

BOARD MEETING AGENDA

OCTOBER 25, 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

TARINA ROSE-WATSON
Spokane Int'l Airport Police Dept

DARELL STIDHAM
Spokane County Sheriff's Office

PAT MCELLIGOTT
East Pierce County Fire

JAY BURNEY
City of Olympia

WOLF OPITZ
Pierce County

SENATOR JEFF HOLY
Spokane Police Department (Ret)

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

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
Tor Jernudd, Assistant Attorney General

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

- | | |
|--|-----------------|
| 1. Plan Funding Projections and Strategy Discussion | 9:30 AM |
| Mitch DeCamp, Graham Dyer, and Lisa Won, OSA | |
| 2. Board Member Expectations | 10:30 AM |
| Tim Valencia, Deputy Director | |
| 3. Succession Planning | 11:00 AM |
| Steve Nelsen, Executive Director | |
| <ul style="list-style-type: none">• Executive Director• Team• Facilities | |
| 4. 2024 Proposed Meeting Calendar | 12:00 PM |
| 5. Public Comment | |

*Public comment can be provided to the Board in writing 24 hours prior to the meeting via our reception mailbox: recep@leoff.wa.gov.

2022 LEOFF 2 Actuarial Valuation Results and Projection Analysis

Presentation to: LEOFF Plan 2 Retirement Board

Mitch DeCamp, Senior Actuarial Analyst

Graham Dyer, Senior Actuarial Analyst

Lisa Won, ASA, FCA, MAAA, Deputy State Actuary

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0

Today's Presentation

- 2022 Actuarial Valuation Report (AVR) results
 - Data, Assets, Asset Smoothing, Contribution Rates
- Projection Analysis and Stressing Testing
- Informational – No Board action needed today

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October 25, 2023

1



1

Part 1: 2022 AVR

2

Difference Between Valuations and Projections

- Valuations
 - Deterministic (best estimate results)
 - Point-in-time snapshot of current plan measures
- Projections
 - Deterministic or stochastic (variable results)
 - 30 years of future valuations
 - Forecast of plan measures

3

Participant Data

LEOFF 2		
	2021	2022
Actives		
Headcount	18,683	18,625
Average Annual Salary	\$122,500	\$129,100
Average Age	42.3	41.7
Average Service	13.1	12.4
Annuitants		
Headcount	7,574	8,597
Average Annual Benefit	\$56,200	\$58,900
Actives to Annuitants	2.5	2.2

Change in MVA

LEOFF 2	
(Dollars in Millions)	
2021 Market Value	\$19,637
Contributions	415
Disbursements	(499)
Investment Earnings*	37
Other Revenue**	22
Adjustments***	1
2022 Market Value	\$19,612

*Investments returned 0.21% in FY 2022.

**Includes additional annuity purchases and service credit purchases.

***Adjusted to reflect the change in the estimated transfer of the BIA, measured on June 30, 2022, into the LEOFF 2 trust under SHB 1701.

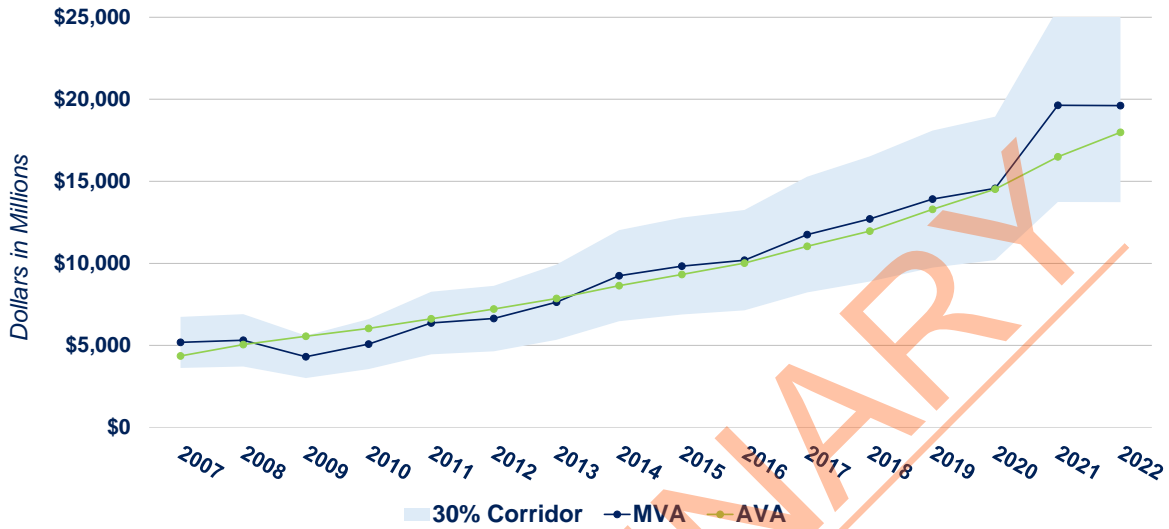
Calculating 2022 AVA

Calculation of Actuarial Value of Assets				
LEOFF 2				
(Dollars in Millions)				2022
MVA				\$19,612
Plan Year Ending	Return on Assets	Years Deferred	Years Remaining	Amount Deferred*
6/30/2022	0.21%	7	6	(1,112)
6/30/2021	31.65%	8	6	2,643
6/30/2017	14.14%	7	1	97
Total Deferral				1,628
AVA**				\$17,985

*Amount of asset gains and (losses) left to recognize, or apply, in future valuations.

