BOARD MEETING AGENDA

DECEMBER 15, 2021 • 9:30AM

LEOFF
Plan 2 Retirement Board

LOCATION

Zoom Video Conference

THEY KEEP US SAFE,
WE KEEP THEM SECURE.

1.	**Approval of Minutes** *October and November 2021*	**9:30 AM**
2.	**Financial Expenditure Audit Results** *Michael Hutchinson, Jordan Prince,* *Cavan Busch, Jim Brownell, SAO*	**9:35 AM**
3.	**DRS Annual Update** *Tracy Guerin, DRS*	**10:00 AM**
4.	**Roth Deferred Compensation Option** *Jacob White, Sr Research and Policy Manager*	**10:30 AM**
5.	**Tiered Multiplier Benefit** *Jacob White, Sr Research and Policy Manager* *Mitch DeCamp, OSA*	**11:00 AM**
6.	**Administrative Update** • Accountability Audit • Outreach Activities	**11:30 AM**
7.	**Possible Executive Session - Review Performance of a Public Employee**	**11:45 AM**

**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.

Exit Conference

Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

Office of the Washington State Auditor
Pat McCarthy

Cavan Busch
Audit Manager

Mike Hutchinson
Audit Supervisor

Jordan Prince
Auditor in Charge

December 15th, 2021

Disclaimer: This presentation is intended to be viewed in conjunction with the complete packet of exit materials provided. A copy of those materials may be requested by contacting the presenters listed or by emailing PublicRecords@sao.wa.gov.

Results that Matter

Increased trust in government

Independent, transparent examinations

Improved efficiency and effectiveness of government

Financial Audit Results

July 1st, 2020 through June 30th, 2021

Unmodified Opinion Issued

- Opinion issued in accordance with U.S. GAAP
- Audit conducted in accordance with *Government Auditing Standards*

Internal Control and Compliance over Financial Reporting

- We reported no significant deficiencies in internal control
- We identified no deficiencies that we consider to be material weaknesses.
- We noted no instances of noncompliance that were material to the financial statements of the Board

Areas of Financial Audit Emphasis

Completeness - Were all expenses recorded in the financial statement?

- Testing of Salaries & Wages

Classification - Were expenses properly classified in the financial statement?

- Testing of Non-Capitalized Assets
- Testing of Contractual Services

Areas of Financial Audit Emphasis

Presentation and disclosures

- Was the financial statement clearly and appropriately presented?
- Were note disclosures complete and accurate?
- If significant financial events occurred, were they properly disclosed in the statement notes?

Financial Audit Results

Required Communications

- There were no significant uncorrected misstatements

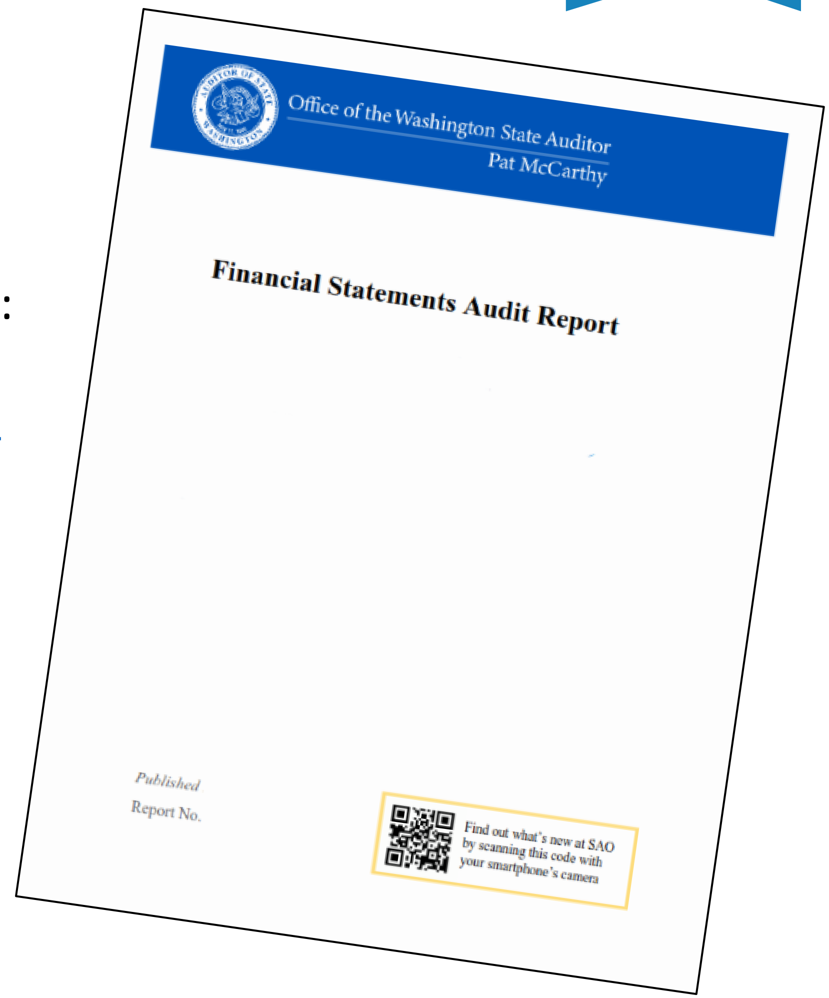
Closing Remarks

- Audit costs are in alignment with our original estimate
- Next audit: Should the Board choose to contract with our Office next year, we estimate the number of hours and cost to be the same as this year.

Report Publication

- ✓ Audit reports are published on our website.
- ✓ Sign up to be notified by email when audit reports are posted to our website:

  [https://sao.wa.gov/about- sao/sign-up-for-news-alerts/](https://sao.wa.gov/about-sao/sign-up-for-news-alerts/)



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Published
Report No.

Find out what's new at SAO by scanning this code with your smartphone's camera

Audit Survey

When your report is released, you will receive an audit survey from us.
We value your opinions on our audit services and hope you provide feedback.

Thank You!

- We thank officials and staff for timely communications throughout the audit process.
- In particular, we would like to thank Seth Flory at DES and Jessica Burkhart, Administrative Services Manager for responding to all our requests promptly.

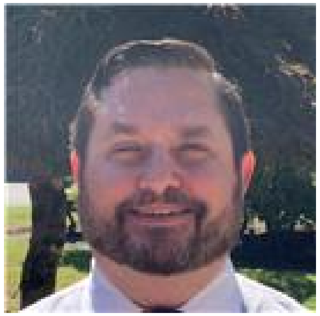
Questions?

Contact Cavan Busch, Audit Manager,

Cavan.Busch@sao.wa.gov

(564) 999-0786

State Audit Team Contacts



Cavan Busch, Audit Manager

Cavan has been with the Washington State Auditor's Office since 2008. Notable work experiences include supervising the Statewide Single Audit for six years, supervising the Medicaid single audit and acting as a sampling specialist for the Office.
(564) 999-0786 | Cavan.Busch@sao.wa.gov

Mike Hutchinson - CPA, Assistant Audit Manager

Mike has been with the Washington State Auditor's Office since 1996. Notable work experiences include audits of local governments for nine years and supervising the Medicaid audit for seven years. He also supervised accountability audits at multiple state agencies and the Statewide Single Audit.
(564) 999-0565 | Michael.Hutchinson@sao.wa.gov

Jordan Prince, Auditor in Charge

Jordan has been with the Washington State Auditor's Office since 2019. His notable work experiences include working on the Statewide Single audit and Medicaid audit, various accountability audits, and acting as a sampling specialist. He also audited Low Income Housing Tax Credit Partnerships at a public accounting firm.
(564) 999-0781 | Jordan.Prince@sao.wa.gov

SAO Executive Management

Pat McCarthy, State Auditor

Pat McCarthy is the 11th Washington State Auditor, and became the first woman elected to the position when she took the oath of office in 2017. Previously, Pat was twice elected Pierce County Executive; she is also the first woman to hold that role. Over more than 30 years of her public service career, Pat has served as Pierce County Auditor and Deputy Auditor, and Board President for the Tacoma School District.

SAO Executive Management

Sadie Armijo, CFE, Director of State Audit

Sadie has been with the Washington State Auditor's Office since 1998. She oversees most of the state audits our Office performs. Teams under her direction include the Financial Audit team, which conducts accountability audits, as well as the annual audit of the State of Washington Comprehensive Annual Financial Report and other financial statement audits. The Single Audit team performs accountability audits and the State of Washington Single Audit, which examines state agencies' compliance with federal grant requirements. The third team Sadie leads is the Whistleblower team, which investigates assertions of improper governmental actions at state agencies. She previously was an Assistant Director of Local Audit for five years.

Jim Brownell, Assistant Director of State Audit and Special Investigations

Jim has been with the Office of the Washington State Auditor since 2005. He and the Director of State Audit and Special Investigations oversees most of the state audits our Office performs. The most notable audits that Jim oversees are the ACFR and Single Audit for the State of Washington. He also oversees the State Whistleblower program, which is responsible for investigating alleged improper governmental actions by state agency employees. Jim is also the Office's program manager over Commodity Commission financial and accountability audits.

Department of Retirement Systems
Annual Update
Tracy Guerin, Director

LEOFF Plan 2 Retirement Board
December 15, 2021

WASHINGTON STATE Department of Retirement Systems

Pensions at a Glance

Membership

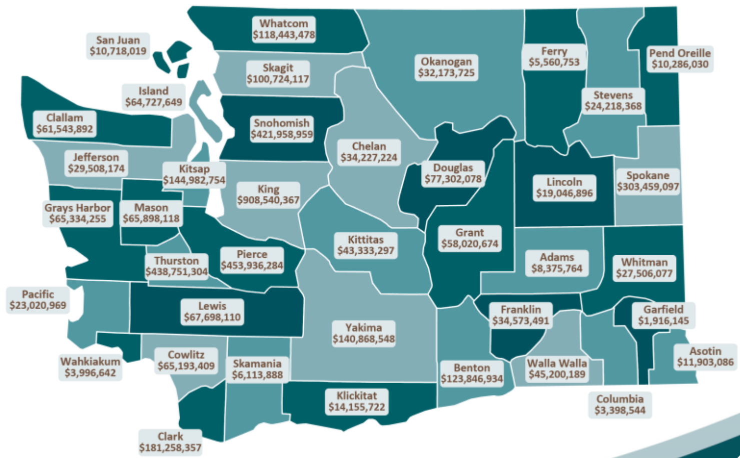
- 851,876 members

Financial

- $172.4 billion held in retirement trust fund assets
- $5.2 billion collected annually in contributions
- $6.4 billion paid annually in benefits and contribution refunds

WASHINGTON STATE Department of Retirement Systems

Benefits Paid by County – FY 2020



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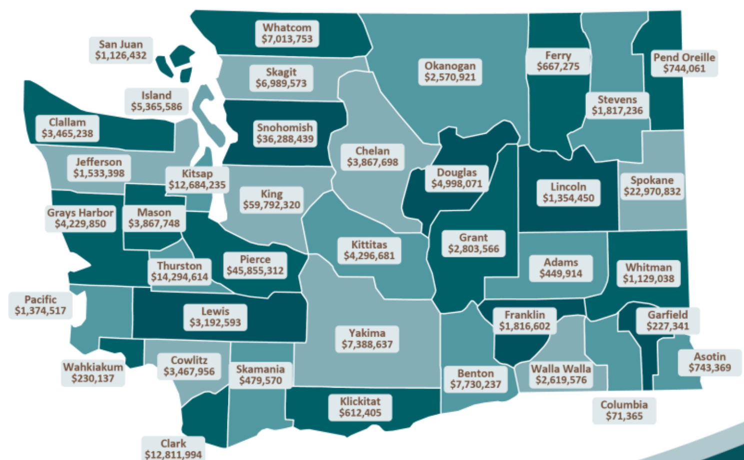
LEOFF Plan 2 Benefits Paid by County – FY 2020



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Deferred Compensation Program By The Numbers

Participants

- 102,453 total participants
- 71,007 participants actively contributing

Auto Enrollment

- More than 39,000 participants have been auto-enrolled since Jan. 2017
- Average retention rate is 92%

$6.3B in Total Assets

WASHINGTON STATE
Department of
Retirement Systems

Catastrophic Disability Reviews

- Coordination with LEOFF 2 Board staff to clarify process in WAC
- Using the Social Security disability review process as a guide
- Anticipate 2022 focus on financial review of all catastrophically disabled retirees under 65 years old
- In 2023 begin medical reviews on a 3 or 6 year review cycle

WASHINGTON STATE
Department of
Retirement Systems

DRS Operations

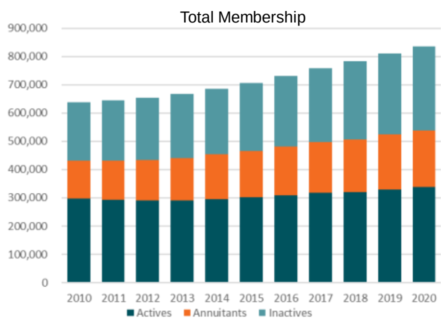
Adapting Service Delivery

- Zoom counseling sessions
- Document drop box installed in the lobby

DRS: Low Cost

Peer-compared Cost Effectiveness

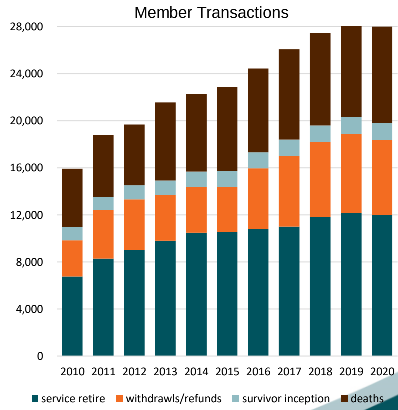
- DRS administers the fifth-most complex public pension system in North America
- Compared to our peers, DRS' administrative cost ($73.55 per member) is lower but our service score has suffered.
- Our FTE per member was **31% below** the Peer Average



DRS: Service Score Decrease

Low Staffing Impacts

- DRS' total service score, which has historically been at or above the peer median, dropped to 3 points below the peer median
- The largest components of the decline in the total service score were in member services that require FTEs



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Department of Retirement Systems

Supplemental Budget Requests

Retirement Service Workload

- Hire additional Retirement Specialists to address ongoing increases in retirement transactions

Roth Option for DCP

- Add a Roth option to the state's Deferred Compensation Program

SB 6417 Implementation

- Additional funds are needed to finish implementation

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Department of Retirement Systems

Questions?

