

BOARD MEETING AGENDA

OCTOBER 27, 2021 • 9:30AM



LOCATION

Virtual Meeting
see website for details
www.leoff.wa.gov

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

WOLF OPITZ
Pierce County

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

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
Sarah White, Benefits Ombudsman
Tor Jernudd, Assistant Attorney General

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

- 1. Board Governance Challenges** **9:30 AM**
Steve Nelsen, Executive Director
- 2. Paying for a Benefit Improvement using the Benefit Improvement Account** **10:10 AM**
Jacob White, Sr Research and Policy Manager
- 3. Managing Contribution Rate Stability** **10:50 AM**
Steve Nelsen, Executive Director
- 4. Board Expectations** **11:30 AM**
Tim Valencia, Deputy Director
- 5. 2022 Proposed Meeting Dates** **11:50 AM**



Board Governance Challenges

October 27, 2021

Issue

- **When there is legislation that involves the Board's duties and responsibilities it creates a potential governance challenge**

Areas of Responsibility for the Board

- Setting contribution rates
- Setting funding policies
- Setting actuarial assumptions
- Recommending benefit changes
- Agency budget
- Agency personnel



Paying for Benefit Improvements using the Benefit Improvement Account

October 27, 2021

Issues

1. The mechanics and impact of using the LEOFF 2 Benefit Improvement Account (BIA) to pay for a benefit improvement
2. Issues related to purchase with BIA when the BIA does not have enough money to fully pay for the benefit

Current Funding Policies

The rate is set at the greater of two contribution rates:

- **Aggregate Funding Method**
- **Minimum Rate Funding Policy**
 - Based on Normal Cost of Entry Age Normal Cost Method
 - **100%** minimum rate if funded status equal to or less than **105%** (floor)
 - **90%** minimum rate if funded status exceeds **105%** (ceiling)

Issue 1 - Mechanics of Using BIA

- All benefit improvements increase the liabilities of the plan
- Increasing the benefits also increases the plan minimum rate, which the Board has historically used to set rates
- Moving money from the BIA back into the trust fund does not adjust the plan minimum rate
- A change in the Board's funding policy may be necessary to implement the intent of the BIA

Issue 2 – Purchasing a benefit improvement when the BIA does not have enough to pay for the benefit

- **Previous Fiscal Note**
 - \$899 million cost of the benefit improvement for active members
 - \$87 million cost of the benefit improvement for retirees/survivors
 - \$322 million - Transfer BIA funds (value used in Fiscal Note) into LEOFF 2
 - 1.22% – Total LEOFF 2 contribution rate impact (under the minimum rate funding policy) to pay for the difference between the cost of the benefit improvements in the bill and the assets in the BIA
- **Updated costs on Benefit Improvement**
 - \$454 million as of September 30, 2021
 - Cost of proposed benefit improvement will be known in December

