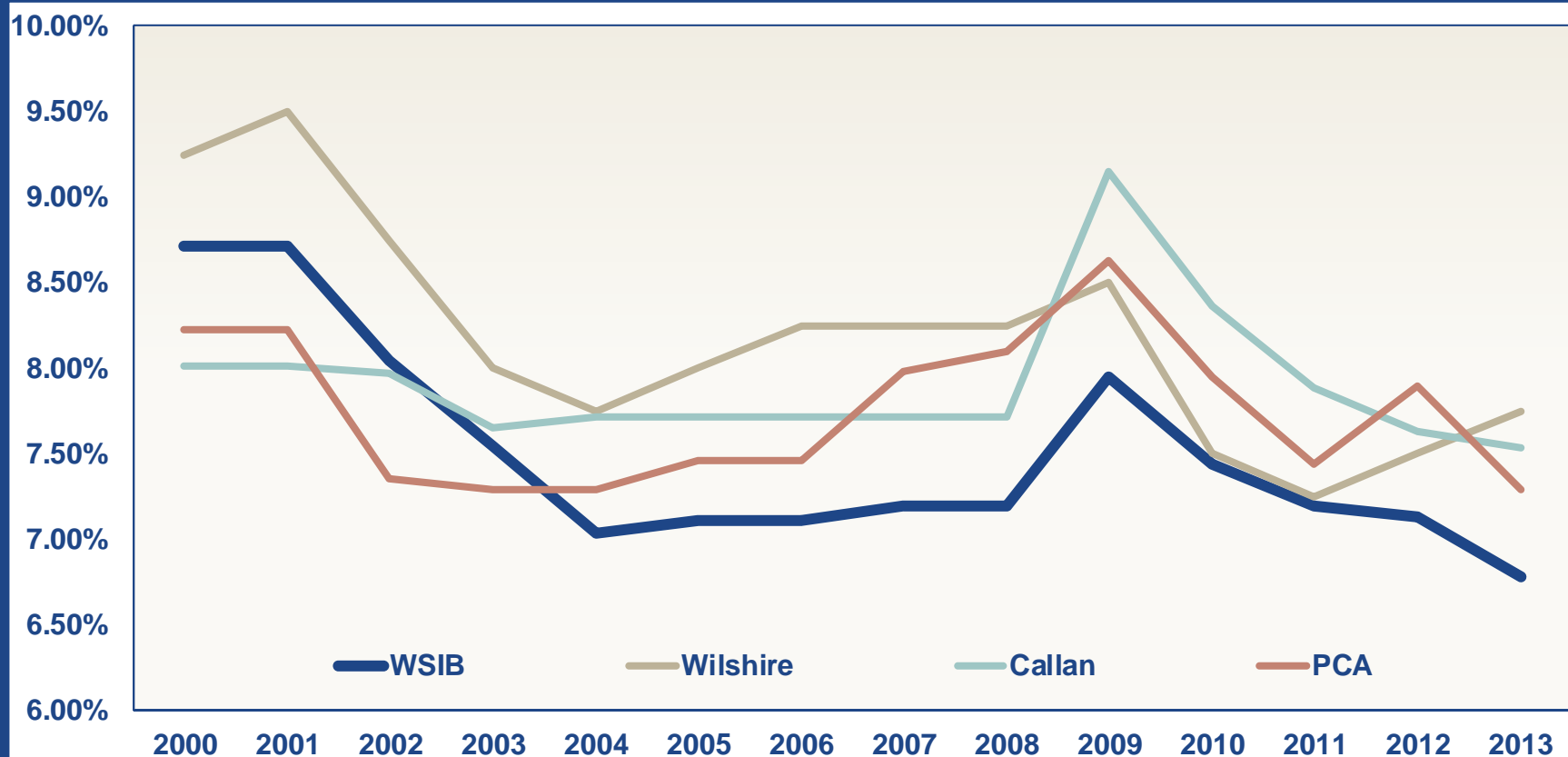


History and Comparison of the WSIB U.S. Equity Assumptions

WSIB U.S. Equity Capital Market Assumptions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Return	10.00%	10.00%	9.50%	9.00%	8.50%	8.50%	8.50%	8.50%	8.50%	9.25%	8.75%	8.50%	8.60%	8.25%
Risk	17.00%	17.00%	18.00%	18.00%	18.00%	17.50%	17.50%	17.00%	17.00%	17.00%	17.00%	17.00%	18.00%	18.75%

Comparison of the Geometric Return Assumptions



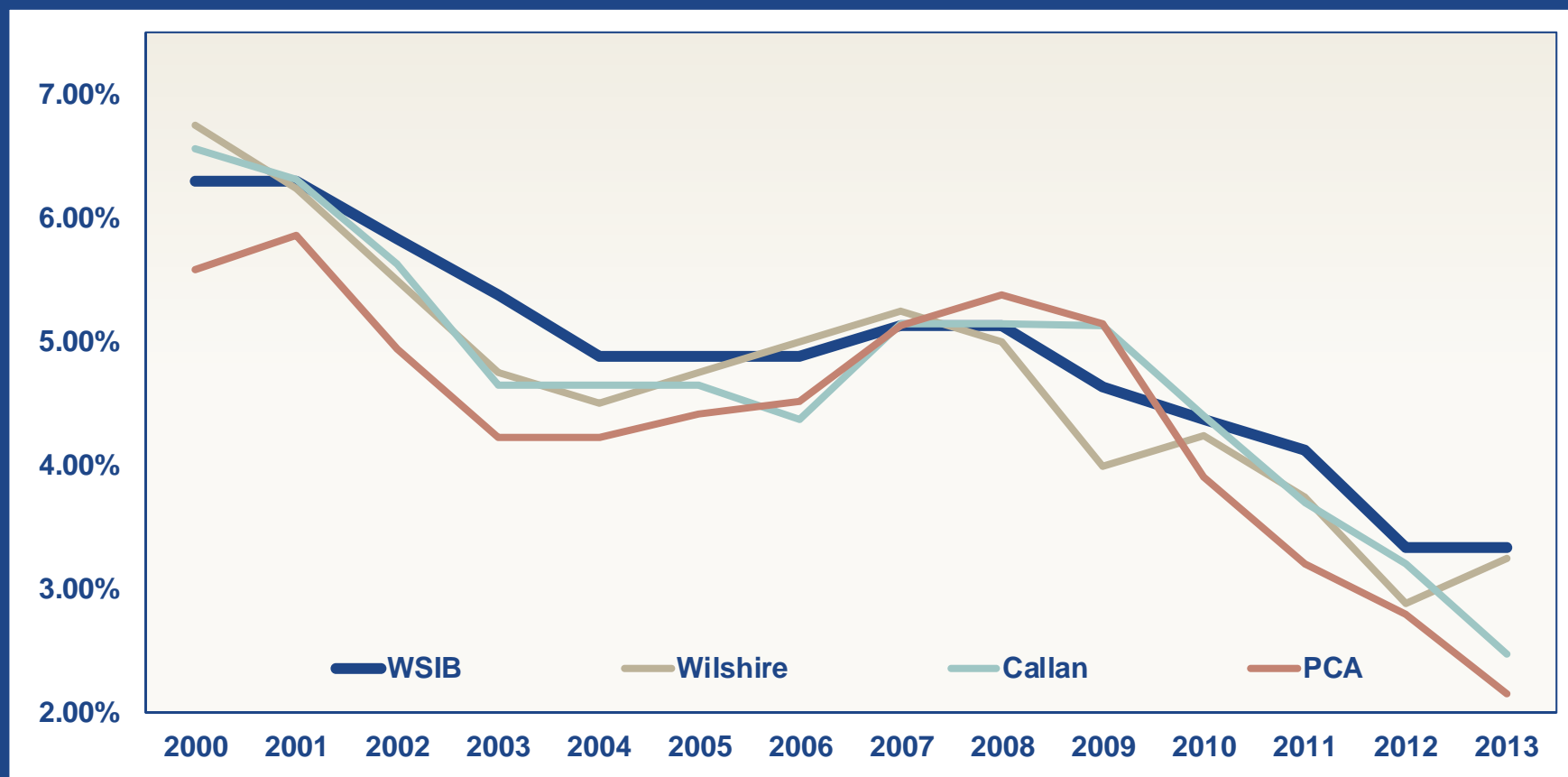


History and Comparison of the WSIB Fixed Income Assumptions

WSIB Fixed Income Capital Market Assumptions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Return	6.50%	6.50%	6.00%	5.50%	5.00%	5.00%	5.00%	5.25%	5.25%	4.75%	4.50%	4.25%	3.50%	3.50%
Risk	6.50%	6.50%	6.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	4.75%	5.00%	5.00%	5.75%	5.75%

Comparison of the Geometric Return Assumptions





WSIB 2013 Capital Market Assumptions

	Arithmetic Return	Standard Deviation	Geometric Return
TIPS	2.70	5.50	2.55
Fixed Income	3.50	5.75	3.34
Tangible Assets	6.80	7.30	6.55
Real Estate	8.00	15.50	6.90
Global Equity	8.75	18.50	7.21
U.S. Equity	8.25	18.75	6.67
Non-U.S. Equity	9.00	21.00	7.03
Private Equity	11.75	28.00	8.40
Cash	2.50	2.00	2.48
Inflation	2.70	1.75	2.70

Correlation	TIPS	Fixed Income	Tangible Assets	Real Estate	Global Equity	U.S. Equity	Non-U.S. Equity	Private Equity	Cash
TIPS	1.00								
Fixed Income	0.40	1.00							
Tangible Assets	0.35	0.25	1.00						
Real Estate	0.10	0.10	0.20	1.00					
Global Equity	0.00	0.15	0.15	0.47	1.00				
U.S. Equity	0.00	0.30	0.25	0.48	0.85	1.00			
Non-U.S. Equity	0.00	0.15	0.25	0.45	0.90	0.70	1.00		
Private Equity	0.00	0.20	0.25	0.40	0.70	0.75	0.70	1.00	
Cash	0.25	0.20	0.10	0.15	0.00	0.05	0.00	0.00	1.00



