BOARD MEETING AGENDA
December 17, 2014 - 9:30 AM

LOCATION

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

1. Approval of Minutes	9:30 AM
2. Funding Policy Discussion Lisa Won, Senior Actuary	9:35 AM
3. Remarriage Prohibition Ryan Frost, Research Analyst	10:15 AM
4. Plan Design Outcomes Paul Neal, Sr. Research and Policy Manager Ryan Frost, Research Analyst	11:00 AM
5. Review of Benefit Improvement Studies Steve Nelsen, Executive Director	12:00 PM
6. Administrative Update	
• **SCPP Update** Steve Nelsen, Executive Director	1:00 PM
• **Outreach Activities** Steve Nelsen, Executive Director	
• **2015 Meetings during Legislative Session** Steve Nelsen, Executive Director	
7. Board Governance/Evaluation Tim Valencia, Deputy Director	1:30 PM
8. 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.

Funding Policy Discussion

Report Type:
Educational Briefing Follow-up

Date Presented:
12/17/2014

Presenter Name and Title:
Lisa Won, Senior Actuary

Summary:
Follow-up to the Board's request during the November meeting for follow-up from the Office of the State Actuary on funding ratio corridors.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Inform the stakeholders.

ATTACHMENTS:

Description	Type
Funding Policy Discussion	Report
Funding Policy Discussion	Presentation

LEOFF Plan 2 Funding Policy Work Session

Lisa Won, ASA, FCA, MAAA,
Senior Actuary

December 17, 2014

Today's Presentation

- Background on current funding policy
- Results of actuarial valuation and audit
- Expected future contribution rates and funded status
- Possible funding policy options for discussion
- No Board action required today

Current Board Funding Policy

- Aggregate cost method used to determine contribution requirements
- L2 Board adopted additional rate stability measures
  - 2004: 90 percent of the normal cost under the Entry Age Normal (EAN) cost method, effective July 1, 2009
  - 2008: 100 percent of the normal cost under EAN for 2009-2013
  - 2010: Maintain current rates through 2011-2017
- Funded status calculated under Projected Unit Credit (PUC)
  - Aggregate cost method does not provide a useful funded status measure
  - GASB now requires use of EAN for financial reporting
  - Actuarial valuations will report funded status using EAN starting June 30, 2014
- Additional information provided at September 2013 Board meeting

Actuarial Valuation Results – 2015-2017 Contribution Rates

Employee and Employer/State Contribution Rates				
	Aggregate	90% EANC	100% EANC	Adopted
Employee	6.98%	7.97%	8.85%	8.41%
Employer*	4.19%	4.78%	5.31%	5.05%
State	2.79%	3.19%	3.54%	3.36%

Based on the June 30, 2013 Actuarial Valuation Report.

**Excludes current administrative expense rate of 0.18%.*

Actuarial Valuation Results – Funded Status

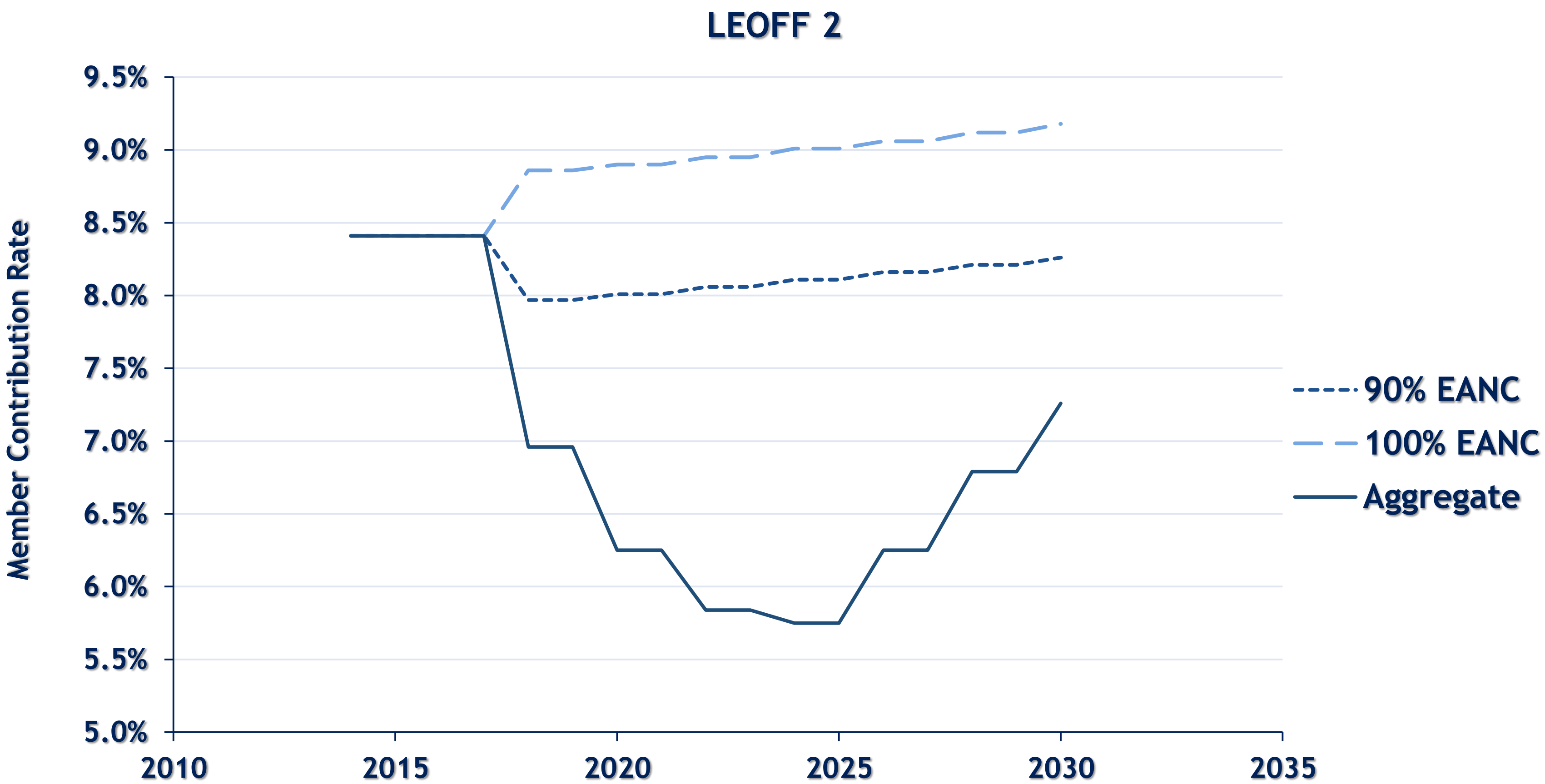
Funded Status At June 30, 2013	
(Dollars in Millions)	
a. Present Value of "Earned" Benefits	$6,859
b. Market Value of Assets	7,637
c. Deferred Gains/(Losses)	(225)
d. Actuarial Value of Assets (b-c)	7,862
e. Unfunded Liability (a-d)	($1,003)
f. Funded Ratio (d/a)	115%

Note: Totals may not agree due to rounding.

Outside Audit Found No Material Differences

- Commented on current funding policy
  - Doesn't address stable rate policy if funded status continues to increase
  - Board may want to proactively consider action plan
- Auditor provided suggestions the Board could consider
  - De-risk retiree liabilities
  - Adopt more conservative assumptions
  - Apply funding ratio corridor

Projection Of Expected Member Contribution Rates*



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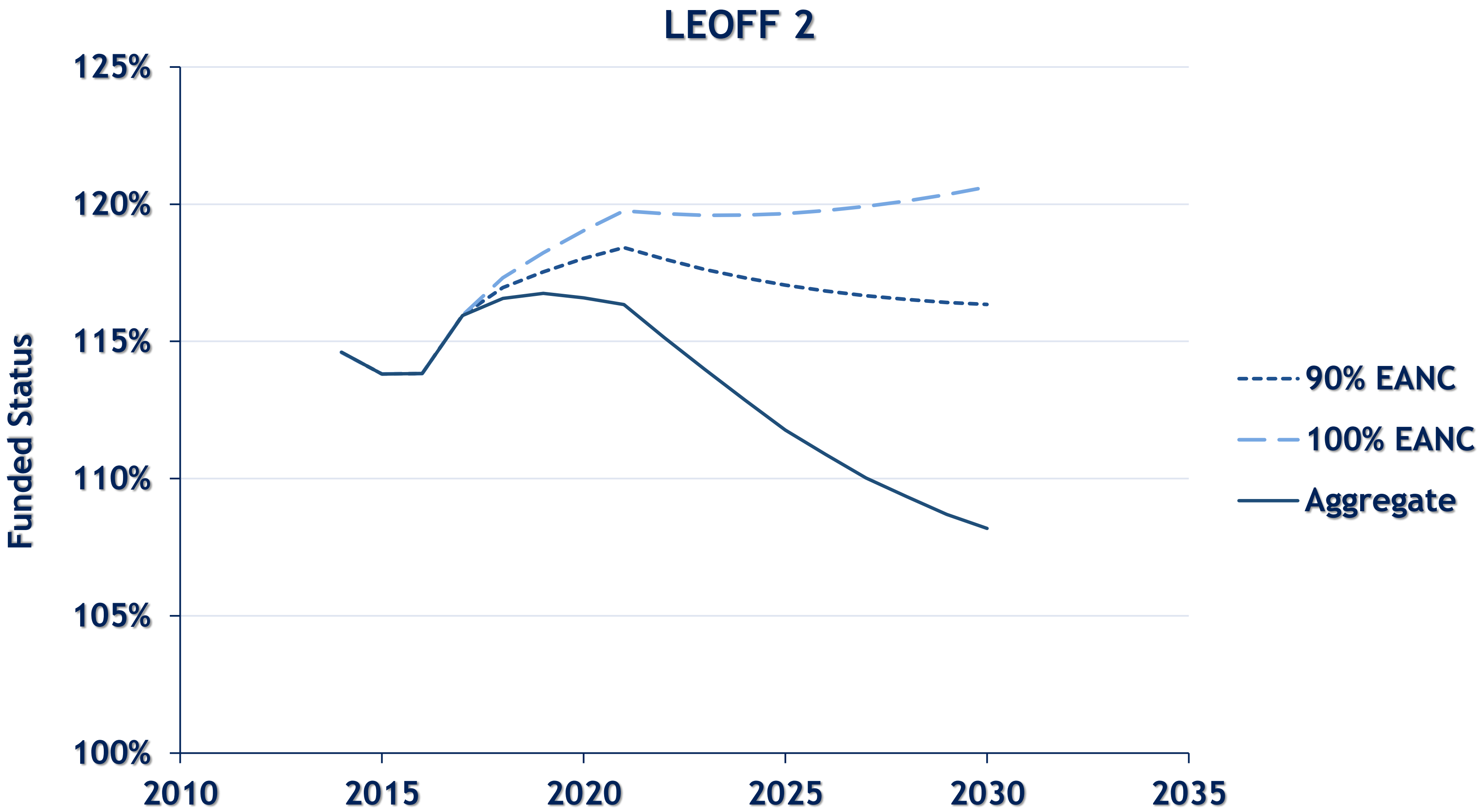
Projection Of Expected Funded Status Ratios*



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Current Funding Policy Provides Stability And Higher Funded Status

- Member rates under EANC increase gradually
  - Fifty basis points over ten-year period
- Member rates under Aggregate have more volatility
  - Decrease about 120 basis points over a six-year period
  - Increase about 50 basis points each biennium after
- Expected funded status increases above 120 percent under 100 percent EANC

Funding Policy Considerations

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

Possible New Funding Policy Options

- Change underlying actuarial cost method to EAN
  - Currently using normal cost from EAN
  - EAN includes Unfunded Actuarial Accrued Liability (UAAL) component
    - UAAL can be positive or negative
    - Requires amortization policy
- Change rate stability measure when funded status hits certain targets
  - Example: 100 percent EANC when funded status is below 120 percent and 80 percent EANC when funded status is 120 percent or higher
- Set policy and adopt rates within that policy
  - Target contribution rate
  - Target changes if funded status hits specified corridor
  - Example: 18 percent total rate when funded status between 80 percent and 120 percent (20 percent corridor)

Possible Pros And Cons For Policy Options

Funding Policy Options	Pros	Cons
Rate stability measure based on funded status targets	Gradual change, keeps Aggregate as base method, lines up with current practice, not dramatic policy change.	Complicated, rates could vary more (not as stable).
EAN actuarial cost method	Simple, most common method used by public plans, 'GASB approved'.	UAAL requires amortization policy, UAAL impacts intergenerational equity, not base method used by other WA State plans.
Target rate within funded status corridor	Rate stability, known rates when funded status within corridor.	Not clear actuarial methodology, policy needed when funded status hits corridor.

Response To Audit Comments

- De-risk retiree liabilities
  - Viable option
  - Consider as separate study outside funding policy
  - Determine retiree liability risk and how to manage it
- Adopt more conservative assumptions
  - "More conservative" interpreted as not best estimate
  - Would reduce funded status measure
  - Could lead to higher required contributions
  - Could affect goal of intergenerational equity
- Apply funding ratio corridor
  - Included as possible new funding policy option

Funding Policy Important To Success Of Pension Program

- Balance affordability and risk
- Stable rates lead to stable pension budgets
- Complicated policies can be misunderstood
- Consider funding goals in statute
  - Fully fund the plan as provided by law
  - Establish long-term employer rates that remain relatively predictable proportion of future state budgets
  - Intergenerational equity

Questions?

LEOFF Plan 2 Funding Policy Work Session

Lisa Won, ASA, FCA, MAAA,
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Office of the State Actuary
"Securing tomorrow's pensions today."