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Department of
Retirement Systems

December 15, 2021

Roth 457/Deferred Compensation Plan Option

FINAL PROPOSAL

By Jacob White
Senior Research & Policy Manager
360-586-2327
jacob.white@leoff.wa.gov

ISSUE STATEMENT

LEOFF Plan 2 members requested a Roth 457 Plan option in the State's Deferred Compensation Plan.

OVERVIEW

The State's Deferred Compensation Plan (DCP) is a tax qualified 457 plan and allows members to make pre-tax deferrals. Some 457 plans allow members to make deferrals after taxes have been paid. These after-tax contributions are call "Roth" contributions. Roth contributions to a 457 plan, along with investment returns on those contributions, are not taxed when a member withdraws them from the plan, so long as the withdrawal is a qualified distribution. The Department of Retirement Systems (DRS) does not include a Roth option in its DCP plans.

BACKGROUND AND POLICY ISSUES

Roth contributions to a 457 plan are made on an after-tax basis and will not reduce a member's income taxes for the year. However, Roth contributions and their associated earnings can be withdrawn tax-free if the requirements for a qualified distribution are met. The earnings from Roth contributions not being taxed is a particularly significant benefit to younger members enrolled in DCP, whose contributions accumulate earnings tax free for a much longer time.

DRS is the Plan Administrator for DCP

DRS is the plan administrator for DCP.[1] As the plan administrator DRS has the authority to implement a Roth option for DCP without legislation. In 2014 the LEOFF Plan 2 Board sent a letter (see Appendix A) to DRS requesting they implement a Roth option within its DCP.

In 2015, DRS presented to the LEOFF Plan 2 Board their intent to implement a Roth option for DCP as part of DRS's strategic planning goals.[2] Initially, DRS cited the implementation of a new DCP Record Keeper as the reason for the delay in providing a Roth option. Since that initial delay, DRS changed DCP Record Keepers a second time. Prior to the LEOFF Plan 2 Board's June 2021 meeting, DRS told the Board they were not going to spend the resources to implement a Roth 457 option at this time.

In July, the Select Committee on Pension Policy (SCPP) received a "Deferred Compensation Overview" briefing from DRS, which included information about why DRS was not offering a Roth option. DRS cited the costs associated with implementation, approximately $640,000, as the main driver for not offering a Roth option (see appendix B). Without legislative funding the costs would be paid by all DCP participants through increased administrative fees, not just those utilizing the Roth option.

Based on the feedback from the LEOFF Plan 2 Board, SCPP, and DRS members, DRS submitted a budget request package to the Governor's Office on September 13, 2021 (see Appendix C). The budget request package identified total implementation costs as $988,430 total over the next two biennia ($609,350 in 2021-23 and $379,080 in 2023-2025). If DRS receives funding, DRS has identified an implementation date of January 1, 2023 for offering a Roth option. DRS will find out if their budget request was approved when the Governor's Budget is released on December 21, 2021.

Differences between a Roth IRA and a Roth 457

There is often confusion between a Roth Individual Retirement Account (Roth IRA), and a Roth 457 Plan. Both a Roth IRA and a Roth 457 Plan allow for deferrals after taxes have been paid. However, a Roth 457 Plan can only be offered by states, local governments, and certain non-profit organizations to their employees. Any worker can contribute to a Roth IRA if their

[1] RCW 41.50.770, https://app.leg.wa.gov/RCW/default.aspx?cite=41.50.770
[2] https://leoff.wa.gov/sites/default/files/2020-02/111815.4_DRS.Update.pdf

compensation and modified adjusted gross income fall below certain limits.[3] A Roth IRA cannot be offered through a public employer, instead an employee can set up a Roth IRA through a private investment company or bank.

An employee eligible for a Roth 457 Plan may also make deferrals into a Roth IRA. Additionally, Roth 457 plans have higher contribution limits than a Roth IRA. Therefore, while LEOFF Plan 2 members may be able to realize post-tax savings in a private Roth IRA, they cannot save additional post-tax funds in a Roth account without their employer offering a Roth 457 plan.

Pre-Tax and Roth Contributions are not "stackable"

457 plan contribution limits apply to the combination of pre-tax and Roth contributions. For 2020 and 2021, a member under age 50 can contribute up to $19,500 to their 457 plans. A member over age 50 can make an additional $6,500 in catch-up contributions. Roth 457 contributions are not separate from pre-tax 457 contributions for purposes of determining the maximum annual contributions a member can make. Therefore, a member could decide what portion of their maximum 457 contribution amount ($19,500 and $6,500 in catch-up contributions) is pre-tax, post-tax, or a combination of both.

In contrast, Roth IRA contribution limits are separate from 457 plan contribution limits. A 457 plan member could make their maximum 457 contributions ($19,500 and $6,500 in catch-up contributions) and make additional contributions to a Roth IRA ($6,000 regular and $1,000 catch-up contributions).

LEOFF Plan 2 Participation in DCP

Local employers must opt into DCP for their LEOFF Plan 2 members to have the option of participating in DCP. Many LEOFF Plan 2 employers have not opted into DCP. Legislation requiring all public employers to offer DCP to their employees has been unsuccessful in prior sessions, however, the LEOFF Plan 2 Board has not sponsored these bills.

Currently, 18.90% (3,521) of LEOFF Plan 2 members are enrolled in DCP and 67% (354) of LEOFF Plan 2 employers are enrolled into DCP. Of those 354 employers, 40% of their LEOFF Plan 2 members are enrolled in DCP. Based on data from other state plans offering a Roth 457 option, DRS expects approximately 12% of DCP participants, or 423 LEOFF Plan 2 members, to utilize a Roth option.

[3] Publication 590-A (2020), Contributions to Individual Retirement Arrangements (IRAs) | Internal Revenue Service (irs.gov), https://www.irs.gov/publications/p590a#idm140656789740128

POLICY OPTIONS

Option 1: Endorse legislation

The Board may sponsor legislation this session in case DRS's Budget Request is not included in the Governor's Budget or is cut from the final budget passed by the legislature.

Option 2: No action at this time

The Board may choose to not pursue legislation this session since DRS has submitted a Budget Request with the Governor's Office. The Board will not know whether the Budget Request was included in the Governor's Budget until after the final interim meeting in December.

SUPPORTING INFORMATION

Appendix A: LEOFF Plan 2 Board Letter to DRS, January 8, 2014.

Appendix B: DRS Presentation to SCPP, July 2021.

Appendix C: DRS Budget Request Decision Package, September 13, 2021.

Appendix D: Bill Draft

APPENDIX A

STATE OF WASHINGTON

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

P.O. Box 40918 - Olympia, Washington 98504-0918 - (360) 586-2320 - FAX (360) 586-2329

January 8, 2014

Marcie Frost, Director
Department of Retirement Systems (DRS)
PO Box 48380
Olympia, WA 98504-8380

Dear Ms. Frost:

We share an interest in helping employees utilize retirement savings options available under federal tax law. I am writing on behalf of the Board to ask DRS to take advantage of recent changes in the Small Business Protection act of 2010 expanding those options.

The LEOFF Plan 2 Board recently reviewed information on recent changes allowing DRS's governmental 457 plans to authorize:

- Roth or after-tax contributions; and
- Conversion of current pre-tax account balances to a Roth account taxable in year of conversion.

Based on the understanding that no enabling legislation is required, the Board voted at its December 18, 2013 meeting to ask DRS to implement these Roth options.

At the request of the Board, please consider developing an implementation plan for offering this option. Thank you for your attention to this issue.

Sincerely,

Kelly L Fox

Kelly Fox, Chair
LEOFF Plan 2 Retirement System Board

Cc: Steve Nelsen, LEOFF Plan 2 Retirement Board
Jane Sakson, Office of Financial Management
Dave Nelsen, Department of Retirement Systems

Deferred Compensation Program Overview

Seth Miller
Retirement Readiness Director

Select Committee on Pension Policy
July 20, 2021

1

Outline

- DCP overview
- Auto enrollment overview
- Roth 457 considerations

2

DCP overview

- DCP is an optional, additional retirement savings vehicle
- It is an IRC section 457 plan
- All state agencies participate
- Local government employers can also participate or offer their own plan

WASHINGTON STATE Department of Retirement Systems

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DCP investments

- Investments are selected by the WSIB
- 13 Retirement Strategy Target Date Funds
- 7 Individual "mutual fund" type investments

WASHINGTON STATE Department of Retirement Systems

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Administration of DCP

- Administrative options are determined by DRS
- Include options such as
  - Choice of Record Keeper
  - Fee structure
  - Loans
  - SECURE Act provisions
  - After-tax contributions (Roth)

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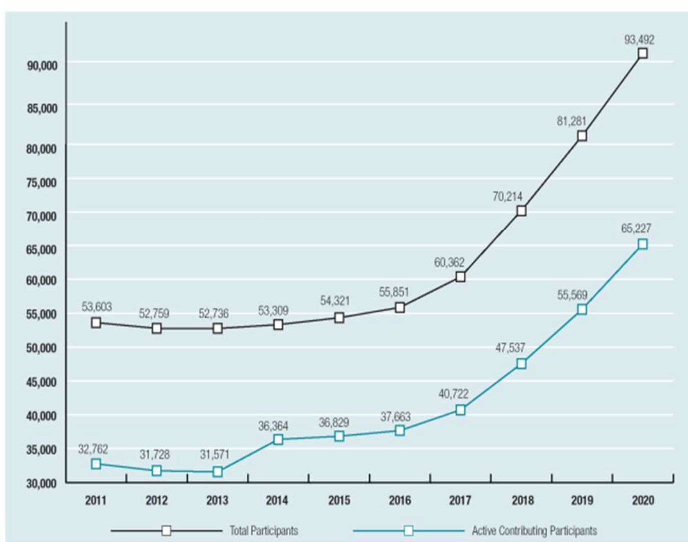
Growth in DCP participation



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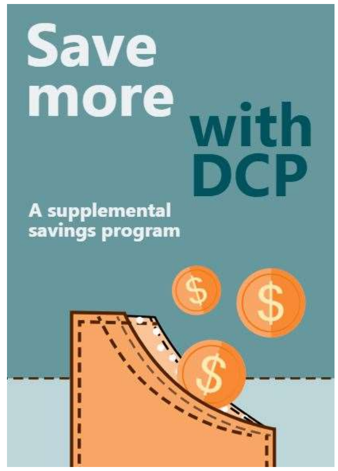
DCP automatic enrollment

- Since January 1, 2017, all newly hired state and higher education employees are automatically enrolled in the state's Deferred Compensation Program



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DCP and automatic enrollment basics

- Default contribution rate of 3%
- Default age appropriate Target Date Fund
- Contributions are refunded if member opts out within 90 days

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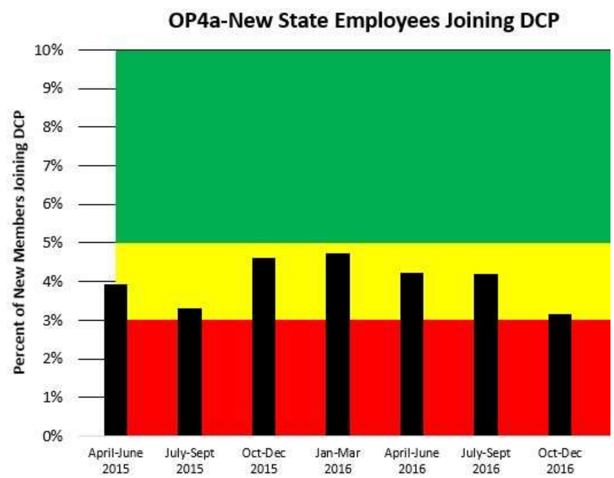
DCP – pre-2017 auto enrollment



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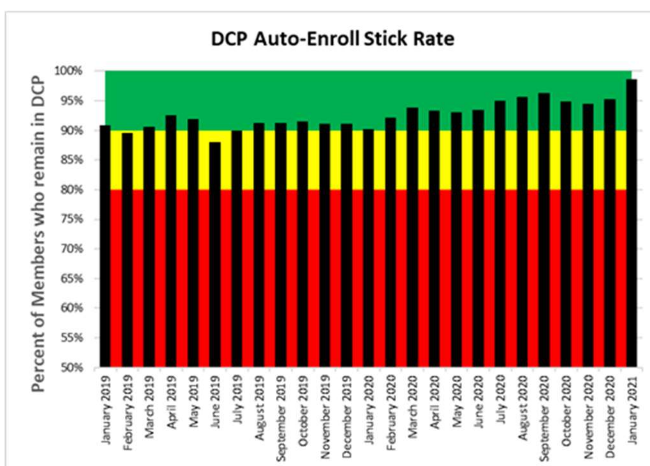
DCP automatic enrollment



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DCP automatic enrollment

- "Stick rate" is 87– 90%
- Average age of DCP participants has dropped from 47 to 42 since auto enrollment

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Automatic enrollment myths

Lower income workers will be less likely to participate.

- "…stats get even more impressive when looking at participation rates among minorities and lower income workers. "
- DRS has seen similar results in our own data.

Reference: https://www.pai.com/blog/benefits-of-automatic-enrollment-in-a-retirement-plan

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Roth 457

- Since 2011 457 plans have been able to offer a “Roth” option
- Contributions are made after-tax
- Contributions and investment returns are not taxed at time of withdrawal

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Roth IRA vs Roth 457

- Roth IRA
  - A private option - doesn’t matter who your employer is
  - Workers who earn under a certain amount can contribute
  - $6000 yearly limit if under age 50
- Roth 457 Plan
  - Can only be offered by states, local governments, and certain not profit organizations to their employees
  - No income limit to make contributions
  - $19,500 contribution limit for those under age 50

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Why DRS currently does not offer a Roth 457 option

- Previous related implementations of higher priority
  - Auto enrollment
  - New Employer Reporting Application
  - Record Keeper transitions
- Generally low take up rates for Roth options
  - 12% of employees in 401(k) plans
  - Limited but vocal interest from participants
- Added complexity for both employers and customers

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Other considerations

- Cost/Effort of implementation
  - Internally developed DRS fiscal note estimates an implementation cost of approximately $640,000
  - Without legislative funding, cost would be paid by DCP participants
  - Cost to employer community is unknown
- Possible federal legislation
  - Secure Act 2.0

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Questions?

