

BOARD MEETING AGENDA

JANUARY 18, 2023 • 9:30AM



LOCATION - Hybrid Meeting

In-Person:
Washington State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, WA 98502

Or Virtual Meeting Information at
www.leoff.wa.gov

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. Annual Financial Audit Results 9:30 AM**
Laura Shackley, SAO Assistant State Auditor
Michael Hutchinson, SAO Assistant Audit Manager
Cavan Busch, SAO Program Manager
- 2. Department of Retirement Systems Annual Update 10:00 AM**
Shawn Merchant, DRS Legislative and Stakeholder Relations Director
- 3. Legislative Update 10:30 AM**
 - LEOFF 2 Bills
 - Other Bills of Interest
- 4. Administrative Update 10:45 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.

Department of Retirement Systems

Annual Update

Shawn Merchant, Legislative and Community Relations Director

LEOFF Board Meeting
Jan. 18, 2023




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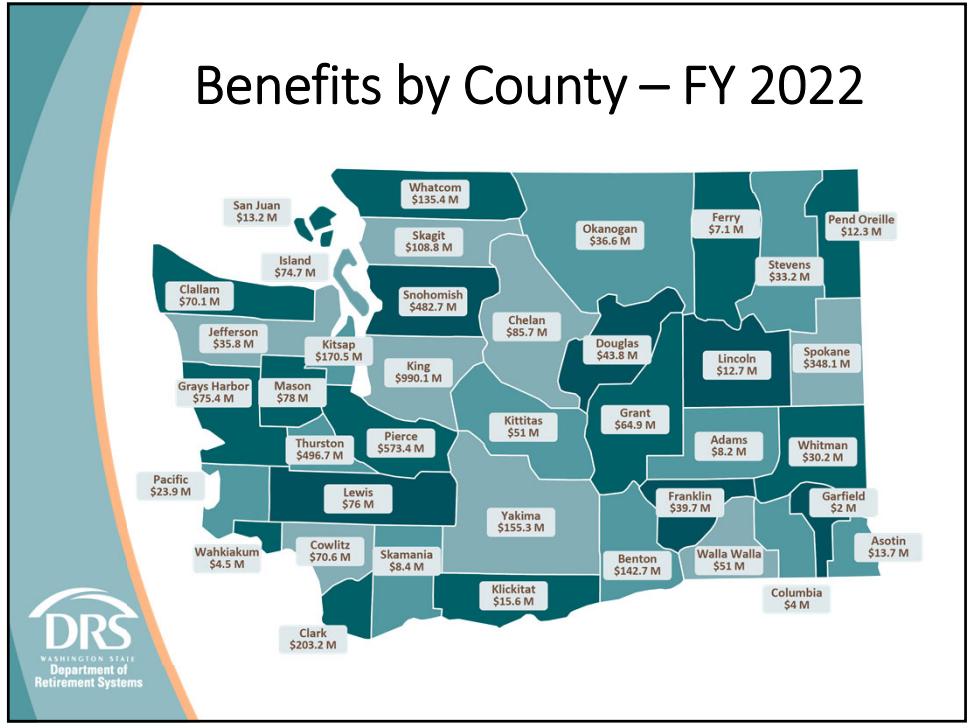
Pensions at a Glance