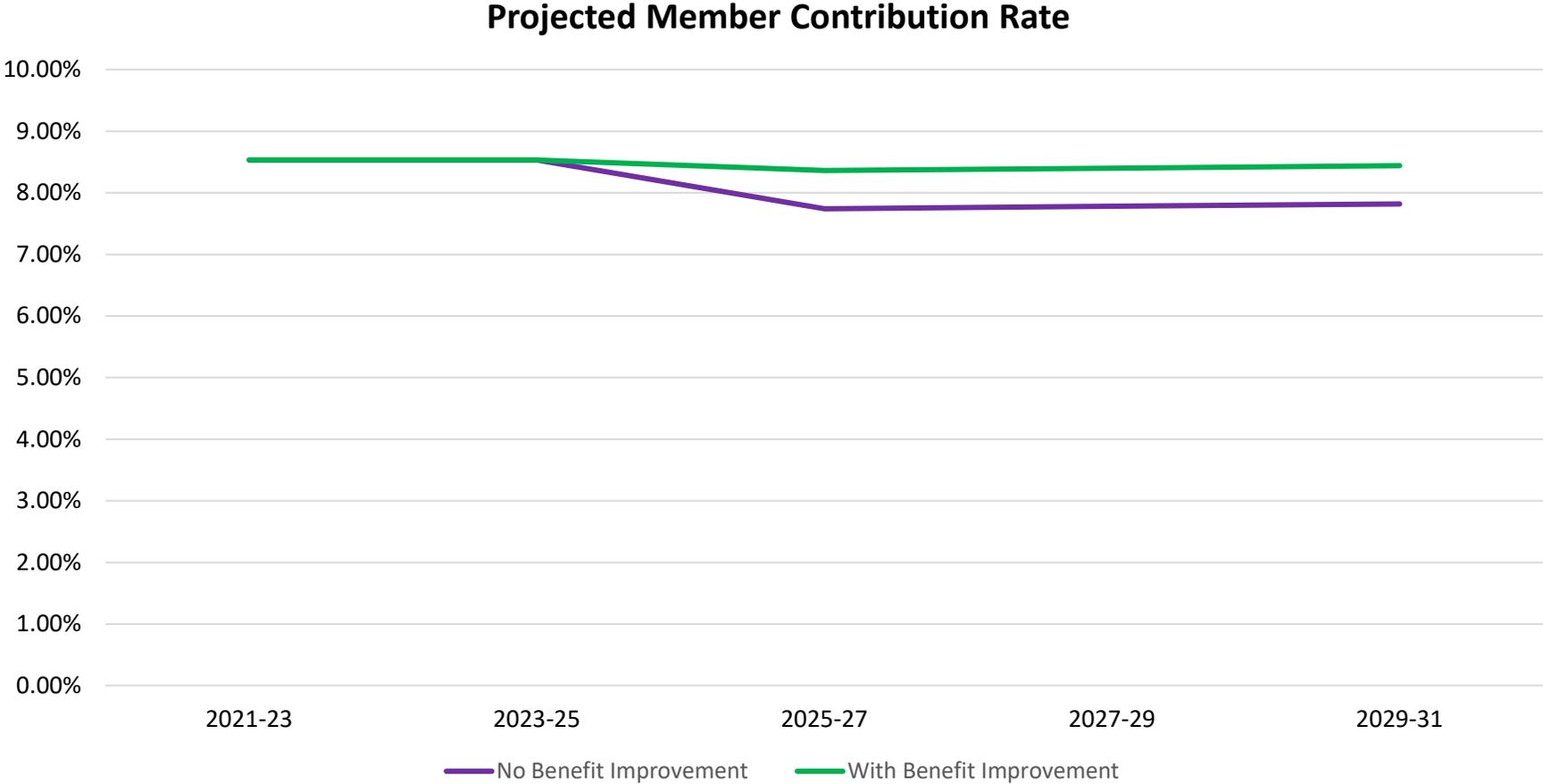
Funded status and contribution rate impacts of benefit improvement

Because the funded ratio is more than 105% current funding policy would be to drop down to 90% of the minimum rate

- For the Board's current adopted rates, the Board choose not to follow this policy because of the uncertainty of the extent and duration of the economic downturn related to Covid-19

The contribution rates under this benefit improvement will go down from the current level not because of the cost of the benefit but because of the funding status of the plan and the Board's funding policy

LEOFF 2 Contribution Rate Impact



LEOFF 2 Contribution Rate Impact

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 are frozen at current level by the bill
- Funded status in 2025-27 Biennium and beyond expected to exceed 105 percent
- Assume rates are adopted at 90% of minimum rate based on funding policy

Summary

- 1. Despite having funds in the BIA, a benefit improvement would cause contribution rates to increase because of the Board's current funding policy**
- 2. The Board may need to take action to address the potential conflict between the intent of the BIA to prefund a benefit and the Board's current funding policy**

Possible Solutions?