**AVA can never be less than 70% (\$13,729) or greater than 130% (\$25,496) of the MVA.

Actuarial Value of Assets Less Volatile than Market Value



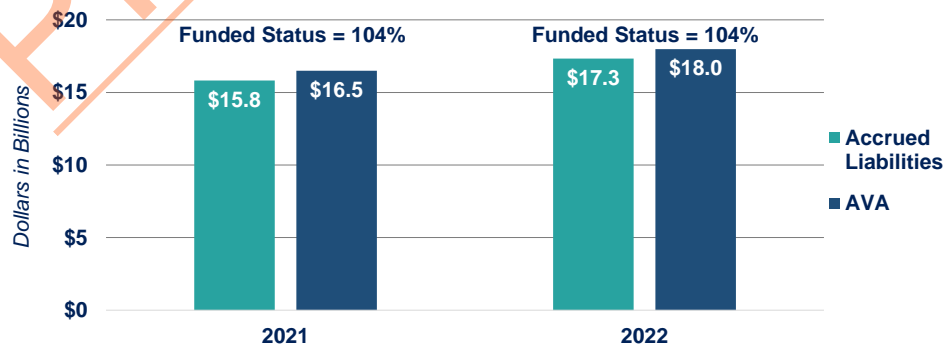
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6

Liability and Funded Ratio Change from Last Valuation

LEOFF 2			
(Dollars in Millions)	2021	2022	Difference
Present Value of Future Benefits	\$21,075	\$23,018	\$1,943
Accrued Liability	\$15,819	\$17,336	\$1,518



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October 25, 2023

7

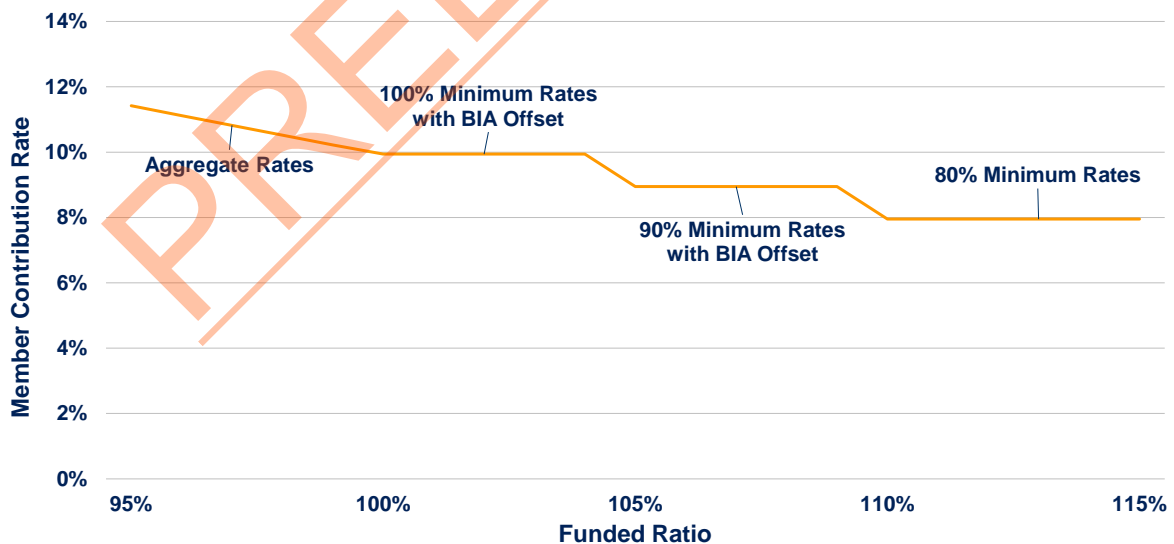
Currently Adopted Contribution Rates

LEOFF 2 Contribution Rates	
	2021
Member	8.53%
Employer	5.12%
State	3.41%

- The Board adopted the current contribution rates for the 2023-25 and 2025-27 Biennia
 - Adopted rates for the 2025-27 Biennium may still be updated with the 2023 rate-setting valuation next summer
- 2023 valuation contribution rates will be calculated using funding policy from SHB 1701
 - Will include BIA rate offset, if applicable, calculated by OSA