2013 CTF Strategic Asset Allocation Review



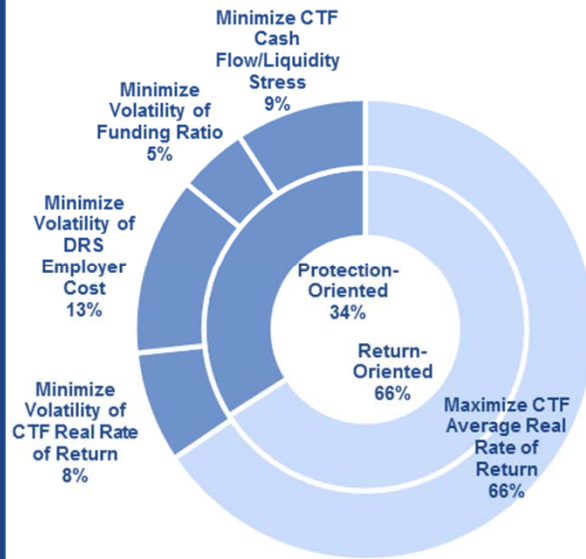
- Prior to the Board's adoption of the 2013 CTF Strategic Asset Allocation, the CTF asset allocation was last reviewed in 2009
- The Board spent considerable time over 14 months engaged in discussions about many aspects of the strategic asset allocation decision
- An asset allocation policy review encompasses both quantitative and qualitative aspects

Board Meeting	Topic	Asset Allocation Concept Addressed
July 2012	Discussion of Plans 1	Liabilities
	Discussion of DC Trends and Potential Impact to the CTF	Liabilities and liquidity
	CTF Scenario Analysis	Liabilities and liquidity
February 2013	Plan Risk Scenario Analysis	Liabilities and liquidity
April 2013	Capital Market Assumptions	Expected return, risk and correlations
May 2013	Portfolio Allocation Approaches - WSIB, Peers, and Others	Asset allocation strategy
July 2013	Expanded Capital Market Assumptions - Private Equity	Expected risk and return
	Fixed Income Market Outlook	Expected risk and return
	Expanded Capital Market Assumptions - Scenario Analysis	Expected risk and return
	CTF Asset Allocation Review, Modeling and Discussions	Comprehensive view of all concepts
	CTF Liquidity Discussion	Liabilities and liquidity
	Total Allocation Portfolio Discussion	Liabilities and liquidity
September 2013	Asset Allocation and Economic Scenarios	Expected risk and return by time horizon
	CTF Asset Allocation Recommendation	Comprehensive view of all concepts

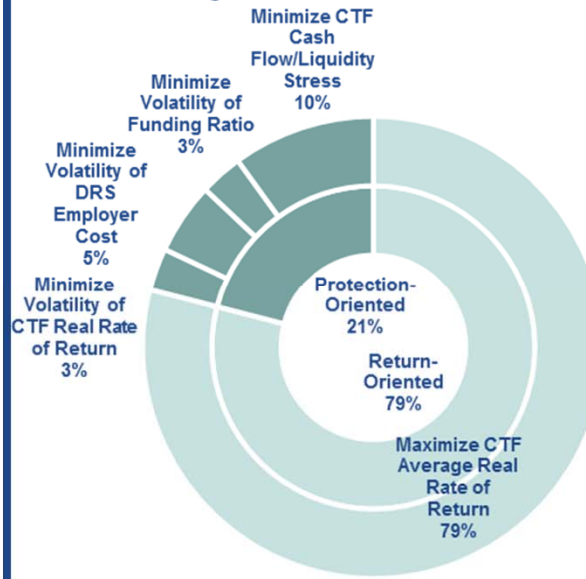


Determining the WSIB's Risk Tolerance – Quantitative Perspective

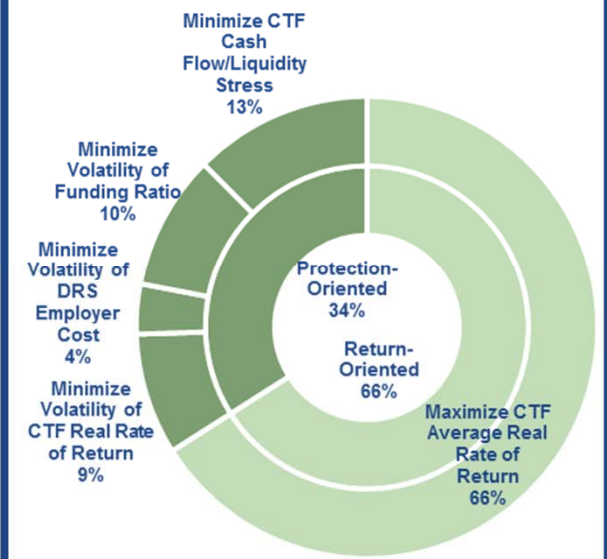
Voting Board Members



Non-Voting Board Members



Staff



	Fixed Income	Tangible Assets	Real Estate	Public Equity	Private Equity	Total
Optimal Portfolio	18.0%	5.0%	16.0%	36.0%	25.0%	100.0%



Determining the WSIB's Risk Tolerance – Qualitative Perspective



Two qualitative adjustments were made to the modeled result

Liquidity

- ▣ Given the Board's significant commitment to private market investments, maintain the target private-to-public market ratio of the CTF

Implementation

- ▣ Increase focus on innovative and proven real estate strategy
- ▣ Maintain the quality of the private equity program as the CTF continues to grow



2013 CTF Strategic Asset Allocation Recommendation



- ▣ Modest change to long-term targets from existing policy
- ▣ Policy range recommendation was unchanged
- ▣ In line with risk preferences expressed by the Board
- ▣ Approved by the Board in September, subject to policy and implementation schedule approval in November 2013

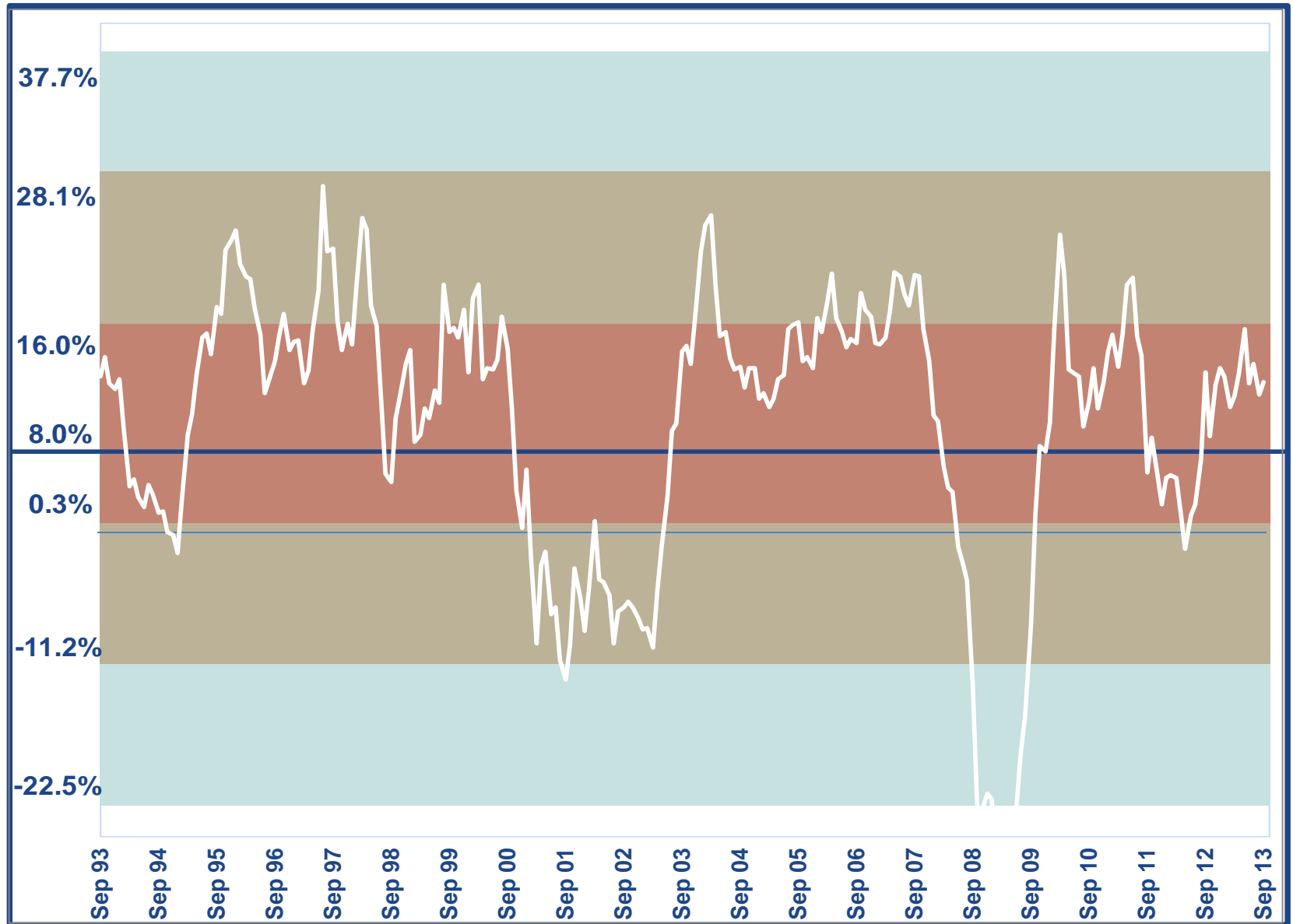
Asset Class	Actual Allocation*	Current Policy	Proposed Policy	Policy Range
Fixed Income	22.6%	20.0%	20.0%	+/- 4%
Tangible Assets	1.5%	5.0%	5.0%	+/-2%
Real Estate	13.6%	13.0%	15.0%	+/-3%
Public Equity	37.7%	37.0%	37.0%	+/- 5%
Private Equity	23.8%	25.0%	23.0%	+/- 4%
Innovation Portfolio	0.5%	0.0%	0.0%	+ 5%
Cash	0.2%	0.0%	0.0%	+ 3%

