

BOARD MEETING AGENDA

MAY 26, 2021 • 9:30AM



LOCATION

Zoom Video Conference

TRUSTEES

DENNIS LAWSON, CHAIR
Central Pierce Fire and Rescue

JASON GRANNEMAN, VICE CHAIR
Clark County Sheriff's Office

ADE' ARIWOOLA
City of Federal Way

MARK JOHNSTON
Vancouver Fire Department

AJ JOHNSON
Snohomish County Fire

SENATOR JEFF HOLY
Spokane Police Department (Ret)

TARINA ROSE-WATSON
Spokane Int'l Airport Police Dept

PAT MCELLIGOTT
City of Dupont

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

WOLF OPITZ
Pierce County

SENATOR ANN RIVERS
WA State Senator

STAFF

Steve Nelsen, Executive Director
Tim Valencia, Deputy Director
Jessie Jackson, Executive Assistant
Jessica Burkhart, Administrative Services Manager
Jacob White, Senior Research and Policy Manager
Karen Durant, Senior Research and Policy Manager
Tammy Sadler, Benefits Ombudsman
Tor Jernudd, Assistant Attorney General

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

- 1. Approval of Minutes** **9:30 AM**
- 2. Interim Workplan Approval** **9:35 AM**
Jacob White, Senior Research & Policy Manager
- 3. SB 5453 (2021) Benefit Improvement Account – Educational Briefing** **10:15 AM**
Jacob White, Senior Research & Policy Manager
Mitch DeCamp, OSA
- 4. Law Enforcement Officer's Demographic Impact Study Follow-Up** **10:45 AM**
Jacob White, Senior Research & Policy Manager
- 5. Administrative Update** **11:00 AM**
- 6. Possible Executive Session – Review the Performance of a Public Employee** **11:15 AM**
Dennis Lawson, Chair
- 7. Confirmation of General Wage Increase (2021-2023 Operating Budget)** **11:45 AM**
Dennis Lawson, Chair

**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.



2021 Interim Planning

May 26, 2021

Benefit Topics

1. **SB 5453 (2021) Benefit Improvement Briefing**
2. **Law Enforcement Officer Demographic Impact Follow-Up**
3. **Benefit Improvement Account**
4. **Interruptive Military Service Credit**
5. **Survivor Option Reelection Follow-Up**
6. **Roth 457/Deferred Compensation Plan Option**
7. **Windfall Elimination Provision Government Pension Offset Educational Briefing**

Actuarial Topics

1. Educational Topic: Benefit Improvement Account - Pricing Follow-Up
2. Report on Financial Condition
3. Recommendation on Long-Term Economic Assumptions
4. Potential Educational Topics: OSA Risk and Plan Maturity Measures Website Updates
5. Administrative Factors for Board Consideration
6. Update on the Off-Cycle Valuation Results

Administrative Topics

1. DRS Annual Update
2. WSIB Annual Update
3. Financial Expenditure Audit
4. Attorney General Training
5. DRS Benchmarking
6. Budget
7. Board Expectations
8. Board Elections

MEETING DATE	AGENDA ITEMS
May 26	Interim Workplan Approval SB 5453 (2021) Benefit Improvement Briefing Law Enforcement Officer Demographic Impact Follow-Up
June 16	Benefit Improvement Account Pricing Follow-Up Roth 457/Deferred Compensation Plan Option Initial AGO Board Training
July 28	Possible Benefit Improvement Account Follow-Up Windfall Elimination Provision Government Pension Offset Educational Briefing 2021-2023 Budget Adoption
August 25	No Meeting
Sept 29	Board Elections DRS Benchmarking Report on Financial Condition (OSA) Recommendation on Long-Term Economic Assumptions (OSA) Interruptive Military Service Credit Follow-Up
Oct 27	Strategic Planning Risk and Plan Maturity Measures Website Updates (OSA) Board Expectations
Nov 17	DRS Annual Update Presentation of Administrative Factors for Board Consideration (OSA) Update on the Off-Cycle Valuation Results (OSA) Economic Assumption Adoption <i>(if needed)</i> 2022 Meeting Calendar Adoption Financial Expenditure Audit Results Possible Comprehensive Report on Benefit Topics Previously Heard
Dec 15	WSIB Annual Update Administrative Factors Adoption <i>(if needed)</i> Survivor Option Reelection Follow-Up Possible Final Report on Benefit Topics Previously Heard