December 17, 2014

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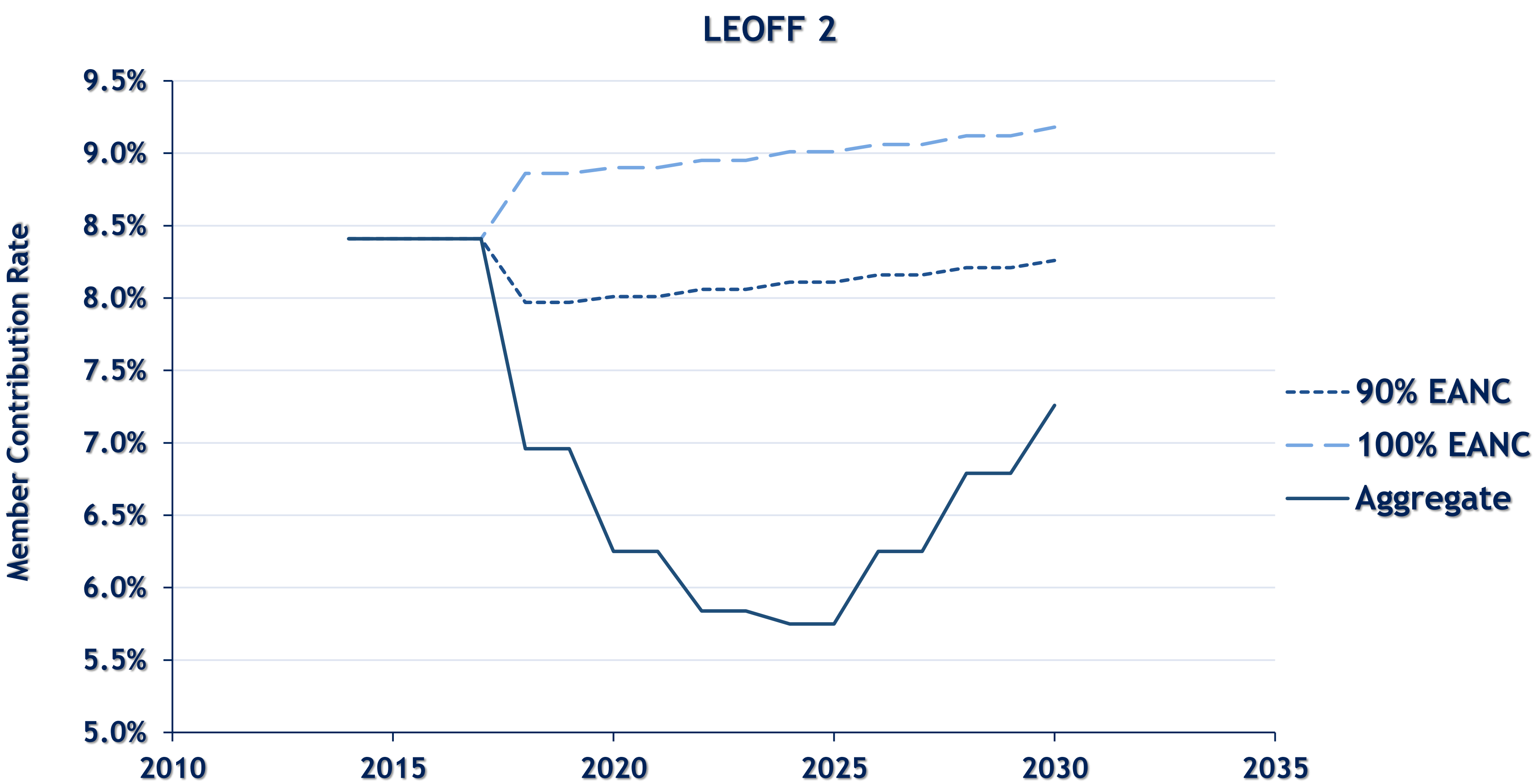

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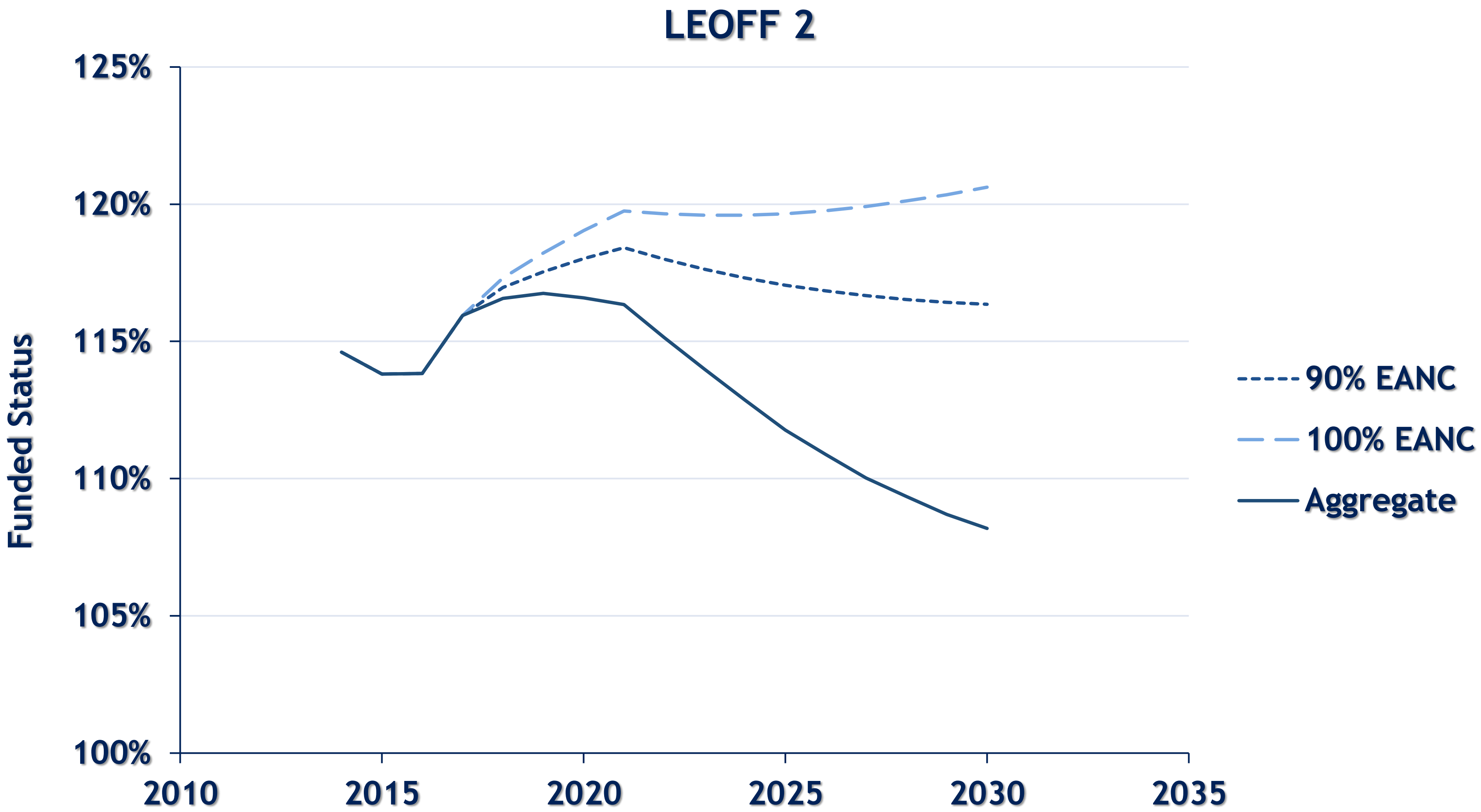

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Questions?

Remarriage Prohibition

Report Type:
Final Proposal

Date Presented:
12/17/2014

Presenter Name and Title:
Ryan Frost, Research Analyst

Summary:
A policy inconsistency exists between Workers' Compensation benefits and retirement benefits. Unlike retirement benefits, surviving spouses who are receiving Workers' Compensation death benefits cannot continue to receive the benefit after remarriage. The LEOFF Plan 2 Retirement Board has been contacted by survivors of members killed in theline duty regarding this policy.

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

ATTACHMENTS:

Description	Type
Remarriage Presentation	Presentation
Remarriage Report	Report

LEOFF
Plan 2 Retirement Board

Remarriage Prohibition

Final Proposal
December 17, 2014

Issue

A policy inconsistency exists between Workers' Compensation benefits and retirement benefits

A survivor who remarries will continue to receive retirement benefits but may lose Workers' Compensation benefits

Overview

Remarriage is not prohibited in any state administered retirement plan

Issue was addressed in 2007-2010

- 2007 & 2008, HB 1545 by Representative Kirby
- 2009 Interim
  - Legislature requested information from L&I
  - Studied by LEOFF 2 Board
- 2010, SB 6407 by LEOFF 2 Board

Background

Retirement Benefits for Survivors

- If a survivor selects a monthly benefit and remarries, there is no impact on their receipt of survivor benefits
- This is true for ALL state plans, not just LEOFF

LEOFF Plan 2 Retirement Board

Background

Worker's Compensation Benefits for Survivors

- **Immediate work-related death:** surviving spouses receive a monthly benefit, until they remarry.
- **Totally disabled, then die and it was related to the claim:** surviving spouses receive a monthly benefit, until they remarry.
  - Final lump sum settlement
  - Decline settlement, keep it in trust
- **Totally disabled, then die and it was not related to the claim:** benefits do not stop if a survivor option was chosen, even if the survivor remarries.

Background

Board Study

- In 2009 found 4 states without Remarriage Prohibition
- One had a specific exemption for LEOs and FFs

Administrative Issues

- Removing the prohibition from the Department of Labor and Industries (LNI) statutes could assist the agency
  - Challenges tracking survivor remarriages = overpayments

LEOFF Plan 2 Retirement Board

Options

Option 1 - Take no further action

Option 2 - **Pursue Legislation with included Bill Language**

Questions?

Contact:

Ryan Frost
Research Analyst
(360) 586-2325
ryan.frost@leoff.wa.gov

LEOFF
Plan 2 Retirement Board

LEOFF Plan 2 Retirement Board

December 17, 2014

Remarriage Prohibition

FINAL PROPOSAL
By Ryan Frost
Research Analyst
360-586-2325
ryan.frost@leoff.wa.gov

ISSUE

A policy inconsistency exists between Workers' Compensation benefits and retirement benefits.

A survivor who remarries will continue to receive retirement benefits but may lose Workers' Compensation benefits.

OVERVIEW

None of the current Washington state administered retirement plans contain a prohibition on remarriage for a survivor receiving pension benefits. If a survivor remarries, their survivor pension benefits continue. However, Workers' Compensation benefits provided by the Department of Labor and Industries (LNI) to a survivor of a line of duty death can cease if the survivor remarries.

The Legislature has twice considered bills (HB 1545 in 2007 and 2008 introduced by Representative Steve Kirby, and HB 1212 in 2009 by the LEOFF Plan 2 Board) addressing the policy of terminating worker's compensation death benefits when the surviving spouse of certain public safety employees remarries. Neither bill passed. In the interim of 2009, several Legislative members requested LNI study the issue and to report back.

Also in the interim of 2009, the Board conducted a nationwide search in 2009 and found four states without remarriage prohibition on Worker's Compensation benefits. In fact, for one of those states there was a specific exemption for law enforcement officers and fire fighters.

In 2010, the Board introduced SB 6407 which provided several duty-related death benefits to LEOFF 2 members, including the elimination of the remarriage prohibition of Worker's Compensation benefits. It was overwhelmingly passed in the House, but the provision containing the elimination of remarriage prohibition was removed by the Senate before passing. No action has been taken by the Board since.

Administratively, removing the prohibition from LNI statues could assist the agency, as there has been challenges tracking survivor remarriages, resulting in overpayments.

At the September 24, 2012 Board meeting, a survivor of a law enforcement officer killed in the line of duty came to the Board and asked it to consider another attempt at passing a bill. At that time, the Board asked the staff to provide this follow-up.

BACKGROUND & POLICY ISSUES

Unlike retirement benefits, surviving spouses who are receiving Workers' Compensation death benefits cannot continue to receive the benefit after remarriage. The LEOFF Plan 2 Retirement Board has been contacted by survivors of members killed in the line duty regarding this policy.

Retirement Benefits for Survivors

If a member dies in the line of duty and has 10 or more years of service credit or is eligible to retire, the surviving spouse may choose between the following two benefits:

1. A lump sum payment of 150 percent of the member's accumulated contributions, or
2. A monthly benefit calculated as if the member had elected the Joint and 100% Survivor Option.

If the survivor elects the continuing benefit, the survivor will continue to receive the benefit for their lifetime; the benefit is actuarially reduced to reflect the cost of providing the benefit over the survivor's lifetime.

If a survivor remarries, it has no impact on the survivor's receipt of retirement benefits. Since inception, LEOFF Plan 2 has not contained any provisions with a prohibition on remarriage for survivors.

LEOFF Plan 1 at one point contained a prohibition on remarriage, that provision was removed from the plan by the Legislature in 1977. In 2002, a provision was added to LEOFF Plan 1 to make the 1977 legislation retroactive, allowing pre-1977 survivors to remarry and continue receiving survivor retirement benefits.

Workers' Compensation Benefits for Survivors

If a worker dies from a work-related injury or occupational disease, a surviving spouse receives a monthly benefit from Workers' Compensation. The amount of 60% of the worker's monthly wages at the time of death. No actuarial reductions are applied to this survivor benefit.

If the disabled worker dies and the death is related to their disabling work-related injury or occupational disease, the amount the survivor receives is also 60% of the worker's wages, but from the time of disablement. No actuarial reductions are applied to this survivor benefit.

If a surviving spouse in either case remarries, monthly benefit payments stops at the end of the month in which they remarry.

At the time of remarriage, survivors have two options:

1. Receive a final settlement and receive no further benefits under the claim.
2. Leave the settlement in trust with Workers' Compensation.
    a. If the new marriage ends in death, annulment or divorce, the survivor can apply to reinstate the benefit as of the date of death or date the divorce becomes final.
    b. Should the survivor die while the settlement is in trust, the survivor's estate is paid 50 percent of the remaining pension reserve or the settlement amount, whichever is less.

If the death is not related to the claim and a survivor option was selected, monthly survivor benefit payments do not stop. Similar to survivor retirement benefits, the worker's benefit was actuarially reduced to reflect the cost of continuing the benefit over the survivor's lifetime.

Legislative History

The Legislature has twice considered bills (HB 1545 – 2007-08, HB 1212 – 2009) addressing the policy of terminating worker's compensation death benefits when the surviving spouse of certain public safety employees remarries.

2007-08 Legislative Session. Legislation first introduced during the 2007 Legislative Session by Representative Steve Kirby would have allowed surviving spouses of LEOFF Plan 2 members, who are receiving Workers' Compensation death benefits, to continue to receive the benefit after remarriage. The 2007 bill did not receive a hearing. During the 2008 session, the bill was passed unanimously by the House of Representatives, but the bill did not move past the Senate Rules Committee. A Fiscal Note from the Department of Labor and Industries estimated the cost of the bill at $201,662 in the 2007-09 biennium and $21,536 in each of the 2009-11 and 2011-13 biennia.

2009 Legislative Session. New legislation was introduced in the 2009 session allowing the continuation of workers' compensation benefits after remarriage for surviving spouses of LEOFF Plan 2 members and Washington State Patrol Retirement System members who died in the course of employment or whose death is due to an occupational disease.

