LEOFF Plan 2 Retirement Board Work Plan
Approved at the December 17, 2003 Board Meeting

1. Adopt actuarial tables, assumptions and cost methodologies

Due Date: The Board is scheduled to adopt changes to LEOFF 2 actuarial tables and assumptions in 2006. There is no deadline for changing statutory long-term economic assumptions, the statutory asset value smoothing method or the statutory actuarial funding method.

Board Meetings:
The asset value smoothing method was heard on November 19, 2003 and is scheduled for possible executive action on December 17, 2003.
The results of the 2005 Actuarial Experience Study will be on the agenda for possible Board action in 2006.
Other actuarial topics will be on the agenda for Board hearings and possible action in 2004.

Background:
The Board is required to adopt actuarial tables, assumptions and cost methodologies for LEOFF Plan 2. These items are used in the actuarial valuations of LEOFF Plan 2. The Office of the State Actuary (OSA) will produce an Actuarial Experience Study in 2005 for all public retirement plans including LEOFF Plan 2. The OSA Experience Report will include actuarial tables and assumptions.

The aggregate funding method is statutorily required for LEOFF Plan 2 and the other public Plan 2/3 retirement plans. A change in the actuarial funding method would require legislation. Additionally, certain long-term economic assumptions and the actuarial asset value smoothing method are set in statute. The Board may be capable of adjusting these items for LEOFF Plan 2 rate-setting purposes through the rule-making process without statute. The Pension Funding Council adopts these items for other public plans and also has the authority to adjust these items beginning in 2004. The Select Committee on Pension Policy is scheduled to hold a hearing on the asset value smoothing method in November 2003.

Key decision Items:
A. Actuarial Support Model
This topic was addressed by Board action on November 19, 2003.

Recommendation:
Coordinate any changes to the asset-value smoothing method with OSA and the legislature. Defer Board action on actuarial assumptions until after the 2004 rate-setting process.

Staff Requirements:
- Interagency agreement with OSA
- RFP for independent actuarial services regarding contribution rates
- RFP for independent actuarial services regarding long-term economic assumptions, asset value smoothing technique, or pension funding method
- Rulemaking to adopt rates and any changes to pension funding process
- Coordination with Pension Funding Council

2. Adopt contribution rates for LEOFF Plan 2

Due date: No later than September 30, 2004

Board Meetings: This topic would be scheduled for a hearing in August 2004 with executive action scheduled for September 2004.

Background:
The Board is required to adopt member, employer and state contribution rates for LEOFF Plan 2 for use in the 2005-07 biennium. The Office of the State Actuary (OSA) will produce a 2004 Actuarial Valuation for all public retirement plans including LEOFF Plan 2. The OSA valuation will include recommended contribution rates. The Pension Funding Council (PFC) will issue an RFP in the spring for an independent actuarial firm to conduct a concurrent audit of the OSA valuation and report to the PFC on the appropriateness of the OSA actuarial methods and recommended rates. The PFC will adopt contribution rates for all the other public pension plans no later than September 30, 2004 for use in the 2005-07 biennium.

Key Decision Item(s):

A. Actuarial Support Model

This topic was addressed by Board action on November 19, 2003. The Board adopted Option One. The Board has entered into an interagency agreement with the Office of the State Actuary.

Option One:

Enter into an interagency agreement with OSA to provide actuarial services to the Board. Use an independent actuarial firm to conduct a concurrent audit of the 2004 OSA valuation for LEOFF Plan 2. Preferably, the actuarial firm would be the same one used by the Pension Funding Council to audit the OSA 2004 valuation for the other public retirement plans.

Pros:

Independent validation of OSA recommended rates
Lower cost (Est. $95,000/year plus $20,000-$80,000 for concurrent audit plus any independent audits related to proposed legislation)
Interagency agreement with OSA will provide additional services
Board audit coordinated with PFC

Cons:

Independent audit is not a full valuation

Option Two:

Use an independent actuarial firm to produce a 2004 actuarial valuation for LEOFF Plan 2 including recommended contribution rates for the 2005-07 biennium.

Pros:

Independent validation of OSA recommended rates
Full independent actuarial valuation

Cons:
Higher cost (Est. $459,000 for annual valuations plus 275,000 for preparation of actuarial costs related to proposed legislation.)
Additional cost for other services such as cost of benefit proposals
Board audit could not be coordinated with PFC
Potential delay if Board actuary disagrees with OSA

Recommendation:
The interim Executive Director recommends Option One. The cost savings are significant. The potential for missing the rate adoption deadline is minimized. OSA will only have to deal with one audit.