8

Minimum Rate Policy Illustration



9

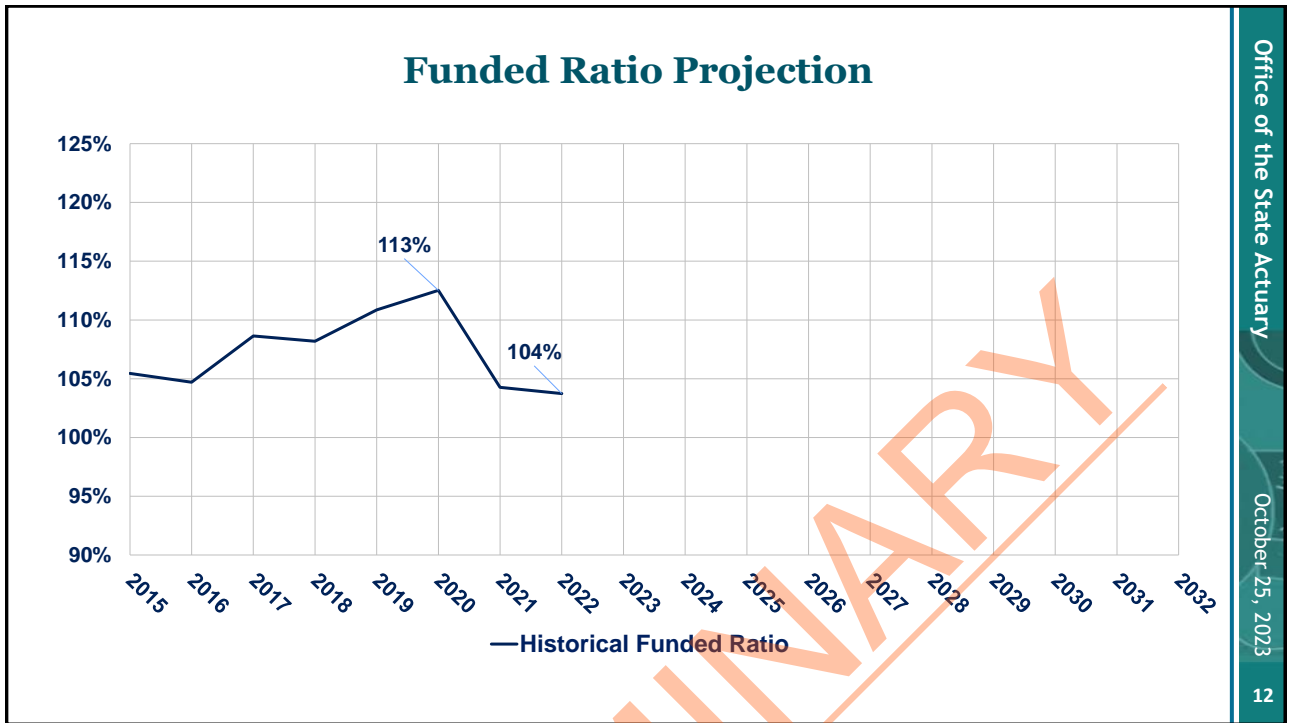
Part 2: Projection Analysis and Stress Testing

10

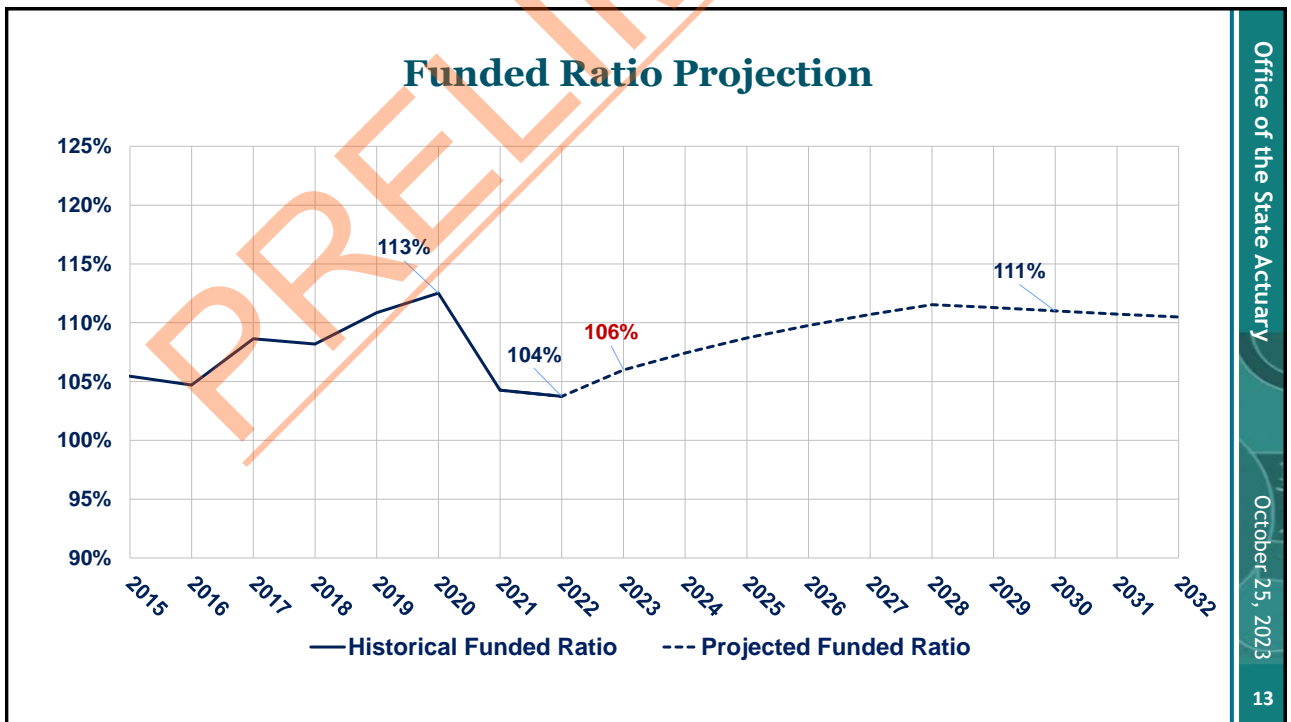
What Are Projections?

