

# BOARD MEETING AGENDA

JUNE 15, 2022 • 9:30AM



## LOCATION

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  
East Pierce County Fire

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**  
May 18
- 2. General Wage Increase Adoption** **9:35 AM**  
Tim Valencia, Deputy Director
- 3. Actuarial Valuation Audit Draft Results** **9:50 AM**  
Daniel Wade & Gary Deeth, Milliman
- 4. Contribution Rate Preview** **10:20 AM**  
Mitch DeCamp & Michael Harbour, OSA
- 5. Survivor Purchase of Service Credit for Authorized Leave of Absence** **10:50 AM**  
Sarah White, Benefits Ombudsman
- 6. Career Change Follow-up** **11:15 AM**  
Jacob White, Sr. Research & Policy Manager
- 7. Administrative Update** **11:45 AM**
  - Outreach Activities

*\*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.*



# General Wage Increase

June 15, 2022

# Background

- **Section 937 of the ESSB 5693, 2021-23 Biennial Operating Budget, specifies that funding is provided in agency appropriations for a 3.25 percent general wage increase effective July 1, 2022**

# Board Action - Options

- 1. Adopt general wage increase of 3.25% for all staff**
- 2. Don't adopt general wage increase**



**Thank You**

**Tim Valencia**

**Deputy Director**

**(360) 586-2326**

**[tim.valencia@leoff.wa.gov](mailto:tim.valencia@leoff.wa.gov)**

## 2021 LEOFF 2 Preliminary Actuarial Valuation Contribution Rates and Funding Policy

Presentation to:

**LEOFF Plan 2 Retirement Board**  
**Mitch DeCamp, Senior Actuarial Analyst**  
**Michael T. Harbour, ASA, MAAA, Actuary**



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*"Supporting financial security for generations."*

June 15, 2022

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### Today's Presentation

- Rate-setting process review
- Funding policy review
- Preliminary calculated contribution rates
- Informational—No Board action required today



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## Rate-Setting Process Review

| Contribution Rate Collection Period |                               |                               |
|-------------------------------------|-------------------------------|-------------------------------|
|                                     | 2021-23 Biennium              | 2023-25 Biennium              |
| <b>Actuarial Valuation Date</b>     | June 30, 2019                 | June 30, 2021                 |
| <b>Asset Returns Included</b>       | Returns through June 30, 2019 | Returns through June 30, 2021 |
| <b>Rates Adopted During</b>         | Summer of 2020                | Summer of 2022                |

- OSA performs actuarial valuations based on measurement in odd-numbered years for rate-setting purposes (e.g., June 30, 2021)
  - Results inform contribution rates for upcoming biennia (e.g., 7/1/23 - 6/30/25)
  - See the [May 2022 presentation](#) by OSA for background on data, assets, and obligations used to develop preliminary contribution rates

## Review of Key Board Funding Policies

- The Board sets policies to assist meeting funding goal of stable contribution rates
- **4-year Rate Adoption**—Adopt contribution rates for two biennia
  - Adopted rates may still be updated with each new rate-setting valuation
- **Minimum Contribution Rates**—Calculated from Normal Cost of Entry Age Normal cost method
  - Relatively stable rate that doesn't fluctuate with changes in asset returns
  - Original minimum rate policy (selected by the Board) is either 90% or 100% of Normal Cost, based on plan funded status
  - Policy was modified and set in statute under [SHB 1701](#)