The bill passed the House of Representatives, but was amended in the Senate before being passed. The amendment requires the Workers' Compensation Advisory Committee to study issues relating to allowing a surviving spouse to continue to receive industrial insurance death benefits after remarriage. The amended bill was sent to Conference Committee, but did not proceed any further. The bill was returned to the House of Representatives for consideration during the 2010 session.

2009 Interim. Following the 2009 Legislative Session, Representative Steve Conway, Chair of the House Commerce and Labor Committee and Senator Jeanne Kohl-Welles, Chair of the Senate Labor, Commerce, and Consumer Protection Committee, sent a joint letter to Judy Schurke, Director of Labor and Industries requesting a study on the policy of terminating survivors' benefits upon remarriage. LNI's response can be found as Appendix A.

2010 Legislative Session. Legislation, which targeted taking care of the families of law enforcement officers' killed in line of duty during late 2009 and early 2010, was introduced during the 2010 session. This bill provides a comprehensive package of benefits to augment the existing duty-related death benefits.

As introduced, this legislation included a provision which would have eliminated the remarriage prohibition for workers' compensation benefits on surviving spouses of public safety employees killed in the course of employment. Surviving spouses who have already had their benefits suspended due to remarriage would have their benefits resume.

The legislation, as introduced, passed overwhelmingly out of the House of Representatives. However, a Senate amendment removed the remarriage prohibition provision of the bill. In place of the prohibition, the Senate increased the potential lump-sum payout a survivor could choose to take in the case of remarriage[1]. Ultimately, the House concurred with the Senate amendment and passed the legislation without the remarriage prohibition.

[1] The surviving spouse may receive a lump sum of thirty-six times (increased from twenty-four times) the monthly compensation rate in effect on the date of remarriage allocable to the spouse for himself or herself or fifty percent of the remaining annuity value of his or her pension, whichever is the lesser. HB 2519 (2010), Sec 3.

Administrative Issues

The requirement to determine eligibility for continuing benefits has created administrative challenges for the Department of Labor and Industries. In fact, the Department of Labor and Industries received an audit finding from the State Auditor's Office in 2006[2] for paying benefits to survivors who were no longer eligible due to remarriage. Eliminating this requirement may help the Department of Labor and Industries.

Policy Treatment in Other States

Preliminary research by the LEOFF Plan 2 Retirement Board has identified at least four states that do not stop survivor benefits upon remarriage. Those states include: Kansas, Minnesota, Nevada, and North Dakota. In the case of Nevada, the continuation of benefits after remarriage is an exception for surviving spouses of police officers or firefighters. See Appendix A.

POLICY OPTIONS

Option 1: Take no further action.

Option 2: Pursue Legislation with included Bill Language

SUPPORTING INFORMATION

Appendix A: Bill Draft

Appendix B: States Allowing Continuation of Benefits after Survivor Remarriage (2009)

[2] WA State Auditor's Office, Audit Report 6541, Released May 5, 2006

Sec. 1. RCW 51.32.050 is amended to read as follows:

(1) Where death results from the injury the expenses of burial not to exceed two hundred percent of the average monthly wage in the state as defined in RCW 51.08.018 shall be paid.

(2)(a) Where death results from the injury, a surviving spouse of a deceased worker eligible for benefits under this title shall receive monthly for life, except as provided in (b) of this subsection, or until remarriage payments according to the following schedule:

(i) If there are no children of the deceased worker, sixty percent of the wages of the deceased worker;

(ii) If there is one child of the deceased worker and in the legal custody of such spouse, sixty-two percent of the wages of the deceased worker;

(iii) If there are two children of the deceased worker and in the legal custody of such spouse, sixty-four percent of the wages of the deceased worker;

(iv) If there are three children of the deceased worker and in the legal custody of such spouse, sixty-six percent of the wages of the deceased worker;

(v) If there are four children of the deceased worker and in the legal custody of such spouse, sixty-eight percent of the wages of the deceased worker; or

(vi) If there are five or more children of the deceased worker and in the legal custody of such spouse, seventy percent of the wages of the deceased worker.

(b) A surviving spouse of a member of the law enforcement officers' and firefighters' retirement system under chapter 41.26 RCW or the state patrol retirement system under chapter 43.43 RCW who is entitled to benefits under this section must continue to receive benefits under this section monthly for life.

(c) Where the surviving spouse does not have legal custody of any child or children of the deceased worker or where after the death of the worker legal custody of such child or children passes from such surviving spouse to another, any payment on account of such child or children not in the legal custody of the surviving spouse shall be made to the person or persons having legal custody of such child or children. The amount of such payments shall be five percent of the monthly benefits payable as a result of the worker's death for each such child but such payments shall not exceed twenty-five percent. Such payments on account of such child or children shall be subtracted from the amount to which such surviving spouse would have been entitled had such surviving spouse had legal custody of all of the children and the surviving spouse shall receive the remainder after such payments on account of such child or children have been subtracted. Such payments on account of a child or children not in the legal custody of such surviving spouse shall be apportioned equally among such children.

((~~(c)~~)) (d) Except as provided in (b) of this subsection, payments to the surviving spouse of the deceased worker shall cease at the end of the month in which remarriage occurs: PROVIDED, That a monthly payment shall be made to the child or children of the deceased worker from the month following such remarriage in a sum equal to five percent of the wages of the deceased worker for one child and a sum equal to five percent for each additional child up to a maximum of five such children. Payments to such child or children shall be apportioned equally among such children. Such sum shall be in place of any payments theretofore made for the benefit of or on account of any such child or children. If the surviving spouse does not have legal custody of any child or children of the deceased worker, or if after the death of the worker, legal custody of such child or children passes from such surviving spouse to another, any payment on account of such child or children not in the legal custody of the surviving spouse shall be made to the person or persons having legal custody of such child or children.

((~~(d)~~)) (e) In no event shall the monthly payments provided in subsection (2) of this section: (i) Exceed the applicable percentage of the average monthly wage in 16 the state as computed under RCW 51.08.018 as follows:

AFTER	PERCENTAGE
June 30, 1993	105%
June 30, 1994	110%
June 30, 1995	115%
June 30, 1996	120%

(ii) For dates of injury or disease manifestation after July 1,2008, be less than fifteen percent of the average monthly wage in the state as computed under RCW 51.08.018 plus an additional ten dollars per month for a surviving spouse and an additional ten dollars per month for each child of the worker up to a maximum of five children. However, if the monthly payment computed under this subsection(2)((~~(d)~~)) (e)(ii) is greater than one hundred percent of the wages of the deceased worker as determined under RCW 51.08.178, the monthly payment due to the surviving spouse shall be equal to the greater of the monthly wages of the deceased worker or the minimum benefit set forth in this section on June 30, 2008.

((~~(e)~~)) (f) In addition to the monthly payments provided for in subsection (2)(a) through ((~~(c)~~)) (d) of this section, a surviving spouse or child or children of such worker if there is no surviving spouse, or dependent parent or parents, if there is no surviving spouse or child or children of any such deceased worker shall be forthwith paid a sum equal to one hundred percent of the average monthly wage in the state as defined in RCW 51.08.018, any such children, or parents to share and share alike in said sum.

((~~(f)~~)) (g) Upon remarriage of a surviving spouse the monthly payments for the child or children shall continue as provided in this section, but the monthly payments to such surviving spouse shall cease at the end of the month, except as provided in (b) of this subsection. However, after September 8, 1975, an otherwise eligible surviving spouse of a worker who died at any time prior to or after September 8, 1975, shall have an option of:

(i) Receiving, once and for all, a lump sum of twenty-four times the monthly compensation rate in effect on the date of remarriage allocable to the spouse for himself or herself pursuant to subsection

(2)(a)(i) of this section and subject to any modifications specified under subsection (2)((~~(d)~~)) ~~(e)~~ of this section and RCW 51.32.075(3) or fifty percent of the then remaining annuity value of his or her pension, whichever is the lesser: PROVIDED, That if the injury occurred prior to July 28, 1991, the remarriage benefit lump sum available shall be as provided in the remarriage benefit schedules then in effect; or

(ii) If a surviving spouse does not choose the option specified in subsection (2)((~~(f)~~)) (g)(i) of this section to accept the lump sum payment, the remarriage of the surviving spouse of a worker shall not bar him or her from claiming the lump sum payment authorized in subsection (2)(((f))) (g)(i) of this section during the life of the remarriage, or shall not prevent subsequent monthly payments to him or to her if the remarriage has been terminated by death or has been dissolved or annulled by valid court decree provided he or she has not previously accepted the lump sum payment.

(iii) After the effective date of this act, the monthly payments to the terminated under this section surviving spouse of a member of the law enforcement officers' and firefighters' retirement system under chapter 41.26 RCW or the state patrol retirement system under chapter 43.43 RCW shall resume regardless of remarriage.

((~~(g)~~)) (h) If the surviving spouse during the remarriage should die without having previously received the lump sum payment provided in subsection (2)((~~(f)~~)) (g)(i) of this section, his or her estate shall be entitled to receive the sum specified under subsection (2)(((f)))(g)(i) of this section or fifty percent of the then remaining annuity value of his or her pension whichever is the lesser.

((~~(h)~~)) (i) The effective date of resumption of payments under subsection (2)((~~(f)~~)) (g)(ii) of this section to a surviving spouse based upon termination of a remarriage by death, annulment, or dissolution shall be the date of the death or the date the judicial decree of annulment or dissolution becomes final and when application for the payments has been received.

((~~(i)~~)) (j) If it should be necessary to increase the reserves in the reserve fund or to create a new pension reserve fund as a result of the amendments in chapter 45, Laws of 1975-'76 2nd ex. sess., the amount of such increase in pension reserve in any such case shall be transferred to the reserve fund from the supplemental pension fund.

(3) If there is a child or children and no surviving spouse of the deceased worker or the surviving spouse is not eligible for benefits under this title, a sum equal to thirty-five percent of the wages of the deceased worker shall be paid monthly for one child and a sum equivalent to fifteen percent of such wage shall be paid monthly for each additional child, the total of such sum to be divided among such children, share and share alike: PROVIDED, That benefits under this subsection or subsection (4) of this section shall not exceed the lesser of sixty-five percent of the wages of the deceased worker at the time of his or her death or the applicable percentage of the average monthly wage in the state as defined in RCW 51.08.018, as follows:

AFTER	PERCENTAGE
June 30, 1993	105%
June 30, 1994	110%

June 30, 1995	115%
June 30, 1996	120%

(4) In the event a surviving spouse receiving monthly payments dies, the child or children of the deceased worker shall receive the same payment as provided in subsection (3) of this section.

(5) If the worker leaves no surviving spouse or child, but leaves a dependent or dependents, a monthly payment shall be made to each dependent equal to fifty percent of the average monthly support actually received by such dependent from the worker during the twelve months next preceding the occurrence of the injury, but the total payment to all dependents in any case shall not exceed the lesser of sixty-five percent of the wages of the deceased worker at the time of his or her death or the applicable percentage of the average monthly wage in the state as defined in RCW 51.08.018 as follows:

AFTER	PERCENTAGE
June 30, 1993	105%
June 30, 1994	110%
June 30, 1995	115%
June 30, 1996	120%

If any dependent is under the age of eighteen years at the time of the occurrence of the injury, the payment to such dependent shall cease when such dependent reaches the age of eighteen years except such payments shall continue until the dependent reaches age twenty-three while permanently enrolled at a full time course in an accredited school. The payment to any dependent shall cease if and when, under the same circumstances, the necessity creating the dependency would have ceased if the injury had not happened.

(6) For claims filed prior to July 1, 1986, if the injured worker dies during the period of permanent total disability, whatever the cause of death, leaving a surviving spouse, or child, or children, the surviving spouse or child or children shall receive benefits as if death resulted from the injury as provided in subsections (2) through (4) of this section. Upon remarriage or death of such surviving spouse, the payments to such child or children shall be made as provided in subsection (2) of this section when the surviving spouse of a deceased worker remarries.

(7) For claims filed on or after July 1, 1986, every worker who becomes eligible for permanent total disability benefits shall elect an option as provided in RCW 51.32.067.

Appendix B
States Allowing Continuation of Benefits after Survivor Remarriage (2009)

Kansas	**44-510b. Compensation where death results from injury; compensation upon remarriage; apportionment; burial expenses; limitations on compensation; annual statement by surviving spouse.** (1) If the employee leaves a surviving legal spouse or a wholly dependent child or children, or both, who are eligible for benefits under this section, then all death benefits shall be paid to such surviving spouse or children, or both, and no benefits shall be paid to any other wholly or partially dependent persons. (2) A surviving legal spouse shall be paid compensation benefits for life, except as otherwise provided in this section. (4) If the employee leaves no legal spouse or dependent children eligible for benefits under this section but leaves other dependents wholly dependent upon the employee's earnings, such other dependents shall receive weekly compensation benefits as provided in this subsection until death, remarriage or so long as such other dependents do not receive more than 50% of their support from any other earnings or income or from any other source, except that the maximum benefits payable to all such other dependents, regardless of the number of such other dependents, shall not exceed a maximum amount of $18,500. (g) The marriage or death of any dependent shall terminate all compensation, under this section, to such dependent except the marriage of the surviving legal spouse shall not terminate benefits to such spouse. Upon the death of the surviving legal spouse or the marriage or death of a dependent child, the compensation payable to such spouse or child shall be reapportioned to those, among the surviving legal spouse and dependent children, who remain eligible to receive compensation under this section.
Minnesota Per MN worker's comp staff, benefits do not cease or suspend due to remarriage after 10/1/83, per Ott v. Krans	**176.111 Dependents, allowances.** Subd. 1. Persons wholly dependent, presumption. For the purposes of this chapter the following persons are conclusively presumed to be wholly dependent: (a) spouse, unless it be shown that the spouse and decedent were voluntarily living apart at the time of the injury or death; Subd. 6. Spouse, no dependent child. If the deceased employee leaves a dependent surviving spouse and no dependent child, there shall be paid to the spouse weekly workers' compensation benefits at 50 percent of the weekly wage at the time of the injury for a period of ten years, including adjustments as provided in section 176.645. Subd. 9a. Remarriage of spouse. A surviving spouse who remarries and is receiving benefits under subdivision 6, 7, or 8 shall continue to be eligible to receive weekly benefits for the remaining period that the spouse is entitled to receive benefits pursuant to this section. ***Winter, deceased by Winter Ott v. D.J. Kranz*, 3/31/04* DOD: 11/24/97** Dependency Benefits – Remarriage of Spouse Minnesota Statutes §176.111, subd. 8 Minnesota Statutes §176.111, subd. 9a Minnesota Statutes §176.111, subd. 16 The purpose of Minnesota Statutes §176.111 is to provide wage replacement benefits to a surviving spouse and dependent children. We cannot conclude the phrase "continue to be eligible to receive" requires that benefits to the surviving spouse be suspended upon remarriage. Rather, the dependency statute, as amended effective Jan. 1, 1984, continues to provide for the continuation of benefits to a surviving spouse upon remarriage. Affirmed.