- Model produced by OSA to forecast the results of future valuations
- All future experience occurs as expected
 - Assumptions regarding future new members joining the plan
 - Includes actual June 30, 2023, investment return of 7.0%
- Stochastic projections model variability of investment earnings assumption
 - Includes 2,000 different scenarios of investment earnings
 - Investment return variability provided by WSIB
- Scenario stress testing provides plan impact for specific sequence of investment returns

11



12



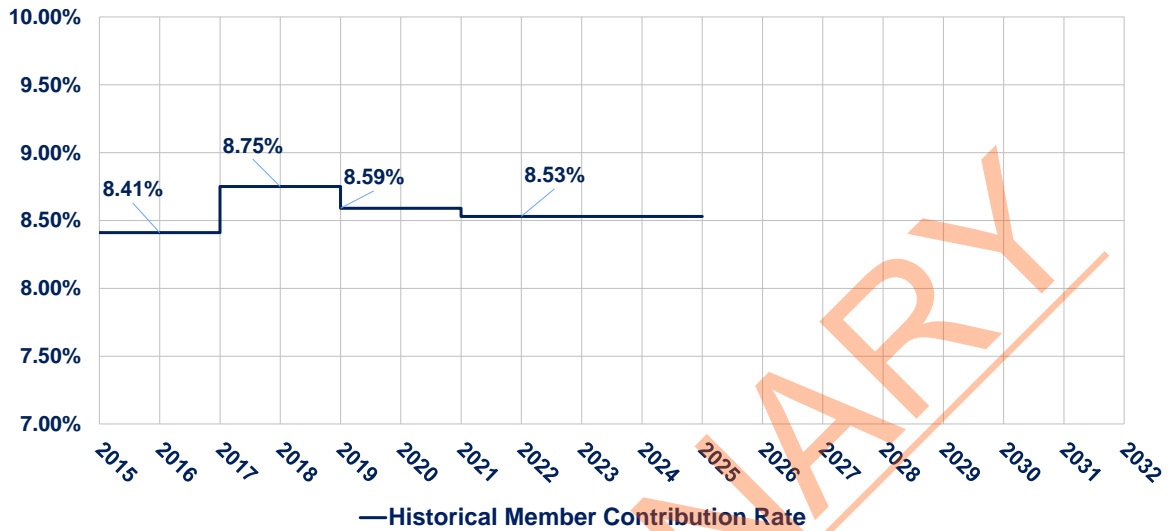
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Member Contribution Rate Projection

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October 25, 2023

14



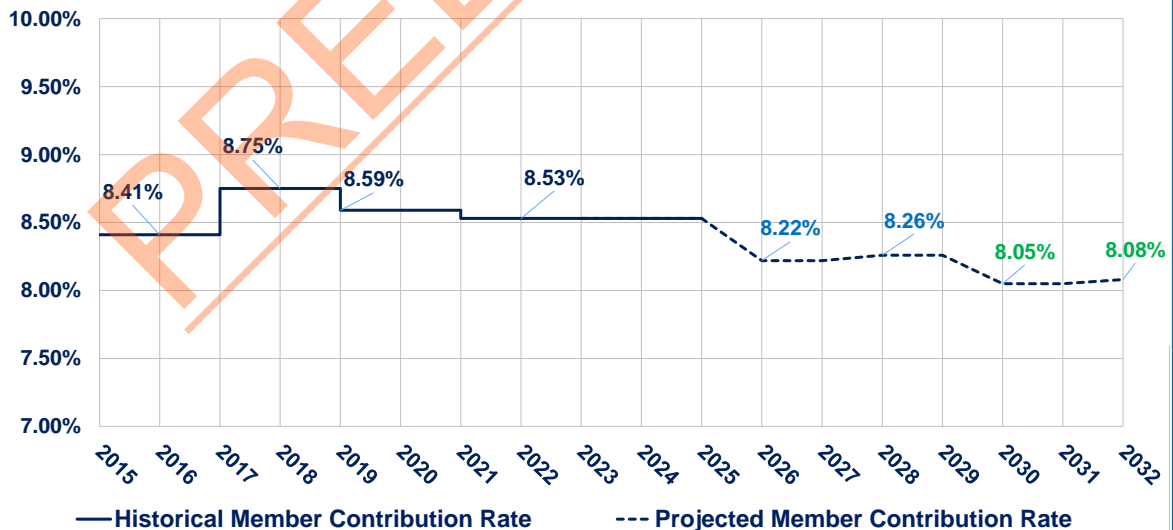
14

Member Contribution Rate Projection

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October 25, 2023

15



15

Scenario Stress Testing

Stress Test Investment Returns			
Fiscal Year	Expected	Scenario 1	Scenario 2
2024	7.0%	0%	6.0%
2025+	7.0%	7.0%	6.0%

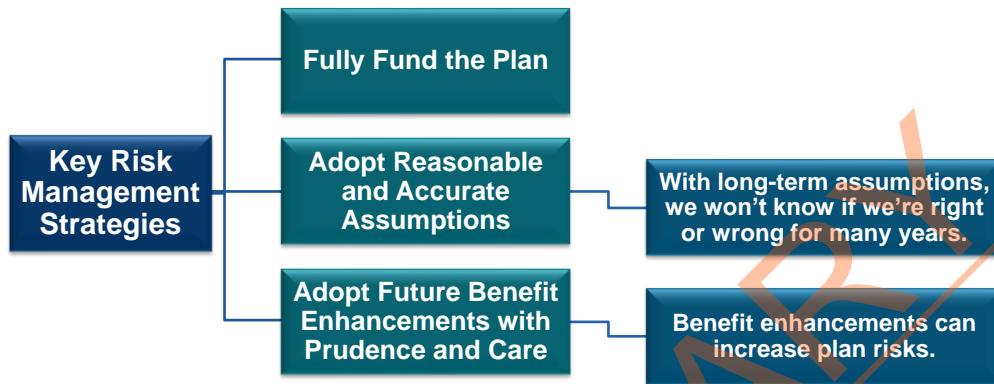
- **Scenario 1 – Shock Investment Return**
 - 2024 investment return of 0%
 - 7.0% return assumed for 2025 and beyond
- **Scenario 2 – Sustained Lower Investment Return**
 - 6.0% investment assumed return for 2024 and beyond
 - The plan assumed return remained unchanged at 7.0%