*As of June 30, 2013



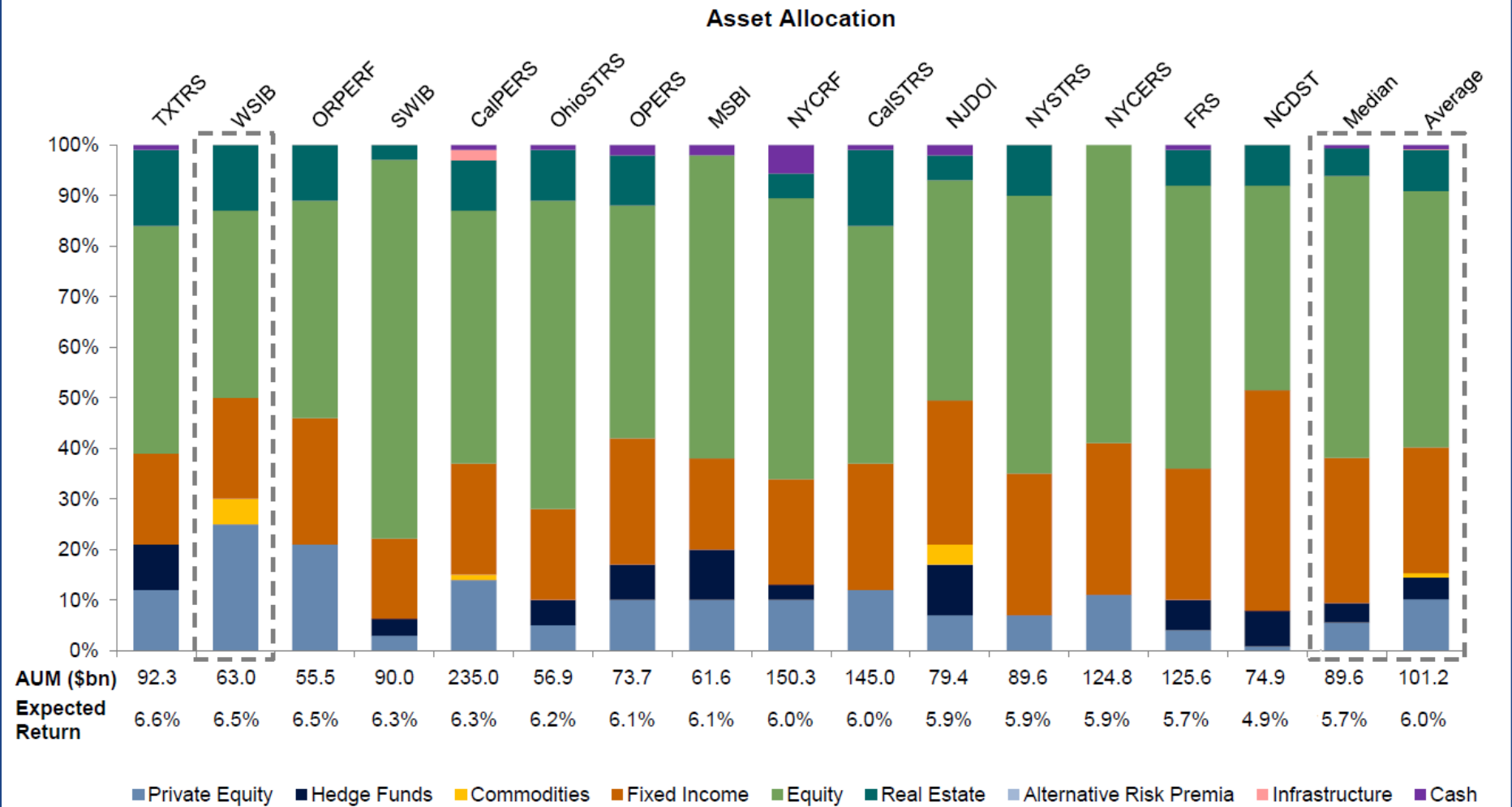
CTF Volatility Over Time

Rolling 1-Year Return



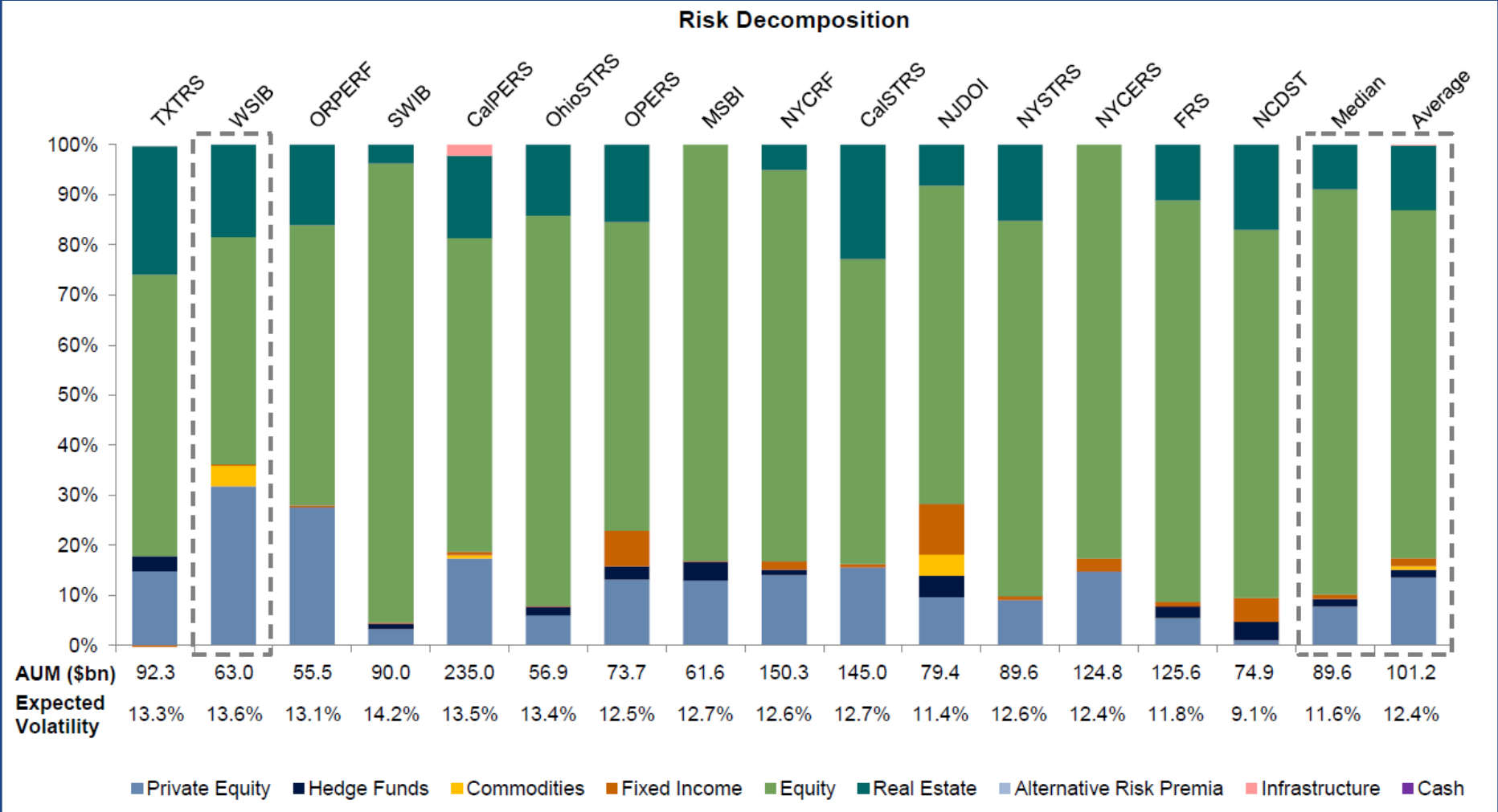


Expected Return Comparison Among Major Pension Plans





Expected Risk Comparison Among Major Pension Funds





Investment Risks Outside of CMA Framework



Risk must be acknowledged from multiple viewpoints, including both quantitative and qualitative views, and using multiple tools to improve relevance

Only some investment risks can be clearly defined and measured at the present time (or ever in some cases)



Primary Risk Types



Investment Risk

- ▣ Market Risk
- ▣ Leverage
- ▣ Liquidity
- ▣ Concentration Risk
- ▣ Credit Risk
- ▣ Interest Rate Risk
- ▣ Counterparty Risk

Assumption Risk

- ▣ CMAs
- ▣ Inflation
- ▣ Liability Assumptions
- ▣ Contribution Assumptions
- ▣ Benefit Assumptions

Plan Risk (the risk of having insufficient assets to pay benefits when required)

- ▣ Funded Ratio
- ▣ Contribution Stability
- ▣ Contribution Level



Contact Information



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Final Average Salary Protection, Comprehensive Follow-up

Report Type:

Comprehensive Report Follow-up

Date Presented:

11/20/2013

Presenter Name and Title:

Ryan Frost, Research Analyst

Summary:

Follow up on options for protecting final average salary of employees who were forced to take furloughs or salary reductions due to budget pressures on or after July 1, 2013.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Goal 1 – Enhance the benefits for the members.

ATTACHMENTS:

Description		Type
<input type="checkbox"/>	FAS Protection	Report
<input type="checkbox"/>	FAS Protection	Presentation



November 20, 2013

FINAL AVERAGE SALARY PROTECTION

COMPREHENSIVE REPORT

By Ryan Frost

Research Analyst

360-586-2325

ryan.frost@leoff.wa.gov

ISSUE STATEMENT

Members' retirement benefits will be reduced if "temporary salary reductions" after July 1, 2013 occur during their Final Average Salary (FAS) period.

OVERVIEW

There are 16,720 active members in LEOFF Plan 2 according to the *2012 Actuarial Valuation Report*. FAS protection affects only those active members who plan to retire within the next 5-7 years, and who are furloughed during their FAS period.

BACKGROUND & POLICY ISSUES

Furloughs are a method used for reducing salary and saving costs and have been utilized by employers during the recent economic downturn. These reductions can take many forms and may be either voluntarily or involuntarily unpaid leave (furlough), a temporary reduction in salary, or the loss of previously negotiated raises.

A member's benefit is calculated using the formula; 2 percent, times FAS times years of service (YOS). If a member's salary is reduced during their FAS period, it lowers their FAS, and thus lowers their benefit. Final average salary calculations were legislatively protected from being impacted by furloughs for 2009-2011 and 2011-2013. That protection ended July 1, 2013.

This report defines furloughs and why they were enacted, as well as the issue they present to an employees' pension. Furthermore, this report gives a detailed legislative history of furlough protections for employees currently in their FAS period. Lastly is a brief discussion of lifetime impacts if these protections are not renewed by Legislative action.

In today's economic environment many local and state governments are facing revenue shortfalls. There may be some public service programs discontinued or restricted and there may be some employee layoffs as a result of budget restrictions. In order to balance budgets, many state and local governments, as an alternative to layoffs, are considering many ways to decrease costs.