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Retirement Systems

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Department of Retirement Systems

2021-23 First Supplemental Budget Session

Policy Level - RH - Implement Roth 457

Agency Recommendation Summary

The Department of Retirement Systems (DRS) requests funding to add a Roth option to the state's Deferred Compensation (457) Program. The agency has received requests from members to implement such an option within the state's 457 Plan. Some individuals prefer to invest for retirement with contributions that have already been taxed, and a Roth 457 has higher contribution limits than a Roth IRA.

Fiscal Summary

Fiscal Summary *Dollars in Thousands*	Fiscal Years		Biennial	Fiscal Years		Biennial
	2022	2023	2021-23	2024	2025	2023-25
Staffing						
FTEs	0.0	3.0	**1.5**	2.5	0.0	**1.25**
Operating Expenditures						
Fund 001 - 1	$0	$609	**$609**	$379	$0	**$379**
Total Expenditures	**$0**	**$609**	**$609**	**$379**	**$0**	**$379**

Decision Package Description

What is the problem, opportunity or priority you are addressing with the request?

Members would like the opportunity to save for retirement using a Roth option, which essentially means that their contributions would be taxed as they're going into the fund, as opposed to when they're coming out of the fund. Although members can already contribute to a Roth IRA, separate from the state's system, contribution limits would be higher in a Roth 457.

What is your proposal?

DRS requests that funding be provided to enable DRS to implement a Roth option in the state's Deferred Compensation Program (a 457 Plan).

What are you purchasing and how does it solve the problem?

The decision package would provide funding to build a Roth option into the state's DCP over a period of 18 months. The funding package buys:

- FTEs, as outlined in the table under Workforce Assumptions, to implement the Roth program.
- Contracted record keeper services.
- Contracted programmers to augment existing DRS systems.
- Contracted management consulting with retirement expertise to support the agency in implementing the solution.

What alternatives did you explore and why was this option chosen?

The alternatives looked at different ways to fund an implementation project. The three alternatives explored were: 1) seek state funding to put the Roth in place, 2) increase the fee paid by all participants for administration of DCP or 3) establish a unique admin fee to be paid by only those members who choose to participate in the Roth.

The first option is recommended because of the impact of a fee increase relative to the low participation rates seen in other retirement systems who offer Roth options. The second option would represent a significant increase in the administrative fee paid by all participants during implementation while studies have identified that participation would only be around 10 percent. The fee required by the third option would be very difficult to calculate because it would depend not only on the number of active members who decide to start contributing to a Roth but also how many active and terminated members decide to convert existing assets to a Roth. Without a large asset base quickly shifting to the Roth option, recovering implementation costs would either require a significant short term fee increase or assessment of the fee over a period of years.

Assumptions and Calculations

Expansion, Reduction, Elimination or Alteration of a current program or service:

Adding a Roth option to the state's DCP would expand the existing program by giving DCP members a post-tax option to defer compensation into additional retirement savings.

It is important to keep in mind that adding a Roth option is not the same as adding a new investment choice, as how retirement funds are taxed is different than how retirement funds are invested.

Budget authority for DCP in the 2021-23 Biennium is $2,300,000 in FY 1 and $2,301,000 in FY 2. The estimated cost of the 18-month project would represent a 29% increase in the cost of the program over the duration of the project.

Detailed Assumptions and Calculations:

Administrative Assumptions

To develop this decision package, DRS made the following administrative assumptions for the implementation of the Roth option:

- DRS will need to create a new/separate plan in multiple DRS automated systems for managing Roth reporting and dollars.
- Roth will need to be set up with our existing record keeper for DCP, which will require them to make system changes, develop business requirements and conduct testing with DRS.
- WACs for DCP will need to be updated.
- DRS will need to update business procedures for internal operations (e.g., Trust Accounting, Accounts Receivable, and Retirement Services) to address new requirements.
- Roth contributions will be combined with existing pre-tax contributions for the calculation of the existing annual maximum for 457 plans.
- DRS will limit automatic enrollment default contributions to pre-tax dollars only, with an in-plan rollover option available to customers afterwards.
- Employers will be able to use the same Report Group to report Roth contributions as they use to report pre-tax contributions in DCP.
- Employer training materials will need to be updated to include Roth instructions and employer training webinars will need to be developed and training facilitated.
- DCP plan materials for members will need to be updated to include Roth information.
- Letters will need to be mailed to existing DCP customers by the Record Keeper, notifying them of the new Roth option.
- DRS anticipates an increased workload for approximately one year to support new enrollments and rollovers.

Note: Public employers who participate in the state's DCP may need to make changes to their own payroll system(s). DRS is not able to estimate that cost so it is not included in this decision package.

Calculation Assumptions

The salaries and benefits for all proposed FTEs are provided in the workload assumptions below, while management consultation and contracted programmers are both based on contracts we currently have in place for comparable services.

Workforce Assumptions:

Job Classification	Annual Amts Salary	Benefits	FY 2022	FY 2023	FTEs: 2021-23	2023-25	2025-27
Retirement Specialist 3	$61,224	$24,246		0.15	**0.1**	0.04	0.0
Mgmt Analyst 5	$88,644	$29,241		0.20	**0.1**	0.05	0.0
IT Busn Analyst-Jrny	$96,888	$30,744		1.00	**0.5**	0.25	0.0
IT Proj Mgr - Mgr	$123,636	$35,617		1.00	**0.5**	0.25	0.0
Comm Consult 5	$84,396	$28,469		0.13	**0.1**	0.03	0.0
IT Applications Developer-Senior	$112,167	$33,731		0.29	**0.1**	0.06	0.0
Rules Coordinator	$86,944	$29,090		0.05	**0.0**	0.00	0.0
Fiscal Analyst 2	$54,108	$22,949		0.05	**0.0**	0.01	0.0
Fiscal Analyst 5	$78,408	$27,377		0.15	**0.1**	0.04	0.0
Office Assistant	$42,428	$20,899		-	**-**	0.50	0.0
Total FTE's			**0.0**	**3.0**	**1.5**	**1.2**	**0.0**

How is your proposal impacting equity in the state?

The proposed option would be available to all public employees who work for employers that participate in the state's DCP. Additionally, funding the project out of the State General Fund would eliminate the cost to members who may never choose to participate in the Roth option. Studies have identified that although numerous 457 plans currently offer Roth options, only around 10 percent of members participate.

Strategic and Performance Outcomes

Strategic Framework:

This package supports DRS' strategic plan as it represents the addition of a retirement savings option requested by members.

Performance Measures	Incremental Changes 2022	Incremental Changes 2023	Incremental Changes 2024	Incremental Changes 2025
000622 - Number of new deferred compensation participants	0	0	0	0

Performance Outcomes:

Implementation of a Roth option may increase the number of new participants in the state's DCP although it is anticipated that a number of the eventual members in the Roth will be existing participants who change from pre-tax to post-tax contributions.

Other Collateral Connections

Puget Sound Recovery:

N/A

State Workforce Impacts:

N/A

Intergovernmental:

N/A

Legal or Administrative Mandates:

N/A

Stakeholder Response:

Implementation of a Roth option would respond to member requests from a small population as well as comments from local government employers.

Changes from Current Law:

N/A

State Facilities Impacts:

N/A

IT Addendum

Does this Decision Package include funding for any IT-related costs, including hardware, software, (including cloud-based services), contracts or IT staff?

No

Objects of Expenditure

Objects of Expenditure	**Fiscal Years**		**Biennial**	**Fiscal Years**		**Biennial**
Dollars in Thousands	**2022**	**2023**	**2021-23**	**2024**	**2025**	**2023-25**
Obj. A	$0	$309	**$309**	$191	$0	**$191**
Obj. B	$0	$91	**$91**	$67	$0	**$67**
Obj. C	$0	$209	**$209**	$121	$0	**$121**
Obj. E	$0	$0	**$0**	$0	$0	**$0**

Agency Contact Information

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Sec. 1 Amend RCW 41.50.770

(1) "Employee" as used in this section and RCW **41.50.780** includes all full-time, part-time, and career seasonal employees of the state, a county, a municipality, or other political subdivision of the state, whether or not covered by civil service; elected and appointed officials of the executive branch of the government, including full-time members of boards, commissions, or committees; justices of the supreme court and judges of the court of appeals and of the superior and district courts; and members of the state legislature or of the legislative authority of any county, city, or town.

(2) The state, through the department, and any county, municipality, or other political subdivision of the state acting through its principal supervising official or governing body is authorized to contract with an employee to defer a portion of that employee's income, which deferred portion shall in no event exceed the amount allowable under 26 U.S.C. Sec. 401(a) or 457, and deposit or invest such deferred portion in a credit union, savings and loan association, bank, or mutual savings bank or purchase life insurance, shares of an investment company, individual securities, or fixed and/or variable annuity contracts from any insurance company or any investment company licensed to contract business in this state.

(3) Beginning no later than January 1, 2017, all persons newly employed by the state on a full-time basis who are eligible to participate in a deferred compensation plan under 26 U.S.C. Sec. 457 shall be enrolled in the state deferred compensation plan unless the employee affirmatively elects to waive participation in the plan. Persons who participate in the plan without having selected a deferral amount or investment option shall contribute three percent of taxable compensation to their plan account which shall be invested in a default option selected by the state investment board in consultation with the director. This subsection does not apply to higher education undergraduate and graduate student employees and shall be administered consistent with the requirements of the federal internal revenue code.

(4) Beginning no later than January 1, 2017, any county, municipality, or other political subdivision offering the state deferred compensation plan authorized under this section, may choose to administer the plan with an opt-out feature for new employees as described in subsection (3) of this section.

(5) Beginning no later than January 1, 2024, the department must offer employees a Roth option in the deferred compensation plan under 26 U.S.C. Sec. 457.

(6~~5~~) Employees participating in the state deferred compensation plan under 26 U.S.C. Sec. 457 or money-purchase retirement savings plan under 26 U.S.C. Sec. 401(a) administered by the department shall self-direct the investment of the deferred portion of their income through the selection of investment options as set forth in subsection (6) of this section.

(7~~6~~) The department can provide such plans as it deems are in the interests of state employees. In addition to the types of investments described in this section, the state investment board, with respect to the state deferred compensation plan under 26 U.S.C. Sec. 457 or money-purchase retirement savings plan under 26 U.S.C. Sec. 401(a), shall invest the deferred portion of an employee's income, without limitation as to amount, in accordance with RCW **43.84.150**, **43.33A.140**, and **41.50.780**, and pursuant to investment policy established by the state investment board for the state deferred compensation plan under 26 U.S.C. Sec. 457 or money-purchase retirement savings plan under 26 U.S.C. Sec. 401(a). The state investment board, after consultation with the director regarding any recommendations made pursuant to RCW **41.50.088**(2), shall provide a set of options for participants to choose from for investment of the deferred portion of their income. Any income deferred under these plans shall continue to be included as regular compensation, for the purpose of computing the state or local retirement and pension benefits earned by any employee.

(8~~7~~) Any retirement strategy fund asset mix may include investment in a state investment board commingled fund. Retirement strategy fund means one of several diversified asset allocation portfolios managed by investment advisors under contract to the state investment board. The state investment board shall declare unit values for its commingled funds no less than monthly for the funds or portions thereof requiring valuation. The declared values shall be an approximation of portfolio or fund values, and both the values and the frequency of the valuation shall be based on internal procedures of the state investment board. Such declared unit values, the frequency of their valuation, and internal procedures shall be in the sole discretion of the state investment board. The state investment board may delegate any of the powers and duties under this subsection, including discretion, pursuant to RCW **43.33A.030**.

(9~~8~~) Coverage of an employee under optional salary deferral programs under this section shall not render such employee ineligible for simultaneous membership and participation in any pension system for public employees.

Sec. 2 New Section

If specific funding for the purposes of this act is not provided by June 30, 2023, in the omnibus appropriations act, this act is null and void.

LEOFF Plan 2 Retirement Board

December 15, 2021

Tiered Multiplier Benefit Improvement

FINAL PROPOSAL

By Jacob White

Senior Research & Policy Manager

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ISSUE STATEMENT

A benefit improvement purchased using the Benefit Improvement Account should meet the policy goals of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Board while also adhering to the legislative intent of the Benefit Improvement Account.

OVERVIEW

This report will provide background on the history and purpose of the LEOFF Plan 2 Benefit Improvement Account (BIA). It will also identify policy options for the Board to consider with purchasing a benefit improvement using the BIA.

BACKGROUND AND POLICY ISSUES

History of the Benefit Improvement Account

In 2008, the legislature created the Benefit Improvement Account (BIA). The BIA was initially to be funded through periodic appropriations from the State's General Fund when certain revenue criteria were met. Despite those criteria being met, the appropriations were never made and instead, the BIA has been funded through transfers from the LEOFF Plan 2 Trust Fund into the BIA.

In creating the BIA the legislature recognized that:

> the current benefit formula and contributions for [LEOFF] 2 are inadequate to modify that formula in recognition of the shorter working careers for firefighters and police officers. [...] In recognition of the physical demands of the professions and the inherent risks faced by law enforcement officers and firefighters, eligibility for retirement in [LEOFF] 2 system has been set at age fifty-three. However, the benefit formula is designed for careers of thirty-five to forty years, making retirement at age fifty-three an unrealistic option for many.[1]

[1] https://lawfilesext.leg.wa.gov/biennium/2007-08/Pdf/Bills/Session%20Laws/Senate/6573-S.SL.pdf?cite=2008%20c%2099%20%C2%A7%203

The minimum amount of income often cited as necessary for income replacement at retirement is 60%. The benefit formula for the Department of Retirement Systems (DRS) administered pension systems, including LEOFF Plan 2, is: 2% x Years of Service x Final Average Salary. To reach 60% replacement income using this formula a member must have a 30-year career.

In the state pension systems for general public employees, teachers, school employees, and most other public employees in Washington State, the normal retirement age is 65 years old. However, for LEOFF Plan 2 normal retirement age is 53 years old.[2] The earlier normal retirement age is due to the physical demands and risks inherent in LEOFF covered positions. This, coupled with a benefit formula designed for 30-year careers, results in the average LEOFF Plan 2 member replacing only approximately 47% of their pre-retirement income through their LEOFF Plan 2 benefit. The 2020 projected average salary of a LEOFF 2 member is $10,390 per month. The average LEOFF Plan 2 member retires at age 56 with 23.5 years of service. These averages would result in a benefit of $4,883 per month.