Board Action

- **Changes to the Draft Interim Plan**
- **Adopt Interim Plan**



Thank You

Jacob White

Senior Research and Policy Manager

(564) 999-0738

jacob.white@leoff.wa.gov



SB 5453 Benefit Improvement

Educational Briefing
May 26, 2021

Issue

- **At the LEOFF 2 Board Meeting in May the Board requested a briefing on the LEOFF 2 benefit improvement proposed as part of SB 5453**

Bill History

- **SB 5453 was proposed by Senator Mark Scheosler as part of the Senate Operating Budget (SB 5451) proposal by Senate Republicans**
 - **SB 5453 did not receive a hearing**
 - **OSA completed an actuarial fiscal note**

SB 5453 Summary

- Merge LEOFF 1 with the Teachers' Retirement System (TRS) Plan 1
- Create a benefit improvement for LEOFF 2 members
- Transfer LEOFF 2 Benefit Improvement Account funds
- Freeze LEOFF 2 contribution rates for two biennia

Benefit Improvement – Active Members

- **Active members:**
 - **2% final average salary for the first 15 years of service;**
 - **2.5% final average salary for the 10 years of service between 15 and up to 26**
 - **2% final average salary for years of service above 26**

Benefit Improvement – Retirees/Survivors

- **\$20,000 payment to all LEOFF 2 retirees, or survivor beneficiaries of members, with at least 15 years of service**
- **\$20,000 payment to all LEOFF 2 survivor beneficiaries of a member who died in the line of duty**

No Benefit Improvement

- Does not provide a benefit improvement for the following:
 - Retirees with less than 15 years of service
 - Disability Retirees with less than 15 years of service
 - Inactive Vested Members
 - Inactive Non-Vested Members

BIA Asset Transfer

- Transfer all BIA assets to the LEOFF 2 Trust Fund to fund the benefit improvements
- BIA Value as of December 31, 2020 - \$374,633,947

Freeze LEOFF 2 Contribution Rates

- For the 2021-2023 and 2023-2025 biennia, contribution rates for LEOFF 2 may not exceed the rates adopted by the LEOFF 2 Board on July 22, 2020
- Those rates are:
 - Member 8.53%
 - Employer 5.12%
 - State 3.41%



Thank You

Jacob White

Senior Research and Policy Manager

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SB 5453–Cost Summary

Impact on Contribution Rates*

(Effective 9/1/2021)

FYs 2021-23 State Budget	TRS	LEOFF 2
Employee	0.00%	0.00%
Employer	(5.75%)	0.00%
State		0.00%

*Under current law, LEOFF 1 contribution rates are expected to remain at 0.00%. Under this bill, no UAAL contributions to the merged plan are required from LEOFF employers.

Budget Impacts

(Dollars in Millions)	2021-23	2023-25	25-Year
General Fund-State	(\$800)	(\$940)	(\$2,019)
Local Government	(\$120)	(\$141)	\$0
Total Employer	(\$920)	(\$1,081)	(\$2,019)

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

- Budget impacts table above includes impacts from all bill provisions

Impact on Pension Liability

LEOFF 2 as of June 30, 2019			
<i>(Dollars in Millions)</i>	Current Law	Increase	This Bill
Present Value of Future Benefits	\$16,096	\$899	\$16,995
Accrued Liability	\$11,992	\$625	\$12,617

Note: Totals may not agree due to rounding.

■ Present Value of Future Benefits

- Today's value of all future expected benefits for current members

■ Accrued Liability

- Today's value of all future plan benefits that have been accrued or "earned" as of the valuation date by current plan members

Changes in Plan Assets

Lump Sum Payout and BIA Assets	
<i>(Dollars in Millions)</i>	
Eligible Annuitants	5,218
Lump Sum at January 3, 2022 <i>(Eligible Annuitants x \$20,000 Benefit)</i>	(\$104)
Discounted 2.5 Years to June 30, 2019 (A)	(\$87)
L2-BIA at June 30, 2019 (B)	\$322
Total Asset Change (A) + (B)	\$235

Change in Plan Funded Status

LEOFF 2 as of June 30, 2019			
<i>(Dollars in Millions)</i>	Current Law	Increase	This Bill
Actuarial Value of Assets (A)	\$13,294	\$235	\$13,529
Accrued Liability (B)	\$11,992	\$625	\$12,617
Funded Status (A)/(B)	110.9%		107.2%

Note: Totals may not agree due to rounding.

