



STATE OF WASHINGTON

**LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD**

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REGULAR BOARD MEETING
December 8, 2005

The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on December 8, 2005.

Board Members Present:

Kelly Fox, Chair
Doug Cochran
Michael Edwards
Pat Hepler
Jeff Holy
Mark Johnston
Maureen Morris

Staff Present:

Steve Nelsen, Executive Director
Shawn Merchant, Deputy Director
Jessica Burkhart, Executive Assistant
Jeralyn Faulhaber, Administrative Services Manager
Tim Valencia, Senior Research and Policy Manager
Greg Deam, Senior Research and Policy Manager
Suzanne Shaw, Assistant Attorney General

Guests:

Matt Smith, State Actuary
Marty McCaulay, Senior Pension Actuary

Board Members Not Present:

Jack Simington, Vice Chair
David Moseley
Senator Linda Evans Parlette
Representative Geoff Simpson

Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:50 a.m. The Board took a moment of silence to remember and honor those who have been killed in the line of duty.

1) **November 16, 2005 Board Meeting Minutes**

It was moved that the November 16, 2005 Board meeting minutes be adopted with a change to item #6, page 4. The topic of Service Credit Purchase for Injury will be deferred until 2006 to work cooperatively with the Select Committee on Pension Policy. Seconded.

MOTION CARRIED UNANIMOUSLY

2) **Catastrophic Disability Benefits, Final Proposal – Tim Valencia**

Tim Valencia, Senior Research and Policy Manager, presented the Board with a Final Proposal on *Catastrophic Disability Benefits*. The presentation included a proposal summary which would establish a LEOFF 2 catastrophic disability benefit with offsets for Workers' Compensation and Social Security Disability. The combined benefits could be 100% FAS tax-free and up to 70 LEOFF Plan 2 benefit tax-free.

The Office of the State Actuary and Oliver Consulting also provided an outside actuarial review of the *duty-related total disability benefits*. The recommended contribution rate increases contained in the *memo* from the Office of the State Actuary are below:

Employee:	0.02%
Employer:	0.01%
<u>State</u>	<u>0.01%</u>
Total	0.04%

The Board was provided a draft bill (Z-0901.2), which establishes a catastrophic disability allowance under the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board.

It was moved that the Board use the proposed bill draft (Z-0901.2) with one correction to the substantial gainful employment and move forward pursuing legislation on the topic of Catastrophic Disability. Seconded.

MOTION CARRIED UNANIMOUSLY

3) **Survivor Health Care Insurance – Final Proposal – Tim Valencia**

Tim Valencia, Senior Research and Policy Manager, provided a *Final Proposal on Survival Health Care Insurance*. Mr. Valencia's report provided an overview of the current death benefits and a proposal summary for survivor health care insurance premiums. His report also provided an in-depth look at survivor health insurance in other states.

The Office of the State Actuary also provided a memo related to LEOFF 2 Duty-Death Survivor Medical and Dental Benefits. The memo provided the results of pricing the proposed medical and dental benefits for survivors of members following duty related deaths. The contribution rate increases are below:

Employee	0.03%
Employer	0.02%
State	0.01%

It was moved that the proposal be changed to add a clause allowing for future amendments and that the administrative committee consider developing an alternative proposal with reduced fiscal impact. This topic will be brought back to the January 3, 2006 Special meeting. Seconded.

MOTION CARRIED UNANIMOUSLY

- 4) **Fish and Wildlife Service Credit Transfer, Preliminary Follow-Up – Greg Deam**
Greg Deam, Senior Research and Policy Manager, presented the Board with a Preliminary Follow-Up Report on *Fish and Wildlife Service Credit Transfer*. As requested by the Board, Mr. Deam provided two payment options for review.

OPTION #1: Fish and Wildlife Lump Sum

- Pay in five years after all transfers are complete
- Cost is known

OPTION #2: Contribution Rate Increase

- Pre-funds liability
- Cost is an estimate
- Members and state each pay one basis point
- No cost to employers

In addition to two draft bills (*Z-0897.1 and Z-0898.1*) related to this topic, The Board was also provided a *memo* from the Office of the State Actuary which presents the results of the pricing the proposed transfer of past service credit from the Public Employees' Retirement System (PERS) Plan 2 to LEOFF Plan 2 for Fish and Wildlife Enforcement Officers'.