Policy Goals of the Board

One policy goal frequently discussed by the Board is that this benefit improvement should apply as broadly as possible. The Board has discussed providing a benefit to as many members as possible while also recognizing the limitations of the cost of the benefit. The Board recognized that the BIA was funded by transfers from the LEOFF Plan 2 trust fund, which contains contributions made by active and retired LEOFF Plan 2 members. Therefore, the Board reasoned that current members and retirees should receive a benefit since they have already helped pay for it through past contributions. Furthermore, the Board discussed prioritizing a larger benefit for members who spend a career in LEOFF Plan 2, since the longer someone worked in a LEOFF 2 covered position the larger their contribution to the funds in the BIA.

The Board has also discussed a policy goal to improve retention with the benefit improvement. One of the primary goals of any pension plan is to recruit and retain employees. Employers may be particularly interested in improving recruitment and retention through the benefit improvement.

Lump Sum Benefit

The Board has identified a lump sum benefit as a benefit improvement option for LEOFF Plan 2 retirees. A lump sum benefit is a one-time payment made to retirees from the BIA. The issue the Board has identified with a lump-sum benefit is how to design that benefit in a way that best meets the Board's policy goal of equity.

[2] Normal Retirement age for Public Safety Employees' Retirement System (PSERS) Plan 2 is 62, and LEOFF 1 is 50

The options identified by the Board are:

1. $20,000 lump sum for retirees; or
2. $100 per month of service credit for retirees.

Option 1 would be less complex to administer. It provides the same benefit to all vested members, which may be viewed as the most straightforward way to distribute a benefit. However, from an accumulated contributions standpoint, it may be considered unfair for a member with 5 years of service credit to receive the same benefit as a member with 20 or more years.

Option 2 addresses this issue of proportionality by providing a lump sum benefit based on the amount of service credit a retiree has earned. For example, a retiree with 5 years of service credit (60 months of service credit) would receive a lump sum payment of $6,000; a retiree with 10 years of service credit (120 months of service credit) would receive a lump sum payment of $12,000; a retiree with 20 years of service (240 months of service credit) would receive a lump sum payment of $24,000; and, a retiree with 25 years of service (300 months of service credit) would receive a lump sum payment of $30,000.

This option would also provide a minimum benefit of $20,000 to catastrophic or duty disability retirees, as well as duty death beneficiaries. While Option 2 would be more complex to administer, it provides a benefit that meets the Board's goal of providing more benefit to career employees.

The Board has also discussed providing retirees who receive a lump sum benefit the option of purchasing an actuarially equivalent annuity with those funds. This is a benefit that can be provided at no-cost to the plan. However, there is some risk in allowing members to purchase an annuity, as the experience of the plan could result in not aligning with the assumptions used by the Office of the State Actuary (OSA) in pricing the annuity factors for purchasing an annuity. Although, there is the possibility that the experience of the plan could result in a savings. This is a risk that the plan already takes on with the Purchase of Additional Annuity and Purchase of Service Credit benefits.

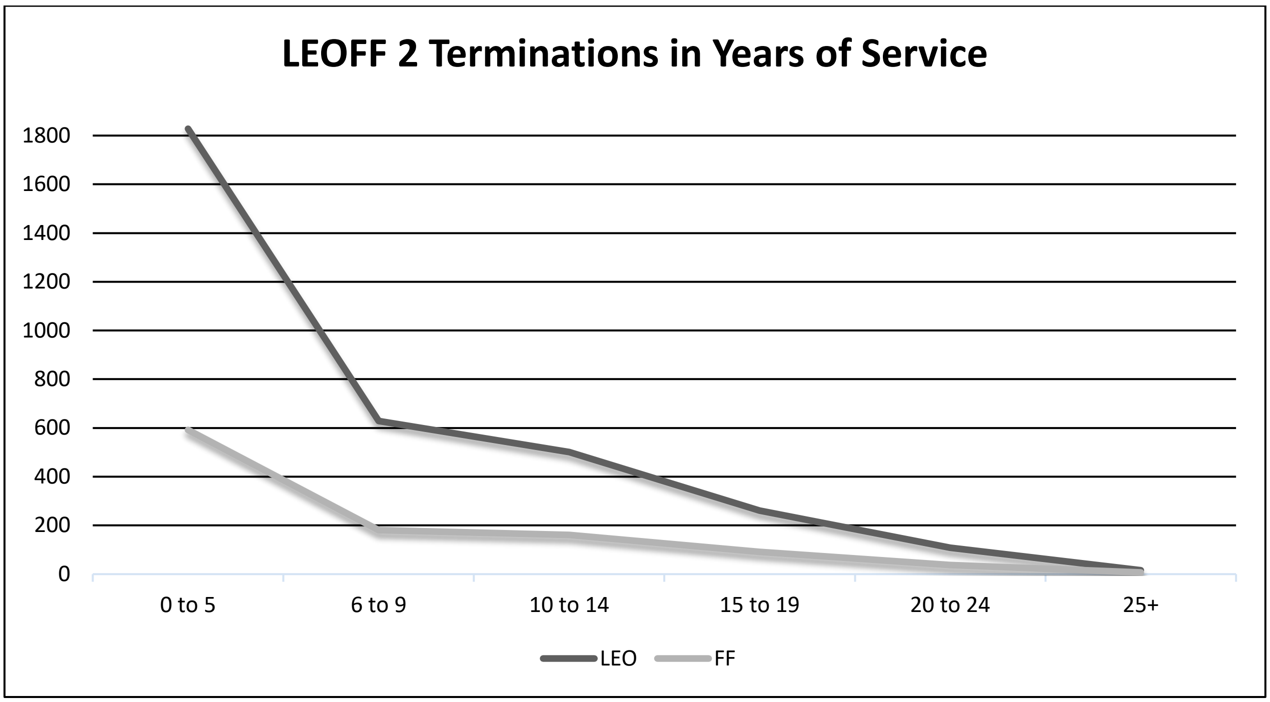
Tiered Multiplier Benefit

The Board has identified a tiered multiplier as a benefit improvement for active members that meets its policy goals of equity and retention. The tiered multiplier benefit would increase the plan benefit multiplier from 2% to 2.5% for the years of service between 15 and up to 26.

This benefit would improve retirement income so that retirees can be closer to the 60% income replacement goal, while also incentivizing members to remain in LEOFF Plan 2. OSA estimated that the average member's retirement benefit will increase by about 9 percent with a mid-career multiplier.[3]

The years of service between 15 and 26 were identified in part because, by this point, employers have significantly invested in their employees' training and employees have greater knowledge through their extensive work experience. However, a concern with this benefit improvement is that it does not provide a benefit to members who work less than 15 years. The Board has recognized that this concern could be addressed by providing the lump sum benefit to members who work less than 15 years.

Below is a chart of data from 1995-2015 that shows at what service credit range fire fighters and law enforcement officers terminated from LEOFF service:



Who qualifies for which benefit improvement?

Determining who qualifies for which benefit improvement is driven by the policy goals of the Board discussed above. In particular, the Board recognizes that the BIA was funded by transfers from the LEOFF Plan 2 trust fund, which contains contributions made by active and retired LEOFF Plan 2 members.

Also, since there are different benefits for retirees versus active members versus new hires, the Board has discussed the importance of identifying a date in the bill which determines the

[3] https://fnspublic.ofm.wa.gov/FNSPublicSearch/GetPDF?packageID=62887

benefit a person will qualify for. The Board has also discussed backdating that delineation date in the bill so that it does not cause unexpected issues for the plan, such as a surge in retirements or members delaying planned retirement. The date that has been identified for delineating these benefits is February 1, 2021.

Below is a table breaking down which groups of LEOFF Plan 2 members qualify for the lump sum benefit improvement, tiered multiplier benefit improvement, choice between lump sum benefit or tiered multiplier benefit, or no benefit improvement. This list does not specify all potential situations.

Retired as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Retired as of 2/1/21	Lump sum
Duty or catastrophic disability retired as of 2/1/21	Lump sum (minimum of $20k)
Beneficiary of line-of-duty death who died prior to 2/1/21	Lump sum (minimum of $20k)
Survivor beneficiary, member deceased as of 2/1/21	Lump sum
Member deceased as of 2/1/21 with no survivor beneficiary	No benefit
Withdrawn	No benefit

LEOFF 2 Member Active as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Still active	Choice of lump sum or tiered multiplier
Now retired	Choice of lump sum or tiered multiplier
Duty or catastrophic disability retirement	Choice of lump sum (minimum of $20k) or tiered multiplier
Beneficiary of line-of-duty death who was active as of 2/1/21	Choice of lump sum (minimum of $20k) or tiered multiplier
Survivor beneficiary, member deceased after 2/1/21	Choice between a lump sum or tiered multiplier benefit at retirement
Survivor beneficiary in service death not line-of-duty	Choice of lump sum or tiered multiplier
No survivor beneficiary, member deceased after 2/1/21 before effective date of the bill	Lump sum to beneficiary or estate
No survivor beneficiary in service death not line of duty	Lump sum to beneficiary or estate
Withdrawn	No benefit
Inactive as of 2/1/21 and vested	Choice of lump sum or tiered multiplier
Inactive and not vested	No benefit
Inactive and not vested as of 2/1/21, returns to LEOFF employment after 2/1/21 and becomes vested	Choice of lump sum or tiered multiplier

New Member after 2/1/21

LEOFF 2 Member Group	Benefit Improvement
New members after 2/1/21	Tiered multiplier
Withdrawn	No benefit

Members active as of February 1, 2021 would receive the option of choosing between the lump sum benefit or the tiered multiplier. Some of the policy reasons for this choice are that these members contributed to the funds used to purchase the benefit improvement and may be at a point of their career where the tiered multiplier could help their employer retain them. The following is an example of how this choice of benefit would work for this group of members:

> Member is currently 45 years old with 20 years of service credit. They work for an additional 10 years and retire at age 55 with an Average Final Compensation of $10,000. This member will have two benefit options at retirement:
> - Option 1: 2% x 30 yrs x $10k for a monthly benefit of $6000 plus a lump sum of $36,000
> - Option 2: (2% x 20 yrs + 2.5% x 10 yrs) x $10K for a monthly benefit of $6500

This option would also apply to members who are inactive as of February 1, 2021 but not retired. Some of the policy reasons behind offering these members the option between the benefits are that they also have contributed to the benefit improvement account and offering them the potential incentive of the tiered multiplier may bring them back to LEOFF service. The following is an example of how this choice of benefit would work for this group of members:

> Member is currently inactive with 17 years of service credit and an Average Final Compensation of $10,000. This member will have two benefit options at retirement:
> - Option 1: 2% x 17 yrs x $10k for a $3400 monthly benefit plus a lump sum of $20,400
> - Option 2: (2% x 15 years + 2.5% x 2 years) x $10K for a monthly benefit of $3500 per month

Implementation of a Benefit Improvement using the Benefit Improvement Account

Previous benefit improvements to LEOFF Plan 2 have been paid for through contribution rate increases. The BIA is a new method for funding a benefit improvement and it has never been used. The intent of the BIA was to prefund a benefit improvement so that there would be no impact on contributions. However, the current LEOFF Plan 2 funding policies would result in a contribution rate increase even with enough money in the BIA to fully purchase the benefit improvement.

The Board's strategic plan goals for the funding policy are stable rates and a fully funded plan. To achieve this goal, the Board sets the contribution rate at the greater of the Aggregate Funding Method or the Minimum Rate Funding Policy. Currently, the Minimum Rate Funding Policy is greater than the Aggregate Funding Method. The Minimum Rate Funding Policy is based on the Normal Cost of Entry Age Normal Cost Method (expected long-term cost of the plan excluding the current level of assets). The Minimum Rate Funding Policy contains a rate floor and a rate ceiling based on the funded status of the plan. The floor is set at 100% of the minimum rate if the funded status is equal to or less than 105%. The ceiling is set at 90% of the minimum rate if the funded status exceeds 105%.

Under current funding policies a benefit improvement would result in an increase to liabilities to the plan. There is no current policy for using assets in the BIA to offset that increase in liabilities. Therefore, the Board must determine a policy that allows the assets in the BIA to offset the increase in liabilities caused by a benefit improvement, so there is no increase in required contributions.

Two options for the Board to address this issue are:

1. Fix rates for the remainder of the current biennium and the next biennium according to the Board's current funding policy and develop a policy in consult with OSA that allows the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions; or,
2. Fix rates for the remainder of the current biennium and the next biennium according to the Board's current funding policy and then develop a policy in consult with OSA that would allow the assets in the BIA to offset the increase in liabilities from the benefit improvement such that there is no increase in required contributions.

Option 1 would allow the Board to immediately address the issue. It would also allow OSA to use the new funding policy in its 25-year cost impact for the fiscal note. This would give the legislature the opportunity to see the long-term cost impact of the benefit improvement. However, it does not give much time for the Board to work with OSA to identify and study options.

Option 2 gives the Board time to work with OSA to identify options and then study those options. However, without such a policy in the bill the long-term cost in the fiscal note would reflect current law and as noted above, current law would not reflect the intended rate reductions from the BIA. Therefore, the long-term costs of the bill would not be accurately reflected in the fiscal note for legislation.

November Board Meeting

At the November Board meeting the Board choose the following options for the purpose of pricing the benefit improvement for the December Board Meeting:

- $100 per month of service for retirees and a minimum of $20,000 for catastrophic and duty disability retirees, and duty death beneficiaries
- A tiered multiplier benefit that would increase the plan benefit multiplier from 2% to 2.5% for the years of service for active and new members from 15 through 25
- Develop a policy in consult with OSA that allows the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions

Actuarial Analysis

OSA completed a draft analysis of the costs of the benefit improvement the Board outlined in the November Board Meeting. OSA identified a total cost of $1.1 Billion. The costs were broken by OSA in the following chart:

Impacts at June 30, 2019	
(Dollars in Millions)	**Draft Bill**
Total Liability Change (A)	**$1,126**
Active Members*	985
Annuitant Lump Sum	141
BIA Assets (B)	**$393**
Total Cost to Plan (A) - (B)	**$733**
Total Employer Budget Impacts**	
2022-2023 Biennium	(0)
2023-2025 Biennium	(1)
25-Year Impact	$631

**Includes current and future terminated members with a vested benefit in LEOFF 2.*

***Estimated budget impacts under current funding policy for local employers and the state. Does not include potential funding policy adjustments.*

The BIA assets identified in the chart above do not include the transfer of funds into the BIA that would occur under the draft bill language.