- Legislation adopting a benefit improvement using the BIA could fix rates for a period of time
 - Board will work with OSA to bring back long term options to accomplish the intent of the BIA



Thank You

Jacob White

Senior Research & Policy Manager

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Managing Contribution Rate Stability

October 27, 2021

Current Status

The Board's use of the expected long-term cost of the plan as the basis for setting rates has resulted in remarkable rate stability for members, employers and the State.

Rate in 2007 was 8.64% and the current rate is 8.53%.
Rates ranged from 8.41% to 8.83% during this period.

- Great Recession in 2008-09
- Historic sustained market increases from 2009-2020
- Increases in assumptions for future life expectancy
- Decreases in the earnings assumption from 8% to 7.5% to 7.4%
- COVID Recession in 2020

Factors Effecting Future Contributions

- Potential changes to economic assumptions
- Potential benefit improvement
- Investment returns – 2021 asset gains

Each of these factors are separate and independent

Potential Changes to Economic Assumptions

- **OSA recommended the Board lower the following assumptions:**
 - Investment rate of return - 7.4% to 7.0%
 - General salary growth - 3.50% to 3.25%

- **Estimated Rate Change from Recommended Economic Assumptions**
 - Projected 100% Minimum rate for 2023-23 biennium increases from 8.57% to 9.18%
 - Projected 90% Minimum rate for 2023-25 biennium increases from 7.71% to 8.27%
 - Projected funded ratio decreases from 113% to 107%

Impact is +0.61% or 61 bp increase to rates and (6-7%) decrease in funded ratio

Potential Benefit Improvement

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.

Impact is +0.62% or 62 bp increase to rates and (5-6%) decrease in funded ratio

Impact of BIA transfer will require new policies to implement intent.

Investment Returns – Deferred Asset Gains

Development of Actuarial Value of Assets	
Prior Deferred Investment Gain/(Loss)	
Plan Year Ending 6/30/2019	\$0
Plan Year Ending 6/30/2018	0
Plan Year Ending 6/30/2017	291
Plan Year Ending 6/30/2016	(83)
Plan Year Ending 6/30/2015	0
Plan Year Ending 6/30/2014	110
Total Prior Deferred Investment Gain/(Loss) (B)	\$317
2020 Deferred Investment Gain/(Loss) (C)	(\$265)
Estimated 2020 Actuarial Value (A) - (B) - (C)	\$14,520

Approximately \$52M in deferred gains

Investment Returns – Estimated 2021 Gains

2021 Investment Returns - approximately \$3.1 billion over expectation

- \$400 million is recognized in FY2021
- \$2.7 billion of deferred asset gains will be recognized over 2022-2028 according to current asset smoothing policy
- Funded ratio will increase from **113%** to **131%** as deferred asset gains are recognized over 2022-2028

Impact is 0.00% to rates and 18% increase in funded ratio

Summary

What is the estimated combined effect of all three factors?

- **The 100% minimum rate will increase from 8.53% to 9.80%**
- **The plan's funded ratio will increase from 113% to 118-120%**
- **The 90% minimum rate will increase from 7.71% to 8.83%**

Next Steps

- **The Board will vote on adoption of the recommended changes to economic assumptions in November.**
- **The Board will vote on recommending legislation for a benefit improvement in December. The Board will decide on whether to set contribution rates for the next 4-5 years as part of that legislative proposal.**
- **The Board will work with OSA to develop policies to promote rate stability while accomplishing the intent of the Benefit Improvement Account.**