- **Membership**
 - 884,378 members

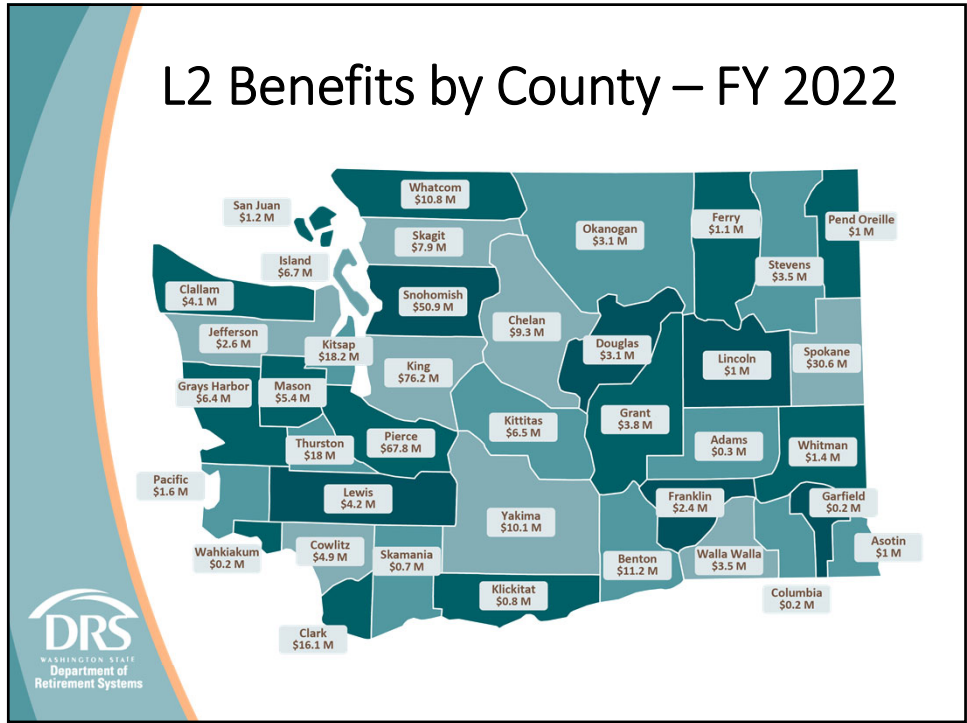
- **Financial**
 - \$178 billion held in retirement trust fund assets
 - \$5 billion collected annually in contributions
 - \$7.1 billion paid annually in benefits and contribution refunds



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Budget Requests

- ❑ FTEs and compensation to process retirements
- ❑ Congressional pension changes



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LEOFF Benefit Enhancement Project Update

Overview

Beginning January 2023, DRS is providing additional pension benefits in LEOFF 2 and LEOFF 1.

The additional benefits for LEOFF 2 members include a lump sum benefit of \$100 per service credit month for members or beneficiaries of members who were retired as of Feb. 1, 2021. For those who retire after Feb. 1, 2021, they will have an option of the lump sum or an increase to their benefit multiplier to 2.5% for the 10 years of service from years 16 through 25.

For LEOFF 1, a lump sum benefit of \$100 per service credit month for LEOFF 1 members and their beneficiaries will be payable by Jan. 31, 2023.

Members and beneficiaries of members who retire with a line-of-duty disability received the greater of a one-time lump sum benefit equal to \$100 per service credit month or \$20,000.



*HB 1701/SB 5791

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January Payments

As of Dec. 15

	Total \$ Being Paid	Est. Average Payout in January	People Receiving a Payment
LEOFF 1	\$190 M	\$30,100	6,324
LEOFF 2-Lum Sum	\$225.5 M	\$29,200	7,716
LEOFF 2- Tiered Multiplier	\$8.46 M	\$6,000	1,411



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Key Dates

- ❑ As of Dec. 28, new retirees can make their benefit enhancement elections online at the time of retirement
- ❑ Initial lump sum payments made Jan. 13
- ❑ Annuity purchase made by end of January
- ❑ Members who retired prior to October 2022 and selected a tiered multiplier will receive the increase for the first time at the end of January as well as any retroactive payment
- ❑ Members who retired in November or December 2022 will have benefit recalculation done in February to apply the new benefit enhancements for the first time at the end of February



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Questions?





Promoting retirement security for Washington's public employees

15 plans in 8 retirement systems serving state and local government employees

340,054

active members working and contributing to the plans

216,622

retirees and beneficiaries receiving monthly benefit payments

\$5 Billion

in contributions from members and employers

\$7.1 Billion

in benefit payments, with almost 90% paid in-state

1,400+

state and local government employer partners

Goals & results



Reliable

Provide accurate, timely and responsive services.



Equitable

Be respectful and inclusive in all interactions.



Financial

Ensure fiscal accountability in both our trust and administrative funds.

Initiatives

CORE System Modernization

Procure and configure an off-the-shelf pension administration solution and modernize related processes.

