

BOARD MEETING AGENDA

APRIL 27, 2022 • 9:30AM



LOCATION - Hybrid Meeting

In-Person

Washington State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, WA 98502

Virtual – Zoom Video Conference

TRUSTEES

DENNIS LAWSON, CHAIR
Central Pierce Fire and Rescue

JASON GRANNEMAN, VICE CHAIR
Clark County Sheriff's Office

MARK JOHNSTON
Vancouver Fire Department

AJ JOHNSON
Snohomish County Fire

SENATOR JEFF HOLY
Spokane Police Department (Ret)

TARINA ROSE-WATSON
Spokane Int'l Airport Police Dept

PAT MCELLIGOTT
City of Dupont

JAY BURNEY
City of Olympia

WOLF OPITZ
Pierce County

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

SENATOR ANN RIVERS
WA State Senator

STAFF

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

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

- | | |
|---|-----------------|
| 1. Approval of Minutes* | 9:30 AM |
| <i>March 2022</i> | |
| 2. Administrative Factors Adoption* | 9:35 AM |
| <i>Jacob White, Sr. Research & Policy Manager</i> | |
| 3. Interim Work Plan Adoption* | 10:00 AM |
| <i>Jacob White, Sr. Research & Policy Manager</i> | |
| 4. June Meeting Date Change* | 10:30 AM |
| <i>Steve Nelsen, Executive Director</i> | |
| 5. Administrative Committee – Employer Rep.* | 10:45 AM |
| <i>Jacob White, Sr. Research & Policy Manager</i> | |
| 6. BIA Next Steps | 11:00 AM |
| <i>Jacob White, Sr. Research & Policy Manager</i> | |
| 7. Inflation/COLA Educational Briefing | 11:30 AM |
| <i>Jacob White, Sr. Research & Policy Manager</i> | |
| 8. Administrative Update | 12:00 PM |
| <ul style="list-style-type: none">• Budget Update• Outreach Activities | |

*Denotes an Action Item

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.