## Minimum Rate Policy Changed under SHB 1701

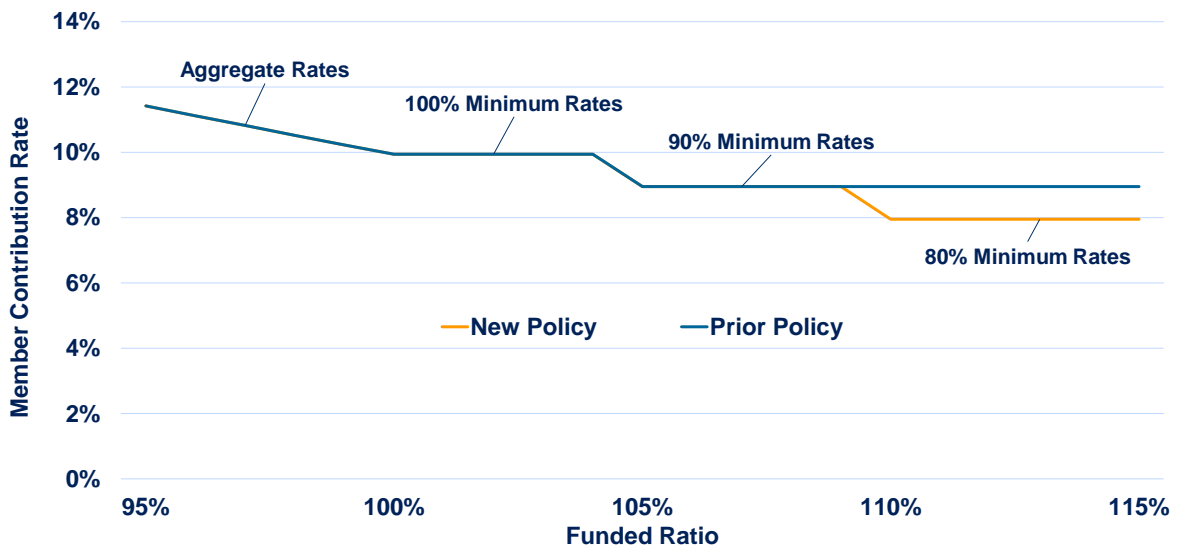
| Minimum Rate Funding Policy            |                       |
|----------------------------------------|-----------------------|
| Funded Ratio (FR)                      | Minimum Rate Percent* |
| 1. FR less than 105%                   | 100%                  |
| 2. FR at least 105% but less than 110% | 90%                   |
| 3. FR at least 110%                    | 80%                   |

\*Percent of Normal Cost under Entry Age Normal cost method.

- New minimum contribution structure adds 80% rate tier
- Additional reduction applies to (1) and (2) starting in the 2025-27 Biennium for the next 15 years
  - Intended to insulate current members from increased contribution requirements as a result of benefit improvement
  - Offset (or, negative) rate will be calculated by OSA

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## Minimum Rate Policy Illustration



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## Impact of SHB 1701 on 2023-25 Contribution Rates

- SHB 1701 capped contribution rates for the next biennium at the levels currently being collected in 2021-23
  - Member = 8.53%
  - Employer = 5.12%
  - State = 3.41%
- These rates were adopted by the Board based on the 2019 actuarial valuation for the 2021-23 and 2023-25 Biennia

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## Preliminary Calculated Contribution Rates

| LEOFF 2 Member Rate                   |       |       |            |
|---------------------------------------|-------|-------|------------|
|                                       | 2019  | 2021  | Difference |
| <b>Aggregate Rate</b>                 | 5.81% | 8.65% | 2.84%      |
| <b>Minimum Rate*</b>                  | 7.68% | 9.94% | 2.26%      |
| <b>Current Adopted 2023-25 Rate**</b> | 8.53% |       |            |

\*2019 minimum rate equals 90% of EANC based on funded ratio of 111%.  
 2021 minimum rate equals 100% of EANC based on funded ratio of 104%.  
 \*\*Contribution rates for the 2023-25 Biennium capped at the current adopted rates under SHB 1701.

- OSA calculates two sets of contribution rates consistent with current law funding policies
  - Aggregate Rates—Full actuarial cost method
  - Minimum Rates—Normal Cost of Entry Age Normal cost method (EANC)
- Both the 2021 rates exceed the contribution rate cap for the 2023-25 Biennium

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## Where Are Contribution Rates Going?