Thank You

Steve Nelsen

Executive Director

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Board Member Expectations

October 27, 2021

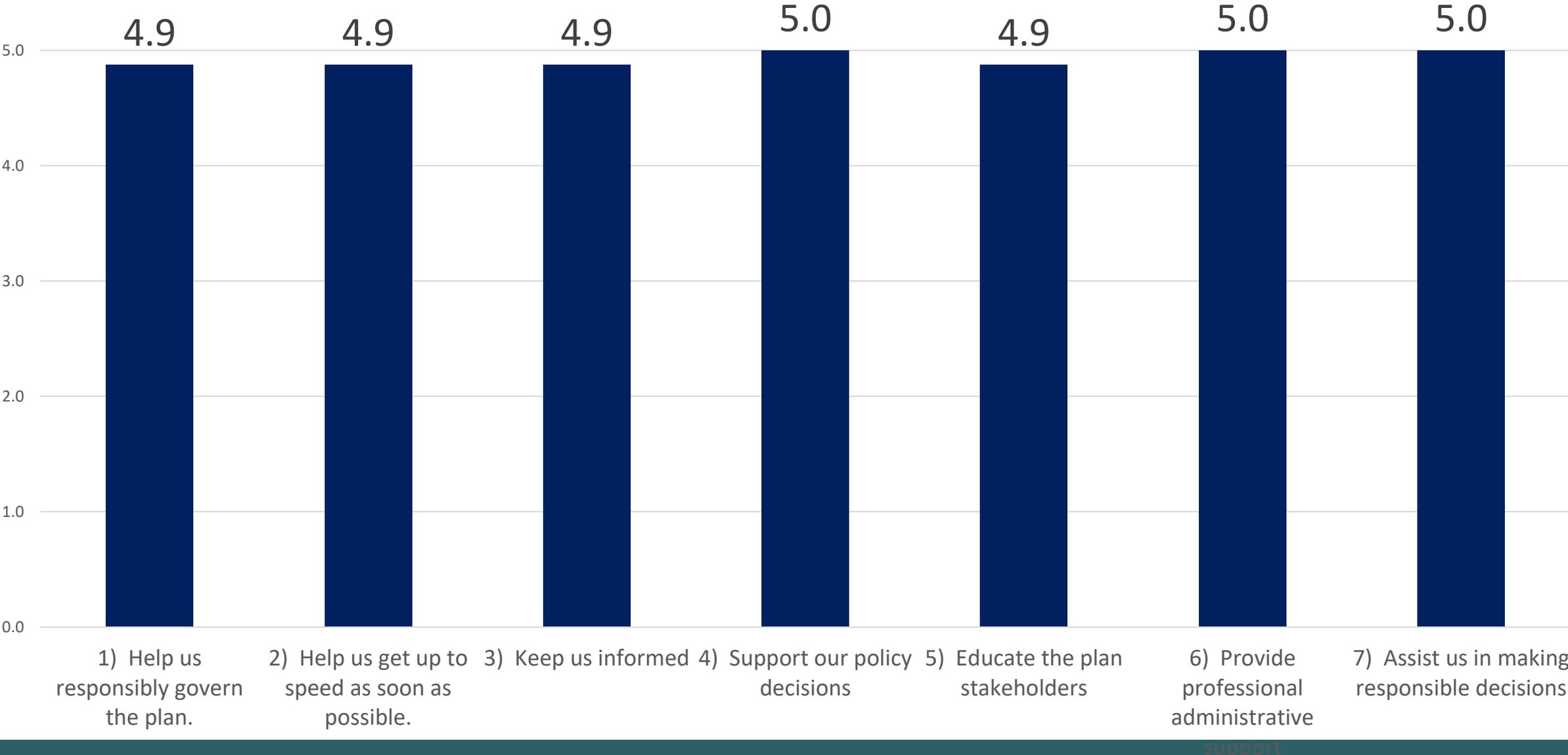
Excellence Starts with Understanding Expectations

- **You are our primary customers**
 - **Success for the team means meeting or exceeding your expectations**
 - **The team needs to be clear about Board member expectations as we develop processes to support your mission**
 - **The team needs feedback to ensure we are on the right track**