As requested by the LEOFF 2 Board, OSA also developed two policy options for the Board that would allow the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions.

The first option is to lower the minimum contribution rate floor from 90% of the Entry Age Normal Cost (EANC) to 80% of the EANC. The second option is to utilize an offset for future contribution rates that recognizes the BIA transfer.

OSA identified the contribution rate impact, along with the funding status impact, that the draft bill, along with either of the two policy options would have.

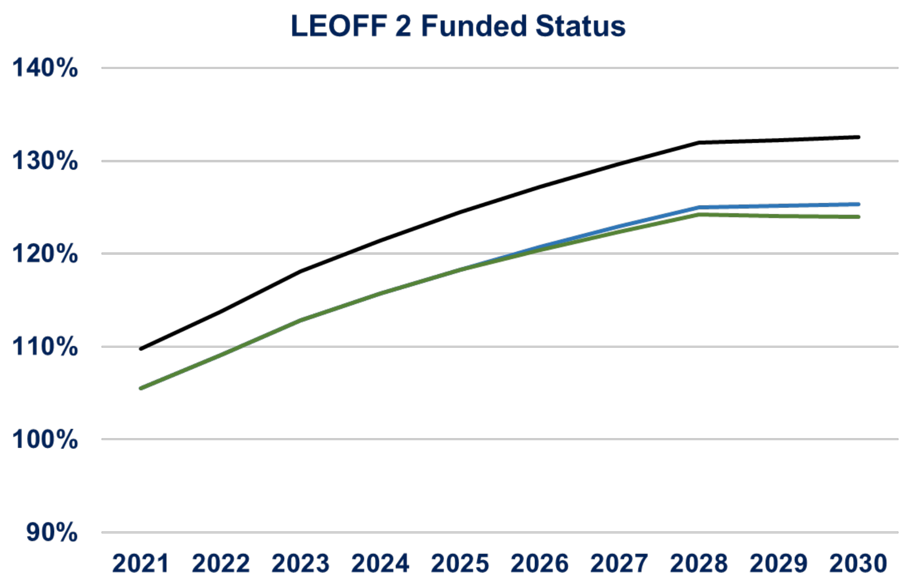
Option 1 would have the following contribution rate impact:

	Total Employer Contribution Rates		
Biennium	**Current Law**	**Draft Bill**	**Lower Min**
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.00%
2027-29	8.36%	9.04%	8.04%
2029-31	8.40%	9.08%	8.08%

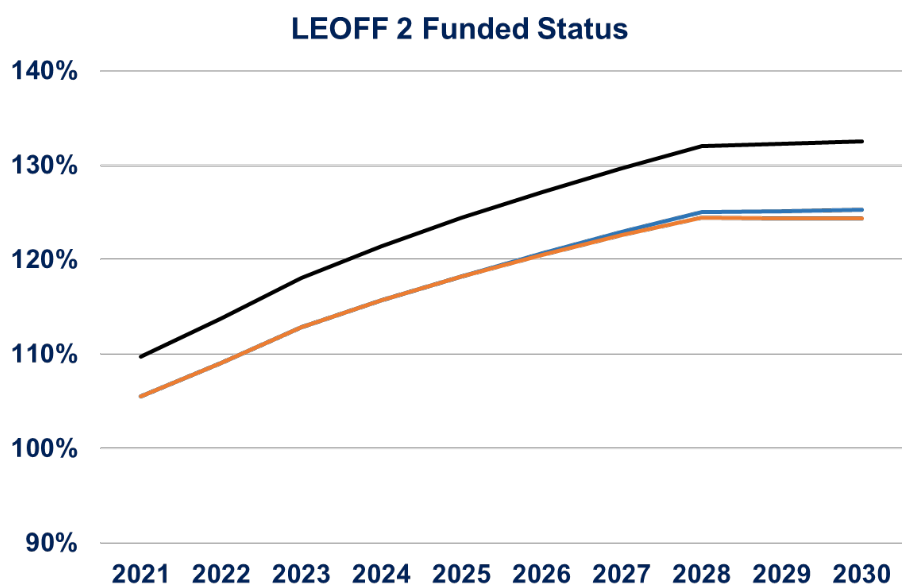
Option 2 would have the following contribution rate impact:

	Total Employer Contribution Rates		
Biennium	**Current Law**	**Draft Bill**	**Offset**
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.31%
2027-29	8.36%	9.04%	8.34%
2029-31	8.40%	9.08%	8.38%

Option 1 would have the following funded status impact:



Option 2 would have the following funded status impact:



Department of Retirement Systems Draft Fiscal Note

LEOFF 2 Board staff shared the draft bill with the Department of Retirement Systems to provide feedback on any potential administrative issues. DRS completed a draft fiscal note that identified a cost of $252,000 to implement the bill over the 2021-23 biennium. To implement this legislation DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct legal analysis, business analysis and business process design,
- Complete systems changes-which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes
- Identify impacted members,
- Update agency WACs,
- Update member handbooks and communicate to members by mail, and
- Update the DRS administrative manual and train team members.

To support this implementation, DRS will form a project team that will include a project manager, business analyst, web programmer, communication consultant, fiscal analyst, management analyst, rules coordinator, legal and compliance manager, and retirement specialist.

DRS will also hire a contractor to implement changes to Linux applications and seek legal advice from outside legal counsel to ensure IRS compliance.

POLICY OPTIONS

In the December meeting the Board may take action on which actuarial option to use to allow the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions.

Option 1: Lower the minimum contribution rate floor from 90% of the Entry Age Normal Cost (EANC) to 80% of the EANC.
Option 2: Utilize an offset for future contribution rates that recognizes the BIA transfer.

Next, the Board may take action on whether to endorse the bill draft with the option they supported above:

Option 1: Endorse Tiered Multiplier Benefit bill draft with option the Board supported above added
Option 2: No action

APPENDIX

TIERED MULTIPLIER BENEFIT IMPROVEMENT

Sec. 1. Amend RCW 41.26.420

(1) Except as provided in RCW 41.26.530, a member of the retirement system shall receive a retirement allowance equal to two percent of such member's final average salary for each year of service.

(2) Beginning January 16, 2023, members new to the retirement system after February 1, 2021 who earn more than 15 years of service credit shall receive a tiered multiplier retirement allowance as follows: (a) Two percent of such member's final average salary for the first 15 years of service; (b) Two and one-half percent of such member's final average salary for the 10 years of service after 15 years and up to 25 years; and (c) Two percent of such member's final average salary for years of service above 25 years.

(3) Members active in the retirement system on or before February 1, 2021, at retirement must make an irrevocable choice between the lump sum defined benefit in section 2 of this act or a tiered multiplier retirement allowance as follows: (a) Two percent of such member's final average salary for the first 15 years of service; (b) Two and one-half percent of such member's final average salary for the 10 years of service after 15 years and up to 25 years; and (c) Two percent of such member's final average salary for years of service above 25 years.

(4) Any member who receives the tiered multiplier benefit in this section is not eligible for the lump sum defined benefit in section 2 of this act.

LUMP SUM BENEFIT IMPROVEMENT

Sec. 2. NEW SECTION. A new section is added to chapter 41.26 RCW under the subchapter heading "Plan 2" to read as follows:

(1) Members who are retired on or before February 1, 2021, will receive a one-time lump sum defined benefit of $100 per service credit month payable by January 31, 2023, this includes:

(a) Members who retired for an in-line of duty disability under RCW 41.26.470 shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000;

(b) A member's beneficiary eligible for an in-line of duty death benefit under RCW 41.26.048;

(i) If there is more than one eligible beneficiary the lump sum defined benefit will be distributed in accordance with RCW 41.26.048.

(c) If the member is deceased the member's survivor beneficiary under RCW 41.26.460 is eligible for this lump sum defined benefit.

(2) Members who are active in the plan on or before February 1, 2021, must make an irrevocable choice at retirement between the tiered multiplier benefit defined in section 1 of this act or a one-time lump sum defined benefit of $100 per service credit month to be paid at retirement. This includes:

(a) Members who retire for an in-line of duty disability under RCW 41.26.470 and who elect to receive this lump sum defined benefit shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000;

(b) A member's beneficiary eligible for an in-line of duty death benefit under RCW 41.26.048 and who elect to receive this lump sum defined benefit shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000;

(i) If there is more than one eligible beneficiary the lump sum defined benefit will be distributed in accordance with RCW 41.26.048.

(c) A beneficiary of a member who dies in service but not in an in-line of duty death, the distribution shall be made according to the member's beneficiary designation under this chapter.

(3) Members who are inactive on or before February 1, 2021, but who later return to membership must make an irrevocable choice at retirement between the tiered multiplier benefit in section 1 of this act and this lump sum defined benefit.

(4) Members who receive a refund of contributions under RCW 41.26.540 are not eligible for this lump sum defined benefit.

(5) This lump sum defined benefit is exempt from judicial process and taxes under RCW 41.26.053.

(6) Any member who receives this lump sum defined benefit is not eligible for the tiered multiplier benefit in section 1 of this act.

ANNUITY OPTION

Sec. 3. Amend RCW 41.26.463

(1) At the time of retirement, plan 2 members may purchase an optional actuarially equivalent life annuity benefit from the [Washington] law enforcement officers' and firefighters' retirement system plan 2 retirement fund established in RCW 41.50.075. A minimum payment of twenty-five thousand dollars is required.

(2) Retirees, or their beneficiaries, who have received a one-time lump sum defined benefit under sec. 2 of this act may purchase an optional actuarially equivalent life annuity benefit from the law

enforcement officers' and firefighters' retirement system plan 2 retirement fund established in RCW 41.50.075, with the money received from the lump sum defined benefit. A minimum payment of twenty thousand dollars is required.

(3) Subject to rules adopted by the department, a member purchasing an annuity under this section must pay all of the cost with an eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan.

(a) The department shall adopt rules to ensure that all eligible rollovers and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(b) "Eligible retirement plan" means a tax qualified plan offered by a governmental employer.

MINIMUM CONTRIBUTION RATES

Sec 4. Amend RCW 41.45.155

(1) Beginning July 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the public employees' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(2) Beginning July 1, 2011, a minimum contribution rate is established for the plan 2 normal cost as part of the basic employer contribution rate for the public safety employees' retirement system. The minimum contribution rate for the plan 2 normal cost shall equal the total contribution rate required to fund eighty percent of the plan 2 normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(4) Beginning September 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(5) A minimum contribution rate is established for the plan 2 normal cost as part of the basic employer and state contribution rate for the law enforcement officers' and firefighters' retirement system. On June 30 of each year, if the funded status of the law enforcement officers' and firefighters' retirement system plan 2 as measured by the most recent completed actuarial valuation performed by the Office of the State Actuary is:

(a) Less than 105%, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 100 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method; or

(b) Greater than or equal to 105%, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 90 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method.

(6~~5~~) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the council any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience. Any changes adopted by the council shall be subject to revision by the legislature.

Sec 5. Amend RCW 41.45.158

(1) Beginning July 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the public employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(2) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(4) A minimum contribution rate is established for the Plan 2 normal cost as part of the basic member contribution rate for the law enforcement officers' and firefighters' retirement system. On June 30 of each year, if the funded status of the law enforcement officers' and firefighters' retirement system plan 2 as measured by the most recent completed actuarial valuation performed by the Office of the State Actuary is:

(a) Less than 105%, then the minimum contribution rate for the member normal cost shall equal the total contribution rate required to fund 100 percent of the plan 2 member normal cost as calculated under the entry age normal cost method; or

(b) Greater than or equal to 105%, then the minimum contribution rate for the member normal cost shall equal the total contribution rate required to fund 90 percent of the plan 2 member normal cost as calculated under the entry age normal cost method.

(5~~4~~) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience.

FREEZE LEOFF 2 CONTRIBUTIONS RATE

Sec. 6 Amend RCW 41.45.0604

(1) (a) Not later than July 31, 2008, and every even-numbered year thereafter, the law enforcement officers' and firefighters' plan 2 retirement board shall adopt contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 as provided in RCW 41.26.720(1)(a).

(b) For 2022-2023 and 2023-2025 fiscal biennia, contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 may not exceed the rates adopted by the law enforcement officers' and firefighters' plan 2 retirement board in 2021.

(2) The law enforcement officers' and firefighters' plan 2 retirement board shall immediately notify the directors of the office of financial management and department of retirement systems of the state, employer, and employee rates adopted. Thereafter, the director shall collect those rates adopted by the board. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

TRANSFER OF FUNDS

Sec. 7 Amend RCW 41.26.802

(1) Prior to May 13, 2019, this section required certain transfers to be made to the local public safety enhancement account. After May 13, 2019, except for the transfer in subsection (2) of this section, no further transfers will be made to the local public safety enhancement account pursuant to this section.

(2) On July 1, 2019, the state treasurer shall transfer the sum of three hundred million dollars from the law enforcement officers' and firefighters' plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

(3) By June 30, 2022, the Washington state investment board shall transfer the difference between the value of the benefit enhancements in this act as identified by the office of the state actuary and the value of the local law enforcement officers' and firefighters' retirement system benefits

improvement account, from the law enforcement officers' and firefighters' plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

(4) By July 31, 2022, the Washington state investment board shall transfer the total available balance of the local law enforcement officers' and firefighters' retirement system benefits improvement account to the law enforcement officers' and firefighters' plan 2 retirement fund. The amount transferred under this subsection goes toward the benefit enhancements in this act.

Offset Language

NEW SECTION. Sec. 8. A new section is added to chapter 41.26 RCW under the subchapter heading "Plan 2" to read as follows:

In recognition of the amount transferred from the benefit improvement account under section 7 of this bill and the assets in the law enforcement officers' and firefighters' plan 2 retirement fund the office of the state actuary will calculate an offset to the increase in liabilities from this bill such that there is no impact on contribution rates as a result of those increased liabilities.