- Plan funded status decreases because accrued liability increases more than the assets
- Funded status is an important measure for LEOFF 2 because it's tied to funding policy

Quick Review of LEOFF 2 Funding Policy

- LEOFF 2 funding policy selects the greater of two contribution rates:
Aggregate and Minimum contribution rates
- Aggregate Cost Method Rates
 - Underlying cost method for LEOFF 2 and all Washington state open plans
- Minimum Rates
 - Based on Normal Cost of Entry Age Normal Cost Method
 - 100% minimum rate if funded status equal to or less than 105%
 - 90% minimum rate if funded status exceeds 105%

Projected LEOFF 2 Employee Rates and Funded Status

LEOFF 2					
Biennium	2021-23	2023-25	2025-27	2027-29	2029-31
Current Law					
Employee	8.53%	8.53%	7.74%	7.78%	7.82%
Funded Status*	112.6%	113.2%	113.4%	113.3%	113.3%
This Bill					
Employee	8.53%	8.53%	8.36%	8.40%	8.44%
Funded Status*	108.3%	108.4%	108.1%	107.8%	107.6%
Difference					
Employee	0.00%	0.00%	0.62%	0.62%	0.62%
Funded Status	(4.3%)	(4.8%)	(5.4%)	(5.5%)	(5.7%)

**Funded status calculated at the start of the biennium.*

- 2021-23 and 2023-25 Biennia contribution rates adopted by the Board and capped at current levels in the bill
- Funded status in 2025-27 Biennium and beyond expected to exceed 105 percent
 - We assumed rates are adopted at 90% of minimum rate based on funding policy

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Budget Impacts

Short Term Budget Impacts	
<i>(Dollars in Millions)</i>	LEOFF 2
2021-2023 Biennia	
General Fund	(\$0.3)
Non-General Fund	\$0.0
Total State	(\$0.3)
Local Government	(\$0.5)
Total Employer	(\$0.8)
Total Employee	(\$0.8)
2023-2025 Biennia	
General Fund	(\$0.5)
Non-General Fund	\$0.0
Total State	(\$0.5)
Local Government	(\$0.7)
Total Employer	(\$1.2)
Total Employee	(\$1.2)

Note: Totals may not agree due to rounding.

Long Term Budget Impacts	
<i>(Dollars in Millions)</i>	LEOFF 2
2021-2046	
General Fund	\$222.2
Non-General Fund	\$0.0
Total State	\$222.2
Local Government	\$334.8
Total Employer	\$556.9
Total Employee	\$556.9

Note: Totals may not agree due to rounding.

Risk Analysis

Probability of Employee Contribution Rates Above 10%*				
	2022	2025	2030	2035
Current Law	0%	0%	23%	32%
This Bill	0%	0%	33%	39%

*Employers and the state combined contribute rate equal to the employee rate.

Likelihood of Funded Status Less Than 90%				
	2022	2025	2030	2035
Current Law	1%	7%	24%	29%
This Bill	1%	11%	28%	31%

- We considered changes in certain risk measures when future experience does not match our assumptions
- We used two measures to assess risk
 - Affordability risk measured by the probability of employee contributions above 10 percent
 - Solvency risk measured by the likelihood funded status is less than 90 percent

Appendix—Retirement Rates

LEOFF 2 SB 5453 Retirement Rates					
Age	Current Law	Best Estimate Bill		High Sensitivity	
	All Service	Service < 25	Service >= 25	Service < 25	Service >= 25
50	0.03	0.03	0.03	0.03	0.03
51	0.03	0.03	0.03	0.03	0.03
52	0.05	0.05	0.05	0.05	0.05
53	0.09	0.09	0.10	0.09	0.11
54	0.09	0.09	0.10	0.09	0.11
55	0.09	0.09	0.10	0.09	0.11
56	0.09	0.09	0.10	0.09	0.11
57	0.10	0.10	0.11	0.10	0.12
58	0.14	0.14	0.15	0.14	0.17
59	0.15	0.15	0.17	0.15	0.18
60	0.15	0.15	0.17	0.15	0.18
61	0.19	0.19	0.21	0.19	0.23
62	0.23	0.23	0.25	0.23	0.28
63	0.20	0.20	0.22	0.20	0.24
64	0.20	0.20	0.22	0.20	0.24
65-69	0.30	0.30	0.30	0.30	0.30
70	1.00	1.00	1.00	1.00	1.00

Appendix—Disclosures

- The information in this presentation is based on analysis performed for the Legislature during the 2021 Legislative Session on SB 5453.
- This information presented here is for informational purposes only and will change with updates to the underlying data, assumptions, and methods.
- Please see our full [fiscal note on SB 5453](#) for a complete list of the data, assumptions, and methods we relied on.