Stress Test Results

Member Contribution Rates			
Biennium	Expected	Scenario 1	Scenario 2
2023-25	8.53%	8.53%	8.53%
2025-27	8.22%	8.22%	8.22%
2027-29	8.26%	8.26%	8.26%
2029-31	8.05%	8.30%	8.30%
2031-33	8.08%	9.34%	8.33%
2033-35	8.12%	9.39%	9.39%

- **Green** rates equal 80% minimum rate
- **Blue** rates equal 90% minimum rate with BIA offset
- **Red** rates equal 100% minimum rates with BIA offset

Managing Pension Risk



Summary

- The plan is considered healthy
 - Funded ratio decreased but still exceeds 100%
 - AVA is deferring over \$1.6 billion
 - Expect continued funded ratio improvement as deferred assets are recognized
- Contribution rates are expected to decrease over the next few biennia as funded ratio rises
- Stress test scenarios resulted in higher contribution rates, but funded ratio stayed near 100%
- The 2023 AVR results will be available next summer

Questions? Please Contact: The Office of the State Actuary

leg.wa.gov/OSA; state.actuary@leg.wa.gov

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

Mitch DeCamp

Graham Dyer

Lisa Won

O:\LEOFF 2 Board\2023\10-25\2022.LEOFF.2.AVR.Projections.pptx

Thank You



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20

Disclosure

- This presentation is based on the [2022 AVR](#) and [Projections Model](#). Please see the links above for assumptions, methods, and data used to produce the results contained in this presentation.
- We prepared this presentation to inform LEOFF Plan 2 Board meeting discussions of the 2022 AVR and Projections Model results. Please do not use the results in this presentation for other purposes.
 - Please replace these results with updated results when available.
- Future contribution rates and funded ratios may deviate significantly from the projection results and stress testing presented here.
- Lisa A. Won, ASA, FCA, MAAA served as the reviewing and certifying actuary for the projection analysis in this presentation and meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions provided.

21



Board Member Expectations

October 25, 2023

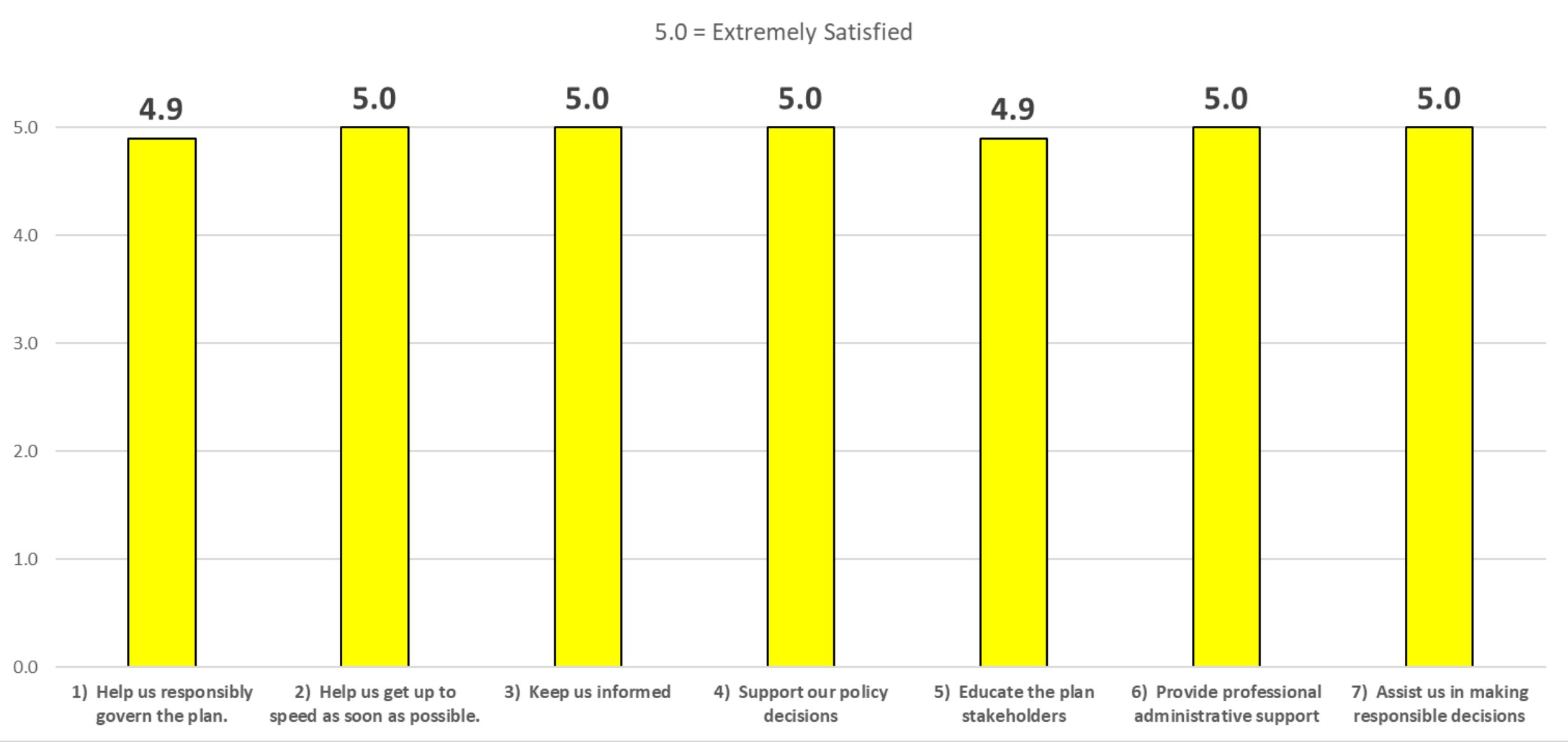
Excellence Starts with Understanding Expectations