Furloughs, a leave of absence without pay, are one method currently being used by many public employers. One advantage of using furloughs versus layoffs is employees are not terminated, yet there is a cost savings as the time off is without pay. Also, when the economy recovers there is no need to rehire and retrain the workforce. However, there are some potential negative impacts with the use of furloughs. One impact it could have is on a member's pension calculation if the furlough were to occur during the member's final average salary (FAS) period.

The LEOFF 2 Board has previously studied this issue in the 2005, 2009, and 2010 interims.

Legislative History

The Legislature has taken several actions to prevent these decreases from reducing pensions, however, the legislative protection for final average salary computations ended July 1, 2013. Legislation introduced to extend final average salary protections through 2013-2015 did not pass in the 2013 session.

2009 Session – PERS Provided Protection for 2009-2011

During the 2009 Legislative Session, the Legislature recognized the potential impacts to a members pension benefit through the use of furloughs to help balance budgets. As a result, the Legislature passed SB 6157 (see Appendix B to see a copy of the final bill report) which allowed the pension benefit calculation to be adjusted for furloughs if the furlough occurred during the member's FAS period. While this did address the problem, it only included the Public Employees' Retirement System (PERS) pension system. Members of the other retirement systems, including LEOFF Plan 2, would not be granted the same benefit calculation adjustment. This difference in policy led the Board to send a letter to the Select Committee on Pension Policy (SCPP) to jointly sponsor legislation similar to SB 6157.

2010 Session – State Employees Provided Protection for 2009-2011

State agencies were directed to achieve a \$69.154 million reduction in employee compensation costs from the near General Fund through mandatory and voluntary furloughs, leave without pay, reduced work hours, voluntary retirements and separations, layoffs, and other methods. (SSB 6503 – 2010). The legislation acknowledged that State agency closures would result in temporary layoff (furlough) and reduction of compensation for affected state employees and directed that temporary layoffs and reduction in compensation not affect employee seniority, vacation and sick leave accrual, or retirement benefits.

In a special session in December of 2010, the Legislature passed HB 3225 (Appendix C), which added "temporary reduction in pay implemented prior to the effective date of this section" as another item to include in adjusting the calculation of final average salary for members whose retirement benefits may be adversely affected by the temporary economic conditions. However, like the previous bill (SB 6503) this change also only includes members employed by a state agency or institution which excludes most of the LEOFF Plan 2 membership.

2011 – State Employee and Local Government Provided Protection for 2011-2013

The 2011 Legislative Session addressed the problem of FAS protection only covering state employees by adding protection for local government employees as well in HB 2070 (Appendix D). The final bill report summarized that “Pensions from specified Washington retirement systems based on salaries earned during the 2011-13 biennium will not be reduced by compensation forgone by a member employed by either the state or local governments due to reduced work hours, mandatory leave without pay, temporary layoffs, or reductions to current pay if the measures are an integral part of a state or local government employer's expenditure reduction efforts.”

Lifetime Impact

The intent of FAS protection was so that state employees who helped during the period of economic difficulty wouldn't be punished for life for doing so. Taking a salary cut during their FAS period would affect their annual pension after retirement. People helping shouldn't take a lifetime reduction in pension as a result of a temporary budget issue.

Fiscal Year vs. Calendar Year Impacts

The State Legislature works on biennium while local governments work on a calendar year or annual basis. The FAS protections from the 2011-2013 biennium expired on July 1st, 2013. There may be a period from July through December 2013 where employees are subject to furloughs but do not have final average salary protection. Extending protection through the 2013-2015 biennium would be necessary to protect retiree employees' pension benefits.

POLICY OPTIONS

Option 1: Take No Action

The Board would take no further action and employees who are furloughed during their FAS period would continue to face reductions in their retirement.

Option 2: Introduce Legislation that Extends Protections

The Board would introduce a bill that would extend the FAS protections for employees described in HB 2070 into the 2013-2015 biennium.



Final Average Salary Protection

**Comprehensive Report
November 20, 2013**

Issue

- Members' retirement benefits will be reduced if "temporary salary reductions" after July 1, 2013 occur during their Final Average Salary (FAS) period

Background

- Furloughs are methods for handling a short-term economic or budget problem
- Creates the potential for a reduction in a member's pension benefit calculation if the salary reduction occurs during the FAS period

Background

- Series of Legislative actions between 2009-2013 that led to this issue
- HB 2070 created protections for all state and local Gov. employees

Policy Options

- **Option 1: Take No Action**
 - The Board would take no further action and employees who are furloughed during their FAS period would continue to face reductions in their retirement
- **Option 2: Introduce Legislation that Extends Protections**
 - The Board would introduce a bill that would extend the FAS protections for employees described in HB 2070 into the 2013-2015 biennium

Any Questions?

- **Contact:**

Ryan Frost

Research Analyst

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Career Change, Comprehensive Follow-up

Report Type:

Comprehensive Report Follow-up

Date Presented:

11/20/2013

Presenter Name and Title:

Paul Neal, Senior Legal Counsel

Summary:

The Board initially considered the unintended use of the Career Change law to allow a LEOFF Plan 2 retiree to return to work as a law enforcement officer and still draw his pension in August. Options were presented in a follow-up meeting in September. The Board requested additional information on options.

Those options are discussed further here: 1) closing loophole allowing LEOFF 2 retirees to return to work in "part-time" LEOFF positions; 2) Allowing the reemployment of LEOFF 2 retirees in defined circumstances; 3) Allowing reemployment of LEOFF 2 retirees without limitation.

Strategic Linkage:

This item supports the following Strategic Priority Goals:

Goal 3 – Maintain the financial integrity of the plan. , Goal 4 – Inform the stakeholders.

ATTACHMENTS:

Description	Type
☐ Career Change	Report
☐ Career Change	Presentation

COMPREHENSIVE REPORT FOLLOW-UP

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ISSUE

Abuse of “Career Change” legislation could undermine public trust that the plan is responsibly designed and professionally managed.

MEMBERS IMPACTED

Two hundred sixty-five LEOFF Plan 2 retirees have utilized the provisions of the career change law since its inception in 2005¹. Assuming utilization continues at the same rate, a similar number of members would be impacted by any changes to the law. The public trust issues implicated by manipulation of the original bill impact all LEOFF Plan 2 members.

OVERVIEW

Purpose of Follow-up

This report follows-up on the September 25th Board presentation. Three options were presented at that meeting. The Board requested further information on two of those options: 1) Restricting the career change legislation to ensure LEOFF Plan 2 retirees could not return to work as law enforcement officers or firefighters and continue to receive their LEOFF 2 pension; and 2) Expressly allow that situation, with possible limitations on the allowable circumstances.

Background Summary

Before 2005 a LEOFF Plan 2 retiree’s pension stopped upon return to work in a job covered by any state-wide public retirement system. The LEOFF Plan 2 Board (Board) recognized members could age out of LEOFF positions before they were ready or could afford to leave the workforce. The Board proposed Career Change legislation in 2005 enabling retired LEOFF Plan 2 retiree 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 continuing to receive a pension.

¹ Data on career change usage from report produced by DRS.

The Board intended to facilitate transition from a physically demanding profession to another, often less-well compensated, job. The average annual compensation of LEOFF Plan 2 retirees returning to work under the career change law was \$28,268¹. It did not intend to enable LEOFF Plan 2 retirees to return to work as a law enforcement officer or firefighter and continue to receive their pension. The Legislature passed the LEOFF Plan 2 Career Change bill in 2005.

The City of DuPont recently utilized an unintended loophole in the Career Change legislation to hire a LEOFF Plan 2 retiree as police chief and continue his pension. Although DuPont's former police was a full-time employee covered by LEOFF, DuPont found a way to ostensibly place their new Chief, a LEOFF Plan 2 retiree, outside of LEOFF. The City did this by redefining the position as "part-time," i.e. 35 hours a week. The sole reason for this action was to move a law enforcement officer position into PERS to take advantage of the Career Change legislation.

This report will explain the difference between the Board's Career Change policy and the retire-rehire policy in PERS and TRS; identify unintended consequences of the Career Change law, explain how the loophole works, and discuss media reaction to DuPont's utilization of that loophole.

BACKGROUND INFORMATION & POLICY ISSUES

When creating LEOFF Plan 2 in 1977, the Legislature prohibited members from receiving a pension while engaged in retirement system covered employment. If a LEOFF Plan 2 retiree entered public employment covered by LEOFF, the Public Employees' Retirement System (PERS), or the Teachers' retirement system (TRS), that member's pension would be suspended. Over subsequent years the suspension requirement was expanded to include employment in positions covered by the School Employees' Retirement System (SERS) or the Public Safety Officers' Retirement System (PSERS). RCW 41.26.500.

CAREER CHANGE VS. RETIRE-REHIRE

The LEOFF Career Change bill is sometimes confused with retire-rehire provisions governing PERS and TRS. Retire-rehire was enacted in 2001 and has been in the news, and before the Legislature, repeatedly since then. The retire-rehire law was intended to allow PERS and TRS retirees to supplement their pensions by working in part-time or temporary positions. Current retire-rehire provisions allow PERS and TRS retirees to work 867 hours per year while collecting their full pension. This allows part-time work or a temporary assignment to full-time work.

The retire-rehire law does not apply to LEOFF Plan 2. Its policy of assisting both employers and employees by facilitating part-time or temporary work by experienced workers stands in marked contrast to the Career Change policy.

Career Change Legislation

The Board studied the LEOFF Plan 2 pension suspension provisions in 2004. The policy considerations underlying the action ultimately taken by the Board were discussed in the LEOFF Plan 2 staff presentation:

The normal retirement age for LEOFF Plan 2 (53) is an age at which a person is generally considered to still be in the prime of their productive employment period although they may no longer be capable of performing the duties of a law enforcement officer or fire fighter. A LEOFF Plan 2 member who separates from LEOFF employment at age 53 may be expected to seek continued full-time employment in a non-LEOFF capacity for a number of reasons including income, access to health care coverage and the ability to qualify for social security or earn additional pension benefits to supplement those provided by LEOFF Plan 2.

Public employment offers a number of potential second careers to LEOFF 2 members where the skills developed in their LEOFF positions can be utilized. However, LEOFF Plan 2 members who seek to continue in public employment following separation or retirement from LEOFF may be restricted from establishing membership in a second public retirement system or receiving their LEOFF pension. Thus, there are barriers to transitioning to public employment after completing a career in LEOFF.