Questions? Please Contact: The Office of the State Actuary

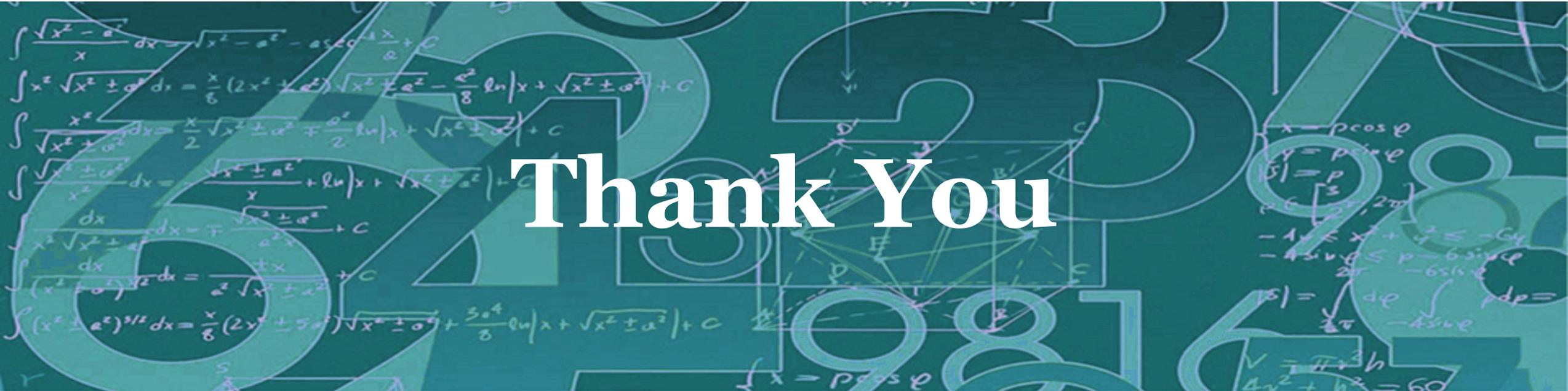
leg.wa.gov/OSA; state.actuary@leg.wa.gov

360-786-6140, PO Box 40914, Olympia, WA 98504

Mitch DeCamp

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Thank You





Law Enforcement Officer Demographic Impacts

Educational Briefing
May 26, 2021

Issue

At the April board meeting questions were raised regarding the potential impacts to LEOFF 2 of an increased number of Law Enforcement Officers who have decided to leave the profession in the last year

Retirement/Termination/New Hire Data

FY 2020 Data (through 10 months)

	Terminations	Retirements	New Hires
LEO	339	432	352
FF	125	228	545
Total	464	660	897

Historical Data

	Terminations	Retirements
FY 2021*	464	660
FY 2020	407	669
FY 2019	368	614
FY 2018	377	575
FY 2017	329	572
FY 2016	467	523

*Preliminary data through 10 months, not from the same source as previous years' data



How Could the Future Look Different?

What if the plan experienced a large and unexpected shift in demographics such as an increase in terminations or retirements?

- Experience included in the next actuarial valuation
- May impact the calculated contribution rates
- OSA would consider if changes to long-term assumptions are necessary

Minimum contribution rates under current funding policy offer resilience to unexpected demographic changes

- Contribution rates under the Aggregate cost method more volatile



Actuarial Analysis from 2020

In 2020 LEOFF 2 Board requested actuarial analysis of hypothetical scenarios, including:

1. Termination of the 700 least senior, active members from the Seattle PD with no replacement members
2. Termination of the 90 least senior and retirement of the 90 most senior active members from the Seattle PD with no replacement members
3. Reduction in assumed future salary growth by 0.25 percent
4. Reduction in the number of assumed annual future hires by 0.25 percent

Actuarial Disclaimers

- **Actuarial analysis can become quickly outdated. OSA intends this analysis to be used for education purposes during the September Board meeting. Please don't rely on this analysis beyond the 2020 Interim**
- **Please read the analysis shown in this communication as a whole. Distribution of, or reliance on, only parts of this communication could result in its misuse and may mislead others**



Hypothetical #1

Termination of the 700 least senior, active members from the Seattle PD with no replacement members, is projected to result in an overall savings to the plan:

- **0.01%** decrease to the contribution rate
- **0.3%** increase to the plan funded status



Hypothetical #2

The termination of the 90 least senior and retirement of the 90 most senior active members from the Seattle PD with no replacement members, is projected to result in an overall cost to the plan:

- No impact to the contribution rate
- 0.2% decrease to the plan funded status



Hypothetical #3

A reduction in assumed future salary growth by 0.25 percent, is projected to result in an overall savings to the plan:

- 0.26% decrease to the contribution rate
- 0.6% increase to the plan funded status



Hypothetical #4

A reduction in the number of assumed annual future hires by 0.25 percent, is projected to result in in an overall savings to the plan



Thank You

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