Appendix B

Actuarial Assumptions and Disclosures

- The results presented here are an estimate to assist the Board in understanding the impacts of the benefit improvement discussed at the November meeting
- We relied on draft bill language to produce these pricing results. Any changes in bill language may produce materially different results
- We relied on simplified assumptions and methods to produce this estimate. Final assumptions and methods may change the results presented here
- Analysis is based on our *2020 Actuarial Valuation Report* and Projections Model Assumptions and Methods using a June 30, 2019, measurement date and including updates to economic assumptions as adopted by the Board
- Lisa A. Won, ASA, FCA, MAAA, served as the reviewing and certifying actuary for this pricing exercise

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Summary of Estimated Results

Impacts at June 30, 2019	
(Dollars in Millions)	**Draft Bill**
Total Liability Change (A)	**$1,126**
Active Members*	985
Annuitant Lump Sum	141
BIA Assets (B)	**$393**
Total Cost to Plan (A) - (B)	**$733**

**Includes current and future terminated members with a vested benefit in LEOFF 2.*

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Summary of Estimated Results

Impacts at June 30, 2019	
(Dollars in Millions)	**Draft Bill**
Total Liability Change (A)	**$1,126**
Active Members*	985
Annuitant Lump Sum	141
BIA Assets (B)	**$393**
Total Cost to Plan (A) - (B)	**$733**
Total Employer Budget Impacts**	
2022-2023 Biennium	(0)
2023-2025 Biennium	(1)
25-Year Impact	$631

**Includes current and future terminated members with a vested benefit in LEOFF 2.*

***Estimated budget impacts under current funding policy for local employers and the state. Does not include potential funding policy adjustments.*

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Comparison to 2021 Session Bill

Impacts at June 30, 2019		
(Dollars in Millions)	**Draft Bill**	**SB 5453**
Total Liability Change (A)	**$1,126**	**$986**
Active Members*	985	899
Annuitant Lump Sum	141	87
BIA Assets (B)	**$393**	**$322**
Total Cost to Plan (A) - (B)	**$733**	**$664**
Total Employer Budget Impacts**		
2021-2023 Biennium	(0)	(1)
2023-2025 Biennium	(1)	(1)
25-Year Impact	$631	$557

**Proposal includes current and future terminated members with a vested benefit in LEOFF 2.*

***Estimated budget impacts under current funding policy for local employers and the state. Does not include potential funding policy adjustments.*

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Simplified Assumptions and Methods

- We relied on certain simplified assumptions and methods to produce this estimate that may change in a future fiscal note
  - Used retirement rates assumptions from 2021 Session bill
  - Assumed all active members with 15 or more years of service would select the multiplier instead of the lump sum
  - Estimated inactive member lump sum payouts but will rely on DRS for actual amounts
- Draft bill language includes partial language for funding policy adjustment, but mechanism has not been defined or included in these results

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What Will the Actuarial Fiscal Note Include?

- Page 1 – High level summary (roll-up of all components)
  - Contribution rate impacts
  - 2 biennia plus 25-year budget impacts
  - Highlights of items impacting the plan measures, including potential risks
- Body – More details of provisions in the bill
  - Who is impacted and how
  - What are the costs and why
  - Detailed fiscal impacts for each provision of the bill that affects plan measures
    - Transfer of assets from the plan to the BIA
    - Transfer of BIA assets to the plan
    - Benefit improvement
    - Changes to funding policy
    - Risk analysis

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Provisions That Impact Funding Policy

- Draft bill language adds Board funding policies regarding minimum contribution rates
  - 90% of Normal Cost under EANC method when Funded Status is 105% or more
  - 100% of Normal Cost under EANC method when Funded Status is less than 105%
- The minimum rates are not impacted by changes in assets
- Draft bill includes language for adjusting minimum rates to manage costs arising from other provisions
  - The mechanism for adjusting rates is not defined
  - OSA has considered options that are simple, effective, and consistent with Board goals

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Options to Manage Contribution Rate Impacts

1. Modify minimum contribution rate policy
   - Adjust funding policy language already included in bill draft
     - New section not necessary
   - Rate reduction will apply to current and future hires, employers, and the state
   - Simple and understandable policy change for future Board members and the Legislature
2. Create an offset to future contribution rates that recognizes BIA transfer
   - One-time calculation of a rate adjustment to apply to future rates
     - How is it defined or determined?
     - How long is it applied?

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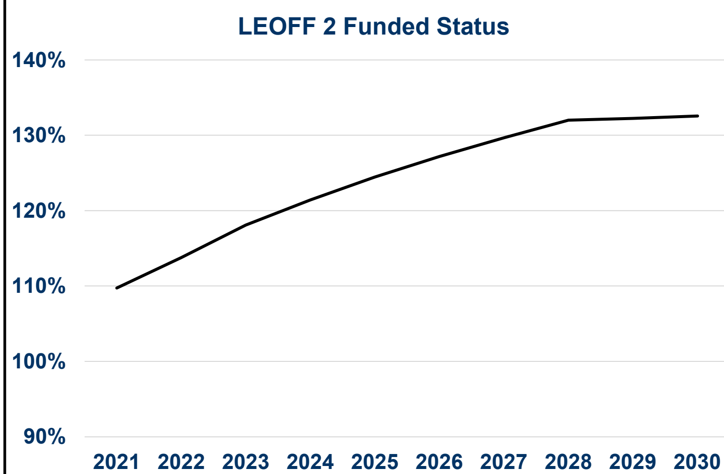
Current Law:
Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law		
2023-25	8.53%		
2025-27	8.32%		
2027-29	8.36%		
2029-31	8.40%		

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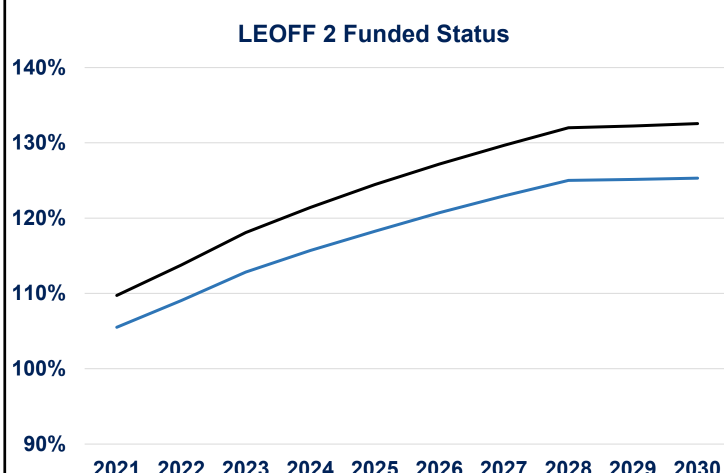
Draft Bill:
Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	
2023-25	8.53%	8.53%	
2025-27	8.32%	9.01%	
2027-29	8.36%	9.04%	
2029-31	8.40%	9.08%	

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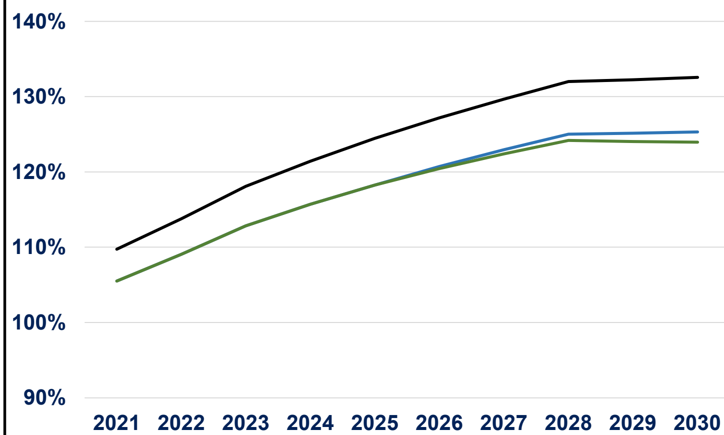
Draft Bill with 80% Minimum Rates: Funded Status and Contribution Rates

LEOFF 2 Funded Status



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Lower Min
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.00%
2027-29	8.36%	9.04%	8.04%
2029-31	8.40%	9.08%	8.08%

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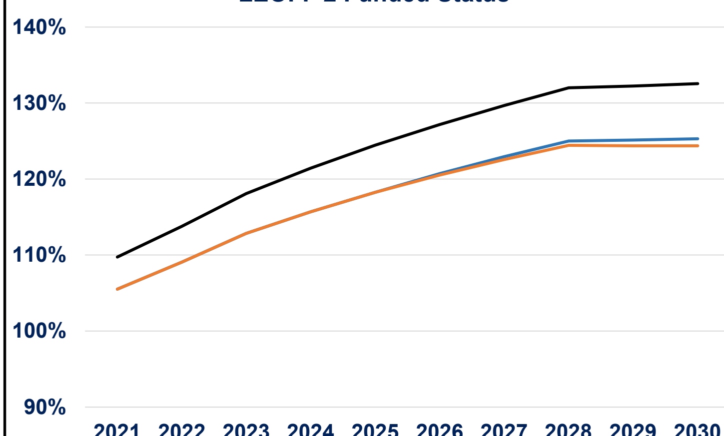
Draft Bill with 0.70% Reduction to Rates: Funded Status and Contribution Rates

LEOFF 2 Funded Status



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Offset
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.31%
2027-29	8.36%	9.04%	8.34%
2029-31	8.40%	9.08%	8.38%

**Selected flat 0.70% reduction to draft bill contribution rates for illustrative purposes only. Actual offset calculation may vary in magnitude, duration, and timing.*

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Source Links – Hidden Slide

To add links:
1. Insert as **last slide** at the end of the PPT.
2. **Right click** on slide and select "**Hide Slide.**"
3. In the text box, add the slide number as a bullet to indicate which slide the link belongs to.

   Example:
   - Slide 2: O:\Reports\RiskAssessmentStudy\Appendix Graphs and Tables.xlsx Tab A.1.19. Or table title.
   - Slide 5: O:\Reports\Valuations\2010\AVR\Val2010Report.xlsm Exh tab, tables 30, 31, 32. Or table title.
   - Add session year for fiscal notes info, link to FN Word doc on O: drive, add page number.
   - Staging folder info/documents need to have final documentation/home on permanent O drive.
4. Click on the "**Insert**" menu tab.
5. Select "**Hyperlink**" and browse to the desired document.
6. Repeat as needed.

When printing, ensure that the "Print hidden slides" option is **deselected**.
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4. The linked slides will not appear in the printed handouts or PDF.
5. These steps must be performed before printing, each time the PPT is opened unless the default action is set in the Options menu.

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DRS Fiscal Note – 2022 Legislative Session

Bill Number:	Title:	Agency:
TBA	L2 Benefit Improvement	124-Dept of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2022	FY 2023	2021-23	2023-25	2025-27
			0		
			0		
			0		
			0		
			0		
Total $	0	0	0	0	0

Estimated Expenditures from: *(7/1/21-6/30/22)* *(7/1/22-6/30/23)* *(7/1/23-6/30/25)* *(7/1/25-6/30/27)*

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.4	0.9	0.6		
Account					
DRS Admin Account (600-1)		252,000	252,000		
			0		
			0		
			0		
Total $	0	252,000	252,000	0	0

Check applicable boxes and follow corresponding instructions:

☑ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date:
Agency Preparation: Amy McMahan	Phone: 360-664-7307	Date:
Agency Approval:	Phone: 360-664-	Date:
OFM Review:	Phone:	Date:

Part II: Narrative Explanation

II. A - Brief Description of What the Measure Does That Has Fiscal Impact

This bill provides additional pension benefits in Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System.

Sec. 1(2), beginning January 2, 2023, adds a new formula for the calculation of a member's benefit for any members who are new to LEOFF 2 after February 1, 2021 and earn more than 15 years of service credit. Instead of the historical two (2) percent "multiplier" for all years of service, the retirement allowance will be calculated using 2.5 percent for years of service 16 through 25 but will continue to use 2 percent for years of service before 16 and after 25.

Sec. 1(3) and Sec. 2(1)(b) identify that members who are active in LEOFF 2 as of February 1, 2021 have an irrevocable choice between the new multiplier and a lump sum benefit improvement.

Sec. 1(4) and Sec. 2(4) identify that once members receive a benefit calculated using the new (higher) multiplier or the lump sum benefit improvement, they are not eligible for the other benefit.

Sec. 2(1) provides for a lump sum benefit of $100 per service credit month for members or their beneficiaries. Members who retire(d) as of February 1, 2021 for an in-line of duty disability shall receive the greater of this lump sum or $20,000. Additionally, the designated survivors of members who are deceased as of February 1, 2021 that are currently receiving a lifetime benefit are eligible for the lump sum benefit.

Sec. 2(1)(c) and Sec. 2(1)(d) identify that members who are inactive and vested as of February 1, 2021, as well as members who are inactive and not vested as of February 1, 2021 but later become vested, shall have an irrevocable choice between the new multiplier and a lump sum benefit improvement payable at the time of retirement.

Sec. 2(2) identifies that a member who has withdrawn from the plan is not eligible for the lump sum benefit.

Sec. 3(2) provides that the lump sum benefit from Sec. 2(1) may be used to purchase an annuity, with a required minimum payment of $20,000.

The remaining sections of the bill do not have a direct cost impact on DRS as they primarily impact contribution rate setting.

Viewing the sections above in the context of a recent member count identifies potential volumes for different transactions.

LEOFF 2 Members (6/30/2021 Summary)			
Actives	Annuitants	Inactives	Total
18,545	8,038	4,168	30,751

- Over 18,000 active members would have a choice on retirement (once they vest and have over 15 years of service) between the higher multiplier in Sec. 1(2) and the lump sum in Sec. 2(1).
- Over 8,000 annuitants will receive the lump sum in Sec. 2(1) and have the option to use it to purchase an annuity in Sec. 3(2).

- A portion of the annuitants with specific duty disability benefits would get a lump sum in Sec. 2(1) that's at least $20,000.
- Transactions for the 4,000 inactive members will depend on whether or not they are vested and the number of years of service they earn.
    - Inactive/vested members (with over 15 years of service) would eventually have a choice between the higher multiplier or the lump sum.
    - Inactive/non-vested members would have that same choice <u>if</u> they return to service and vest but if they don't vest, they can still request a refund of their member contributions.