It was moved that the Board move forward with Option #1 and pursue legislation on the proposed bill draft. Seconded.

Pat Hepler opposed the motion partially due to possible FTE cuts.

MOTION CARRIED

- 5) **Dual Membership, Final Proposal – Greg Deam**
Greg Deam, Senior Research and Policy Manager, provided the Board with a Final Proposal on *Dual Membership*. Mr. Deam's proposal covered the thirty year cap, indexing and base salary. The Office of the State Actuary also provided a *memo* which explains in detail the results of pricing the proposed changes to the calculation of retirement benefits for LEOFF 2 benefits with dual membership.

Mr. Deam also presented the Board with a bill draft (*Z-0922.1*) related to this topic.

It was moved that the Board defer action on the topic of Dual Membership until the 2006 legislative session. In the meantime, the Board will coordinate efforts with the Select Committee on Pension Policy to work on this issue. Seconded.

MOTION CARRIED UNANIMOUSLY

6) Board Membership, Final Proposal – Tim Valencia

Tim Valencia, Senior Research and Policy Manager, provided the Board with a Final Proposal on *Board Membership*. Mr. Valencia's proposal reviewed the pattern of term expirations and provided a summary of alternate options. He also presented the draft bill (Z—0923.1) which relates to adjusting the terms of office for the LEOFF Plan 2 Board Members.

Due to a lack of quorum, the Board took no action on the topic of Board Membership.

7) Administrative Update

▪ **Select Committee on Pension Policy (SCPP)**

Steve Nelsen, Executive Director updated the Board on the issues discussed at the latest SCPP meeting. Mr. Nelsen explained that the last SCPP meeting of 2005 will be on December 13, 2005 and none of the issues that they will take action on will apply to LEOFF Plan 2.

▪ **Next Board Meeting**

The Board agreed that it would be necessary to hold a Special meeting on January 3, 2006 at 10:30 a.m. – 12:00 p.m.

8) \$150,000 Death Benefit for Occupational Illness, Preliminary Follow-Up – Tim Valencia

Tim Valencia, Senior Research and Policy Manager presented the Board with a Preliminary Follow-Up Report on *\$150,000 Death Benefit for Occupational Illness*. Mr. Valencia's report included key issues related to death and pension benefits for LEOFF Plan 2 members who die prior to retirement.

It was moved that the \$150,000 Death Benefit for Occupational Illness – options 1 and 3 be forwarded to the Final Proposal level and brought back to the January 3, 2006 Board meeting. Seconded.

MOTION CARRIED UNANIMOUSLY

9) Board Attendance Policy – Shawn Merchant

Shawn Merchant, Deputy Director, led a discussion on the LEOFF Plan 2 Board Attendance Policy. In addition to reviewing the importance of an attendance policy, Mr. Merchant provided the Board with a *draft attendance policy*. Suzanne Shaw, Assistant Attorney General, recommended that the draft policy be amended to be in accordance with RCW 41.26.

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- 10) **Board Education Policy, Initial Consideration – Shawn Merchant**
Shawn Merchant, Deputy Director, presented the Board with an Initial Consideration on *Board Education Policy*. Mr. Merchant provided several examples of fiduciary responsibilities and opportunities and the importance of creating this policy. He went on to provide a sample Board Education policy which was adopted by the Washington State Investment Board.
 - 11) **Deferred Compensation as Salary, Preliminary Report – Greg Deam**
Greg Deam, Senior Research and Policy Manager, provided the Board with a Preliminary Report on *Deferred Compensation as Salary*. Mr. Deam covered key issues such as; qualified defined contribution plans, employer contributions, and in lieu of non-includable payments.
 - 12) **Annual Audit of Expenditures Results – Davis Accounting and Auditing**
Steve Nelsen, Executive Director, provided the Board with the *Audited Schedule of Expenditures* for the year ended June 30, 2005. The audit identified that the Board had spent \$334,889 less than anticipated. Mr. Davis of Davis Accounting and Auditing will be available for discussion at the January 3, 2006 Special Meeting.

Next Meeting

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for January 25, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 1:36 p.m.