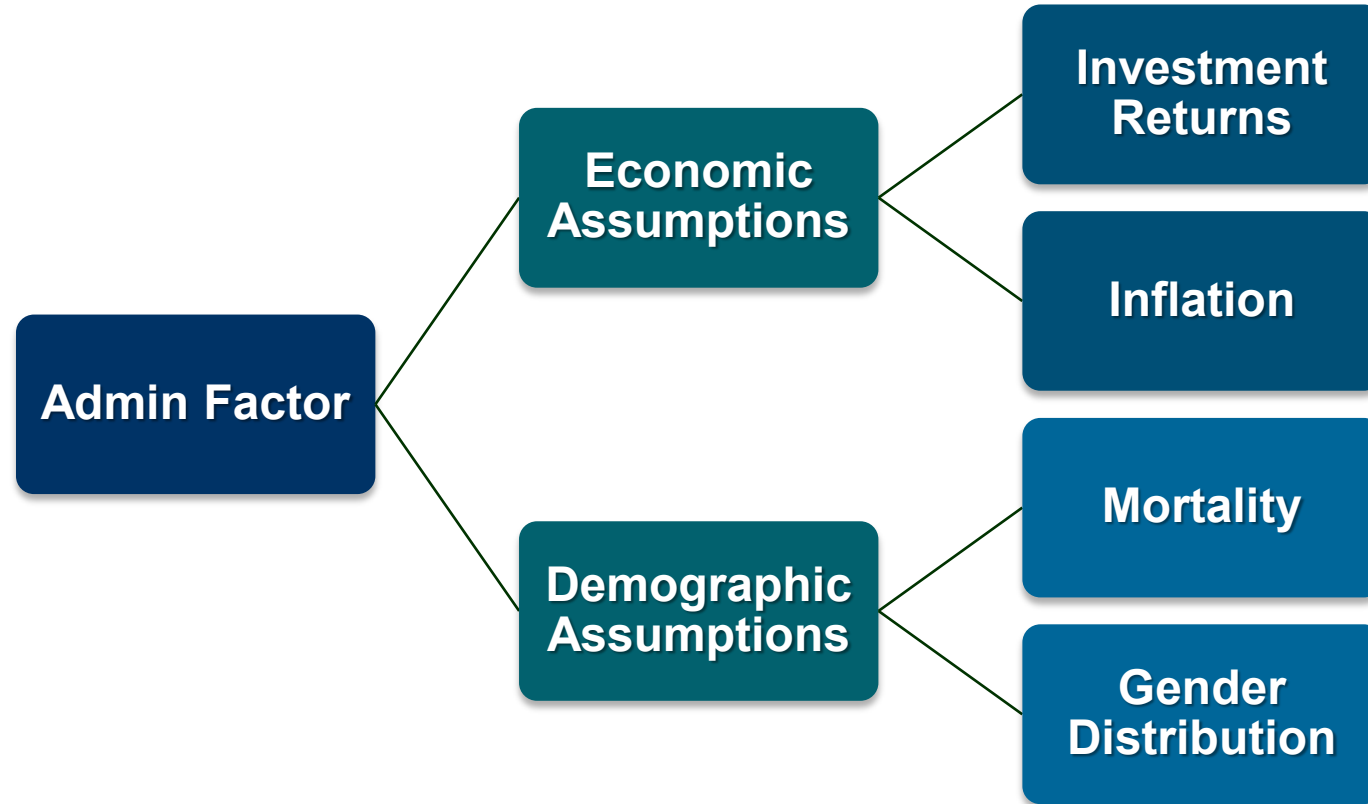
Adoption of Administrative Factors

April 27, 2022

Issue

- The Board has authority to adopt administrative factors
- If adopted, new factors are effective December 1
 - Members would see the impact of the new factors in June

How are administrative factors developed?



Actuarial Equivalence Depends On Assumptions

- Admin factors are intended to be actuarially equivalent
- However, experience can be different
- What happens if the factors aren't actuarially equivalent?

Two Types

1. Reduction Factors

- Reduce monthly pensions to pay for optional benefits

1. Annuity Factors

- Convert between one-time and lifetime payments

Comparison of Joint & Survivor Factors

| Comparison of J&S Factors* Beneficiary Three Years Younger than Member | | | |
|--|---------|---------|----------------|
| | Current | Updated | Percent Change |
| J&S 50% | 0.925 | 0.914 | (1.19%) |
| J&S 67% | 0.902 | 0.889 | (1.44%) |
| J&S 100% | 0.861 | 0.842 | (2.21%) |
| <i>*Maximum change of (5.05%) occurs for member 40 years older than beneficiary.</i> | | | |

Joint & Survivor Benefit Examples

| J&S 100% Benefit Comparison Beneficiary Three Years Younger than Member | | | |
|---|---------|---------|---------|
| | Current | Updated | Change |
| J&S Factor | 0.861 | 0.842 | (2.21%) |
| Monthly Benefit* | \$4,305 | \$4,210 | (\$95) |
| <i>*Example member retiring with a \$5,000 single life monthly benefit who chooses a J&S 100% option with a beneficiary 3 years younger.</i> | | | |
| | | | |
| J&S 100% Benefit Comparison Beneficiary 20 Years Younger than Member | | | |
| | Current | Updated | Change |
| J&S Factor | 0.783 | 0.755 | (3.58%) |
| Monthly Benefit* | \$3,915 | \$3,775 | (\$140) |
| <i>*Example member retiring with a \$5,000 single life monthly benefit who chooses a J&S 100% option with a beneficiary 20 years younger.</i> | | | |

Comparison of Annuity Purchase Factors

| Comparison of Annuity Purchase Factors Impact at Various Retirement Ages | | | |
|---|-----------|-----------|----------------|
| | Current | Updated | Percent Change |
| Age 50 | 0.0047458 | 0.0045108 | (4.95%) |
| Age 53 | 0.0049118 | 0.0046799 | (4.72%) |
| Age 57 | 0.0051942 | 0.0049650 | (4.41%) |
| Age 60 | 0.0054417 | 0.0052342 | (3.81%) |

Annuity Purchase Examples

| Comparison of Age 57 Annuity Purchases | | | |
|---|-----------|-----------|---------|
| | Current | Updated | Change |
| Purchase Factors | 0.0051942 | 0.0049650 | (4.41%) |
| Monthly Benefit* | \$519 | \$497 | (\$23) |
| <i>*Example member retiring at age 57 making a \$100,000 annuity purchase. Change does not agree due to rounding.</i> | | | |
| | | | |
| Comparison of Age 53 Annuity Purchases | | | |
| | Current | Updated | Change |
| Purchase Factors | 0.0049118 | 0.0046799 | (4.72%) |
| Monthly Benefit* | \$491 | \$468 | (\$23) |
| <i>*Example member retiring at age 53 making a \$100,000 annuity purchase.</i> | | | |