When a LEOFF Plan 2 retiree becomes employed in an eligible position covered by another state pension system the retiree will have their LEOFF pension suspended. Additionally, the retiree would normally be prohibited from participating as a member in the other state pension system and accruing a second pension. These pension provisions may make continued public employment an unviable option for LEOFF Plan 2 retirees.

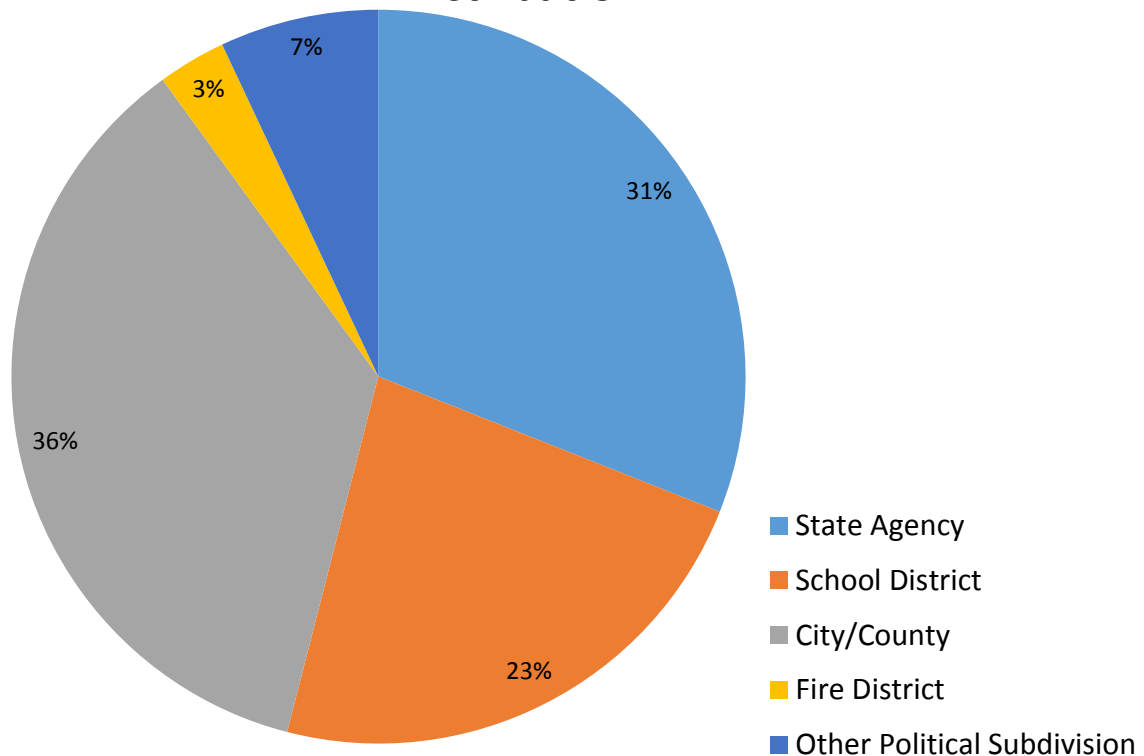
LEOFF Plan 2 staff presented three different options to the Board, including providing the same retire-rehire provisions available in PERS and TRS. But the Board's concern was not supplementing a pension with part-time work. Its issue was transitioning from a law enforcement officer or fire fighter career to a new career. Accordingly, the Board declined the option to adopt retire-rehire instead proposing Career Change legislation. Those provisions,

enacted in RCW 41.26.500, allow a LEOFF Plan 2 retiree who starts a new career in public employment other than as a law enforcement officer or fire fighter to either:

- Establish membership in a new public retirement system suspending their LEOFF Plan 2 pension; or
- Opt out of the second public retirement systems and continue to receive their LEOFF Plan 2 pension while pursuing their second career.

The Career Change law has mostly functioned as intended: facilitating a second public career for LEOFF Plan 2 retirees as something other than a law enforcement officer or fire fighter. According to recent data compiled by DRS, 265 LEOFF Plan 2 retirees have reentered public employment without suspension of their pension. The average annual compensation for these second career employees is \$28, 268. They work as employees for a number of different public employers, the majority of which are not LEOFF employers.

LEOFF Plan 2 Retirees: Second Public Career Distribution



It was not the intention of the Board nor the Legislature to allow a retired LEOFF Plan 2 member to return to work as a law enforcement officer or fire fighter and continue receiving a LEOFF Plan 2 pension. The City of DuPont has taken advantage of a loophole created by the intersection of the Career Change law and the pre-existing LEOFF definition of law enforcement officer to do exactly that.

UNINTENDED CONSEQUENCE OF CAREER CHANGE LAW

The City of DuPont's full-time Chief of Police recently retired from LEOFF. The City hired a LEOFF Plan 2 retiree to replace him. The new Chief was originally hired on an interim basis and served full-time for approximately 3 months. Following DRS's recent disallowance of DuPont's claim that its Fire Chief was an independent contractor and the resulting suspension of the Fire Chief's LEOFF Plan 1 pension, the interim Police Chief "...notified the city of his intention to terminate his interim contract 'out of fear and confusion from the recent audit findings,'"²

To allow the retiree to work as Police Chief and receive his LEOFF Plan 2 pension, the City reclassified the Police Chief's position from full-time to "part-time" requiring 35 hours per week. It does not appear any change in duties accompanied the change in hours. The City redefined the position to reclassify it from LEOFF to PERS to fit within LEOFF Plan 2's Career Change provisions.

This loophole relies on an aspect of LEOFF's definition of a "Law Enforcement Officer":

"Law enforcement officer" beginning January 1, 1994, means any person who is commissioned and employed by an employer on a **full time, fully compensated** basis to enforce the criminal laws of the state of Washington generally, with the following qualifications:

...

(c) Only such **full time** commissioned law enforcement personnel as have been appointed to offices, positions, or ranks in the police department which have been specifically created or otherwise expressly provided for and designated by city charter provision or by ordinance enacted by the legislative body of the city shall be considered city police officers;

² *DuPont police chief to work part time, retain benefits*, The Olympian, July 31, 2013.

RCW 41.26.030(18) (emphasis added). Fire fighters must also be full-time, fully compensated to qualify for LEOFF, RCW41.26.030(16). LEOFF is somewhat unique in limiting membership to full-time employees. PERS, TRS, SERS, include part-time employees if they work at least 70 hours per month³. A review of the role of volunteer firefighters and reserve police officers helps explain why the Legislature set the bar for LEOFF membership so high.

Part-time Law Enforcement Officers and Fire Fighters

LEOFF's full-time requirement springs from a unique aspect of the fire fighter and law enforcement officer professions. A number of Washington's communities are served by Volunteer Fire Fighters and/or Reserve Police Officers. These part-time public safety officers belong to the Volunteer Firefighters and Reserve Police Officers' Retirement System, Chapter 41.24 RCW.

Volunteer Firefighters and Reserve police officers have the same authority and duties as their full-time counterparts when called into service. The distinction is they do not work full-time:

"Reserve officer" includes any law enforcement officer who does not serve as a law enforcement officer of this state on a full-time basis, but who, when called by such agency into active service, is fully commissioned on the same basis as full-time officers to enforce the criminal laws of this state⁴;

Washington's Courts recognize a similar distinction between LEOFF eligible fire fighters and volunteer fire fighters, noting the distinction between full-time vs. part-time/volunteer controls whether the fire fighter goes into LEOFF or the Volunteer system⁵. Similarly, when discussing LEOFF eligibility for police matrons the Court noted: "that plaintiffs are full-time employees, they are regularly employed as opposed, for example, to police reservists..."⁶

"Full-time" is not defined in the LEOFF statute, nor has it been defined by the Courts⁷. DRS adopted a rule in 1995 defining full-time as "regularly scheduled to work at least 160 hours per

³ An "eligible position" for PERS, PSERS, and TRS Plan 2/3 is a position that normally requires 70 or more hours per month for at least 5 months per year. The relatively new retirement system of PSERS, created for public safety officers who are not fully commissioned law enforcement officers, also requires full-time employment.

⁴ WAC 139-05-810(1).

⁵ *Schrom v. Board for Volunteer Fire Fighters*, 153 Wn.2d 19, 27, 28, 100 P.3d 814 (2004).

⁶ *Beggs v. City of Pasco*, 93 Wn.2d 682, 685, 611 P.2d 1252 (1980).

⁷ *Tucker v. Department of Retirement Systems of State*, 127 Wn.App. 700, 706, 113 P.3d 4 (2005); The closest the Court has come is to uphold DRS determinations that persons performing law enforcement or firefighter duties

month,” i.e. at least 40 hours per week for at least 20 days, WAC 415-104-011(3). Coming ten years before the Career Change law, the rule had no impact on post-retirement employment laws when adopted. The 2005 Career Change legislation unintentionally created the loophole used by DuPont. Prior to that time a LEOFF Plan 2 retiree’s pension would be suspended upon reentering covered employment regardless of what public position he or she entered. Redefining a LEOFF position as a PERS position would have been pointless, as it would not prevent suspension of the retiree’s pension.

That is no longer the case. Even though the DuPont’s Police Chief is a commissioned position created by the city to enforce the criminal laws of the State of Washington generally, i.e. a law enforcement position, DuPont has reduced the hours to make it a PERS position so its Police Chief can continue to receive a LEOFF Plan 2 pension.

DRS has fielded similar inquiries seeking the same result by focusing on the “fully compensated” eligibility requirement. Some examples include questioning whether a LEOFF Plan 2 retiree is not fully compensated, and therefore not LEOFF eligible, if he or she did not receive health care benefits, or earned annual leave at a lesser rate than other employees with similar experience. These inquiries are designed to take advantage of the high bar to LEOFF membership used to distinguish between LEOFF eligible law enforcement officers and fire fighters and volunteer or part-time law enforcement officers and fire fighters. They seek to use that policy for an unintended purpose: to enable retirees to work as a law enforcement officer or fire fighter and continue to receive their pension.

MEDIA RESPONSE TO PART-TIME DUPONT POLICE CHIEF

The Associated Press and the Daily Olympian recently published articles reporting on DuPont’s arrangement⁸. Publishers of the Associated Press article include the Seattle Times, the Bellingham Herald, the Spokesman Review, and the Kansas City Star.