- You are our primary customers
 - Success for the team means meeting or exceeding your expectations
 - The team needs to be clear about Board member expectations as we develop processes to support your mission
 - The team needs feedback to ensure we are on the right track

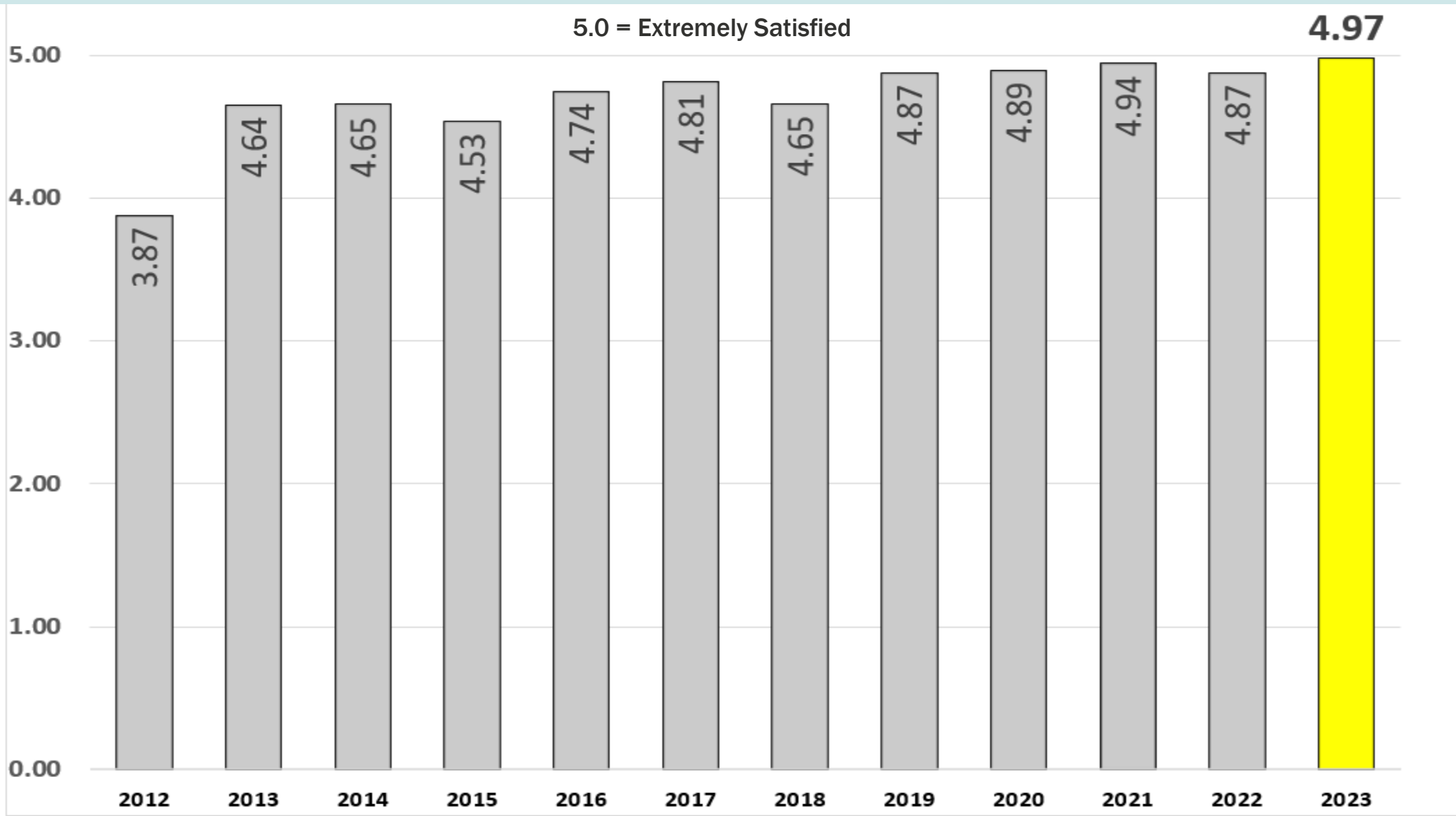
Board Expectations

1. Responsibly govern the plan
2. Help us get up to speed as soon possible
3. Keep us informed
4. Support our policy decisions
5. Educate the plan stakeholders
6. Provide professional administrative support
7. Assist us in making responsible decisions

