

BOARD MEETING AGENDA

JULY 27, 20022 • 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
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**
June 15
2. **Actuarial Valuation Audit Final Results** **9:35 AM**
Daniel Wade, Gary Deeth, Nick Collier
Milliman
3. **Contribution Rate Setting Adoption** **10:00 AM**
Jacob White, Sr. Research & Policy Manager
4. **2023-2025 Biennial Budget Adoption** **10:30 AM**
Tim Valencia, Deputy Director
5. **Administrative Update** **11:00 AM**
 - Outreach Activities
 - Expectation Interviews
 - August Meeting Discussion

**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.

Actuarial Audit For LEOFF 2 Board

Nick Collier, ASA, EA, MAAA

Daniel Wade, FSA, EA, MAAA

Gary Deeth, ASA, EA, MAAA

JULY 27, 2022

Purpose & Scope

- Purpose: Review OSA's work and confirm that the results of the valuation are reasonable
- Scope:
 - Review of new economic assumptions
 - Full independent replication of June 30, 2021 Actuarial Valuation
 - Verify contribution rates

Bottom Line

- What you need to know
 - OSA's actuarial work is reasonable and appropriate
 - Good match on liabilities and contribution rates
 - Package of assumptions is reasonable
 - All recommendations from prior audit addressed
 - No changes recommended to OSA's 2021 valuation based on current audit



Parallel Valuation Results

- Good match on both Present Value of Benefits and EAN Accrued Liability

EAN Funded Ratio

(in \$Millions)	LEOFF 2 Results		
	OSA	Milliman	O / M Ratio
Present Value All Future Benefits			
Retirement	\$12,388.6	\$12,409.4	99.8%
Termination	344.1	345.6	99.6%
Death	218.8	214.5	102.0%
Disability	<u>649.8</u>	<u>652.1</u>	<u>99.6%</u>
Total Actives	\$13,601.3	\$13,621.6	99.9%
Terminated Vested	\$390.3	\$408.1	95.6%
Terminated Not Vested	<u>22.2</u>	<u>22.2</u>	<u>100.0%</u>
Total Inactive, not in Payment	\$412.5	\$430.3	95.9%
Total Annuitants	\$7,060.8	\$7,082.3	99.7%
All Members	\$21,074.6	\$21,134.2	99.7%
Entry Age Normal Accrued Liability			
All Members	\$15,818.8	\$15,867.5	99.7%

104%
(Milliman)

104%
(OSA)

Actuarial value of assets used in Funded Ratio calculation includes \$450M from LEOFF 2 Benefits Improvement Account.

Contribution Rates

- Checked contribution rates two ways:
 - First, we matched OSA's calculated contribution rates using liabilities and normal cost rates from their valuation
 - Second, we were very close to OSA's contribution rates using Milliman's independently calculated liabilities and normal cost rates (shown below)
 - Well within expected tolerances for actuarial audits

	100% EANC Rates for 2023-2025		2021-2023
	OSA	Milliman*	Adopted Rates
Member	9.94%	9.94%	8.53%
Employer	5.96%	5.96%	5.12%
State	3.98%	3.98%	3.41%

* Based on Milliman calculation of normal cost rate.

Additional Detail Reviewed

- **Data:** Reviewed data used in OSA's valuation including comparison with DRS data
 - Data used by OSA in valuation looks appropriate
- **Benefits:** Confirmed benefits valued are consistent with RCW and member handbooks
 - Verified new formula was implemented correctly
- **Assumptions and Methods:** Reasonable for use in valuation
 - Demographic assumptions reviewed in prior audit
 - Revised assumptions related to increased accrual rate appear reasonable
 - Change to 7.00% investment return assumption is supported by forecasted returns
 - 7.00% is median investment return assumption among large public retirement systems
 - Inflation and wage growth assumptions are also reasonable
- **Actuarial Value of Assets:** Independently calculated by Milliman based on financial data provided by DRS and WSIB
 - Asset method and calculations are reasonable

Conclusion

- No changes recommended to 2021 valuation
- OSA calculated contribution rates are accurate
 - SHB 1701 specifies that 2023-25 contribution rates do not exceed rates adopted in prior cycle

FREEZE LEOFF 2 CONTRIBUTION RATES

RCW 41.45.0604 1(b) For 2021-2023 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 2020.

Comments and Questions?



Caveats and Disclaimers

This presentation is based on the data, methods, assumptions and plan provisions described in our draft actuarial audit report dated July 20, 2022. The statements of reliance and limitations on the use of this material is reflected in the actuarial report and still apply to this presentation.

Milliman's work product was prepared exclusively for the LEOFF 2 Board for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning OSA and DRS operations, and uses OSA and DRS data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.