The Olympian followed up with an editorial confusing the 2005 Career Change bill with the 2001 Retire-Rehire provisions legislation, mistakenly claiming the 2001 law allowed LEOFF Plan 2 retirees to return to work as law enforcement officers or fire fighters for 1800 hours per year

less than half time do not meet the statutory full time requirement, see *Buckley v. Department of Retirement Systems*, 116 Wn.App. 1, 65 P.3d 1216 (2003); *International Ass'n of Fire Fighters Local 3266, AFL-CIO v. Department of Retirement Systems, State of Wash.*, 97 Wn.App. 715, 987 P.2d 115 (1999).

⁸ *DuPont police chief will collect salary, \$90,000-a-year pension*, Associated Press, published in Seattle Times August 3, 2013.

(35 hours per week x 52) while receiving a benefit. Neither the 2001 law nor the 2005 career change legislation intended that result. Further, that result cannot be accomplished without redefining a full-time position as a part-time job. Nonetheless, the Olympian included the Career Change law in its call for a full repeal of retire-rehire⁹.

POLICY OPTIONS

The 3 policy options below were presented to the Board on September 25, 2013 for consideration.

Option 1: Clarify that Law Enforcement or Firefighter Jobs do not qualify for the Career Change law regardless of whether they are full-time, fully compensated.

The original intent of the career change law limited its application to situations where a retired LEOFF Plan 2 member began a second career as something other than a law enforcement officer or fire fighter. The policy looked to the duties of the position, not whether it was full time and/or fully compensated.

Under this option, the Board would propose remedial legislation to clarify its original intent that a LEOFF Plan 2 retiree who returned to work as a law enforcement officer or fire fighter would not qualify for the career change law even if the position was technically not LEOFF eligible.

This would reaffirm the original policy of the Career Change law, closing the loophole utilized by Dupont to place a LEOFF Plan 2 retiree into a Law Enforcement Officer position, in this case police chief, without suspension of his pension.

Option 2: Take no action

Under this option the Board would retain the Career Change law in its current form.

Option 3: Allow LEOFF Plan 2 retirees to accept a LEOFF position without pension suspension.

Under this option a LEOFF Plan 2 retiree would have the same option upon entering a LEOFF position as he or she has under current law when entering a PERS position. That is, the retiree could either: 1) reenter LEOFF Plan 2 membership and have their pension calculated upon re-retirement; or 2) Choose not to reenter membership and continue to receive a LEOFF Plan 2 retirement allowance while employed as a law enforcement officer or firefighter.

This would alter the original policy of the Career Change law by including retirees who return to work in a LEOFF position. This would allow the option for all LEOFF Plan 2 retirees without requiring adjustment of employee hours or compensation.

⁹ *Time for Retire-Rehire to End in This State*, Daily Olympian, August 8, 2013.

POLICY OPTION FOLLOW-UP

At its September 25th meeting the Board requested follow-up on option 1, clarifying original intent by closing loophole and option 3, allowing LEOFF Plan 2 retirees to accept a LEOFF position without suspension of pension.

Option 1: Reinforce Original Intent

LEOFF Plan 2 retirees accepting employment covered by the Public Employees' (RCW 41.40), Teachers' (RCW 41.32), School Employees' (RCW 41.35) or Public Safety Employees (RCW 41.37) retirement systems may 1) enter membership in the new system and have his or her retirement allowance suspended; or 2) decline membership and continue to receive retirement checks.

LEOFF Plan 2 retirees who enter LEOFF positions do not have that option. They are not changing careers and so remain subject to suspension of benefits. It is the redefinition of LEOFF positions as PERS positions, primarily by converting them to "part-time" that allows circumvention of the original intent.

On the other hand, legitimate part-time positions, such as part-time assistant chief of a fire district, are properly outside the scope of LEOFF and thus within the original intent of the Career Change law. Such positions are designated as part-time regardless of who fills them.

These two considerations, closing the loophole while not restricting bona fide non-LEOFF employment, could be met by amending the statute to require suspension of LEOFF plan 2 retirees pension if:

- They work in a job with LEOFF duties but are outside of LEOFF because the job is not full-time and/or fully compensated; and
- Exceed a given number of hours:
 - An 867 hour annual maximum would be consistent with restrictions in place for other plans;
 - 25 hours per week, slightly more than half-time; or
 - Another standard deemed appropriate by the Board.

If these or similar standards were adopted and employers intentionally misreported they would be guilty of either a class B felony in LEOFF, RCW 41.26.062; or a misdemeanor in PERS, RCW 41.40.055.

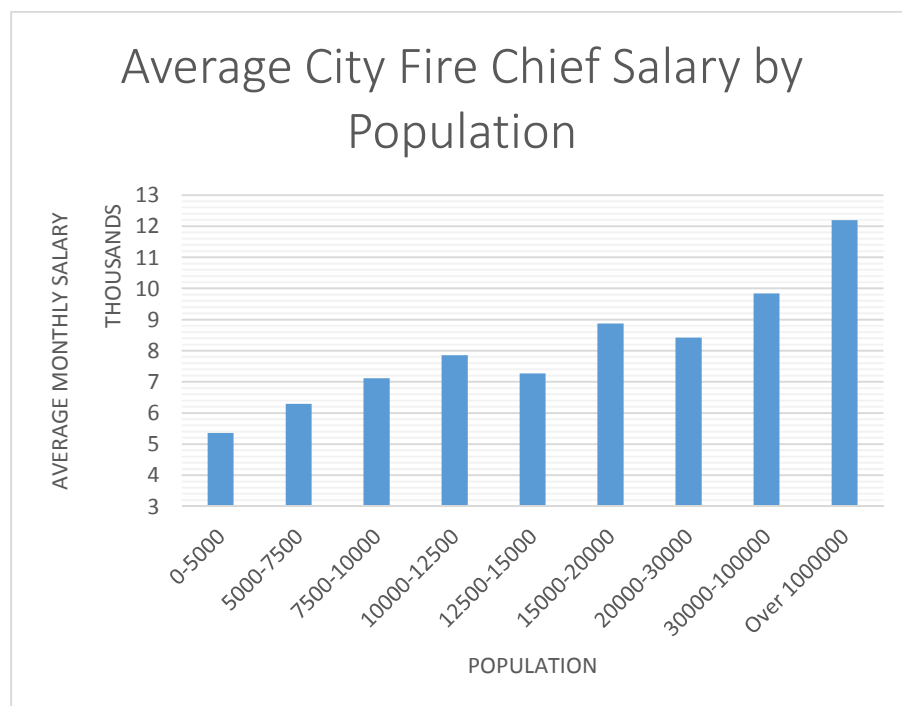
Option 3: Allow Reemployment in a LEOFF Position without Pension Suspension.

Another policy option is allowing reemployment without pension suspension. This could either be done for a defined class of LEOFF Plan 2 reemployment or for all LEOFF Plan 2 reemployment.

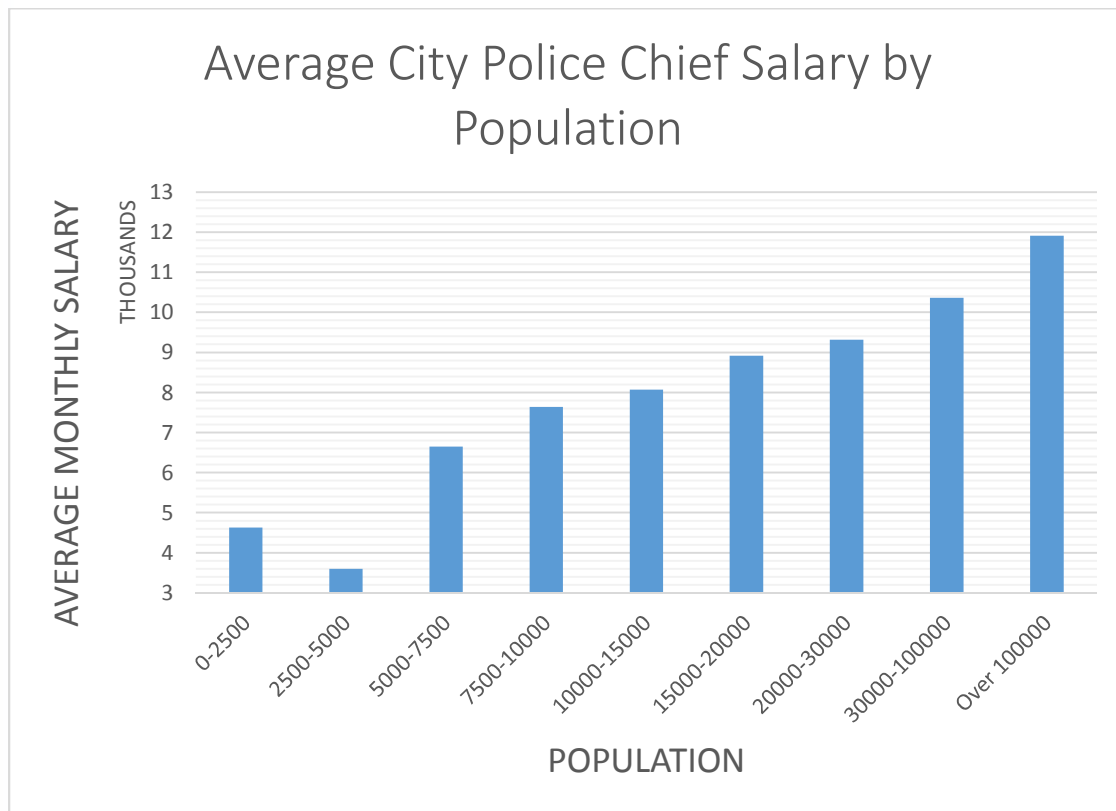
Option 3a: Allow limited reemployment

Some Board members noted that skilled LEOFF 2 retirees could be valuable to smaller jurisdictions lacking the resources to compete with larger jurisdictions on salaries. Allowing limited reemployment in a LEOFF position could enable those smaller jurisdictions to hire experienced chiefs they could not otherwise afford.

Reviewing salary and population data from police and fire chiefs supplied by the Association of Washington Cities (AWC) shows a salary gap between smaller and larger jurisdictions. The charts below were extrapolated from AWC's 2012 salary survey of Cities and Towns¹⁰:



¹⁰ Salaries were reported in ranges, from which salary midpoints were determined. Salary midpoints within a population group were then averaged to estimate average Chief salaries within a particular population cohort.



From the AWC data, it appears possible to enable smaller, lower paying jurisdictions access to hire chiefs retired from more populous jurisdictions by allowing reemployment in smaller jurisdictions without loss of pension. The AWC data shows that cities and towns with less than 10,000 people tend to pay less for their police and fire chiefs.