Board Action - Options

1. **Adopt new Administrative Factors**
2. **Don't adopt new Administrative Factors**



Thank You

Jacob White

Senior Research and Policy Manager

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2022 Interim Work Plan



| MEETING DATE | AGENDA ITEMS |
|---------------------|--|
| January 26 | Legislative Update Administrative Update |
| February 23 | Legislative Update Administrative Update |
| March 23 | Accountability Audit Results Accountability Audit Response Plan Legislative Session Review Administrative Factors Interim Planning Administrative Update |
| April 27 | Interim Planning/Workplan Approval Administrative Factor Adoption Benefit Improvement Account Follow Up Inflation/COLA Educational Briefing June Meeting Date Change |
| May 18 | Historic Duty Disability Informational Briefing Interruptive Military Service Credit Survivor Option Reelection DRS Rulemaking Update Open Public Meeting Act Board Training - AGO Results of Actuarial Valuation – OSA |
| June 22 | Purchase of Service Credit for Authorized Leave of Absence Death Career Change/ Retire Rehire Follow Up General Wage Increase* Actuarial Valuation Audit Draft Results – Milliman* Contribution Rate Preview |
| July 27 | 2023 – 25 Biennial Budget Adoption Contribution Rate Adoption Actuarial Valuation Audit Final Results – Milliman* |
| August 24 | |
| September 28 | Department of Retirement Systems Benchmarking – DRS* |
| October 19 | Board Strategic Planning and Expectations 2023 Meeting Calendar |
| November 16 | Washington State Investment Board Annual Update 2023 Meeting Calendar Adoption Financial Expenditure Audit Results – SAO* |
| December 14 | Department of Retirement Systems Annual Update |

*Tentative



2022 Interim Planning

April 27, 2022

Benefit Topics

1. Inflation/COLA Educational Briefing (Apr)
2. Benefit Improvement Follow-up (Apr)
3. Historic Duty Disability Informational Briefing (May)
4. Interruptive Military Service Credit (May)
5. Survivor Option Reelection Follow-up (May)
6. Career Change/Retire Rehire Follow-up (Jun)
7. Purchase of Service Credit for Authorized Leave of Absence Death (Jun)

Actuarial Topics

1. Adoption of Administrative Factors (Apr)
2. Results of the Actuarial Valuation (May)
3. Contribution Rate Preview (Jun)
4. Actuarial Valuation Audit Draft Results – Milliman (Jun)
5. Contribution Rate Adoption (Jul)
6. Actuarial Valuation Audit Final Results – Milliman (Jul)

Administrative Topics

1. June Meeting Date Change (Apr)
2. Interim Planning (Apr/May)
3. DRS Rulemaking Update (May)
4. AGO Training – OPMA (May)
5. General Wage Increase (Jun)
6. 2023-2025 Agency Operating Budget (Jul)
7. DRS/CEM Benchmarking (Sep)
8. Board Strategic Planning and Expectations
9. 2023 Meeting Calendar (Oct/Nov)
10. Financial Expenditure Audit Results – SAO (Nov)
11. WSIB Annual Update (Nov)
12. DRS Annual Update (Dec)

Board Action - Options

1. Make changes to the workplan
2. Adopt workplan



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Benefit Improvement Follow-Up

April 27, 2022

Issue

- The Board requested an update on the implementation of the Board's benefit improvement bill (HB 1701)

DRS Implementation

- Project Manager – Christine Gee
- Project Team kick off meeting – April 14th
- Developing FAQs

Common Member Questions

1. When will I get my benefit?
2. Which benefit do I qualify for?
3. When do I have to make the decision for the lump sum payout or the multiplier?
4. How much will my benefit be?
5. Do I have to do anything to get my benefit?
6. Are you taking my pension in exchange for this benefit?
7. Is my benefit taxed?
8. When will estimates be available?
9. What are my rollover options for lump sum?

Questions sent to DRS

1. Will DRS prorate the January 2023 payment since it is effective January 16th?
2. Will the lump sum payments to catastrophic retirees be taxable?
3. How will the lump sum payment (or monthly annuity) to catastrophic retirees affect L&I and Social Security offsets?
4. How will DRS handle lump sum payments to members who were retired on February 1, 2021 but are active in LEOFF 2 when the lump sum is scheduled to be paid?
5. How will existing property division orders be handled?