Contribution Rate Adoption

July 27, 2022

Issue

- The Board may adopt contribution rates for the 23-25 and 25-27 biennia

Current Contribution Rates

- The rates adopted by the Board based on the 2019 actuarial valuation for the 2021-23 and 2023-25 Biennia:
- Member = 8.53%
- Employer = 5.12%
- State = 3.41%

2021 Actuarial Valuation – Key Updates

- **Economic Assumption Update**
 - Investment Return assumption lowered from 7.40% to 7.00%
 - General Salary Growth assumption lowered from 3.50% to 3.25%
- **2021 Investment Earnings**
 - Assets include 2021 investment return of 31.65%
- **SHB 1701 Benefit Improvement**
 - Updated plan costs and funding policy consistent with legislation

Board Funding Policies

- **4-year rate adoption**
 - 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 is either 90% or 100% of Normal Cost, based on plan funded status
 - Policy set in statute and modified under the Benefit Improvement Bill

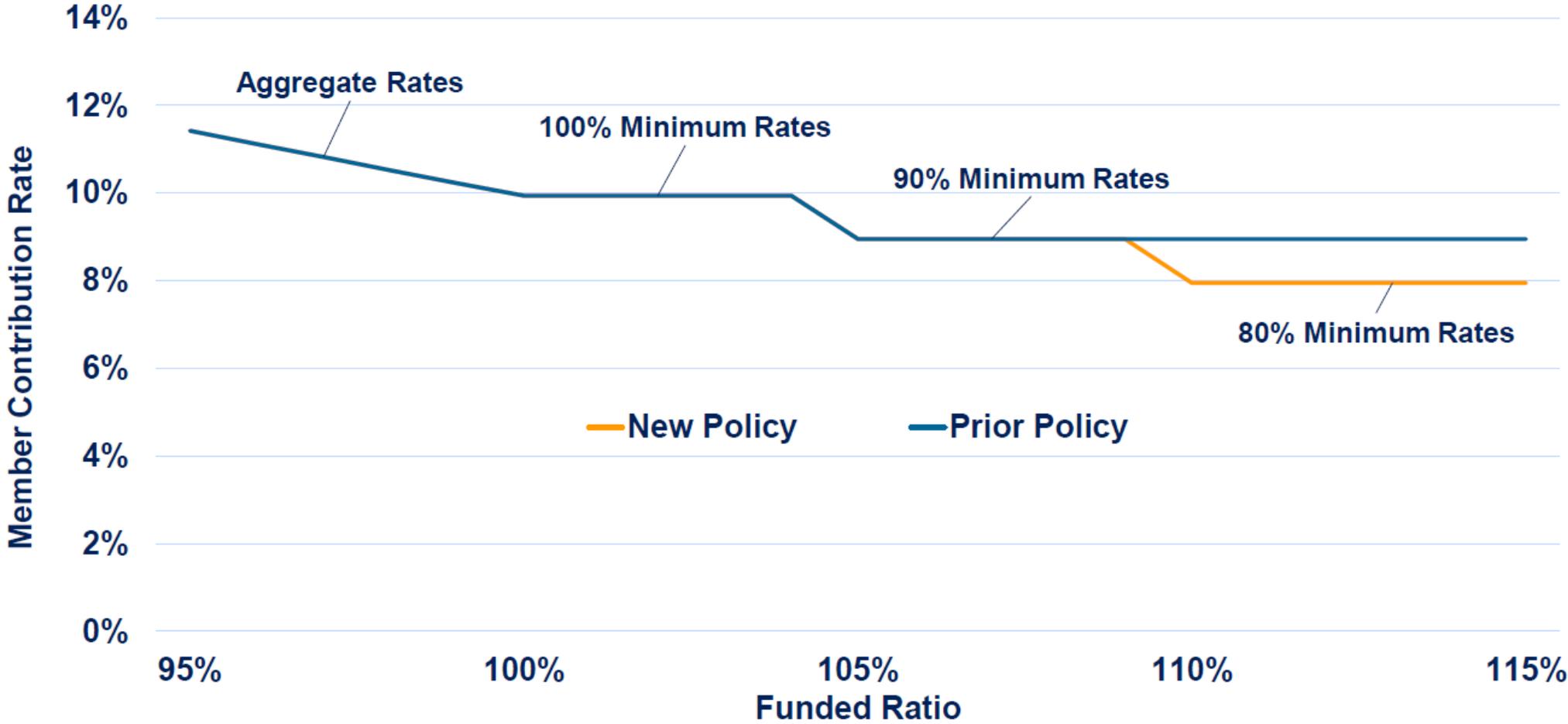
Benefit Improvement Bill

- Freezes 23-25 contribution rates to a maximum of current rates
 - Member = 8.53%
 - Employer = 5.12%
 - State = 3.41%
- New minimum contribution structure adds 80% rate tier