Other LEOFF provisions use employer population as an eligibility criteria. Public safety officers, who perform both police and fire duties, qualify for LEOFF Plan 2 only if employed in a City or town less than 10,000 people, RCW 41.26.030(18)(e).

Population is an easily verifiable objective measure, but is not necessarily a good predictor of salary. Police Chief salary data shows a wide variance between cities of nearly identical size:

City	County	Population	Average Monthly Police Chief Salary
DuPont	Pierce	8,855	7,647
College Place	Walla Walla	8,875	6,698
Grandview	Yakima	11,010	5,897
Cheney	Spokane	11,070	7,084
Enumclaw	King	11,100	7,685
Snoqualmie	King	11,700	9,548

Population is not the most robust predictor of salary levels. For instance, DuPont’s Police Chief’s average salary is \$1750 per month higher than Grandview though Grandview has over 1000 more people. A City’s location, i.e. urban vs. rural, appears a better predictor of salary levels.

There would also be challenges crafting statutory language accomplishing the policy goal without creating new loopholes. Without limiting language, any LEOFF Plan 2 retiree could work and draw a pension as long as the employer had less than 10,000 inhabitants. Consistency with the underlying policy requires developing standards to ensure new provisions accomplished the goal of allowing LEOFF Plan 2 retired Chiefs to transition from larger better-paying employers to smaller lower-paying employers:

- Tracking pre-retirement employment:
 - Ensuring retiree came from more populous, higher paying employer, otherwise transfer is lateral, not necessarily to a lower-paying district;
 - Ensuring retiree retired from a different employer; otherwise a current employee is simply retiring before taking a promotion – no real advantage to the employer.

- Duty Limitations:

- Limiting availability to chief or similarly high level positions; otherwise any LEOFF member may take essentially the same job with another employer, or even the same employer, drawing both full salary and full pension without furthering the policy goal.

Tracking these kind of limitations would probably be administratively difficult for DRS. It also presents the possibility for more manipulation. Generally speaking, the more complicated an administrative standard, the more susceptible to gaming.

Option 3B: Unlimited Reemployment in LEOFF Positions

The Board could propose allowing LEOFF Plan 2 retirees to take a LEOFF position without suspension of pension. This would increase transparency as returning to work in a LEOFF position would no longer require redefining the position to disqualify it from LEOFF. It would, however, raise some issues.

- Inconsistent with the Original Intent: The Career Change law would no longer be targeted towards LEOFF Plan 2 retirees changing careers, but would instead look more like a standard retire-rehire program, allowing LEOFF Plan 2 retirees to earn a salary and collect their pensions regardless of the type of post-retirement employment.
- Negative Public Response: Given the recent negative public response to LEOFF members drawing both pension and salary at the same time, it appears likely that loosening the current restrictions on post-retirement employment would engender more of the same.
- Inconsistent with Current Legislative Policy: The Legislature's recent actions rolling back retire-rehire provisions in other public retirement systems¹¹ indicate that introducing a bill moving in the opposite direction may not be well received.

¹¹ ESHB 1981 (ch. 47, laws of 2011), repealed provisions allowing PERS 1 and TRS 1 retirees to work up to 1500 hours in a calendar year without impacting their pension.



Career Change

**Comprehensive Report Follow-up
November 20, 2013**

Issue

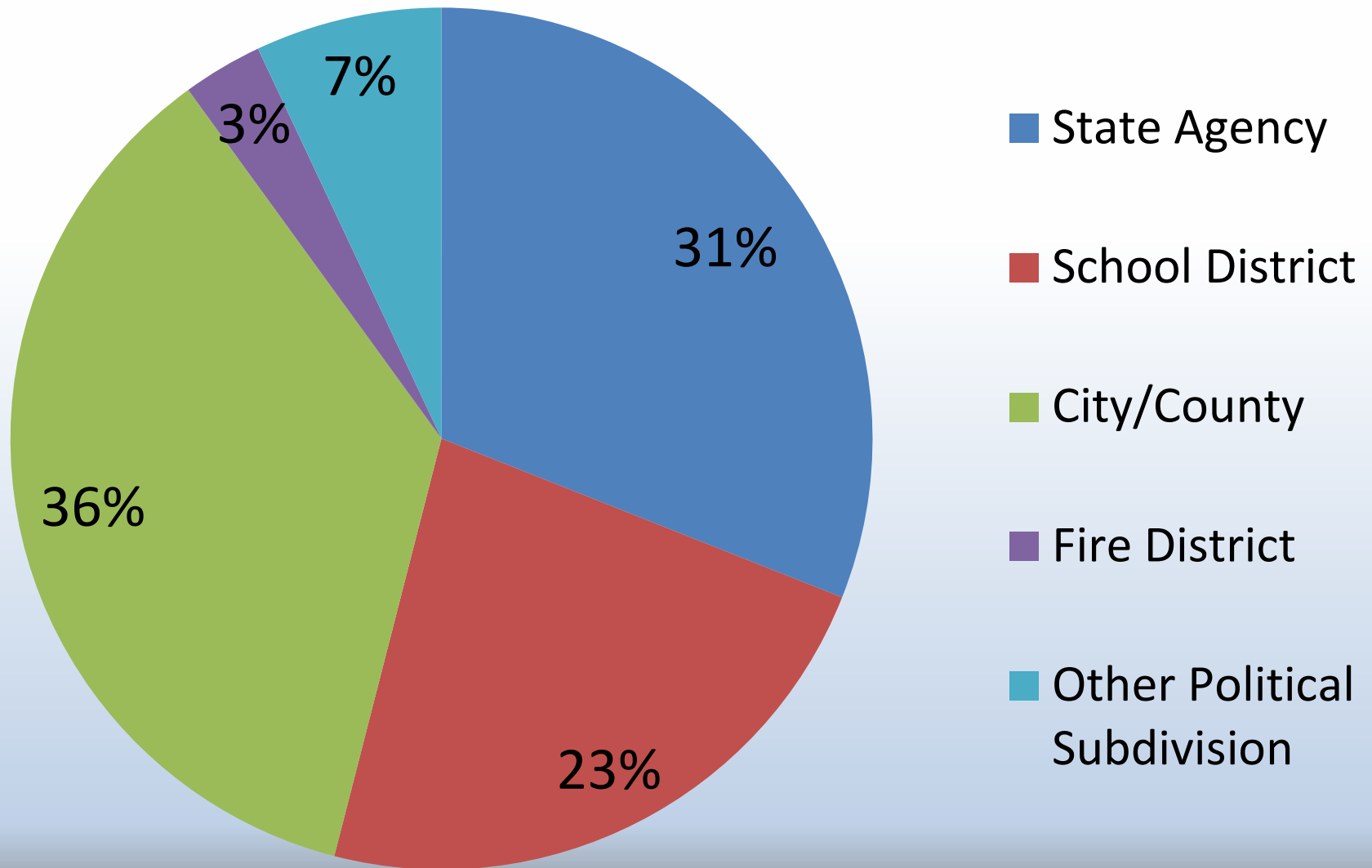
- Abuse of “Career Change” legislation could undermine public trust that the plan is responsibly designed and professionally managed.
- At September 25 hearing, Board asked for further information on:
 - Option 1: Close DuPont loophole;
 - Option 2: Allow post-retirement employment in LEOFF position, possibly limited.



Background

- Recent action by City of DuPont re-designating Police Chief position as “part-time” in order to facilitate a LEOFF Plan 2 retiree filling the position and continuing to draw his pension.
- Unintended consequence of 2005 Career Change legislation undermines legitimate policy of the law.

LEOFF Plan 2 Retirees: Second Public Career Distribution



Option 1

Clarify that law enforcement or fire fighter jobs do not qualify for the Career Change law regardless of whether they are full time, fully compensated.

Policy Issues:

- Re-designation of jobs from full-time to part-time avoid LEOFF membership/Career Change law.
- Some bona fide part-time jobs are properly excluded from LEOFF.

Option 1

Factors Could be Balanced:

- Require LEOFF Plan 2 retirement suspension if position duties would qualify for LEOFF if full-time fully compensated.
- Allow for bona fide part-time employment by retaining exclusion if the job falls below threshold requirement:
 - Up to 867 hours per year;
 - Under 25 hours per week; or
 - Other.