II. B - Cash Receipts Impact

No impact.

II. C - Expenditures

<u>ADMINISTRATIVE ASSUMPTIONS</u>

- Related to Sections 7(3) and 7(4), DRS assumes that the Washington State Investment Board and the LEOFF 2 Board will identify an alternate timeline for fund transfer that allows for monthly pricing.
- Return to Membership re-retirements will use the multiplier rules in place at the time of the original retirement since these members were not active at the time the provisions of this bill would have been enacted.
- The LEOFF 2 service credit year requirement for the lump sum benefit includes any current LEOFF 2 service credit transferred from any previous system transfer windows, such as the EMT transfer window.
- The Purchase Service Credit (PSC) annuity will still utilize the 2% formula, even if a LEOFF 2 retiree elected for the tiered multiplier benefit at the time of retirement.
- Normal Duty Disabled LEOFF Catastrophic (DDLC) retirement offset provisions apply even if the tiered multiplier is applied to the retirement benefit. If the lump sum option is selected, no offset provisions would be applied to the lump sum.
- LEOFF 2 retirees who returned to membership and were active members on February 1, 2021 will have the choice between the new multiplier and lump sum benefit when they re-retire.
- LEOFF 2 retirees who return to active membership after February 1, 2021 were considered retired on February 1, 2021, and therefore are only eligible for the lump sum benefit. Upon re-retirement, the calculation multiplier at the time of their original retirement will be used.
- The withholding of the lump sum benefit will be treated as part of a pension payment, and will not be subject to the standard 20% withholding for lump sum payments.
- Legal Order Payees or Legal Order Split recipients are not eligible for the provisions of this bill.
- All LEOFF 2 service credit established through optional bills are counted towards the tiered multiplier benefit.
- Should a LEOFF 2 retiree who receives the lump sum benefit elect to annuitize the lump sum via the Purchase an Annuity (PAA) option and then return to LEOFF membership, DRS will continue to pay the PAA through their membership.
- DRS would begin implementation as soon as the bill is signed which is estimated to be April 2022.

To implement this legislation DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct legal analysis, business analysis and business process design,
- Complete systems changes-which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes
- Identify impacted members,

- Update agency WACs,
- Update member handbooks and communicate to members by mail, and
- Update the DRS administrative manual and train team members.

To support this implementation, DRS will form a project team that will include a project manager, business analyst, web programmer, communication consultant, fiscal analyst, management analyst, rules coordinator, legal and compliance manager, and retirement specialist.

DRS will also hire a contractor to implement changes to Linux applications and seek legal advice from outside legal counsel to ensure IRS compliance.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	2021-23 Biennium		2023-25 Biennium		2025-27 Biennium	
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
FTE Staff Years						
A-Salaries and Wages	$36,000	$85,000	$0	$0	$0	$0
B-Employee Benefits	$11,000	$27,000	$0	$0	$0	$0
C-Personal Service Contracts	$26,000	$61,000	$0	$0	$0	$0
E-Goods and Services	$2,000	$4,000	$0	$0	$0	$0
G-Travel	$0	$0	$0	$0	$0	$0
J-Capital Outlays				$0	$0	$0
N-Grants, Benefits and Cl Svcs				$0	$0	$0
P-Debt Service				$0	$0	$0
S-Interagency Reimbursement				$0	$0	$0
Total:	$75,000	$177,000	$0	$0	$0	$0
	$252,000		**$0**		**$0**	

III. B - FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA.*

Job Classification	Annual Salary	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Retirement Spec 3	61,224.00	0.06	0.13	-	-	-	-
Mgmt Analyst 5	88,644.00	0.01	0.03	-	-	-	-
IT Bus Analyst-Journey	96,888.00	0.12	0.29	-	-	-	-
Applic Dev-Snr/Spc	112,176.00	0.04	0.11	-	-	-	-
IT Proj Mgr - Mgr	123,636.00	0.09	0.21	-	-	-	-
Contracts/Rules	86,940.00	0.00	0.01	-	-	-	-
Comm Consult 5	84,396.00	0.01	0.03	-	-	-	-
Fiscal Analyst 5	78,408.00	0.02	0.04	-	-	-	-
Legal Services Program Mgr	102,468.00	0.01	0.02	-	-	-	-
Total		**0.37**	**0.86**	**-**	**-**	**-**	**-**

III. C - Expenditures By Program (optional)

N/A.

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Relevant WACs must be revised as a result of this legislation.

LEOFF
Plan 2 Retirement Board

Tiered Multiplier Benefit Improvement

Final Report
December 15, 2021

Issue

- A benefit improvement purchased using the Benefit Improvement Account should meet the policy goals of LEOFF Plan 2 Board while also adhering to the legislative intent of the Benefit Improvement Account

Benefit Improvement

- At the November meeting the Board voted to receive further analysis of the following benefit improvement:
  - $100 per month of service for retirees and a minimum of $20,000 for catastrophic and duty disability retirees, and duty death beneficiaries
  - A tiered multiplier benefit that would increase the plan benefit multiplier from 2% to 2.5% for the years of service for active and new members from 15 through 25
  - Develop a policy in consult with OSA that allows the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions

Who gets which benefit?

Retired as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Retired as of 2/1/21	Lump sum
Duty or catastrophic disability retired as of 2/1/21	Lump sum (minimum of $20k)
Beneficiary of line-of-duty death who died prior to 2/1/21	Lump sum (minimum of $20k)
Survivor beneficiary, member deceased as of 2/1/21	Lump sum
Member deceased as of 2/1/21 with no survivor beneficiary	No benefit
Withdrawn	No benefit

LEOFF 2 Member Active as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Still active	Choice of lump sum or tiered multiplier
Now retired	Choice of lump sum or tiered multiplier
Duty or catastrophic disability retirement	Choice of lump sum (minimum of $20k) or tiered multiplier
Beneficiary of line-of-duty death who was active as of 2/1/21	Choice of lump sum (minimum of $20k) or tiered multiplier
Survivor beneficiary, member deceased after 2/1/21	Choice between a lump sum or tiered multiplier benefit at retirement
Survivor beneficiary in service death not line-of-duty	Choice of lump sum or tiered multiplier
No survivor beneficiary, member deceased after 2/1/21 before effective date of the bill	Lump sum to beneficiary or estate
No survivor beneficiary in service death not line of duty	Lump sum to beneficiary or estate
Withdrawn	No benefit
Inactive as of 2/1/21 and vested	Choice of lump sum or tiered multiplier
Inactive and not vested	No benefit
Inactive and not vested as of 2/1/21, returns to LEOFF employment after 2/1/21 and becomes vested	Choice of lump sum or tiered multiplier

New Member after 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
New members after 2/1/21	Tiered multiplier
Withdrawn	No benefit

Bill Draft

- Section 1 – Tiered Multiplier Benefit Improvement
- Section 2 – Lump Sum Benefit Improvement
- Section 3 – Annuity Option
- Section 4/5 – Minimum Contribution Rates
- Section 6 – Freeze LEOFF 2 Contribution Rate
- Section 7 – Transfer of Funds

Important Dates in the Bill

- February 1, 2021 – Date to determine whether a member is considered retired, active, or new
- By June 30, 2022 – Transfer of funds from the LEOFF 2 Trust fund to the BIA
- By July 31, 2022 – Transfer of funds from BIA to the LEOFF 2 Trust Fund
- January 16, 2023 – Effective Date of tiered multiplier and lump sum benefits

DRS Draft Fiscal Note

- $252,000 to implement the bill over the 2021-23 biennium
  - Conduct legal analysis, business analysis and business process design
  - Complete systems changes-which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes
  - Identify impacted members
  - Update agency WACs
  - Update member handbooks and communicate to members by mail, and
  - Update the DRS administrative manual and train team members

Actuarial Assumptions and Disclosures

- The results presented here are an estimate to assist the Board in understanding the impacts of the benefit improvement discussed at the November meeting
- We relied on draft bill language to produce these pricing results. Any changes in bill language may produce materially different results
- We relied on simplified assumptions and methods to produce this estimate. Final assumptions and methods may change the results presented here
- Analysis is based on our *2020 Actuarial Valuation Report* and Projections Model Assumptions and Methods using a June 30, 2019, measurement date and including updates to economic assumptions as adopted by the Board
- Lisa A. Won, ASA, FCA, MAAA, served as the reviewing and certifying actuary for this pricing exercise

Summary of Estimated Results

Impacts at June 30, 2019	
(Dollars in Millions)	**Draft Bill**
Total Liability Change (A)	**$1,126**
Active Members*	985
Annuitant Lump Sum	141
BIA Assets (B)	**$393**
Total Cost to Plan (A) - (B)	**$733**

**Includes current and future terminated members with a vested benefit in LEOFF 2.*

Summary of Estimated Results

Impacts at June 30, 2019	
(Dollars in Millions)	**Draft Bill**
Total Liability Change (A)	**$1,126**
Active Members*	985
Annuitant Lump Sum	141
BIA Assets (B)	**$393**
Total Cost to Plan (A) - (B)	**$733**
Total Employer Budget Impacts**	
2022-2023 Biennium	(0)
2023-2025 Biennium	(1)
25-Year Impact	$631

**Includes current and future terminated members with a vested benefit in LEOFF 2.*

***Estimated budget impacts under current funding policy for local employers and the state. Does not include potential funding policy adjustments.*

Comparison to 2021 Session Bill

Impacts at June 30, 2019		
(Dollars in Millions)	**Draft Bill**	**SB 5453**
Total Liability Change (A)	**$1,126**	**$986**
Active Members*	985	899
Annuitant Lump Sum	141	87
BIA Assets (B)	**$393**	**$322**
Total Cost to Plan (A) - (B)	**$733**	**$664**
Total Employer Budget Impacts**		
2021-2023 Biennium	(0)	(1)
2023-2025 Biennium	(1)	(1)
25-Year Impact	$631	$557

**Proposal includes current and future terminated members with a vested benefit in LEOFF 2.*

***Estimated budget impacts under current funding policy for local employers and the state. Does not include potential funding policy adjustments.*

Simplified Assumptions and Methods

- We relied on certain simplified assumptions and methods to produce this estimate that may change in a future fiscal note
  - Used retirement rates assumptions from 2021 Session bill
  - Assumed all active members with 15 or more years of service would select the multiplier instead of the lump sum
  - Estimated inactive member lump sum payouts but will rely on DRS for actual amounts
- Draft bill language includes partial language for funding policy adjustment, but mechanism has not been defined or included in these results

What Will the Actuarial Fiscal Note Include?

- Page 1 – High level summary (roll-up of all components)
  - Contribution rate impacts
  - 2 biennia plus 25-year budget impacts
  - Highlights of items impacting the plan measures, including potential risks
- Body – More details of provisions in the bill
  - Who is impacted and how
  - What are the costs and why
  - Detailed fiscal impacts for each provision of the bill that affects plan measures
    - Transfer of assets from the plan to the BIA
    - Transfer of BIA assets to the plan
    - Benefit improvement
    - Changes to funding policy
    - Risk analysis

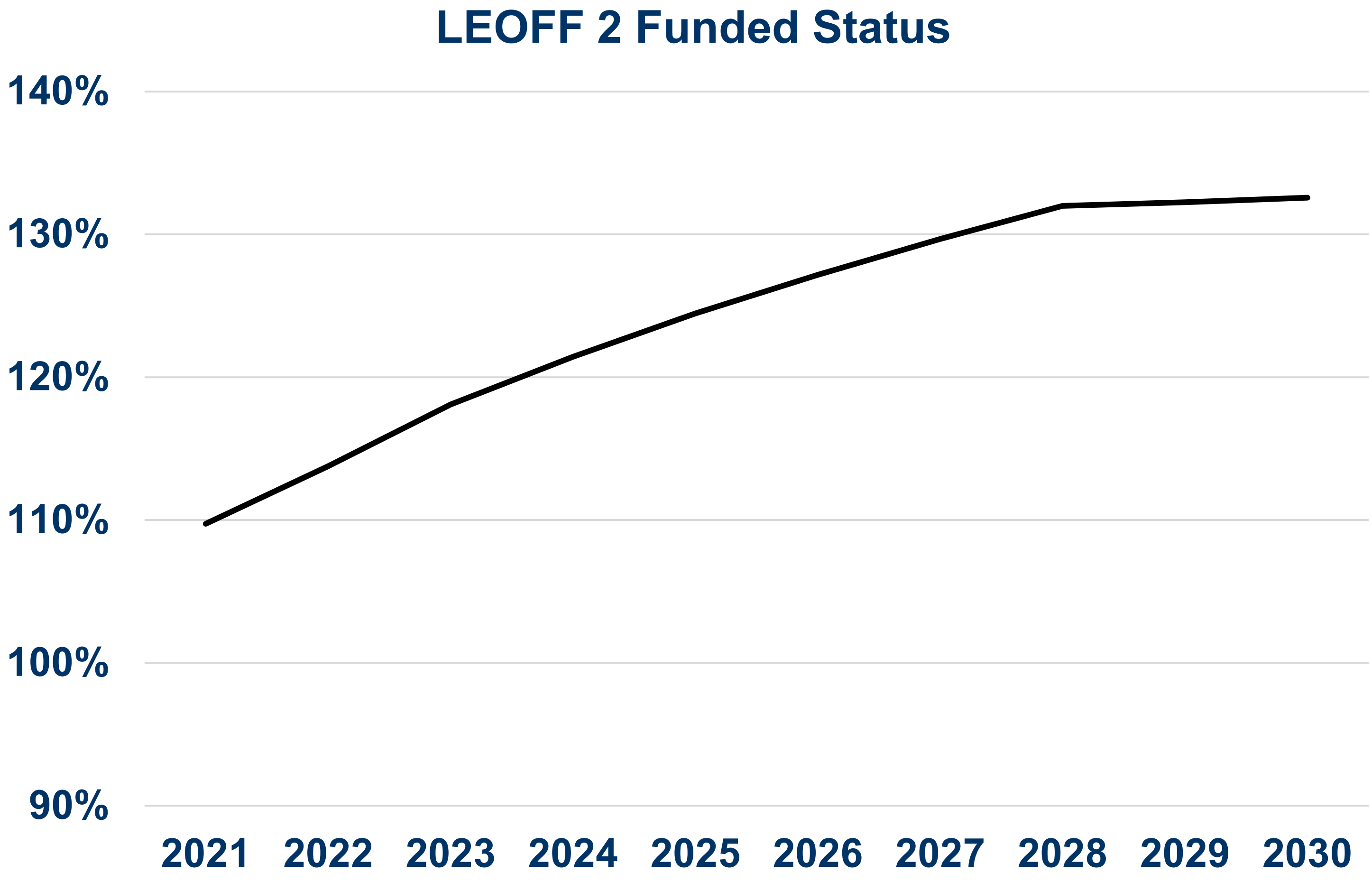
Provisions That Impact Funding Policy

- Draft bill language adds Board funding policies regarding minimum contribution rates
  - 90% of Normal Cost under EANC method when Funded Status is 105% or more
  - 100% of Normal Cost under EANC method when Funded Status is less than 105%
- The minimum rates are not impacted by changes in assets
- Draft bill includes language for adjusting minimum rates to manage costs arising from other provisions
  - The mechanism for adjusting rates is not defined
  - OSA has considered options that are simple, effective, and consistent with Board goals

Options to Manage Contribution Rate Impacts

1. Modify minimum contribution rate policy
   - Adjust funding policy language already included in bill draft
     - New section not necessary
   - Rate reduction will apply to current and future hires, employers, and the state
   - Simple and understandable policy change for future Board members and the Legislature
2. Create an offset to future contribution rates that recognizes BIA transfer
   - One-time calculation of a rate adjustment to apply to future rates
     - How is it defined or determined?
     - How long is it applied?