- OSA's Projection model will be updated in Fall of 2022
  - Model provides estimates of future contribution rates and funded ratios
- Requires significant updates to incorporate recent changes
  - Update includes 2021 data update, benefit improvement, and 2022 investment earnings
- Planning a presentation to share new results in October or November

## Next Steps

- Final and audited contribution rates available at July meeting
- The Board has the option to adopt contribution rates next month
  - Noting the requirements from SHB 1701 for the 2023-25 Biennium
- OSA available to provide additional analysis as needed



**Questions? Please Contact: The Office of the State Actuary**

**[leg.wa.gov/OSA](http://leg.wa.gov/OSA); [state.actuary@leg.wa.gov](mailto:state.actuary@leg.wa.gov)**

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

**Mitch DeCamp**

**Michael T. Harbour**

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**Thank You**



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## Disclosure

- This presentation is based on the [Preliminary 2021 Actuarial Valuation Report](#) currently under audit
  - Please see the preliminary posted sections for disclosure of assumptions, methods, and data used to produce the results contained in this presentation
- Michael T. Harbour, ASA, MAAA served as the reviewing and responsible actuary for this presentation

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## Appendix – Preliminary Contribution Rates

| 2021 Valuation               |        |          |       |
|------------------------------|--------|----------|-------|
|                              | Member | Employer | State |
| <b>Aggregate Rates</b>       | 8.65%  | 5.19%    | 3.46% |
| <b>Minimum Rates</b>         | 9.94%  | 5.96%    | 3.98% |
| <b>Current Adopted Rates</b> | 8.53%  | 5.12%    | 3.41% |



June 15, 2022

## Purchasing Service Credit for Authorized Leave of Absence

### INITIAL CONSIDERATION

By Sarah White

Benefits Ombudsman

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sarah.white@leoff.wa.gov

### ISSUE STATEMENT

Only members may purchase service credit for unpaid, authorized leaves of absence unless the member dies while performing uniformed service for the United States.

### OVERVIEW

LEOFF Plan 2 members may purchase a maximum of two years of service credit for unpaid, authorized leaves of absence during their career. However, in the event of a member's death their spouse, domestic partner, or eligible children may only purchase service credit if the member's authorized leave of absence was for uniformed services of the United States and resulted in their death.

### BACKGROUND AND POLICY ISSUES

LEOFF Plan 2 members have several options for earning and purchasing service credit for time spent on an authorized leave of absence from employment. In 1977, the legislature closed the potential gap in a member's service credit history when it affirmed that a LEOFF Plan 2 member would continue to earn service credit during a paid, authorized leave of absence.<sup>1</sup> The legislature also affirmed that members may receive a career-maximum of two years of service credit for unpaid, authorized leaves of absence.<sup>2</sup> Members earn this service credit by paying the employer, member, and state contributions plus interest as determined by the Department of Retirement Systems (DRS). Payment must be completed within five years of returning to service or prior to retirement, whichever is sooner. If a member does not meet this payment timeframe, they may pay the actuarial value of the service credit prior to retirement.<sup>3</sup>

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<sup>1</sup> [Laws of 1977, 1<sup>st</sup> Ex. Sess., ch. 294](#); [RCW 41.26.520\(1\)](#).

<sup>2</sup> [RCW 41.26.520\(3\)](#).

<sup>3</sup> [RCW 41.26.520\(5\)](#).

In 1992, in response to Operation Desert Shield the legislature aligned the ability of Plan 2 members, of all state retirement systems, to earn interruptive military service credit at the same rate as Plan 1 members.<sup>4</sup> Specifically for LEOFF Plan 2, members would earn a maximum of four years of service credit if they left their employment to enter uniformed services for the United States.<sup>5</sup> Members qualified for this service credit if they were honorably discharged and applied for their previous employment within 90 days, and made employee contributions plus interest.<sup>6</sup> In 1996, the legislature increased the maximum number of years of service credit to five and removed the payment of interest on contributions.<sup>7</sup>

In 2005, the legislature recognized that Plan 2 members, of all state retirement systems, who were not reemployed in a retirement system-covered position following their uniformed service could not “elect to pay the required employee contributions and interest and receive retirement system service credit for service in the armed forces.”<sup>8</sup> The LEOFF Plan 2 Board endorsed legislation that allowed members who were totally incapacitated for continued employment and surviving spouses or eligible children of members who died while serving the opportunity to purchase service credit for their time spent in uniformed service. If they otherwise met the criteria to qualify for this service credit, the incapacitated member or surviving spouse “on behalf of the deceased member” would pay employee contributions plus interest for the service credit.<sup>9</sup> Payment must be made in full within five years or prior to the distribution of any benefit, whichever came first.<sup>10</sup>