More Questions to DRS

6. How will membership in another system affect eligibility for the tiered multiplier?
7. What annuity factors will be used for lump sum benefit?
8. Will the online DRS calculators be able to do an estimate of the annuity?

Next Steps

- Are there any issues the Board would like to receive follow-up briefings on?



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Inflation/COLA Educational Briefing

April 27, 2022

Issue

- Retirees have expressed concern about rising inflation and how it impacts their pension

Inflation

- **LEOFF 2 inflation assumption is 2.75%**
 - **OSA Economic Experience Study includes in-depth analysis, including discussion on the impact of Covid-19, of how they arrived at this recommendation**
- **Consumer Price Index (CPI) is the most common method used to measure inflation**
- **CPI measures the average change in prices over time in a fixed market basket of goods and services**

Basket of goods/services includes:

- Energy
- Food
- Housing
- Medical Care
- Vehicles
- Apparel
- Recreation
- Education

National CPI over last 20 years



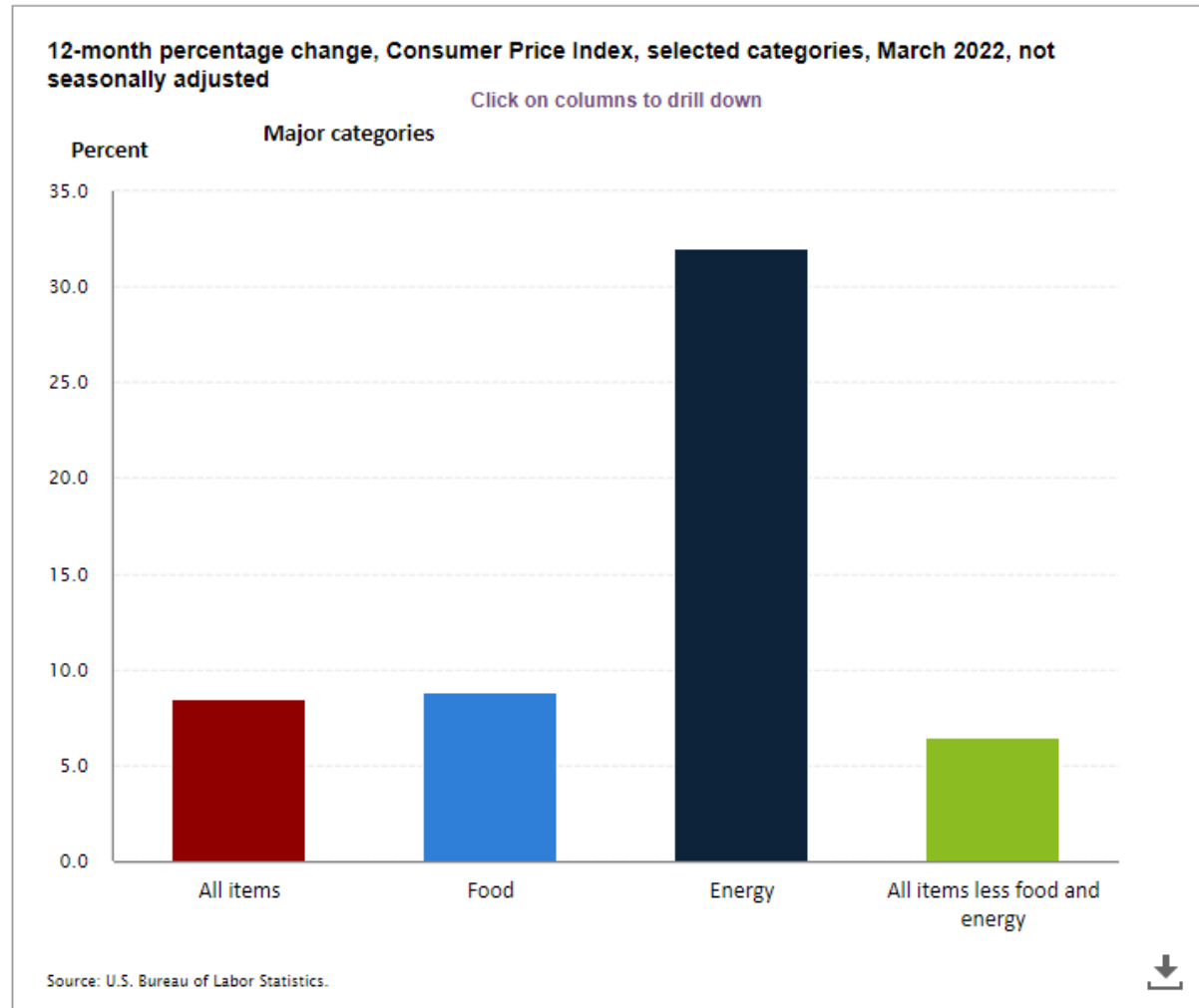
Hover over chart to view data.