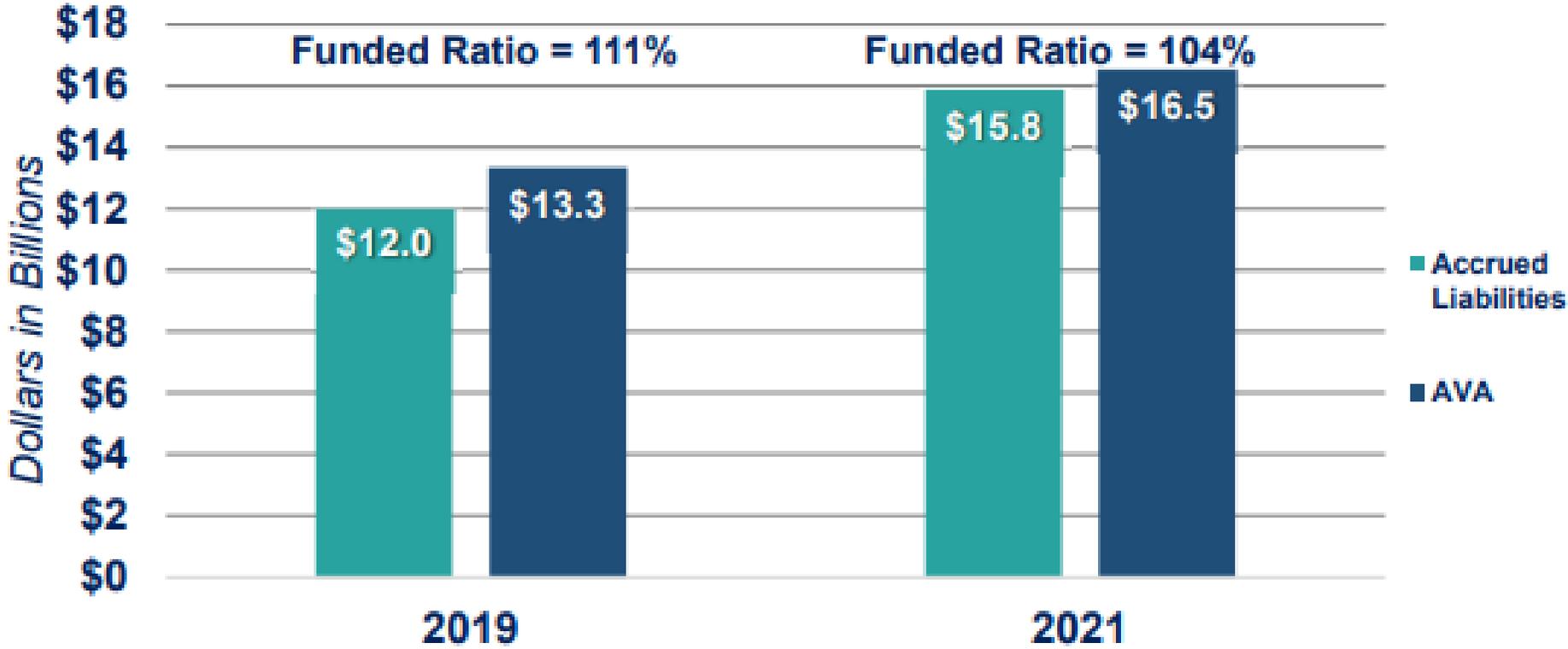
Minimum Rate Funding Policy	
Funded Ratio (FR)	Minimum Rate Percent*
1. FR less than 105%	100%
2. FR at least 105% but less than 110%	90%
3. FR at least 110%	80%

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

Minimum Rate Policy Illustration



Funded Status Change from Last Valuation



Calculated Contribution Rates

LEOFF 2 Member Rate			
	2019	2021	Difference
Aggregate Rate	5.81%	8.65%	2.84%
Minimum Rate*	7.68%	9.94%	2.26%
Current Adopted 2023-25 Rate**	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.*

Options

1. **No action**
 - **Member rate = 8.53%, Employer rate = 5.12%, State rate = 3.41%**
2. **Adopt the current contribution rate for the 2023-25 and 2025-27 biennia. Reassess the 2025-27 biennium contribution rates based on the 2023 Actuarial Valuation Report consistent with funding policy set in SHB 1701**
 - **Member rate = 8.53%, Employer rate = 5.12%, State rate = 3.41%**



Thank You

Jacob White

Senior Research and Policy Manager

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2023–2025 Biennial Budget

July 27, 2022

Background

- **RCW 41.26.732** created the **Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Expense Account (Fund 548)**
- **Fund 548** is not subject to appropriation in the budget process. It is an allotted account meaning the agency's statement of proposed expenditures is subject to review and approval by the Office of Financial management

2023-2025 Budget Overview

- Expenditures necessary to meet statutory/fiduciary responsibility
 - Board meetings
 - Member/Stakeholder communications & outreach
 - Professional development
 - Contracts for Services
 - Agency Operations

2023-2025 Proposed Spending Plan

Expense Category	Preliminary Plan for 2023-25	
Salaries & Wages	\$1,915,018	52%
Employee Benefits & Payroll Taxes	\$573,294	16%
State Actuary Services	\$239,736	7%
Rent & Utilities	\$123,816	3%
State Central Services ¹	\$403,880	11%
Staff & Trustee Professional Dev ²	\$220,428	6%
Communications & IT	\$68,648	2%
Contracts	\$57,600	2%
All Other Operating Expenses	\$60,580	2%
Biennial TOTAL	\$3,663,000	100%



Thank You

Tim Valencia

Deputy Director

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