Retirement Service Workload

Improve customer service by increasing staffing levels to lower wait times for calls and benefit estimates.

Legislative Updates

Enhance retirement readiness by implementing a post-tax Roth savings option for the Deferred Compensation Program.

Inclusive Workplace

Support Pro-Equity Anti-Racism team efforts to strengthen DRS' culture of diversity and inclusion.



Department of Retirement Systems 2023-25 Budget Request at a Glance

	FTE*	Total funds*	Change
2021-23 Current	294.8	\$86,849	0 %
2023-25 Carry Forward**	312.0	\$116,154	33.7%
2023-25 Maintenance***	314.2	\$116,711	34.4%
2023-25 Policy****	333.8	\$121,351	39.7%

About DRS

DRS' mission is to provide expertise, tools and services to help customers prepare for and experience a secure, successful retirement. Our customers are state and local government employees working in Washington, including firefighters, teachers and police officers.

Key Contacts

Mark Feldhausen Budget and Performance Management Director mark.feldhausen@drs.wa.gov 360.664.7194	Shawn Merchant Legislative and Community Relations Director shawn.merchant@drs.wa.gov 360.999.9070
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* All totals represent anticipated request levels in thousands per biennium; FTEs are based on average annual counts

** Includes 13.5 FTE and \$28,505 increase for continuation of the CORE: Pension Administration Modernization project.

*** Includes funding for two fiscal notes on bills that passed in the 2022 Session.

**** Includes funding for the two proposals described to the right.

FTEs & Comp to Process Retirements (\$3,953, 18 FTE)*

DRS requests funding to hire additional Retirement Specialists (RS') and adjust the compensation level of their agency-unique job classification series to bring both aspects closer to our US peer group of other large public pension administrators. Recent benchmarking data identified that DRS had 38% fewer "front office" FTEs per member, and the compensation rate for those same FTEs was 12% lower than our peer group.

Congressional Changes to Pensions (\$687, 2 FTE)*

This is a "placeholder" request to notify budget writers that both chambers of Congress are working on changes to federal retirement laws. According to different reports, it is expected that informal negotiations between the House and Senate will develop a compromise version, but final Congressional action may not occur until the end of the year.

Exit Conference

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

Cavan Busch
Audit Manager

Michael Hutchinson
Audit Supervisor

Laura Shackley
Audit Lead

January 18th, 2023

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.

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Office of the
Washington
State Auditor
Pat McCarthy

Results that Matter



Increased trust in government



Independent, transparent
examinations



Improved efficiency and
effectiveness of government



Pat McCarthy
State Auditor

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Financial Audit Results

July 1st, 2021 through June 30th, 2022



Unmodified Opinion Issued

- Opinion issued in accordance with U.S. GAAP/Regulatory Basis of Accounting
- 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

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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 Contractual Services
- Testing of Employee Training and Development



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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?



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Financial Audit Results

Required Communications

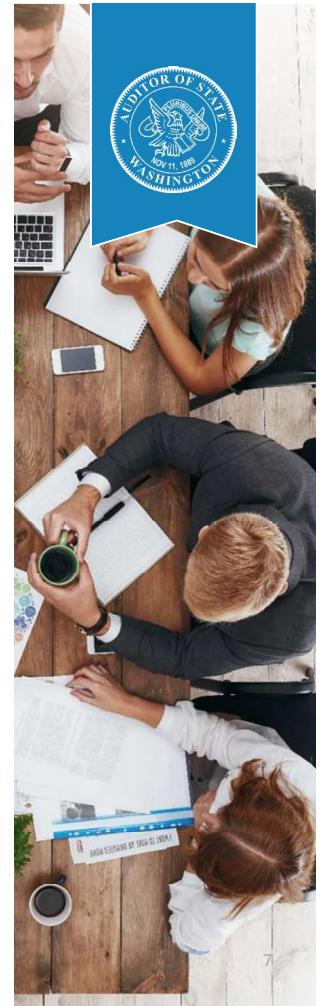
- There were no significant uncorrected misstatements



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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 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/>

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



Laura Shackley, Audit Lead

Laura has been with the Washington State Auditor's Office since 2021. Notable work experiences include working for three years at a CPA firm as a federal income tax preparer and staff accountant. She graduated from Saint Martin's University in 2020 with a Bachelor's Degree in Finance and in 2022 with a Masters in Business Administration.