The Select Committee on Pension Policy and LEOFF Plan 2 Board continued their study of interruptive military service and in 2008, the LEOFF Plan 2 Board endorsed legislation to award no-cost interruptive military service credit to members who served during a defined period of war. This bill ultimately passed during the 2009 legislative session.<sup>11</sup> Surviving spouses or eligible children of members who died while serving were also eligible for this no-cost service credit.<sup>12</sup>

The LEOFF Plan 2 Board endorsed legislation in 2016 to extend interruptive military service credit for surviving family members of those killed while serving in the military, federal emergency management agency (FEMA), or national disaster medical system for the United

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<sup>4</sup> [Final Bill Report, ESSB 5092](#) (1992).

<sup>5</sup> [Laws of 1992, ch. 119, §1](#); RCW 41.26.520(3).

<sup>6</sup> *Ibid.*

<sup>7</sup> [Laws of 1996, ch. 61, §1](#); RCW 41.26.520(7).

<sup>8</sup> [Final Bill Report; Laws of 2005, ch. 64.](#)

<sup>9</sup> RCW 41.26.520(7)(d) and (e).

<sup>10</sup> *Ibid.*

<sup>11</sup> [Laws of 2009, ch. 205, §8](#); RCW 41.26.520(7)(d)(iv).

<sup>12</sup> *Ibid.*

States.<sup>13</sup> Surviving spouses, domestic partners, or eligible children could apply for service credit “on behalf of the deceased member” if the member died during a qualifying event on or after March 22, 2014.<sup>14</sup>

The current question is whether surviving spouses of LEOFF Plan 2 members who die prior to retirement may purchase service credit “on behalf of the deceased member” for unpaid, authorized leaves of absence unrelated to military service. This arose from a constituent inquiry, specifically the surviving spouse of a LEOFF Plan 2 member who passed away prior to retirement and not in the line of duty. The member intended to purchase service credit for an unpaid, authorized leave of absence but died prior to requesting an estimate from DRS. The surviving spouse requested to make this purchase but was denied by DRS, as the statute specifies only members may make this purchase.

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<sup>13</sup> [Laws of 2016, ch. 115, §2](#); RCW 41.26.520(7)(f).

<sup>14</sup> *Ibid.*



# Purchasing Service Credit for Authorized Leave of Absence

Initial Consideration  
June 2022



# Issue

- **Only members may purchase service credit for unpaid, authorized leaves of absence unless the member dies while performing uniformed service for the United States**

# Current Event

- **Authorized Leave of Absence (ALOA) time under RCW 41.26.520(3)**
- **Surviving spouse requested to purchase ALOA time on behalf of the deceased member**
- **Not permitted under current statute**

# Authorized Leave of Absence

- **RCW 41.26.520(3)**
  - Unpaid, authorized leave of absence
  - Purchase a maximum of 2 years during career
  - Member pays employer, member, and state contributions plus interest
  - Timeframe – sooner of 5 years of resuming service or prior to retirement
- **RCW 41.26.520(5)**
  - If timeframe of (3) is not met, then the bill is the actuarial valuation of the service credit

# Interruptive Military Service Credit

- **RCW 41.26.520(7)**
- **HB 1325 (2005) recognized that some members may not be able to return to previous employment after military service**
  - **Totally incapacitated members and spouses, domestic partners, or eligible children of members who died while serving**
  - **Eligible family member could make purchase “on behalf of the deceased member”**
- **SB 6263 (2016) expanded IMSC for FEMA, national disaster medical system of United States**

# Next Steps

- **Two options**
  1. Request staff to prepare a Comprehensive Report
  2. No action at this time