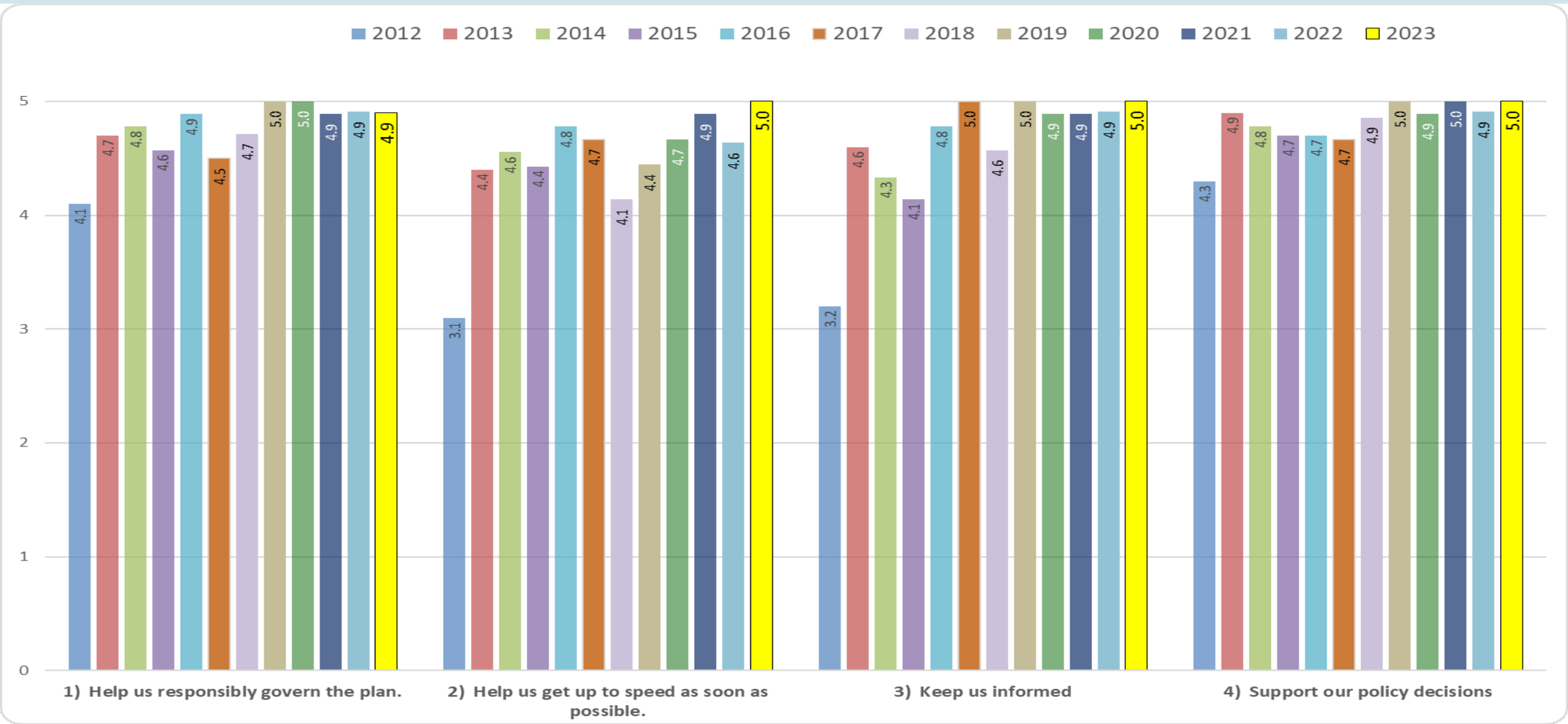
2023 Satisfaction by Expectation



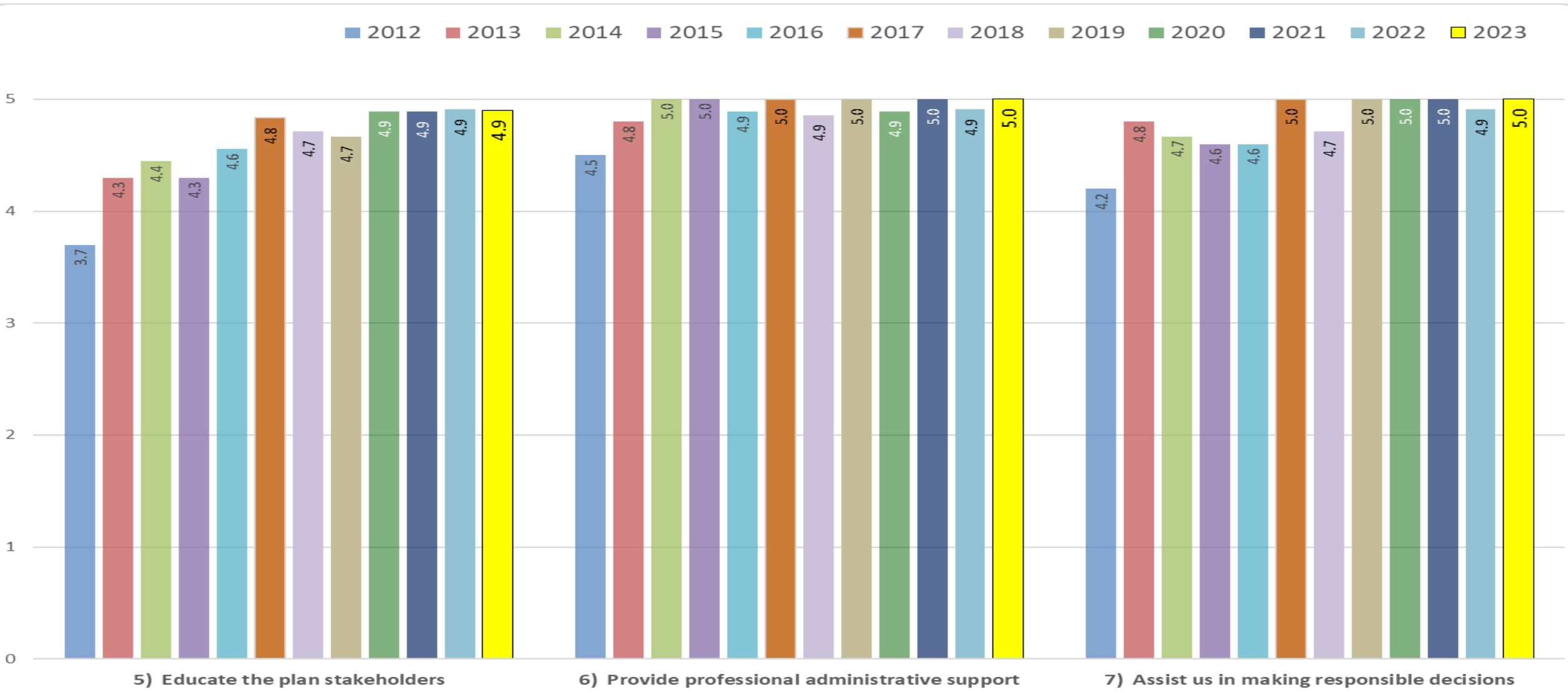
Satisfaction by Year 2012 - 2023



Satisfaction by Question 2012 - 2023



Satisfaction by Question 2012 - 2023





Discussion

- **Clarity regarding expectations is key to success.**
- **Have any expectations changed, or new expectations emerged?**
- **What improvements will exceed your expectations?**



Succession Planning

October 25, 2023

Executive Director

Team

Facilities



Thank You

Steve Nelsen

Executive Director

steve.nelsen@leoff.wa.gov

2024 Board Meetings



January

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

February

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March

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31						

April

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28	29	30				

May

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26	27	28	29	30	31	

June

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July

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28	29	30	31			

August

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25	26	27	28	29	30	31

September

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October

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November

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December

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22	23	24	25	26	27	28
29	30	31				

MEETING LOCATION: Hybrid meetings will be held at 2100 Evergreen Park Dr SW Olympia, WA 98502 and virtually via Microsoft Teams
CONTACT: Phone: 360.586.2320 Recep@leoff.wa.gov

Meeting Dates