Nevada	**NRS 616C.505 Amount and duration of compensation.** 1. If an injury by accident arising out of and in the course of employment causes the death of an employee in the employ of an employer, within the provisions of chapters 616A to 616D, inclusive, of NRS, the compensation is known as a death benefit and is payable as follows: 2. Except as otherwise provided in subsection 3 and NRS 616C.507, to the surviving spouse of the deceased employee, 66 2/3 percent of the average monthly wage is payable until his death or remarriage, with 2 years' compensation payable in one lump sum upon remarriage. **NRS 616C.507 Duration of compensation for surviving spouse of police officer or firefighter.** 1. Except as otherwise provided in this section, if the surviving spouse of a deceased police officer or firefighter who died while actively employed as a police officer or firefighter is entitled to be paid compensation pursuant to subsection 2 of NRS 616C.505 or NRS 617.453, 617.455, 617.457, 617.485 or 617.487, the surviving spouse: (a) Must be paid that compensation until the death of the surviving spouse, whether or not the surviving spouse remarries; and (b) Must not be paid any compensation pursuant to subsection 2 of NRS 616C.505 or NRS 617.453, 617.455, 617.457, 617.485 or 617.487 in one lump sum upon remarriage. (Added to NRS by 2007, 678)
North Dakota	**65-05-21. Marriage settlement to spouse.** If a spouse who receives compensation under the provisions of subsection 1 of section 65-05-17 remarries, there shall be paid to such spouse a lump sum equal to one hundred four weeks' compensation. If, prior to such marriage, such spouse has received a partial lump sum settlement which covers all or any portion of the said one hundred four weeks following such spouse's marriage, the amount of such partial lump sum settlement which covers all or any part of the said one hundred four weeks following such spouse's marriage shall be deducted from such marriage settlement, and the spouse shall receive only the remainder, if any, over and above such deduction. Any judgment annulling such marriage shall not reinstate the right of such spouse to compensation if the action for annulment is instituted more than six months after the marriage. The provisions of this section apply only to remarriages that occur before August 1, 2003, regardless of the date of injury or date of death of the decedent.

Plan Design Outcomes

Report Type:
Educational Briefing

Date Presented:
12/17/2014

Presenter Name and Title:
Paul Neal, Sr. Research and Policy Manager
Ryan Frost, Research Analyst

Summary:
Presents recent research comparing and contrasting outcomes between defined benefit plans and defined contribution plans.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Inform the stakeholders.

ATTACHMENTS:

	Description	Type
🗋	Plan Design Outcomes Presentation	Presentation
🗋	Plan design outcomes report	Report

LEOFF Plan 2 Retirement Board

Plan Design Outcomes

Educational Briefing
December 17, 2014

Overview

- Recent funding problems in other State's defined benefit (DB) plans has increased examination of defined contribution (DC) plans for public employees.
- Board requested briefing.
- Presentation reviews current research comparing outcomes between DB and DC plans.

LEOFF Plan 2 Retirement Board

Policy of Retirement Plan

In weighing advantages of different plan designs, useful to consider purpose of the plan:

- Provide a retirement benefit to career employees.
- Provide tax deferred savings plan.

Basic Plan Design Differences

Differences in Plan Design:

- DB plan (LEOFF Plan 2):
  - Benefit determined by formula.
  - Variable contribution rate to fund promised benefit.
  - Shared Risk of underfunding.
- DC plan:
  - Set contribution rate.
  - Benefit determined by fund balance at time of retirement.
  - Risk borne by employee.

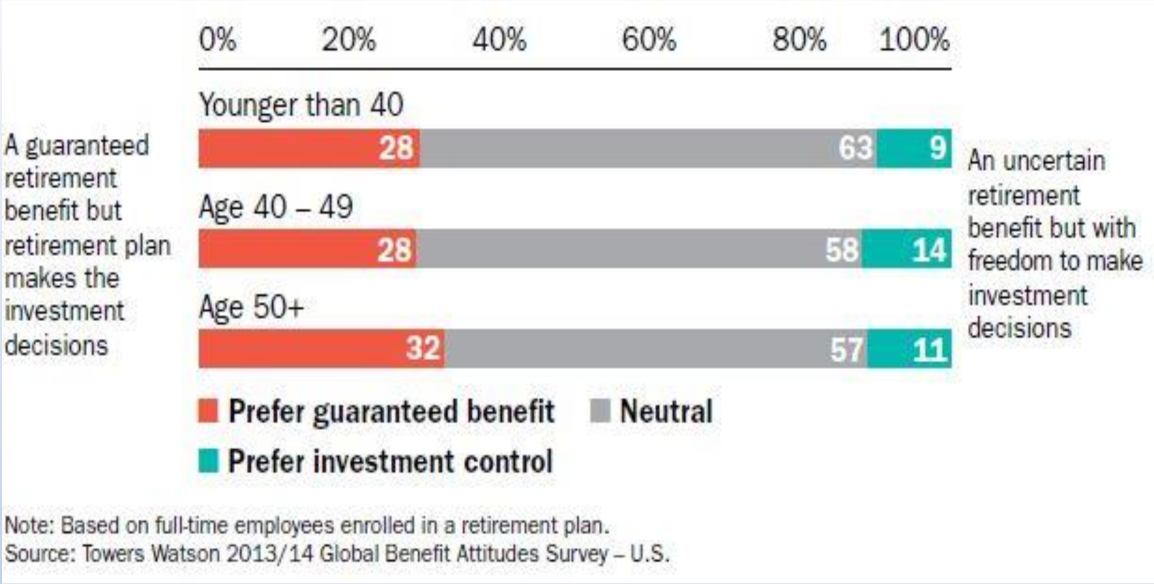
LEOFF Plan 2 Retirement Board

DB vs. DC: Pooled Risks and Assets vs. Individual Flexibility

- DB plans enjoy significant economies of scale by pooling risks and assets for a group of employees.
- More efficient structure for providing retirement benefits.
- DB Less flexible than DC plan.
    - DC benefit may be better for mobile employee.

Flexibility of DC Plans Can Benefit Employees

- DC more portable for those changing careers or location.
- DC can empower members.



LEOFF Plan 2 Retirement Board

DC Can Benefit Employers: Less Administrative Complexity and More Stable Rates.

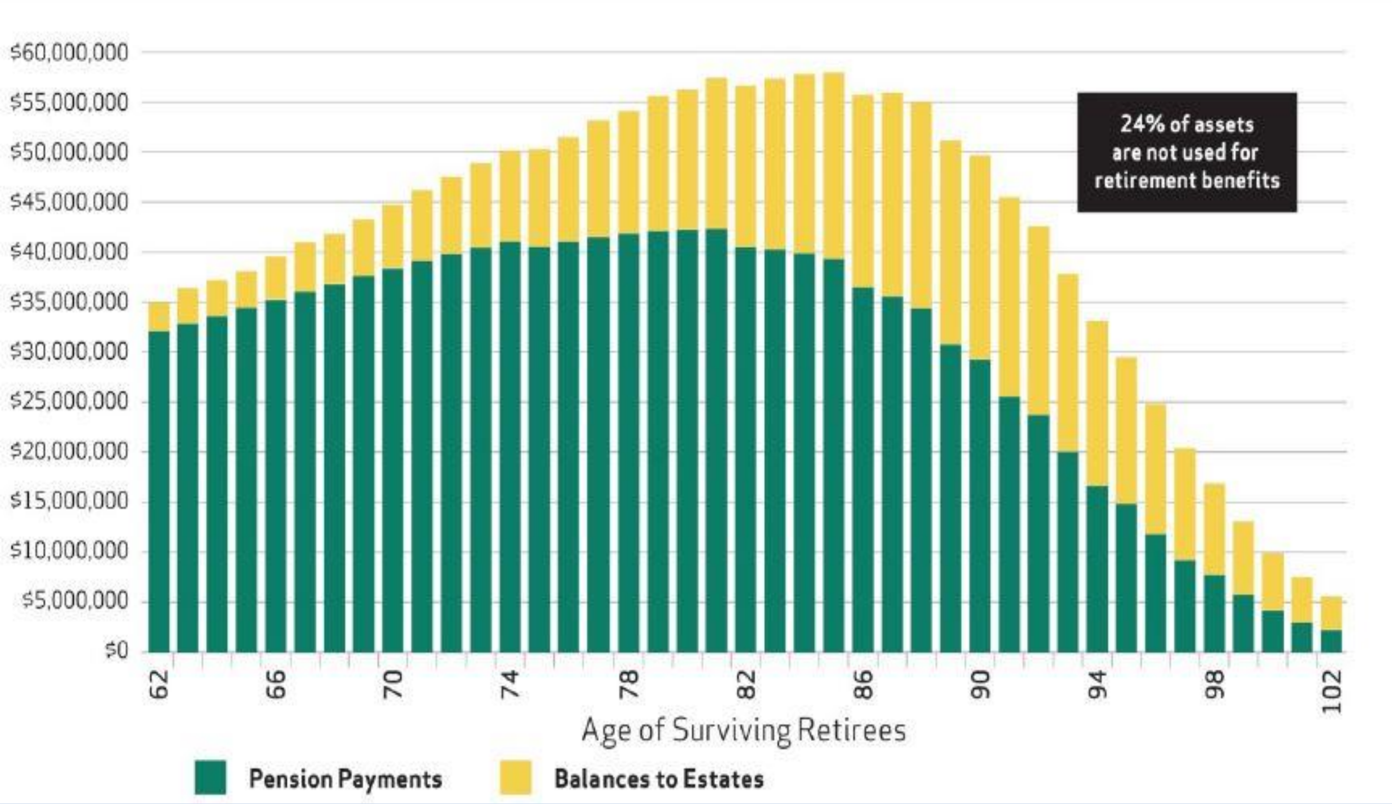
- DC can be less complex to administer:
  - DB requires tracking assumptions.
  - Ramifications of plan design changes.
- DC has stable contribution rates:
  - Contrast to DB rate changes.

Fiscal Biennium	2015-17	2017-19
Increase in estimate General Fund-State contributions	$275 million	$498 million (in addition to the increases for the 2015-17 biennium)

LEOFF Plan 2 Retirement Board

DB Plans Provide Higher Returns

1) Pooling of Longevity Risk

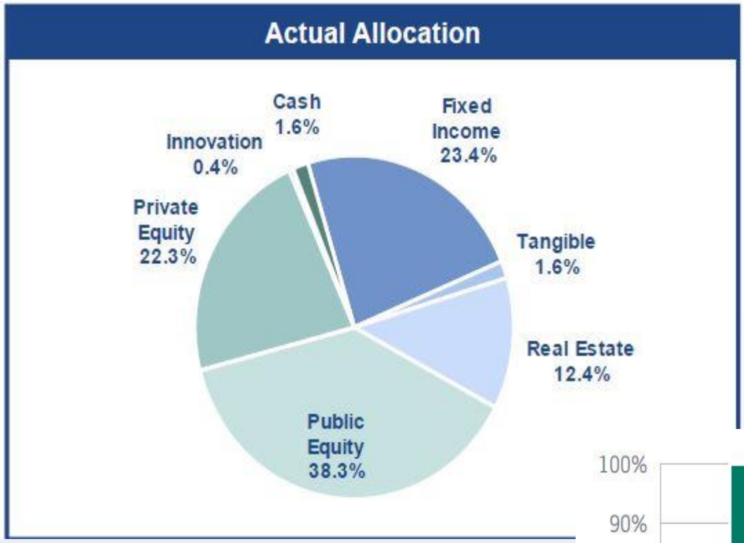


Source: Fornia and Rhea, 2014

LEOFF Plan 2 Retirement Board

DB Plans Provide Higher Returns

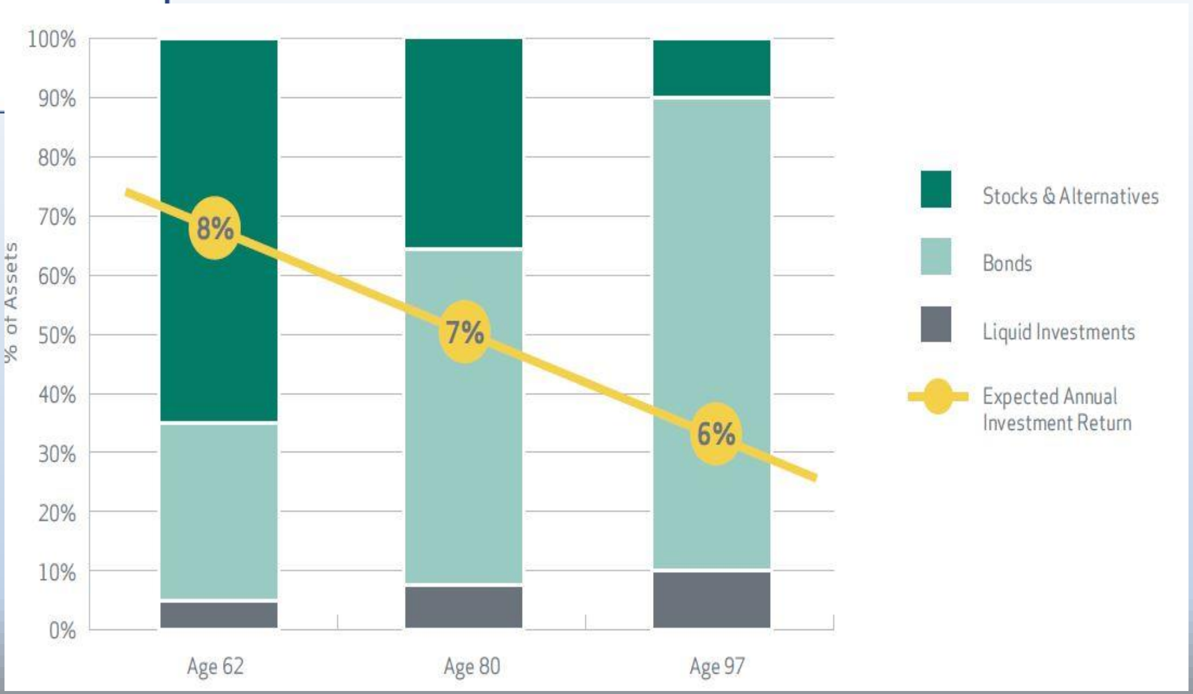
2) Diversification



WSIB Asset Allocation as of June 30, 2014
source – WSIB

As Portfolio Allocation Shifts, Expected Return in DC Plan Falls

Source: Fornia and Almeida (2008)