**Thank You**

**Sarah White**

**Benefits Ombudsman**

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# Career Change

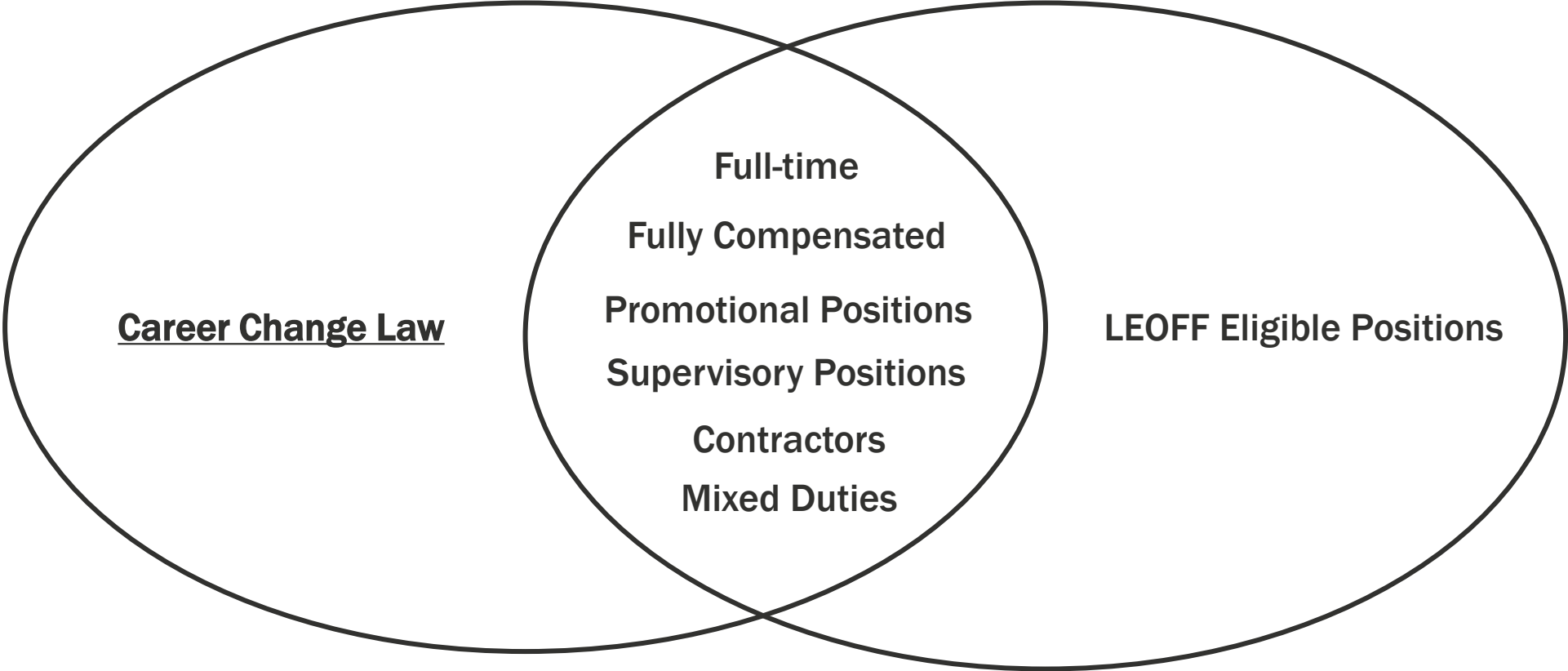
Educational Briefing  
June 15, 2022

# Issue

- **The LEOFF 2 Career Change law allows retirees to return to work in ways that the Board may not have intended**



# Intersection of Career Change and LEOFF Position



# Career Change Law

- **Pre-2005: LEOFF 2 benefits suspended if retiree returns to work in any public position**
- **2005 Career Change Law: LEOFF 2 retiree can begin a second career in a non-LEOFF position and:**
  - **Establish membership in the new public retirement system suspending their LEOFF Plan 2 pension; or**
  - **Choose not to establish membership in the new public retirement system and continue to receive their LEOFF Plan 2 pension**