Current Law:
Funded Status and Contribution Rates

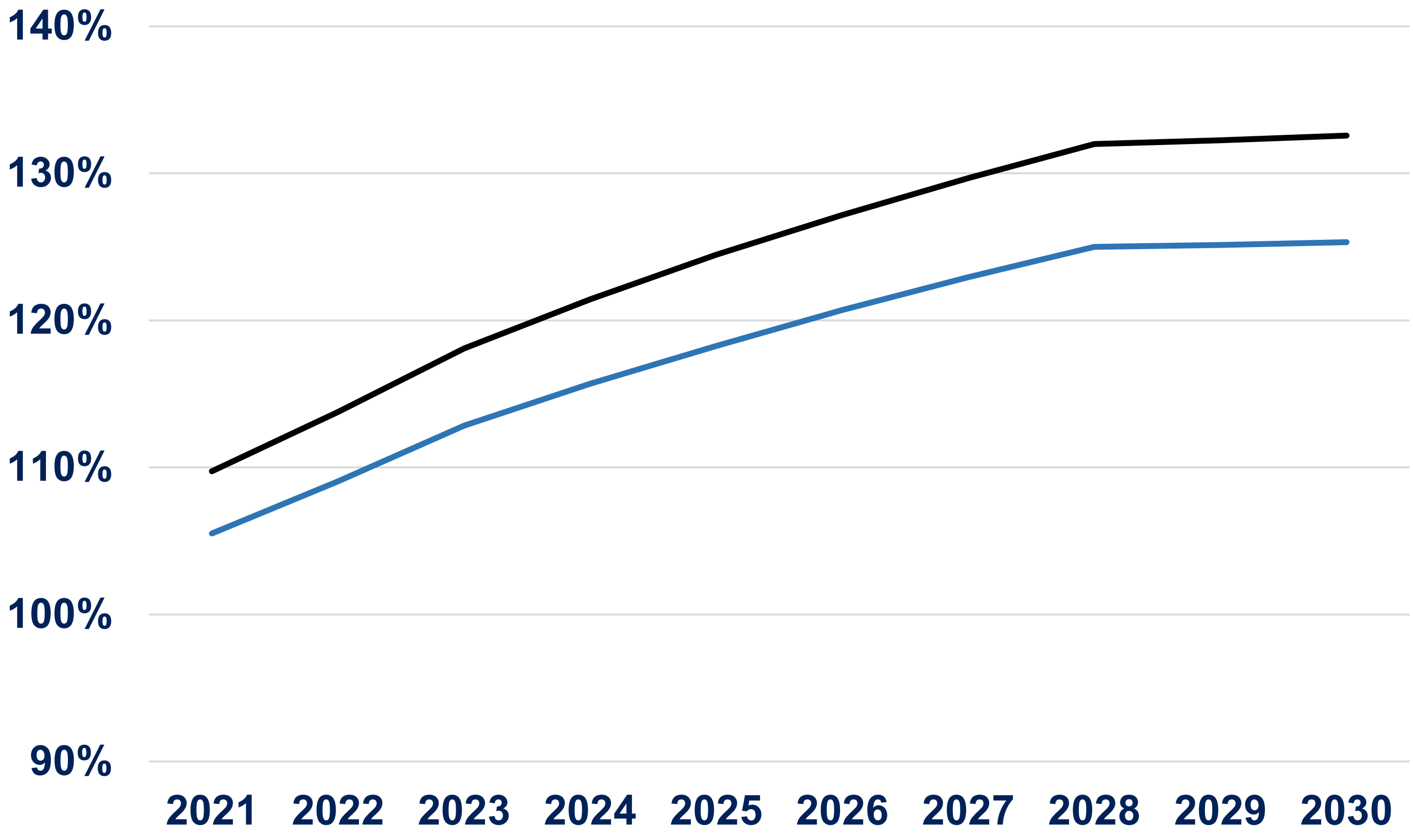


Total Employer Contribution Rates

Biennium	Current Law		
2023-25	8.53%		
2025-27	8.32%		
2027-29	8.36%		
2029-31	8.40%		

Draft Bill:
Funded Status and Contribution Rates

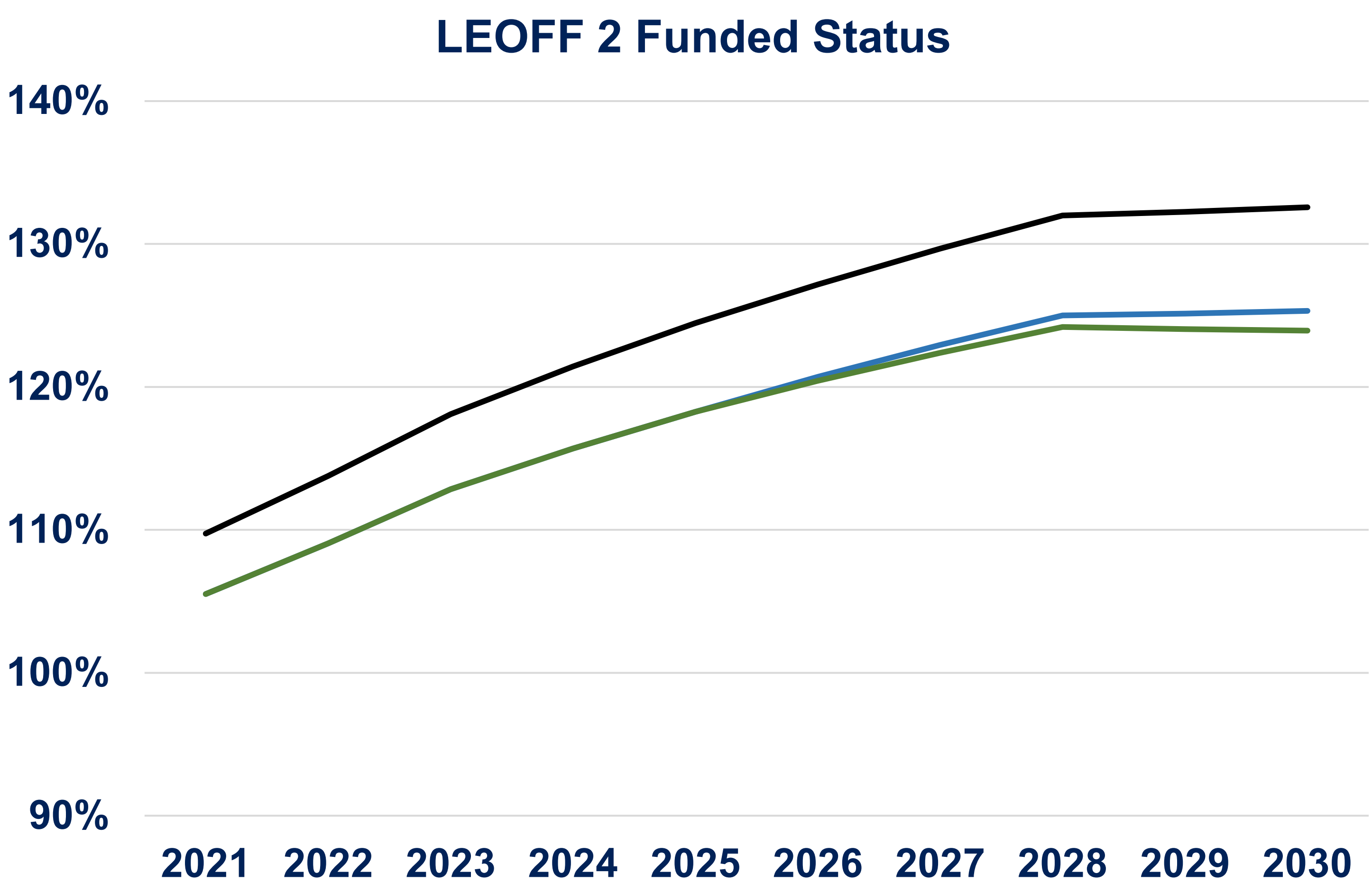
LEOFF 2 Funded Status



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	
2023-25	8.53%	8.53%	
2025-27	8.32%	9.01%	
2027-29	8.36%	9.04%	
2029-31	8.40%	9.08%	

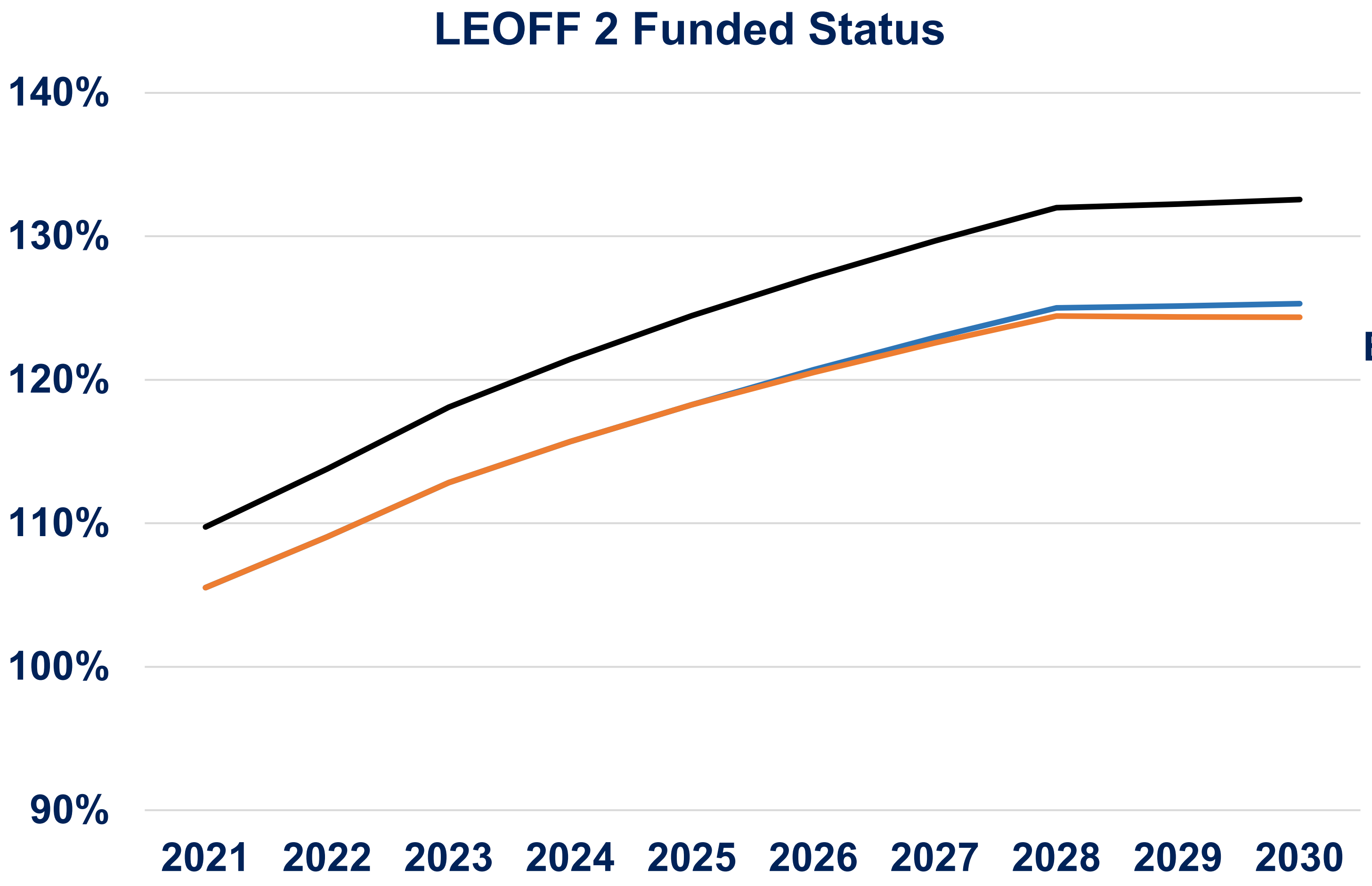
Draft Bill with 80% Minimum Rates: Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Lower Min
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.00%
2027-29	8.36%	9.04%	8.04%
2029-31	8.40%	9.08%	8.08%

Draft Bill with 0.70% Reduction to Rates: Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Offset
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.31%
2027-29	8.36%	9.04%	8.34%
2029-31	8.40%	9.08%	8.38%

**Selected flat 0.70% reduction to draft bill contribution rates for illustrative purposes only. Actual offset calculation may vary in magnitude, duration, and timing.*

Board Action - Actuarial Options

1. Modify minimum contribution rate policy to 80% rate floor
2. Offset to future contribution rates that recognizes BIA transfer

Board Action

1. Endorse draft bill language
2. No action

Thank You

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Administrative Update

- Accountability Audit
  - Entrance Conference Dec 1
- Stakeholder Outreach
  - FOP Board Meeting

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Next Meeting

Wednesday, January 26, 2022

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