

July 19, 2016

To: Members of the Select Committee on Pension Policy

From: Candice Bock, Government Relations Advocate

RE: LEOFF 1 Merger Stakeholder Survey

Thank you for the opportunity to provide input to the LEOFF 1 merger study through the stakeholder survey. AWC has completed the survey. We have also provided the information to our member cities who have an interest in the LEOFF 1 retirement system and encouraged them to complete the survey as well.

While AWC's Board has not yet taken a position on a potential merger, we have identified several areas where we would like more clarification as well as some areas where we believe cities will want assurances that any merger will not create new negative fiscal impacts. Below is an overview of our answers to the survey questions.

Questions we would like to see addressed:

- Would a merger destabilize the fund in a manner that would require new contributions into the fund; and would cities be expected to fund those contributions?
- What are the legal issues surrounding a merger and what would it take for a merger to be approved by the IRS?

If the Legislature proposed a plan merger, what CONCERNS would you like to see addressed?

- With a merger, a proportional amount of surplus funds that that represent the amount attributed to employer LEOFF 1 contributions (approximately 11%) should be returned to employers to help offset the costs of LEOFF 1 medical benefits.
- What guarantee will there be that a merger will not include any new benefits that would increase the employer contribution rates?
- What guarantee will there be that the State will not seek additional contributions to cover any costs of LEOFF 1 pensions in the future regardless of the state of the fund?

If the Legislature proposed a plan merger, what general comments would you have?

There should be clear caveats that any payout of funds to retirees or employers be conditioned on the final legal approval of a merger by the IRS and that if the merger was overturned by legal action that the payouts would also be overturned. Additionally, no funds should be merged without full legal vetting and IRS approval.

Additional Comments:

Cities as LEOFF 1 employers made significant contributions to the fund between 1970 and 2000. Approximately 11% of the total funds contributed are attributable to employers. Additionally, LEOFF 1 employers have retained significant unfunded liability for medical benefits for LEOFF 1 retirees, with no significant dedicated funding source to offset the costs. The Actuary's most recent study estimates that liability at \$3 billion. Any changes to the LEOFF 1 retirement plan should take into account the significant unfunded liability that cities have for medical benefit costs.