# How many retirees use Career Change?

| Year         | Total Retirement | Don't Use Career Change | Use Career Change |
|--------------|------------------|-------------------------|-------------------|
| 2014         | 183              | 115                     | 68                |
| 2015         | 178              | 120                     | 58                |
| 2016         | 173              | 96                      | 77                |
| 2017         | 188              | 116                     | 72                |
| 2018         | 212              | 138                     | 74                |
| 2019         | 173              | 117                     | 56                |
| 2020         | 175              | 127                     | 48                |
| 2021         | 243              | 187                     | 56                |
| <b>Total</b> | <b>1525</b>      | <b>1016</b>             | <b>509</b>        |

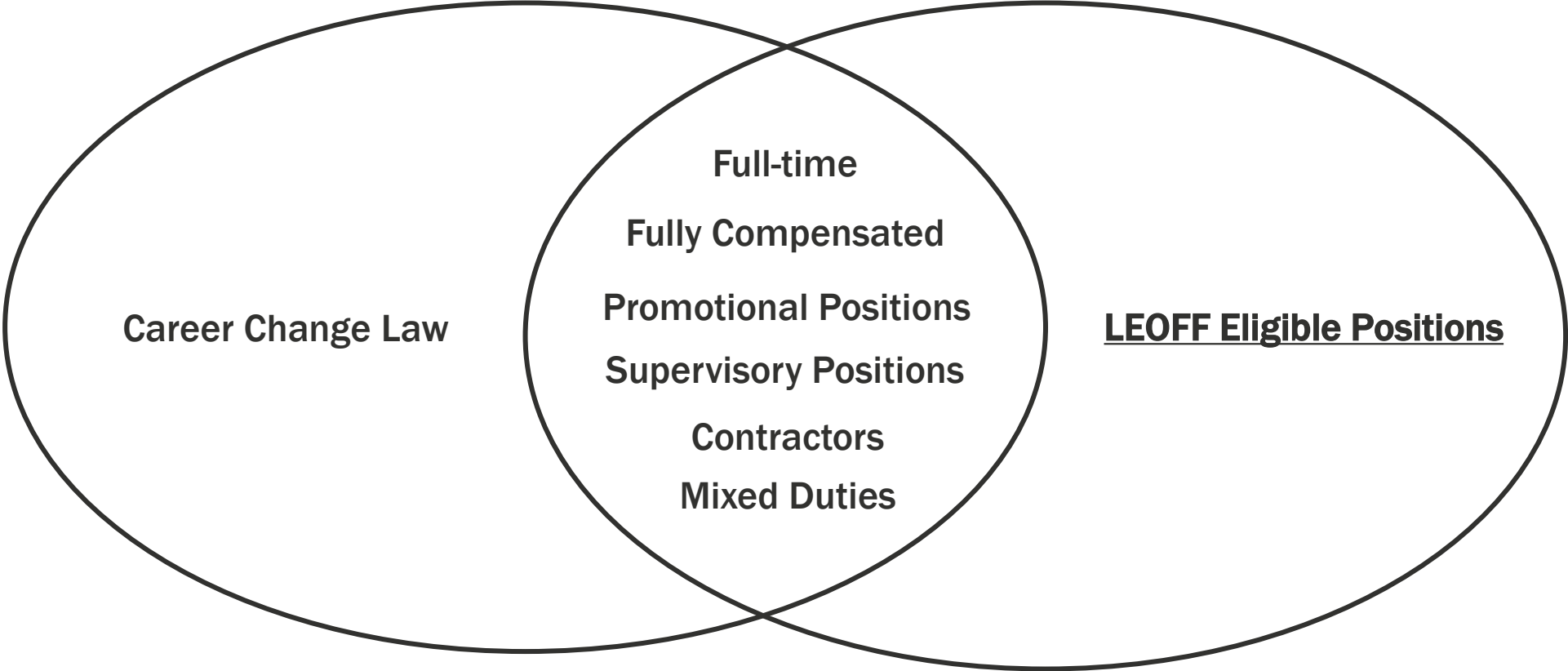
# How do members use Career Change?