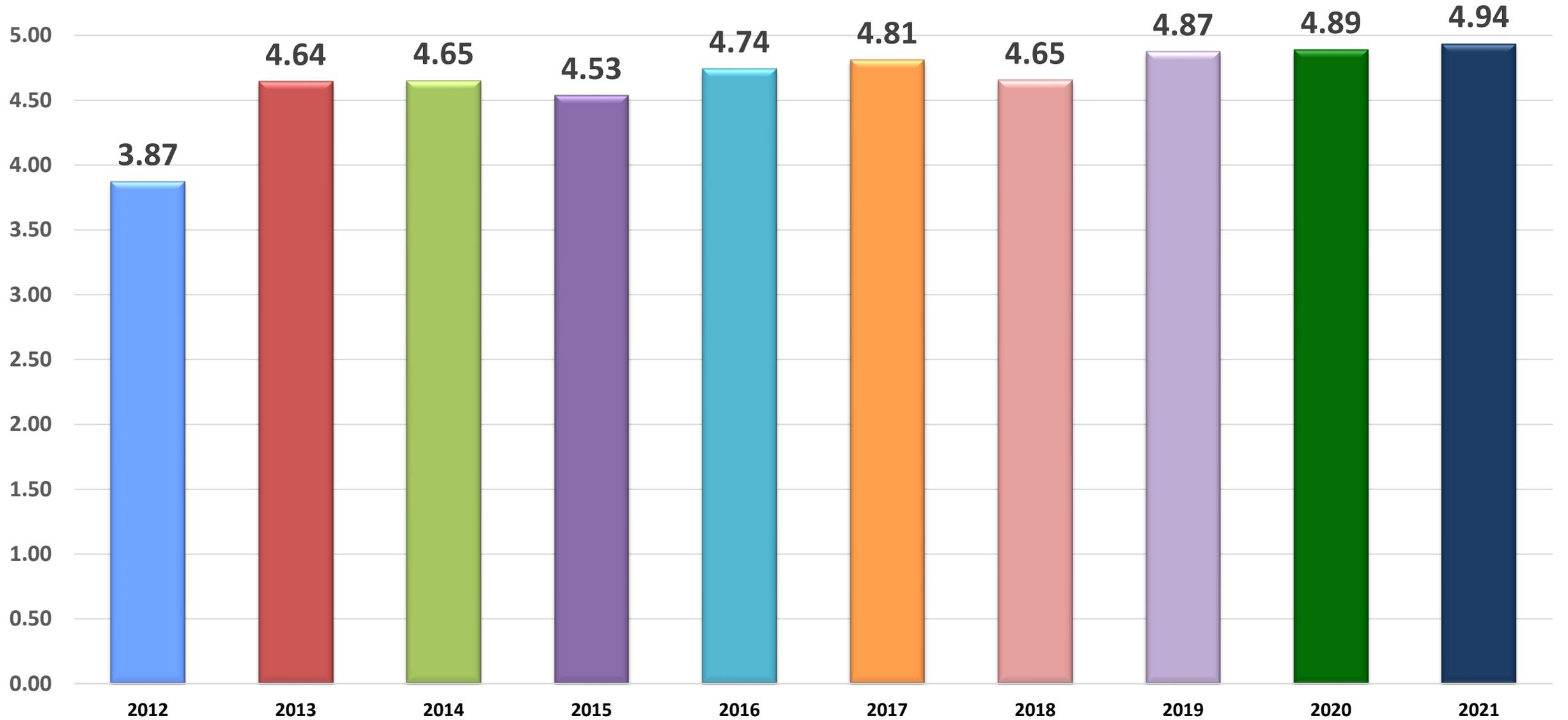
Board Expectations

1. Responsibly govern the plan
2. Help us get up to speed as soon possible
3. Keep us informed
4. Support our policy decisions
5. Educate the plan stakeholders
6. Provide professional administrative support
7. Assist us in making responsible decisions