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics.



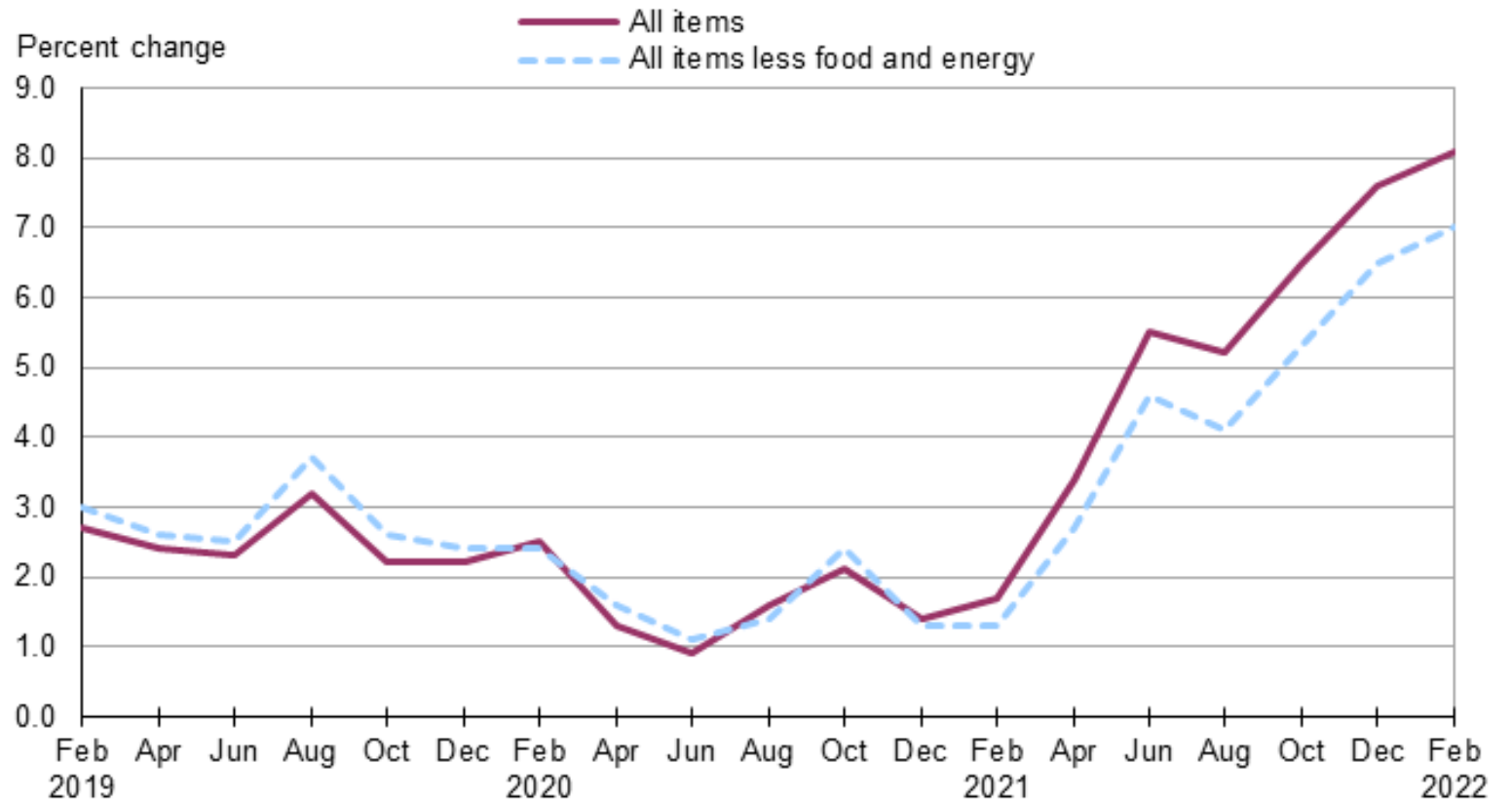
CPI Major Categories Chart



LEOFF 2 COLA and CPI

COLA is based on the Seattle-Tacoma-Bellevue Consumer Price Index

Chart 1. Over-the-year percent change in CPI-U, Seattle-Tacoma-Bellevue, WA, February 2019–February 2022



Source: U.S. Bureau of Labor Statistics.