| Year         | Join New Plan | Don't Join |
|--------------|---------------|------------|
| 2014         | 3             | 65         |
| 2015         | 0             | 58         |
| 2016         | 0             | 77         |
| 2017         | 2             | 70         |
| 2018         | 0             | 74         |
| 2019         | 0             | 56         |
| 2020         | 0             | 48         |
| 2021         | 1             | 55         |
| <b>Total</b> | <b>6</b>      | <b>503</b> |

# Potential Concerns

- Concerns have occurred at the intersection of career change law and the definitions of LEOFF eligible positions
- Resulted in situations where traditionally LEOFF covered positions have been changed by an employer and filled with a LEOFF 2 retiree

# Intersection of Career Change and LEOFF Position



# Law Enforcement Officer Definition

- "Law enforcement officer [...] means any person who is commissioned and employed by an employer on a full-time, fully compensated basis to enforce the criminal laws of the state of Washington generally [...]"

# EMT Definition

- Any person who is employed on a full-time, fully compensated basis by an employer as an emergency medical technician that meets the requirements of RCW 18.71.200 or 18.73.030(12), and whose duties include providing emergency medical services as defined in RCW 18.73.030



# Firefighter Definition

- Any person who is serving on a full-time, fully compensated basis as a member of a fire department of an employer and who is serving in a position which requires passing a civil service examination for firefighter, and who is actively employed as such;
- Anyone who is actively employed as a full-time firefighter where the fire department does not have a civil service examination;
- Supervisory firefighter personnel; [...]

# Firefighter WAC

- You are a firefighter if you are employed in a uniformed firefighter position by a fire department of an employer on a full-time, fully compensated basis, and as a consequence of your employment, you have the legal authority and responsibility to direct or perform fire protection activities that are required for and directly concerned with preventing, controlling and extinguishing fires. The primary duty of a position is defined by what is expected of the full-time position, not by the number of hours or percentage of hours that the duty is performed