2021 Satisfaction by Question

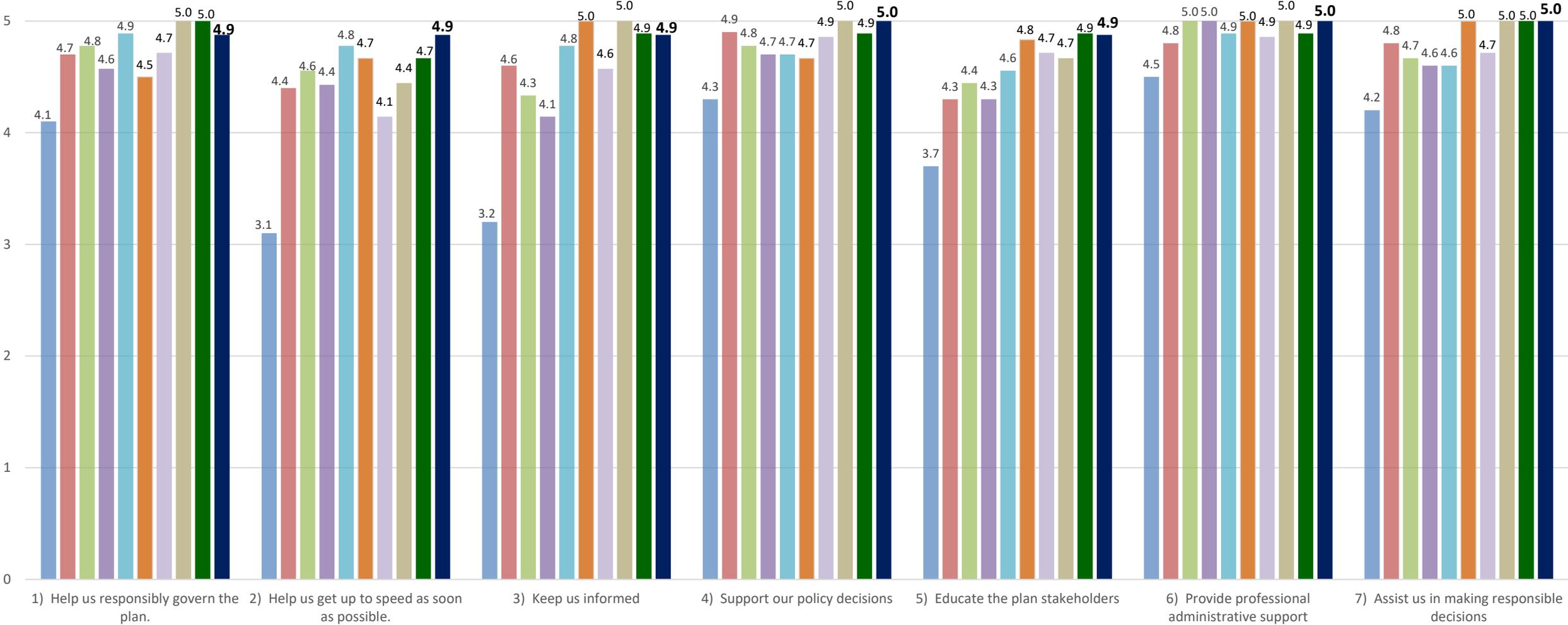


Satisfaction by Year 2012 - 2021



Satisfaction by Question 2012 - 2021

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021





Discussion

- **Clarity regarding expectations is key to success.**
- **Have any expectations changed, or new expectations emerged?**
- **What improvements will exceed your expectations?**

2022 Board Meetings



January						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

February						
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27	28					

March						
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April						
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May						
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22	23	24	25	26	27	28
29	30	31				

June						
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19	20	21	22	23	24	25
26	27	28	29	30		

July						
S	M	T	W	T	F	S
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17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

August						
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21	22	23	24	25	26	27
28	29	30	31			

September						
S	M	T	W	T	F	S
				1	2	3
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11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

October						
S	M	T	W	T	F	S
						1
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16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

November						
S	M	T	W	T	F	S
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27	28	29	30			

December						
S	M	T	W	T	F	S
				1	2	3
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11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

MEETING LOCATION: Meetings will be held virtually until further notice

CONTACT: Phone: 360.586.2320 Recep@leoff.wa.gov

Meeting Dates

State Holidays