State Holidays

2024 CONFERENCES/MEETINGS/EVENTS

CONFERENCES	STARTING	ENDING	STAKEHOLDER EVENTS/MEETINGS	STARTING	ENDING
IFEBP ANNUAL (SAN DIEGO)	11/9/2024	11/13/2024	WACOPS WINTER GEN MEM MTG (OLYMPIA)	2/21/2024	2/23/2024
ISCEBS SYMPOSIUM (NASHVILLE)	9/15/2024	9/18/2024	WACOPS SPRING MTG (VANCOUVER)	5/8/2024	5/10/2024
NCPERS ANNUAL (SEATTLE)	5/19/2024	05/22/2024	WACOPS FALL GEN MEM MTG (KENNEWICK)	9/11/2024	9/13/2024
NCPERS PUBLIC SAFETY (PALM SPRINGS)	10/27/2024	10/30/2024	WSCFF LEG CONFERENCE (OLYMPIA)	2/6/2024	2/7/2024
NASRA ANNUAL (PITTSBURGH)	8/3/2024	8/7/2024	WSCFF EDU SEMINAR (VANCOUVER)	4/16/2024	4/18/2024
			WSCFF NEW MEMBER CONF (KENNEWICK)	5/14/2024	5/16/2024
STATE HOLIDAYS					
LEOFF 2 BOARD DATES					
LEGISLATIVE SESSION					

JANUARY							FEBRUARY							MARCH							APRIL							MAY							JUNE							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S								
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14	15	16	17	18	19	20	11	12	13	14	15	16	17	10	11	12	13	14	15	16	14	15	16	17	18	19	20	12	13	14	15	16	17	18	9	10	11	12	13	14	15	
21	22	23	24	25	26	27	18	19	20	21	22	23	24	17	18	19	20	21	22	23	21	22	23	24	25	26	27	19	20	21	22	23	24	25	16	17	18	19	20	21	22	
28	29	30	31				25	26	27	28	29			24	25	26	27	28	29	30	28	29	30				26	27	28	29	30	31		23	24	25	26	27	28	29		
														31																				30								
JULY							AUGUST							SEPTEMBER							OCTOBER							NOVEMBER							DECEMBER							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	
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28	29	30	31				25	26	27	28	29	30	31	29	30						27	28	29	30	31			24	25	26	27	28	29	30	29	30	31					