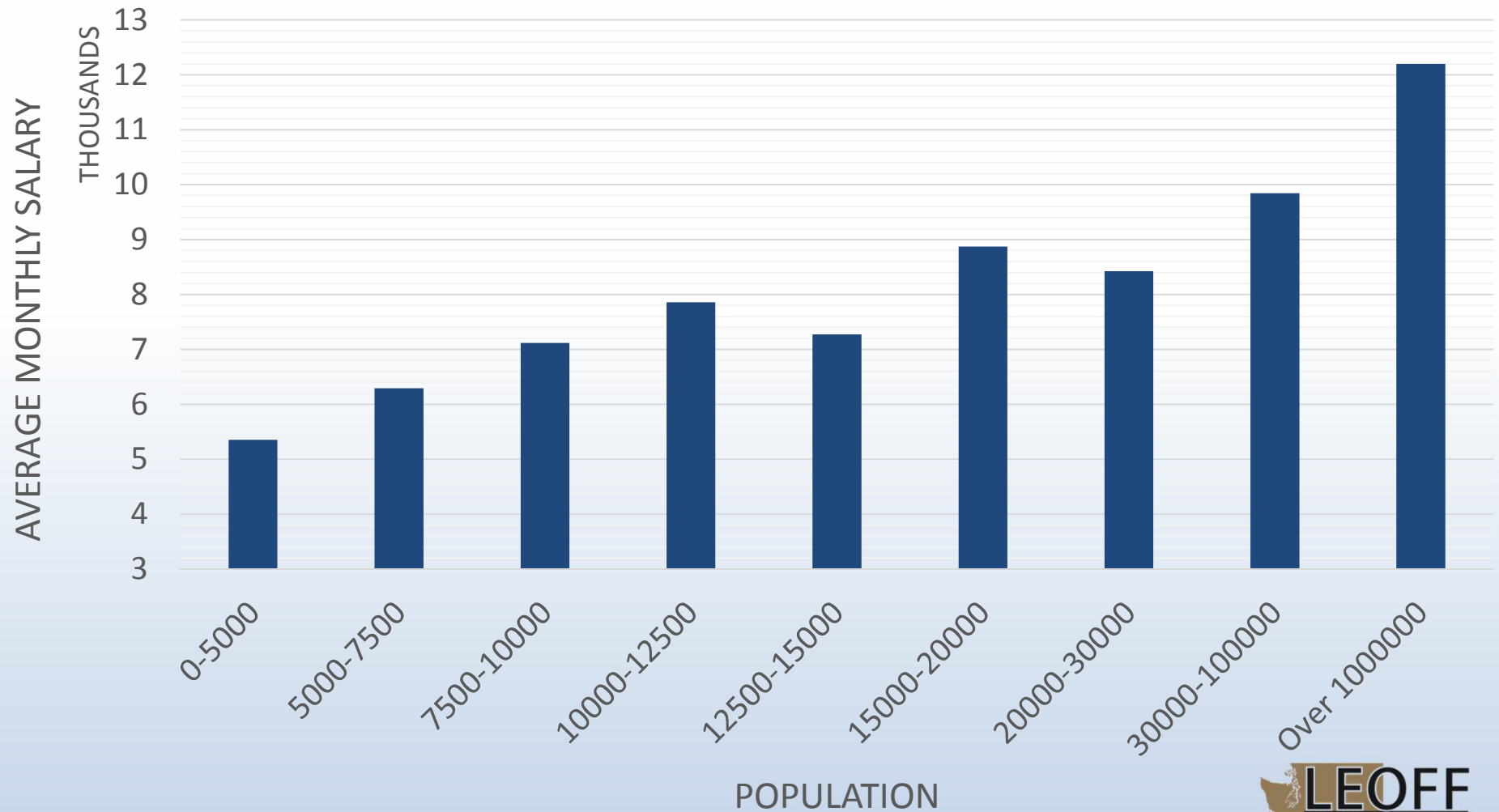
Option 3

Allow reemployment in LEOFF position without suspension of pension in limited circumstances.

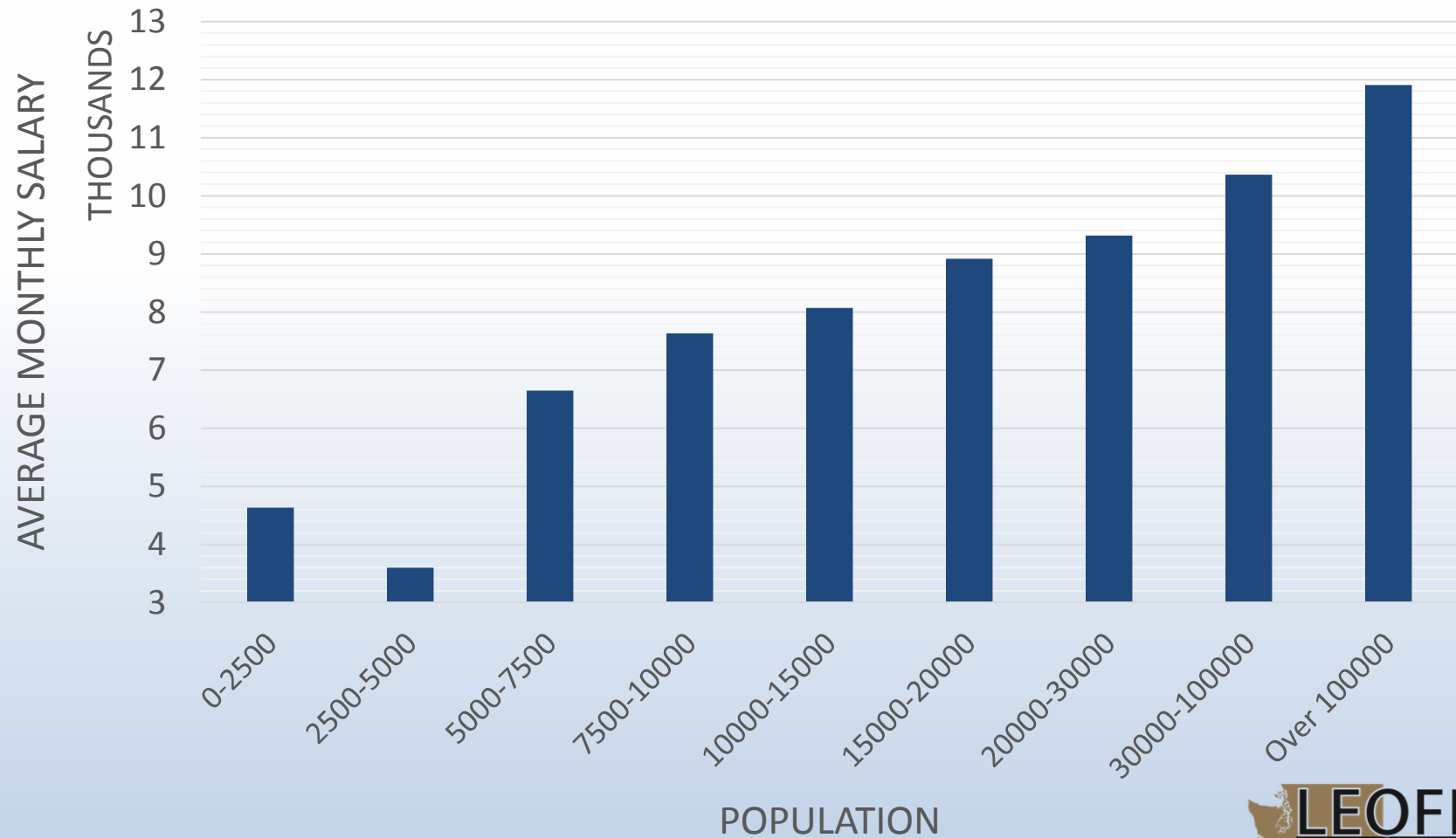
Policy Issues:

- Smaller jurisdictions to hire retirees as chiefs because of difficulty of competing with large jurisdictions on salary.
- Correlation between population and chief's salary.

Average City Fire Chief Salary by Population



Average City Police Chief Salary by Population



Population/Salary Correlation Can be Weak

City	County	Population	Average Monthly Police Chief Salary
DuPont	Pierce	8,855	7,647
College Place	Walla Walla	8,875	6,698
Grandview	Yakima	11,010	5,897
Cheney	Spokane	11,070	7,084
Enumclaw	King	11,100	7,685
Snoqualmie	King	11,700	9,548

Option 3A

Limited Reemployment

Allow lower population, lower paying jurisdictions to attract experienced chiefs.

- Safeguards:
 - Population limitation;
 - Tracking pre-retirement employment;
 - Duty Limitations.
- Conditions make administration more complex, can inadvertently open loophole.

Option 3B

Unlimited Reemployment

Extend Career Change policy to LEOFF Plan 2 retirees returning to any LEOFF position.

- Changes original policy of legislation from Career Change to retire/rehire.
- Formally adopts new policy instead of current “back door” approach.
- Potential for unfavorable public & legislative reaction.

Next Steps

- Direct staff to draft legislation and prepare presentation on one of the three options; or
- Decide not to take action at this time.

Any Questions?

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2014 Meeting Calendar Adoption

Summary:

Proposed calendar for 2014 meeting schedule. Includes dates scheduled during the 2014 Legislative session.

Strategic Linkage:

This item supports the following Strategic Priority Goals:
Goal 4 – Inform the stakeholders.

ATTACHMENTS:

Description	Type
 2014 Proposed Meeting Dates	Report



2014 PROPOSED MEETING DATES

January <div> <div>SMTWTFSS</div> <div> <div>1234</div> <div>567891011</div> <div>12131415161718</div> <div>19202122232425</div> <div>262728293031</div> </div> </div>	February <div> <div>SMTWTFSS</div> <div> <div>1</div> <div>2345678</div> <div>9101112131415</div> <div>16171819202122</div> <div>232425262728</div> </div> </div>	March <div> <div>SMTWTFSS</div> <div> <div>1</div> <div>2345678</div> <div>9101112131415</div> <div>16171819202122</div> <div>23242526272829</div> <div>3031</div> </div> </div>
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MEETINGS LOCATED AT:

2100 Evergreen Park Dr. S.W., Suite 100
Olympia, WA 98502

Wednesday, January 22

Wednesday, February 26

Wednesday, March 26

Wednesday, April 16

Wednesday, May 28

Wednesday, June 18

Wednesday, July 23

Wednesday, August 27

Wednesday, September 24

Wednesday, October 22

Wednesday, November 19

Wednesday, December 17

LEOFF PLAN 2 MEETINGS

LEGISLATIVE SESSION

STATE HOLIDAYS

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MEETING DATE	AGENDA ITEMS
January 23, 2013	Meeting Canceled
February 27, 2013	Meeting Canceled
March 27, 2013	Meeting Canceled
April 24, 2013	Meeting Canceled
May 29, 2013	Meeting Canceled
June 19, 2013	2013 Legislative Session Update Interim Planning Board Operating Policy Changes Board Expectations Check-in WSIPP Study Follow-up Medicare Briefing
July 24, 2013	DRS Administrative Update, Marcie Frost CEM Benchmarking Results, Mark Feldhausen Background on Economic Experience Study, Lisa Won Orientation Manual Paperless Board Meeting Training
August 28, 2013	Board & Administrative Committee Elections WSIB Annual Presentation, Theresa Whitmarsh Final Average Salary Protection, Initial Consideration Correction Legislation, Initial Consideration EMTs Not Being Reported in LEOFF Plan 2, Initial Consideration Salary Spiking, Initial Consideration Promoting Individual Savings for Retirement, Initial Consideration Career Change, Initial Consideration Meeting Materials Posted to Website
September 25, 2013	Board & Administrative Committee Elections Annual Board Member Training, Dawn Cortez Correction Legislation, Comprehensive Report Career Change, Comprehensive Report Promoting Individual Savings for Retirement, Comprehensive Report FY13 Independent Audit Results, Steve Davis Results of the Economic Experience Study, Steve Nelsen Funding Methods - Educational Briefing, Lisa Won
October 16, 2013	2014 Proposed Meeting Calendar
November 20, 2013	Smoothing Methods – Educational Briefing, Lisa Won Final Average Salary Protection, Comprehensive Report Promoting Individual Saving for Retirement, Comprehensive Follow-up Adoption of Actuarial Factors, Initial Consideration Washington State Investment Board Presentation Career Change, Comprehensive Follow-up 2014 Meeting Calendar Adoption WSIPP Study Follow-up
December 18, 2013	Adoption of Actuarial Factors, Final Proposal