DB Plans Provide Higher Returns

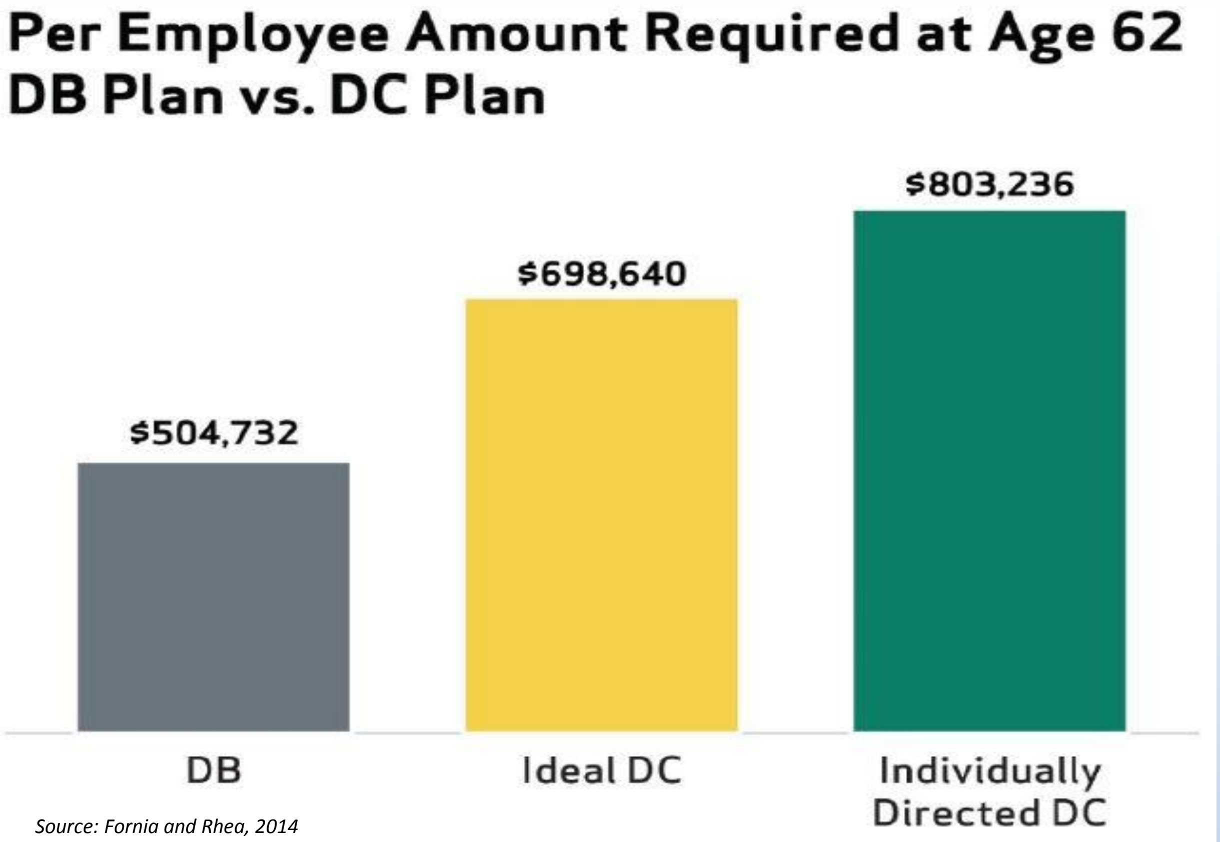
3) Professionally managed and lower fees

- Pooling provides economies of scale that provide lower fees. Conservative assessment: .4%
- Professional management yields consistently higher returns. Conservative assessment .6%

1% net annual difference with compounding = 24% difference in balance after 40 years

LEOFF Plan 2 Retirement Board

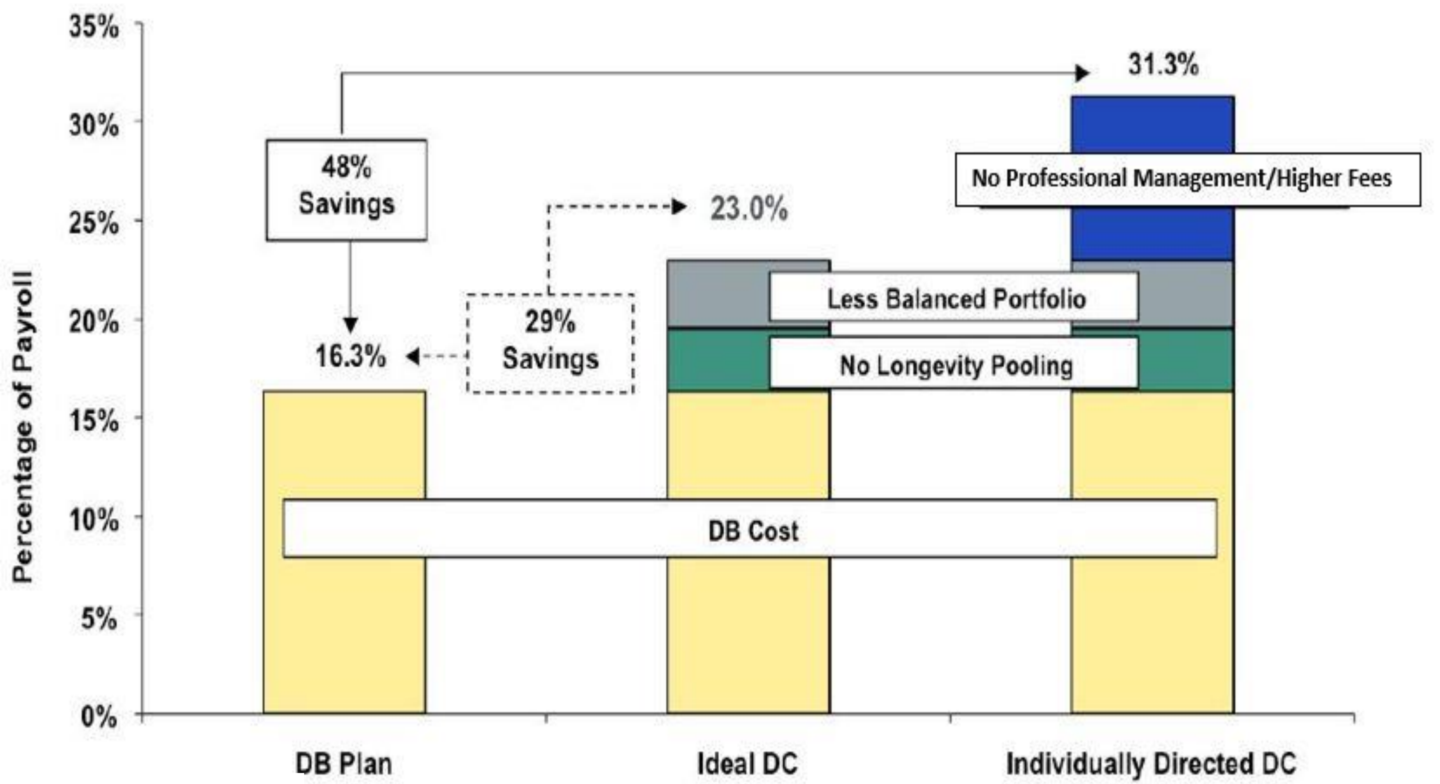
DB Plans Provide Retirement Benefits for Less than DC plans



Source: Fornia and Rhea, 2014

LEOFF Plan 2 Retirement Board

Putting it All Together: Sources of DB Investment Advantage



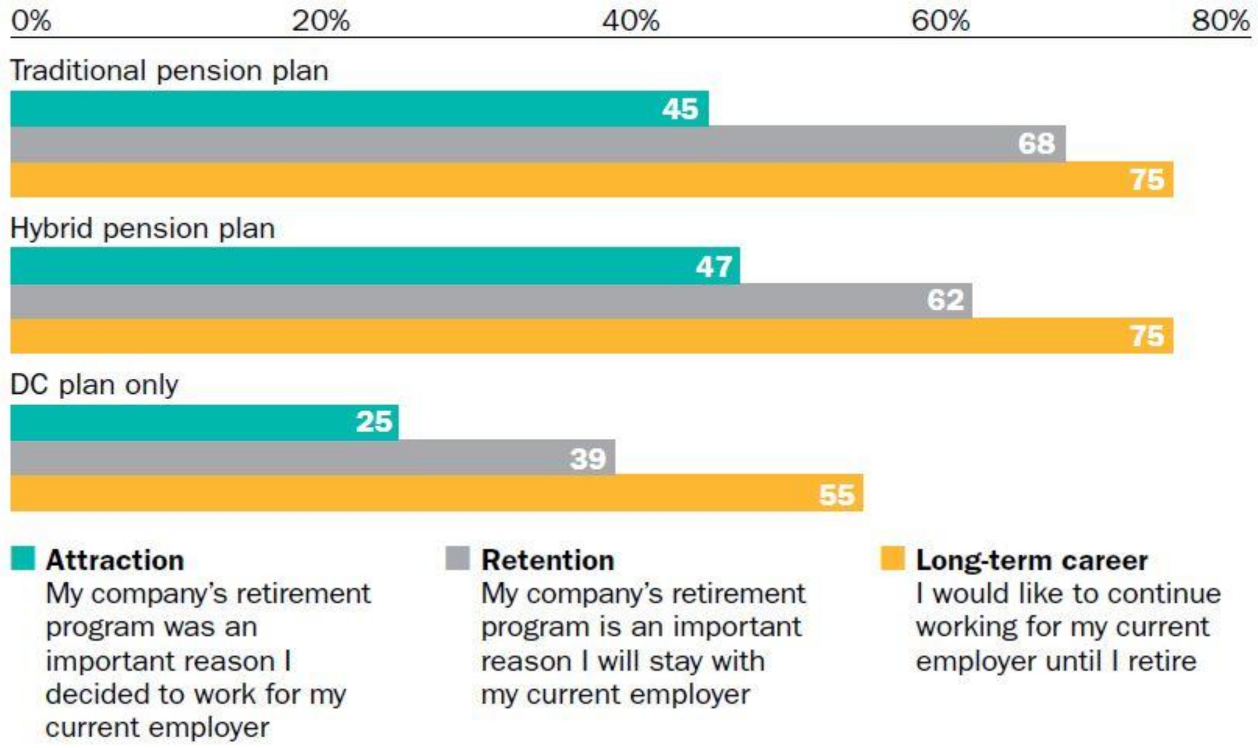
Source: Fornia and Rhea, 2014

Differences probably larger due to conservative assumptions.

LEOFF Plan 2 Retirement Board

DB Plans: Stronger Recruitment and Retention Incentive

Attraction, Retention and Long Term Career Plan by Plan Type

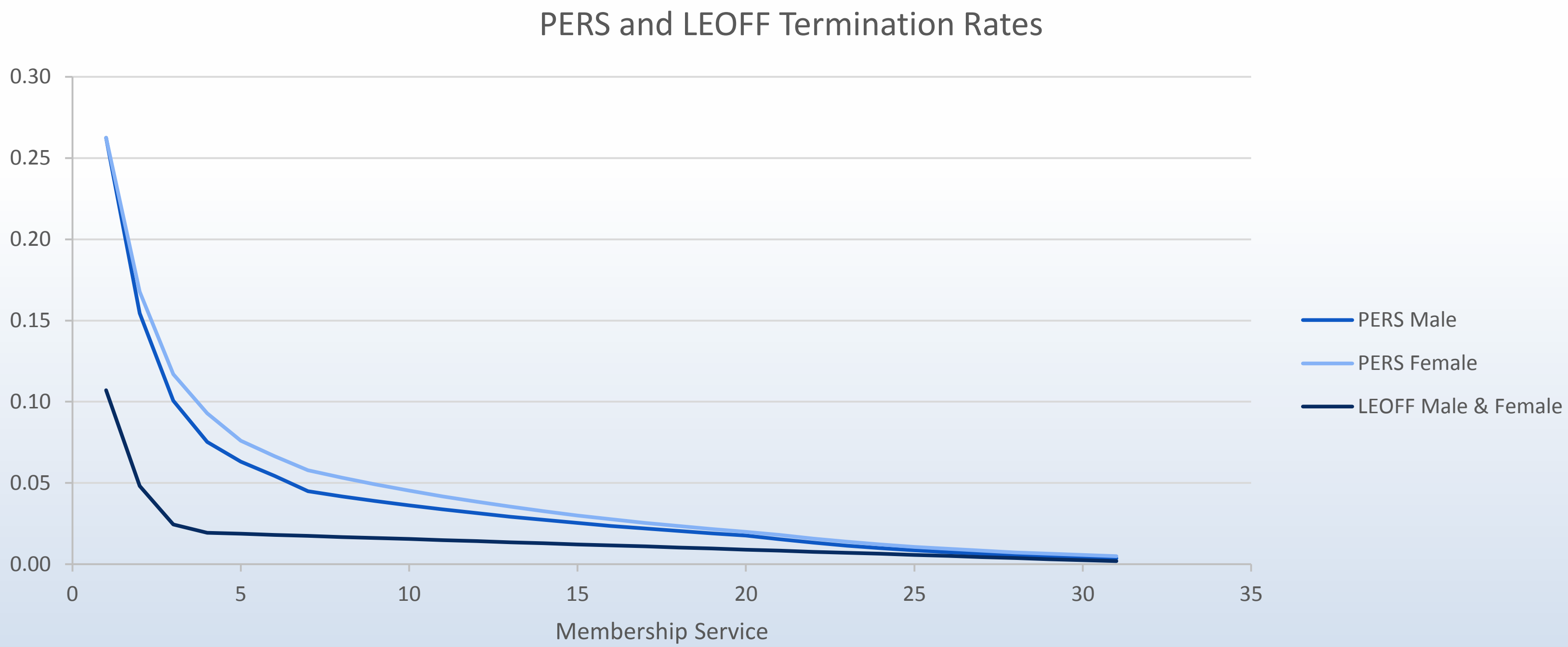


Source: Towers Watson 2013/2014 Global Benefit Attitudes Survey – U.S.