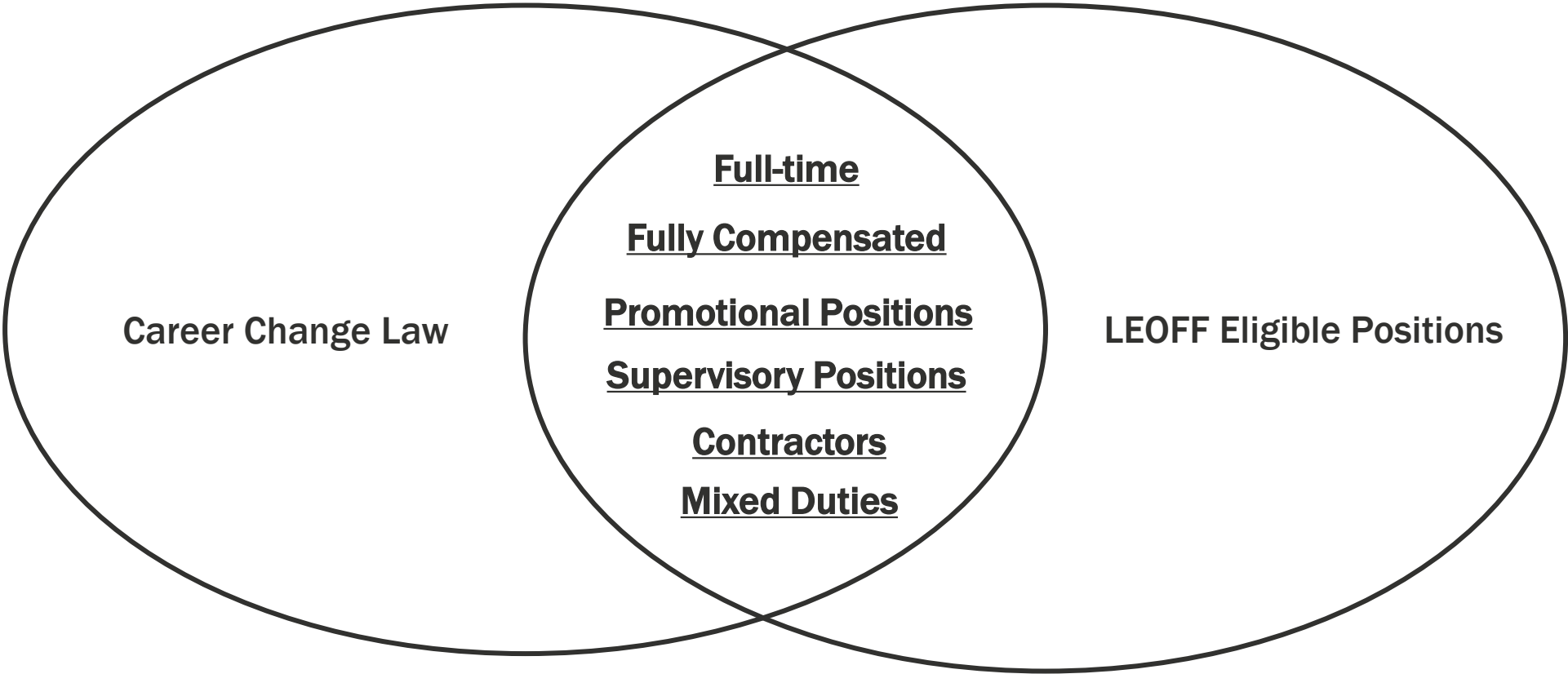
# Firefighter WAC continued

- To qualify as "supervisory firefighter personnel" you must:
  - Supervise firefighters or other supervisory firefighter personnel;
  - Be in a position located within a firefighting department or organization whose primary or sole purpose is fire protection activities; and
  - Direct fire protection activities

# Firefighter WAC continued

- If your employer requires firefighters to pass a civil service examination, you must be actively employed in a position that requires passing such an examination in order to qualify as a firefighter *unless* you qualify as supervisory firefighter personnel
- You are a firefighter if you meet the requirements of this section regardless of your rank or status as a probationary or permanent employee or your particular specialty or job title
- You do not qualify for membership as a firefighter if you are a volunteer firefighter or resident volunteer firefighter

# Intersection of Career Change and LEOFF Position



# Full-time Fully Compensated

- In 2014 DRS sought to address concerns by narrowing the definitions in WAC
- Full-time “means an employee who is normally expected to earn basic salary from an employer for a minimum of one hundred sixty hours in a calendar month”
- Fully Compensated “means an employee who is normally expected to earn a basic monthly salary no less than one hundred sixty times the state minimum hourly wage [...]”

# 2014 “Full-time” Bill

- 2014 Board endorsed legislation restricting the Career Change law
- Would have clarified that the pension of a LEOFF 2 retiree who returns to work as a law enforcement officer or firefighter will be suspended until the retiree separates from that employment, even if the position technically does not qualify for LEOFF because it is not full-time or fully compensated
- Did not pass legislature

# Full-time

- **Pros of existing law**
  - Employers, especially smaller ones, may not find qualified applicants so hiring LEOFF retirees as part-time employees may be their best option
  - Allows LEOFF retirees to continue to use their skills and experience to serve Washington State
- **Cons of existing law**
  - Reputational risk of “double dipping”
  - Limits promotions of active LEOFF 2 members
  - Incentivizes hiring retirees from out-of-state or other pension systems



# Contractors

- **Past cases of employers converting traditionally LEOFF 2 positions to contractors and filling with LEOFF 2 retirees**
  - **Employee/Contractor Analysis**
  - **Employers were unsuccessful in challenging DRS determination that contractors were employees**
- **Since 2014 DRS is not aware of any instances of a traditionally LEOFF position being converted to a contractor**

# Promotional Positions

- **Potential issue where a position does not fight fires and does not directly supervise firefighters, but position is a promotion that requires an experienced firefighter**

# Mixed Duties

- Full-time positions that are part law enforcement, part firefighter
  - Question about LEOFF eligibility

# Options

1. Motion to further study this issue
2. No further action at this time



**Thank You**

**Jacob White**

**Senior Research and Policy Manager**

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