What is the LEOFF 2 COLA?

| | LEOFF Plan 2 (and all other plan 2/3s) | LEOFF Plan 1 |
|------------------|---|---|
| COLA Eligibility | You must have been retired for at least one year by July 1. There is no age requirement. | You must have been retired for at least one year by April 1. There is no age requirement. |
| COLA is applied | July 1 | April 1 |
| COLA Maximum | The COLA is limited to a maximum benefit adjustment of 3% and includes COLA Banking . | LEOFF Plan 1 Base COLA does not have a maximum and does not include COLA Banking . Based on your retirement date, you may qualify for a first-year COLA adjustment. |

Example:

\$5,000 (monthly benefit)
x 3% (July 1, 2022 COLA) =
\$150 increase to benefit
for a new monthly benefit
of \$5,150

What is COLA banking?

- In years where the CPI increase is more than the 3% maximum, the difference is banked for future years and used when the COLA is less than the maximum
- Example: In year one the CPI was 6.48%, you received a 3% increase and the remaining 3.48% was banked
 - In year two the CPI was 0%. In July of year two you used the banked amount to end with a 3% COLA, and still had .48% in the bank for future years

How does retirement date impact banking?

- There is a period between your retirement date and when your COLA begins
- Using the example in the previous slide, you retired in August of year one
 - You were not eligible to receive the COLA in July of year two, so the entire 6.48% was banked
 - In July of year three, when the CPI was 0%, you would receive a full 3% COLA and have 3.48% in the bank for future years

2022 COLA

- The 2022 COLA calculation divides the 2021 CPI (865.195) by the 2020 CPI (825.961) for an increase over the prior year of 4.75%
- Since the COLA is capped at 3%, the additional 1.75% will be banked

Why is the COLA limited to 3%

- Increases plan risks to have an uncapped COLA
- Helps control contribution rates
 - Similar to investment return smoothing
- Banking ensures that retirees are still protected from inflation

Next Steps

1. Study policy options for changing LEOFF 2 COLA to address inflation concerns
2. No further action at this time



Thank You

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Law Enforcement Officers' & Fire Fighters' Plan 2 Retirement Board Budget Report for March 2022



Biennium 2021 - 2023
(July 2021 - June 2023)

| Expense Category | Budgeted for Biennium 2021-23 | Projected Biennial Total | Projected Biennial Variance | Budgeted through March 2022 | Actual through March 2022 | Variance through March 2022 |
|--|-------------------------------------|--------------------------------|-----------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| Salary & Wages | \$1,872,030 | \$1,793,199 | \$78,831 | \$691,850 | \$650,545 | \$41,305 |
| Employee Benefits & Taxes | \$547,029 | \$530,498 | \$16,531 | \$195,353 | \$189,601 | \$5,752 |
| State Actuary Services | \$239,720 | \$239,719 | \$1 | \$89,895 | \$99,883 | (\$9,988) |
| Rent & Utilities | \$119,976 | \$124,426 | (\$4,450) | \$44,991 | \$47,041 | (\$2,050) |
| State Central Services ¹ | \$440,024 | \$424,634 | \$15,390 | \$154,940 | \$166,557 | (\$11,617) |
| Staff & Trustee Development ² | \$190,251 | \$168,367 | \$21,884 | \$57,932 | \$22,511 | \$35,421 |
| Communication Costs | \$67,920 | \$69,845 | (\$1,925) | \$19,470 | \$21,395 | (\$1,925) |
| Contracts | \$93,800 | \$78,995 | \$14,805 | \$15,000 | \$195 | \$14,805 |
| Other Operating Expenses | \$47,250 | \$39,213 | \$8,037 | \$20,145 | \$8,108 | \$12,037 |
| Biennium 21-23 TOTALS | \$3,618,000 | \$3,468,896 | \$149,104 | \$1,289,576 | \$1,205,836 | \$83,740 |

¹State Central Services includes:

- DES - Financial Services, HR Services, Risk Management Services, & Facility Services
- WaTech - Network and Data Services, Security Services, & IT Support Services
- OFM - Enterprise Systems, State Personnel (HR) Services, & OneWa Development
- SOS - Archival Services, SAO - Audit Services, and ATG - Legal Services

²Includes Travel Expenses