LEOFF Plan 2 Retirement Board

DB Plans Better Serve Public Safety Employees

LEOFF Plan 2 Members Tend to be Career Employees.



Data source: Office of the State Actuary

LEOFF Plan 2 Retirement Board

DB Plans Better Serve Public Safety Employees

- "Insurance" needs due to dangerous and physically demanding careers.
  - Disability benefits.
  - Survivor benefits.
- Absence of Social Security.

Conclusion

- Threshold plan design question: What is the purpose of the plan?
  - To provide retirement benefit to career employees.
  - To provide tax deferred plan.
- LEOFF Plan 2 employees are predominantly long-term career employees. DB is most effective and efficient way to provide retirement benefit.
- Board's full funding policy avoids DB pitfalls and takes full advantage of DB efficiencies and economies of scale.

Questions?

Contact:

Paul Neal
Senior Research and Policy Manager
(360) 586-2325
paul.neal@leoff.wa.gov

Ryan Frost
Research Analyst
(360) 586-2326
ryan.frost@leoff.wa.gov

LEOFF Plan 2 Retirement Board

December 17th, 2014

Plan Design Outcomes

EDUCATIONAL BRIEFING

Paul Neal
Senior Research & Policy Manager
360-586-2325
paul.neal@leoff.wa.gov

Ryan Frost
Research Analyst
360-586-2326
ryan.frost@leoff.wa.gov

ISSUE STATEMENT

The Board requested information on the differences between defined benefit (DB) plans and defined contribution (DC) plans. This paper examines differences in retirement outcomes between DB and DC plans.

OVERVIEW

The funding problems with some public DB plans outside of Washington State have sparked interest in evaluating defined DC plans for public employees.

The future is uncertain. An effective and efficient way to manage that uncertainty is pooling assets and risk. If the goal of the retirement system is to efficiently provide members with a reliable retirement income, the research shows a DB plan is the best way to do that. That is, best for long term employees who stay with a covered employer until they reach retirement eligibility. Generally speaking, law enforcement officers and fire fighters follow a more stable career path and are thus more likely to be around to benefit from the advantages of a DB plan. Employees who switch employers and contribute to different plans may be better served by a DC plan.

That distinction raises policy questions about the function of the pension plan. Is its purpose to provide a retirement benefit to those who remain long enough to qualify, or is it to provide a tax deferred savings option? The answer to that question informs in large part the DB vs. DC decision.

This paper summarizes and builds on existing research comparing outcomes in DB and DC plans.

BACKGROUND & POLICY ISSUES

DB plan design is fundamentally different from DC plans. Members of a DB plan are guaranteed a lifetime benefit based on a formula, typically years of service X final compensation X a multiplier (2% in Washington). Due to changes over time in investment return and other assumptions such as mortality, the contributions required to fund a DB plan vary. The members of a DC plan are guaranteed a certain level of employee and employer contributions, resulting in a lump sum of money that is converted to a stream of income upon retirement. The actual amount of retirement income from a DC is uncertain.

Studies reviewing differences in retirement outcomes between DB and DC plans have identified a number of significant differences between the two basic plan designs.

DB vs DC: Pooled Risks and Assets vs Individual Flexibility

Both DB and DC plans require employer and employee contributions over the working life of the employee, then use those contributions to provide a retirement benefit. One big difference is the pooling of risks and assets found in a DB plan versus the more individualized management of risks and assets in a DC plan. This difference drives many of the different outcomes examined in this paper.

Pooling in a DB plan provide efficiencies in accruing capital and managing risk. These advantages come at the expense of the greater flexibility of a DC plan. Further, the DB plan advantages for the individual are contingent on the employee working a full career with a participating employer. If an employee moves in and out of covered employment their DB benefit may be less than what could be accumulated with a DC.

Employees Can Benefit From the Flexibility of DC Plans

The pooling of risks and assets available to DB plans provides less individual flexibility and mobility than a DC plan.

Portability

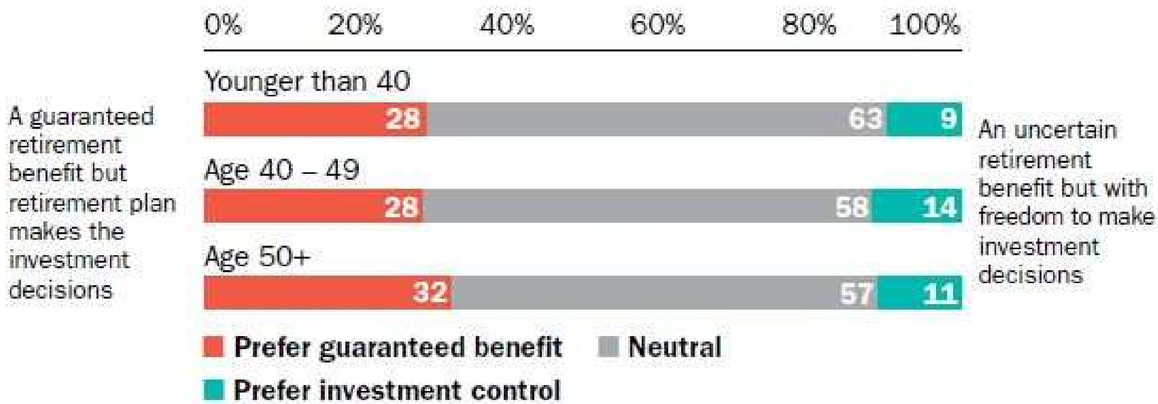
If a member of LEOFF Plan 2 changes to a non-public career or moves to another state before reaching retirement eligibility the value of their defined benefit is fixed by their past salary and service credit. It will not grow over time. If the member decides to withdraw from LEOFF Plan 2 they receive a refund of their own contributions plus interest. The member may not withdraw the employer funds contributed on their behalf. Those funds stay in the trust to provide retirement benefits for others.

An employee with a DC plan can usually withdraw both employer and employee contributions plus earnings if vested. By allowing full withdrawal, DC plans can provide a larger balance to mobile employees.

Member Empowerment

DB plans operate independently of individual member financial decisions, whereas those same decisions are a central feature of defined DC plans. Employees with DC plans may feel a greater sense of empowerment with their ability to affect their financial security. This empowerment brings with it the individual risk of the performance of an individual portfolio.

A recent survey by Towers Watson shows that while some employees would prefer individual investment choice, a much larger percentage prefer a guaranteed retirement benefit to the ability to control their own investments[i]:



Note: Based on full-time employees enrolled in a retirement plan.
Source: Towers Watson 2013/14 Global Benefit Attitudes Survey – U.S.

Employers Can Benefit From Less Administrative Complexity and More Stable Contribution Rates of DC Plans

Administrative Complexities

DB plans rely on a combination of assumptions that must be tracked and adjusted over time as actual experience deviates from those assumptions. The complexities of DB plans can also lead to plan design decisions made without a full understanding of all the various implications. Because of this, DC plans tend to be easier to administer and have greater financial certainty for employers.

Stable Contribution Rates

As recent experience in Washington State has shown, DB contribution rates can fluctuate significantly. While this has been less true for LEOFF plan 2, this fluctuation creates a strain on employer and member budgets.

Contributions to DC plans are, as the name indicates, defined. They are set in the plan document and often, as with Washington's plan 3 systems, cannot be altered during employment. DC plan contributions are stable and known, both for employee and employer.

A November 2014 presentation to the Select Committee on Pension Policy by Legislative Budget staff included the following estimates of additional DB pension contributions needed in the next two biennia:

Fiscal Biennium	2015-17	2017-19
Increase in estimate General Fund-State contributions	$275 million	$498 million (in addition to the increases for the 2015-17 biennium)

Employers with DC plans never have to deal with charts like this. While the contribution amount will change with salary growth, that is much more manageable when budgeting.

DB Plans Provide Higher Investment Returns

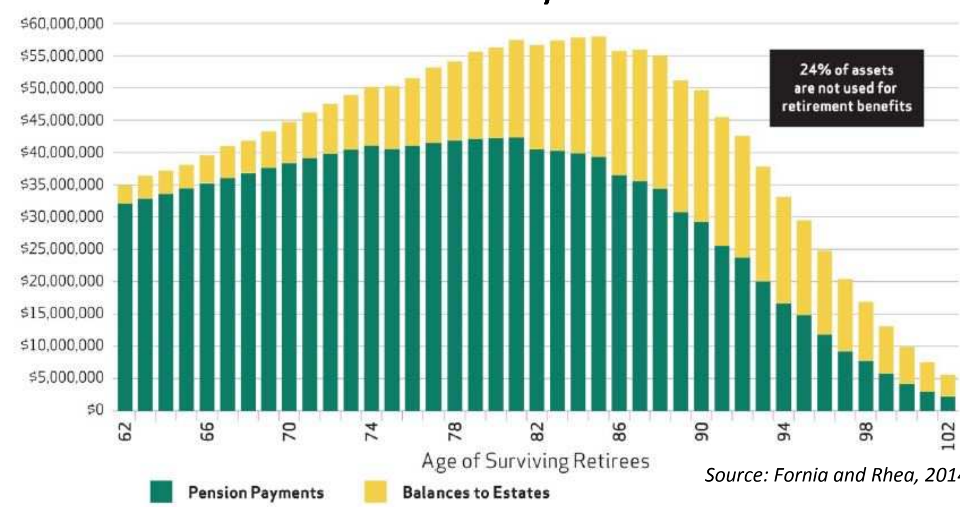
DB plans also provide advantages stemming from 3 sources: 1) Longevity risk pooling; 2) Maintenance of portfolio diversification; and 3) Lower fees and professional management. These differences were discussed and modeled by Fornia and Rhee (2014)[ii].

Longevity Risk Pooling

"Demographic risk" includes factors such as expected mortality, which will shift and change the cost of a lifetime benefit. Like investment risk, a DB plan distributes demographic risk over the group of members and can address that risk by adjusting contribution rates. In a DC plan that risk lies solely on the employee, who must either adjust contributions or adjust their own retirement income expectations.

A DB plan manages individual differences in lifespan between members. It plans asset accumulations necessary to pay for the average life expectancy of all individuals in the plan. The fact that a particular individual dies earlier or later is already actuarially accounted for and built into the underlying contribution rates.

Total Benefit and Estate Payments under DC Plan



Source: Fornia and Rhea, 2014

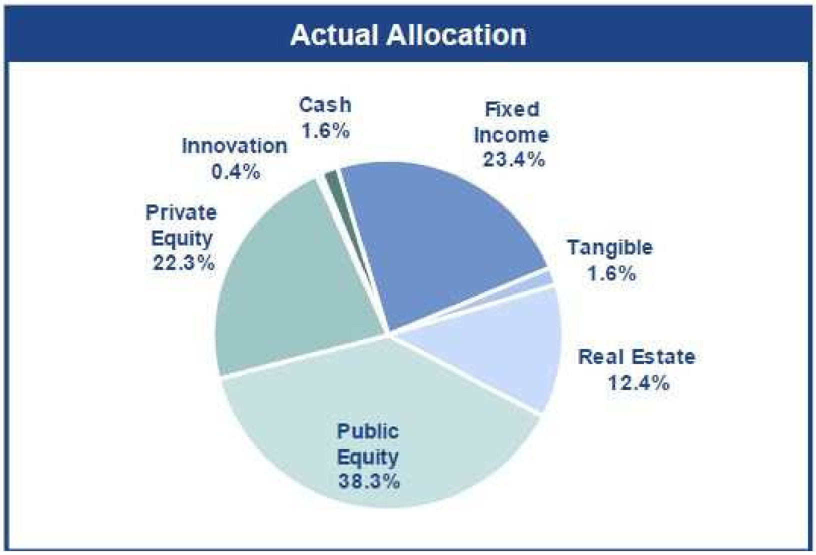
In a DC plan, it is up to the individual to either organize a payment stream that will last throughout their life or live with the risk that they may outlive their savings. This causes an "over saving" effect. Individuals do not know how long they are going to live and are strongly averse to outliving their retirement savings. Because of this, many DC retirees do not exhaust their pension savings, with remaining funds passing to heirs. Research shows 24% of DC plan assets do not provide retirement income.

With longevity pooling, DB plans fund the average life expectancy for a plan, therefore providing the same level of benefit with less money.

Maintenance of Portfolio Diversification

DB plans can pursue more robust diversification by accessing investments that are simply not available to DC plans. DB access to more diverse investments is due to numerous factors including regulatory requirements, management requirements, infrastructure requirements, dollar size requirements, and cash flow "lumpiness". Investments more accessible to DB plans include: private real estate, private equities, commodities, and venture capital, as well as other alternative investments. Because of this, DB plans should be able to achieve similar returns to DC plans with less risk.

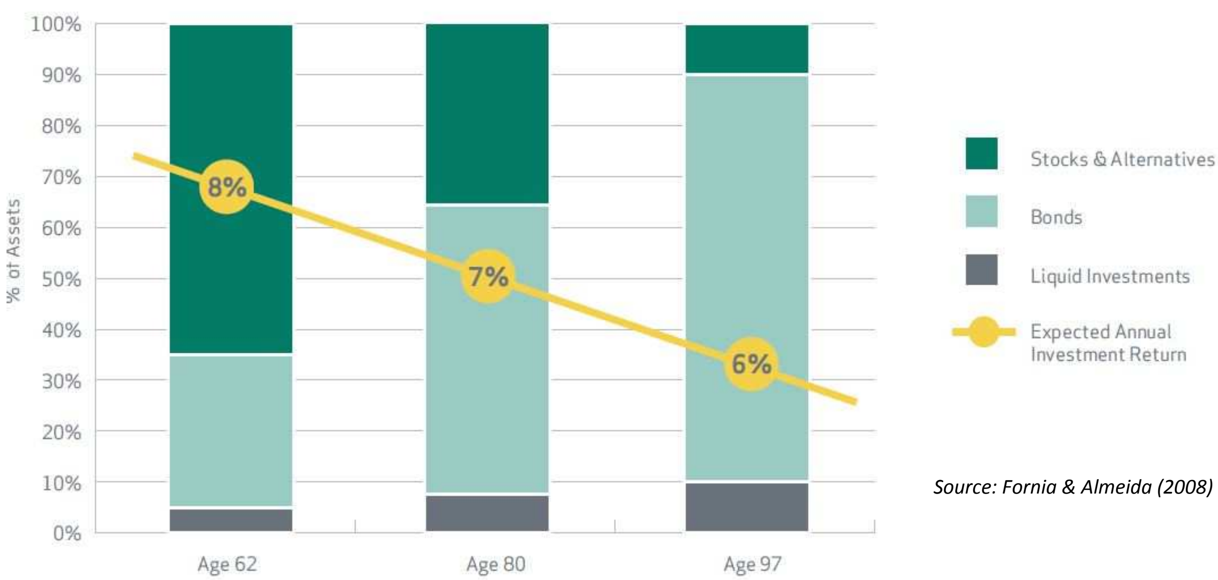
WSIB Asset Allocation as of June 30, 2014 *source – WSIB*



The on-going nature of the DB plan also facilitates diversification. The pooled risk profile allows DB funds to make systemic investments without being effected by experience of a particular member, such as individual aging. This allows an investment structure with a higher risk/return tradeoff that usually yields higher returns than a DC plan.