(564) 999-0982 | Laura.Shackley@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.

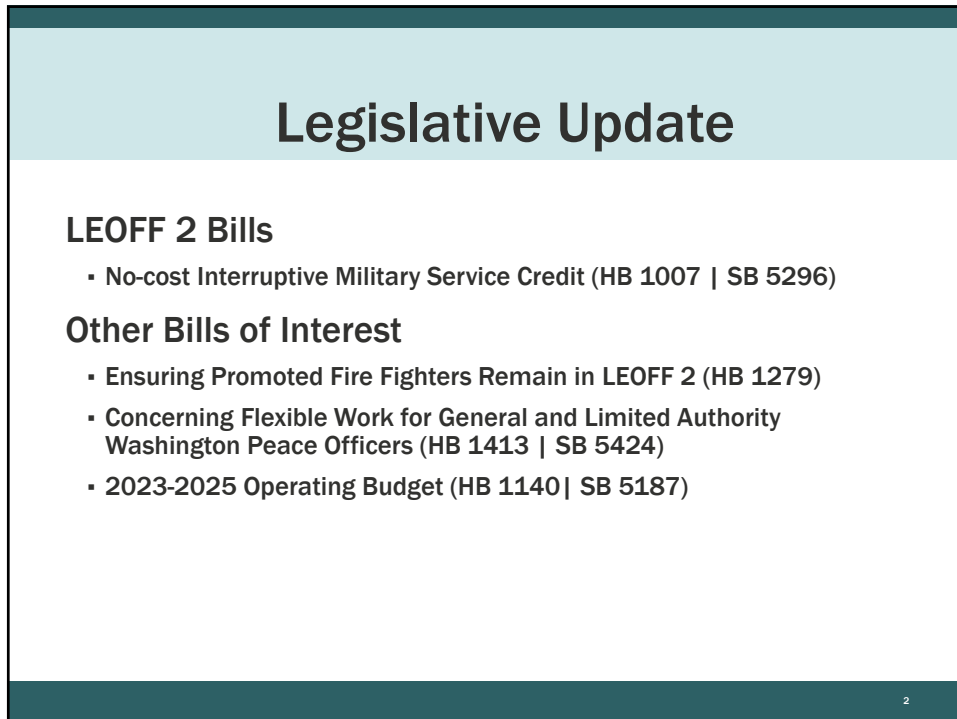


Jim Brownell, Assistant Director of State Audit and Special Investigations – Jim has been with the Office of the Washington State Auditor since 2005. He and the Director of State Audit and Special Investigations oversees most of the state audits our Office performs. The most notable audits that Jim oversees 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.



The slide features a dark teal background with a white header and footer. In the center, there is a logo for LEOFF Plan 2 Retirement Board, which includes a brown map of Washington and the text "LEOFF Plan 2 Retirement Board". Below the logo, the text "Board Meeting" is written in a large, bold, white font, followed by "January 18, 2023" in a smaller white font.

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The slide has a light blue header with the text "Legislative Update" in a bold, dark font. Below the header, the text "LEOFF 2 Bills" is followed by a bulleted list: "• No-cost Interruptive Military Service Credit (HB 1007 | SB 5296)". Below this, the text "Other Bills of Interest" is followed by a bulleted list: "• Ensuring Promoted Fire Fighters Remain in LEOFF 2 (HB 1279)", "• Concerning Flexible Work for General and Limited Authority Washington Peace Officers (HB 1413 | SB 5424)", and "• 2023-2025 Operating Budget (HB 1140 | SB 5187)". A small number "2" is visible in the bottom right corner of the slide.

2

Administrative Update

Outreach Activities

- WSCFF Legislative Conference (Feb 7-8)
- WACOPS Winter Meeting (Feb 8-10)

Benefit Enhancement Implementation Update

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Next Meeting

Wednesday, February 22 at 9:30 AM

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