By contrast, an individual with a DC plan must modify their investment risk profile as they age, modifying their portfolio into less risky lower returning assets. This shift may be modest in a given year, but the cumulative effect can result in a significant reduction in investment return.

As Portfolio Allocation Shifts, Expected Return in DC Plan Falls



Source: Fornia & Almeida (2008)

Lower Fees and Professional Management Generate Higher Investment Return

Over the course of one's career, investment returns should make up the bulk of plan assets. But investment returns do not happen by themselves. DB plan assets in Washington are invested by the State Investment Board (SIB), which has an excellent record of investment return. In a DC plan the individual typically lacks the expertise to maximize asset allocation decisions.

In DB plans, pooling risks and assets reduce investment costs. DC plan investment costs increase almost linearly with the number of participants. DB plan costs, beyond a certain size, increase much more slowly because of pooling. Administrative costs, (salaries, rents, etc.,) also benefit from the cumulative effects of pooling.

The professional investment management provided by DB plans has consistently provided higher rates of return than DC plans. For example, during the 2008 financial crisis, individual participants generally failed to re-balance their asset allocations, and those who did shift assets incurred significant losses by fleeing from equities near the bottom of the market.[iii] Because of investment expertise and a greater diversity of available investments, DB plans average higher rates of return than DC plans.

After reviewing studies of long term returns for DB vs. DC plans, Fornia and Rhee adopted a modest assumption of a 40 basis points (.4%) DC disadvantage due to fees and 60 basis points (.6%) DC disadvantage due to "behavioral drag" i.e. lack of expertise, for a total 1% annual difference in return. Over 40 years the compound effect of this 1% leads to a 24 percent reduction in the value of assets available to pay retirement benefits.

DB Plans Provide Retirement Benefits at a Lower Cost than DC Plans

For employees who spend a career working within the same retirement system, benefits can be provided much more efficiently by a DB plan. Fornia and Rhee targeted a retirement allowance of $2,700 a month for an employee retiring at age 62 after a 30 year career in a DB system. They concluded that this amount, plus COLAs, provided an adequate retirement when combined with Social Security. They then compare the amount of money needed at retirement to provide that benefit.

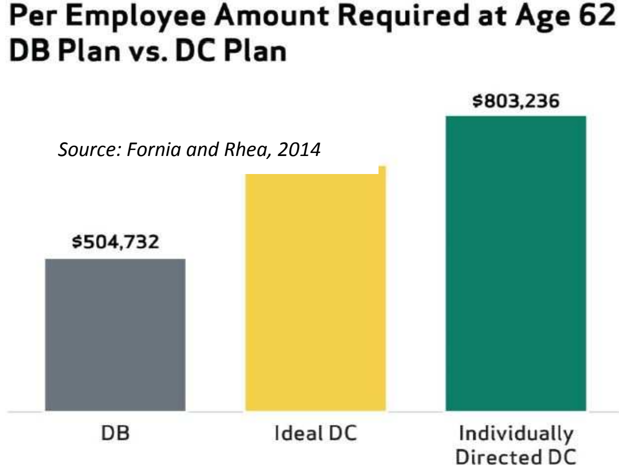
They constructed 3 scenarios:

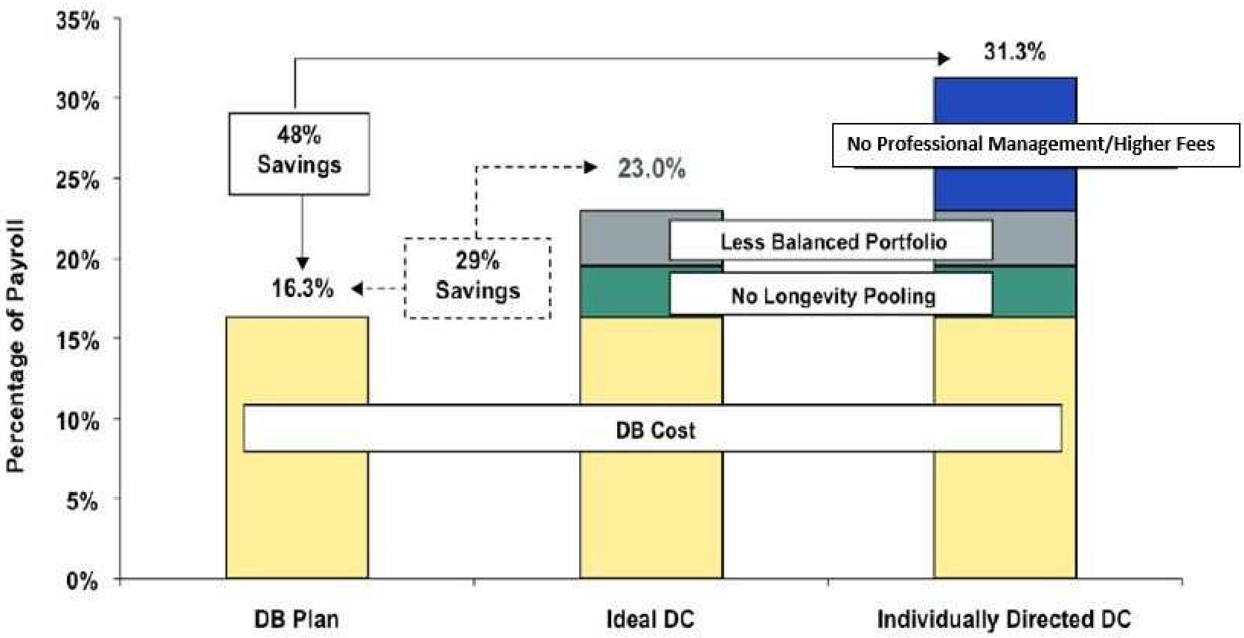
- A DB plan with an assumed annual return of 7.36%.
- An "ideal" DC plan with the same lower fees and professional management as a DB plan. This is similar to the state deferred compensation plan option using the Total Allocation Portfolio (TAP option.

- An individually directed DC plan.

Both the ideal DC plan and the individually directed DC plan require significantly higher accumulations of capital to provide the same benefit.

The plan design cost differences are displayed below by factor. Fornia and Rhee calculated the percentage of payroll needed for lifetime contributions to provide the benefit from a DB (16.3%), an ideal DC (23%), and a self-directed DC (31.3%):





Source: Fornia and Rhea, 2014

Fornia and Rhee note that the relative cost of DC plans are likely higher than their estimate because they chose very conservative assumptions, including the assumption that DC participants did not make any preretirement withdrawals.

This result contradicts the claim that DC plans are cheaper. Instead, the numbers seem to reflect this because employers who switch from a DB to a DC plan almost always cut the average employee benefits in the process. A recent UK study found that the average contribution per employee to a DB plan is 16-18% while the average contribution for a DC plan is 9**%.**[iv] Cutting benefits reduces cost regardless of plan design.

DB Plans Provide a Stronger Recruitment and Retention Incentive

Employers with DB plans enjoy a competitive advantage in recruitment and retention. A survey report released by Towers Watson in 2014[v] provides recent statistically reliable data comparing recruitment and retention effects of DB plans vs. DC plans.

Recruitment

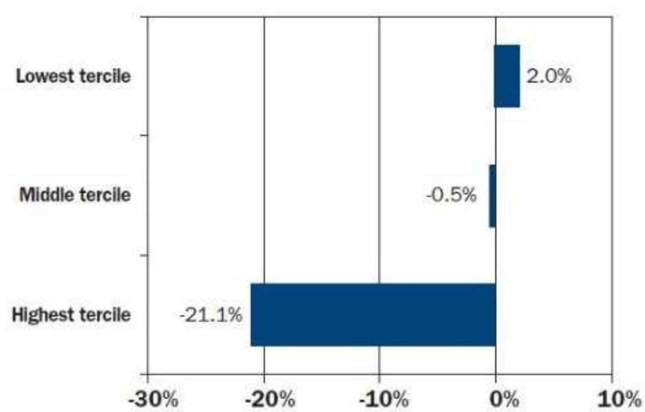
Towers Watson survey of employee attitudes revealed a significant difference in employee recruitment between DB and DC plans. DB plan participants are more likely to cite the retirement plan as a reason for joining their employer than DC participants.

	Age	DB Plan	DC Plan
"My company's retirement program was an important reason I decided to work for my current employer." (2013 responses)	<40	39%	22%
	40-49	45%	27%
	50+	49%	28%

Source: Towers Watson 2013/2014 Global benefit attitudes survey – U.S.

While the Towers Watson data comes from a survey of private employees, research also examines the recruitment effect of public pension plans. Those studies show private sector wages overall are approximately 10% higher than public sector wages. When the value of benefits is factored in, public sector and private sector compensation is "roughly equal".[vi] This distribution is not present throughout the wage scale, however.

The relative scale of public vs. private compensation varies greatly depending on which third of the compensation plan the worker finds themselves in. As shown in the chart on the right, controlling for education and other characteristics, the public-private wage differential is roughly zero for the middle third of public sector workers. However, state-local workers in the lower third of the earnings distribution earn slightly more, while those in the top third earn dramatically less than private sector workers with similar characteristics.



Source: Munnell et al. (2011).

Potential workers consider benefits as part of total compensation. Public employee pensions can help to bridge the wage gap, helping to attract workers that might otherwise opt for a higher wage in the private sector. For professional career employees like teachers, recent research has shown, that benefits are as important as wages when deciding whether to take a job.[vii] The researchers speculate this may be because teachers, like law enforcement officers and firefighters, plan to retire from the same profession within the same state, allowing them to collect full pensions.

Retention

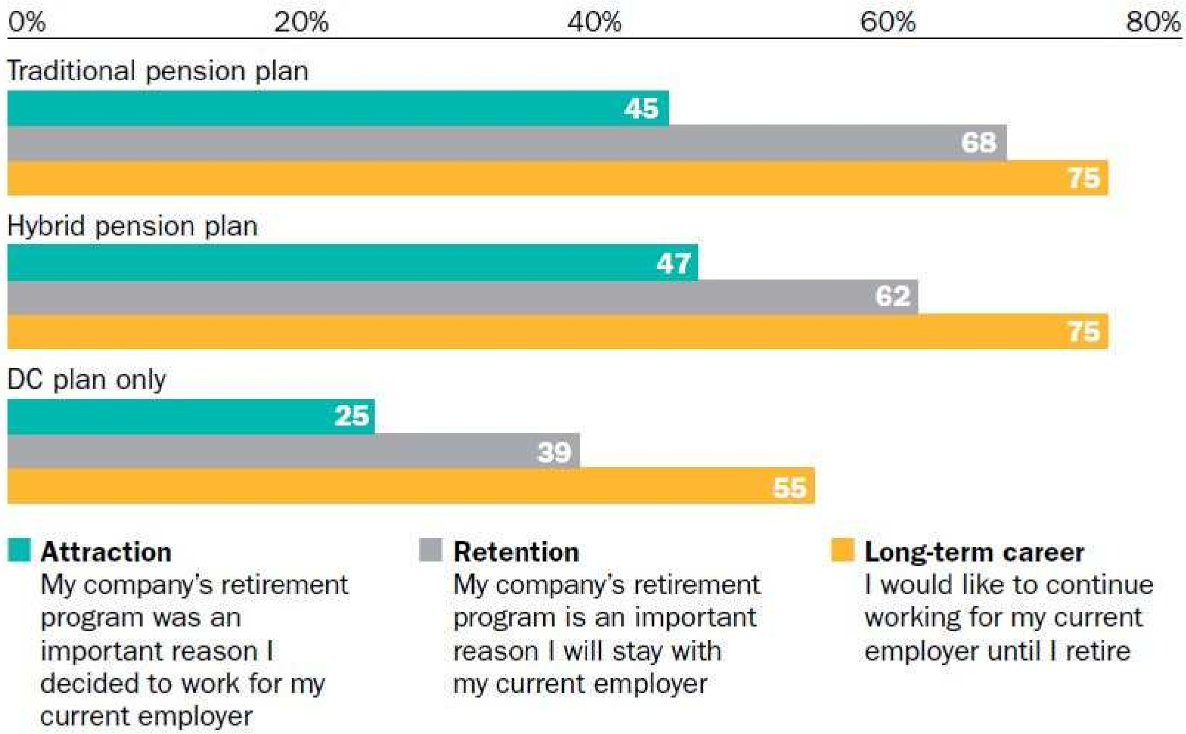
As one advances in their public career through vesting and higher levels of service accumulation, the accumulation of a pension benefit encourages a person to stay at their job.

Munnell, Aubry, and Sanzenbacher,[viii] constructed a public sector DB model to examine the retention effect exerted by a pension. They found that benefits available to employees who had a DB plan only (i.e. no Social Security) were significantly "back-loaded":

> An employee starting at age 35 with a 30-year career will earn more than 30 percent of their lifetime pension benefits in the last five years of employment; those leaving with 10 years of service receive only about 14 percent of the possible lifetime benefits. Thus, participants face a very strong incentive to keep working until full benefits are available.[ix]

The design of LEOFF PLAN 2 provides a significant incentive for employees to stay until full retirement eligibility. This retention effect is a benefit to employers, particularly in the public safety field, which requires significant employer investment in continuing training.

Attraction, Retention and Long Term Career Plan by Plan Type



Source: Towers Watson 2013/2014 Global Benefit Attitudes Survey – U.S.

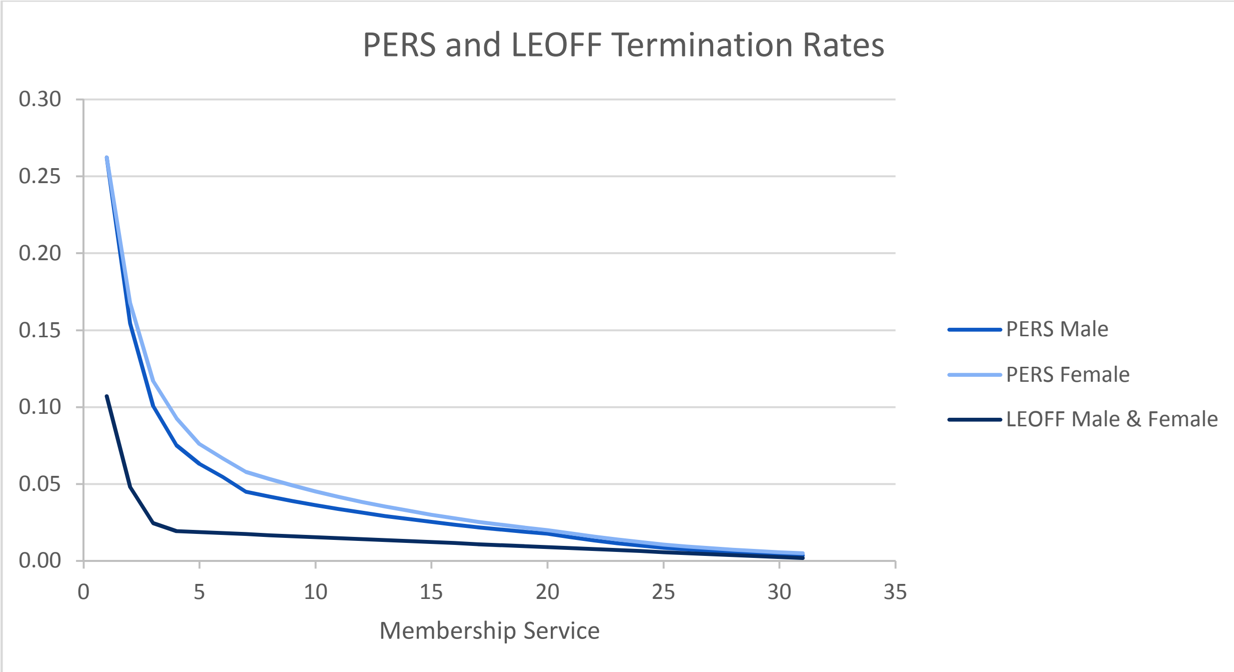
The stronger retention effect of DB plans is confirmed in the Towers Watson survey. "60 % of employees who plan to work for their company until they retire also identify their retirement program as a very important reason for staying."[x] The graphic here compares the attraction, retention, and long-term career incentives of DB, Hybrid, and DC plans. The effects for DB plans and Hybrids are very close, but there is a marked reduction in all 3 effects for DC plans.

DB Plans Better Serve the Unique Needs of Public Safety Employees

The Board focuses specifically on LEOFF Plan 2 rather than general pension policy. With that in mind it is useful to consider the DB vs. DC issues within the context of public safety plans.

Most LEOFF Plan 2 Members are Career Employees

Being a fire fighter or a law enforcement officer is not just a job - it is a career. A recruit must pass rigorous training before beginning their career, and not everybody makes it. The most recent data from the Office of the State Actuary confirms a much lower pre-retirement attrition rate from LEOFF Plan 2 than from the non-career specific PERS Plan 2. As shown in the charts below, the PERS termination rate is more than twice as high as the LEOFF rate:



Source: Office of the State Actuary

Disability Protection

Firefighting and law enforcement are physically demanding, often dangerous, careers. The nature of the jobs demands a higher level of disability protection. The pooling of assets and risks found in a DB plan is better suited to providing what is essentially a disability insurance program. Disability insurance could be provided as an additional benefit from a DC plan, however, it is unlikely that law enforcement officers and fire fighters could purchase stand alone disability insurance given the dangerous nature of their job responsibilities.

Survivor Coverage

The increased risk of dying on the job requires the availability of a higher level of survivor benefits. Again, this is much like an insurance benefit made necessary by the nature of the job, and that can be well managed by the pooling of assets and risks found in a DB plan. Survivor coverage could be available through individual insurance policies, but the cost associated with the individual insurance protection will far exceed the cost of providing this protection through a pooled DB plan.

Absence of Social Security

While all LEOFF Plan 2 members have been mandated into Medicare after April 1, 1986, many do not have Social Security coverage. This is particularly true for fire fighters, where only 6.5% participate in Social Security. Law enforcement officers have a much higher participation rate, 58.5%, but there are still many without. The absence of this supplement makes pension earned through the employer even more important.

Conclusion

DB risk and asset pooling provide the most effective and efficient way to provide a lifetime retirement benefit for career public employees. The more predictable benefit provided by a DB plan provides a measurable influence on recruitment and retention. In the public safety context, a system that encourages recruitment and retention benefits both employers and employees. A more mobile workforce could be better served by a DC plan, but that mobility is not a common characteristic of LEOFF Plan 2 members.

This is not to say that DB plans are without problems. But one could argue that the problem is not with the plan design, but with the failure to fully fund the plan in order to maximize the significant investment return advantage. The Board's consistent policy of ensuring full funding for LEOFF Plan 2 maximizes the efficiencies and economies of scale inherent in DB plan design.

Endnotes

[i] *Retirement Security Tops List of Employee Concerns*, Towers Watson 2013/2014 Global Benefits Attitudes Survey – U.S. (2014)

[ii] "Still a Better Bang for the Buck: *An Update on the Economic Efficiencies of Defined Benefit Pensions"* Fornia and Rhee; National Institute on Retirement Security (2014)

[iii] N. Tang, O. Mitchell, and S.Utkus, 2011 "Trading in 401(k) Plans During the Financial Crisis," PRC Working Paper 2011-12, Pension Research Council, Philadelphia, PA.

[iv] Ghilarducci, T & W. Sun. 2006. How defined contribution plans and 401(k)s affect employer pension costs. *Journal of Pension Economics and Finance, 5(2),* 175-96.

[v] Towers Watson outlined the report methodology as follows: "Towers Watson's 2013/2014 Global Benefit Attitudes Survey is a nationally representative survey fielded in 12 countries.8 The U.S. survey includes 5,070 respondents employed by nongovernment organizations with 1,000 or more employees. It builds on several previous Towers Watson surveys to track evolving employee attitudes. This article reflects responses from a subset of 4,248 retirement plan participants working full time. All respondents are provided a DB and/or DC retirement plan by their current employer. DB plan participants are those who currently participate in an active DB plan. Respondents with only a DC plan include both those who contribute to the plan and those who decline to participate. All results are weighted by age, gender and salary to the national average of similar workers."

[vi] *Compensation matters: the Case of Teachers*, Munnell and Fraenkle, p.4.

[vii] *Id.* p. 8.

[viii] *How Retirement Provisions Affect Tenure of State and Local Workers*, Munnell, Aubry, Hurwitz, and Quinby; Center for Retirement Research at Boston College, *State & Local Pension Plans*, Number 27, November 2012, p. 4.

[ix] *Id.* p. 4.

[x] *Attracting and Keeping Employees: the Strategic Value of Employee Benefits*, Towers Watson 2013/2014 Global Benefits Attitudes Survey – U.S. (2014).

Review of Benefit Improvement Studies

Report Type:
Educational Briefing

Date Presented:
12/17/2014

Presenter Name and Title:
Steve Nelsen, Executive Director

Summary:
One of the priorities of the LEOFF Plan 2 Retirement Board When it was first formed was to study a number of benefit improvements that the membership was most interested in and determine the costs of those improvements.

The Board requested a review of these earlier benefit improvement studies during the October 22, 2014 Board Meeting. This presentation looks at the most frequently requested benefit improvements including the costs as determined at the time of study in 2005-2006.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Enhance the benefits for the members., Inform the stakeholders.

ATTACHMENTS:

Description	Type
Review of Benefit Improvement Studies	Presentation
2005 Interim Summary - Frequently Requested Items	Report

LEOFF
Plan 2 Retirement Board

Review of Benefit Improvement Studies

December 17, 2014

Multiplier

Current Benefit

- 2% multiplier (2% x YOS x Final Average Salary)

Increasing the Multiplier

- 2.50% for all service
  - 8.80% total rate impact
  - Total 2007-2009 cost = $222 million
  - Total 25 year cost = $4 billion
- 2.50% for Service Earned After September 2003
  - 4.49% total rate impact
  - Total 2007-2009 cost = $126.6 million
  - Total 25 year cost = $3.1 billion

LEOFF
Plan 2 Retirement Board

Final Average Salary

Current Benefit

- Average of 60 consecutive highest paid service credit months

Reducing the Final Average Salary Period

- Average of 24 consecutive highest paid service credit months; Applied to all years of service
  - 5.96% total rate impact
  - Total 2009-2011 cost = $170 million
  - Total 25 year cost = $3.2 billion

LEOFF Plan 2 Retirement Board

Retirement Age

Current Benefit

- Normal Retirement Age (NRA): Eligible to retire at age 53 with 5 years (unreduced)
- Early Retirement: Eligible to retire at age 50 with 20 years (3% per year reduction below age 53)

Retiring Before Age 53

- Eligible to retire at age 50 with 20 years – all service unreduced
  - 0.82% total rate impact
  - Total 2007-2009 cost = $20.4 million
  - Total 25 year cost = $345 million

LEOFF Plan 2 Retirement Board

Survivor Benefits

Current Benefit

- Joint and 100% - survivor receives for their lifetime the same benefit member received

Removing Survivor Benefit Reduction

- No cost Joint and 100% survivor benefit for all retirees (retroactive)
  - 6.54% total rate impact
  - Total 2007-2009 cost = $162 million
  - Total 25 year cost = $2.7 billion

LEOFF Plan 2 Retirement Board

Retiree Healthcare

Current Benefit

- LEOFF Plan 2 does not provide service retiree with any health care benefits. Many members are not eligible to continue employer medical coverage after retirement.

Provide Retiree Access to PEBB

- Total 2007-2009 cost = $9.9 million
- Total 2009-2011 cost = $21.9 million
- Total 2011-2013 cost = $37.4 million

LEOFF Plan 2 Retirement Board

Questions?

Contact:

Steve Nelsen

Executive Director

(360) 586-2323

steve.nelsen@leoff.wa.gov

LEOFF Plan 2 Retirement Board

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

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

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

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

SCPP Update

Presenter Name and Title:
Steve Nelsen, Executive Director

ATTACHMENTS:

	Description	Type
	Dec 16 SCPP meeting Full Agenda	Report

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
state.actuary@leg.wa.gov

Regular Committee Meeting

December 16, 2014
10:00 a.m. – 12:30 p.m.*
Senate Hearing Room 4
Olympia

AGENDA

10:00 a.m.	**1.**	**Approval of Minutes**
10:05 a.m.	**2.**	**WSIB Update**, Theresa Whitmarsh, Director, Washington State Investment Board
10:30 a.m.	**3.**	**Update on HERP Valuation**, Luke Masselink, Actuary, Darren Painter, Policy and Research Services Manager

Possible Work Session

10:55 a.m.	**4.**	**PSERS Proposal**, Darren Painter

Work Session

11:20 a.m.	**5.**	**Early Retirement Factors (Retire-Rehire**), Aaron Gutierrez, Senior Policy Analyst
11:45 a.m.	**6.**	**Interim Review and Session Preparation**, Aaron Gutierrez

Public Hearing and Possible Executive Session

12:05 p.m.	**7.**	**Annuity Purchase**, Darren Painter
12:30 p.m.	**8.**	**Adjourn**

**These times are estimates and are subject to change depending on the needs of the Committee.*

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(360) 786-6140
Fax: (360) 586-8135
TDD: 711
leg.wa.gov/SCPP.htm

2015 Meetings during Legislative Session

Date Presented:
12/17/2014

Presenter Name and Title:
Steve Nelsen, Executive Director

Summary:
The Executive Director will discuss the current plans for holding board meetings during the 2015 legislative session and ask for additional direction from the board.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Provide the stakeholders with a voice in plan governance.

ATTACHMENTS:

	Description	Type
🗋	2015 Agenda Items Calendar	Report

LEOFF Plan 2 Retirement Board

2015
AGENDA ITEMS CALENDAR

MEETING DATE	AGENDA ITEMS
January 28, 2015	2015 Legislative Update
February 25, 2015	
March 25, 2015	
April 22, 2015	
May 27, 2015	
June 24, 2015	
July 22, 2015	
August 26, 2015	
September 23, 2015	
October 28, 2015	
November 18, 2015	
December 16, 2015	

Board Governance/Evaluation

Date Presented:
12/17/2014

Presenter Name and Title:
Tim Valencia, Deputy Director

Summary:
A Board self-evaluation is simply an organized process by which a board regularly re-examines its collective and individual performance. It is an opportunity to evaluate and discuss the Board's performance with candor and from multiple perspectives. This type of evaluation is considered a best practice in governance.

The Board self-evaluation can lead to a closer working relationship among board members, greater efficiency in the use of the Board's time, and increased effectiveness of the Board as a governing body.
The LEOFF Plan 2 Retirement Board conducted its first self-evaluation in 2013.

Strategic Linkage:
This item supports the following Strategic Priority Goals:
Provide the stakeholders with a voice in plan governance.

ATTACHMENTS:

	Description	Type
🗋	Board Governance/Evaluation	Presentation

LEOFF
Plan 2 Retirement Board

Board Governance/Evaluation

December 17, 2014

Board Self-evaluation is ...

An organized process to:

- Regularly examine collective and individual performance.
- Reaffirm commitment & identify plans for improvement.

Why

- **Best practices in board governance**
  - Adopted by leading public retirement boards.
  - Contemporary practice in private sector.
- **Evaluate/discuss performance**
- **Accountability**
- **Build relationships, efficiency, effectiveness**

LEOFF Plan 2 Retirement Board

What

- **Roles & responsibility**
- **Policy making**
- **Planning & performance**
- **Conduct & practices**
- **Board relationships**

When & Where

- **Evaluations should be conducted annually**
- **Survey completed online**
- **Results reported during regular open meeting**

LEOFF Plan 2 Retirement Board

Who

Board Self-evaluation has three parts:

- Individual Board Member Self-evaluation.
- Overall Board Evaluation.
- Executive Director Input.

Board Direction

Individual Assessment:

- Attendance
- Education
- Skill Requirement
- Executive Director Evaluation
- Peer Evaluation

Evaluate vs Policy

LEOFF Plan 2 Retirement Board

Board Direction

Group Assessment:

- 360° Evaluation with Stakeholders.
- External Governance Review.
- Board Meeting Evaluations.

Next Steps

- **Complete second evaluation**
- **Report on results next interim**

Questions?

Contact:

Tim Valencia

Deputy Director

(360) 586-2326

tim.valencia@leoff.wa.gov