Staff Requirements:
- Interagency agreement with OSA (November 2003)
- RFP for independent actuarial services (Spring 2004)
- Coordination with Pension Funding Council (Spring 2004 through September 2004)

3. Provide for the design and implementation of increased benefits

Due date: Ongoing

Board Meetings: Ongoing

Background:
The LEOFF Plan 2 Retirement Board has replaced the Joint Committee on Pension Policy (JCPP) as the policy development body for plan changes to LEOFF Plan 2. The JCPP was replaced in 2003 by the Select Committee on Pension Policy (SCPP) as the policy development body for all other public retirement plans.

Key Decision Item(s):
A. Process for Bringing Forward Legislative Agenda Items
This topic is on the agenda for Board action on December 17, 2003.

Recommendation:
The Board has previously discussed the need to assess stakeholder positions and determine member preferences regarding LEOFF 2 benefit design including possible changes.

Staff Requirements:
- Consult with stakeholders and plan members regarding issues related to benefit design
- Research & policy analysis
- Actuarial cost analysis
- Board presentations
- Written reports
- Draft legislation
- Liaison with Legislature, Governor's Office and Department of Retirement Systems
- Track Select Committee on Pension Policy activities
- Track LEOFF 2-related legislation
- Track pension benefit developments in federal law

4. Retain professional and technical advisors

Due date: None

Board Meetings:
This topic will be on the agenda for Board action in 2004

Background:
LEOFF Plan 2 is a qualified government pension plan pursuant to sec. 401(a) of the Internal Revenue Code. This status as a qualified governmental plan provides members of the plan with certain tax advantages regarding pension contributions and benefits. Proposals for plan changes and questions regarding administration of member benefits often raise complex federal tax law issues. The Department of Retirement Systems has retained federal tax attorneys as special assistant Attorney Generals through the Office of the Attorney General.

Key Decision Item(s):
A. Tax Counsel

Recommendation:
The interim Executive Director recommends retaining federal tax attorneys as special assistant Attorney Generals through the Office of the Attorney General. Preferably, the firms would be the same ones used by DRS to avoid the potential for inconsistent or conflicting advice.

Staff Requirements:
- Coordinate hiring and use of tax counsel with Office of Attorney General
- Issue RFPs
- Evaluate bidders
- Negotiate contracts with successful bidders
- Consult with tax counsel as required

5. Consult with the Department of Retirement Systems for improving benefit administration

Due date: Ongoing

Board Meetings:
This topic will be on the agenda for Board action in 2004.

Background:
The Department of Retirement Systems (DRS) administers pension benefits for all 14 state pension plans, including LEOFF Plan 2, as well as the Deferred Compensation Plan. DRS makes administrative decisions regarding benefit questions, processes petitions and appeals from members regarding benefit questions, and adopts rules to clarify benefit administration. DRS produces a handbook summarizing benefits for retirement plan members including LEOFF Plan 2. DRS periodically sends publications to plan members and/or employers. DRS tracks customer satisfaction through a variety of methods. DRS annually benchmarks their cost-effectiveness against peer public pension benefit administrators.

Key Decision Item(s):
Benefit Administration model:

Recommendation:
The interim Executive Director recommends scheduling DRS for a presentation to the Board in 2004 regarding LEOFF 2 administration. The roles of the Board and DRS with respect to benefit administration should be defined in an interagency agreement. DRS would continue to administer pension benefits for LEOFF 2 members.

Staff Requirements:
- Interagency agreement with DRS regarding benefit administration
- Track and comment on DRS rule-making
- Regular meetings with DRS staff to discuss benefit administration issues
- Track DRS administrative decisions, petitions, and appeals related to LEOFF 2
- Consult with stakeholders and members regarding benefit administration issues
- Track status of DRS cost-effective management benchmarks
- Track status of DRS customer service measurements

6. Provide an annual actuarial funding status report to the Governor and Legislature

Due date: December 31, 2004

Board Meetings:
This topic is scheduled for possible Board action on December 17, 2003

Background:
The Department of Retirement Systems produces a Comprehensive Annual Financial Report that includes the funding status of each retirement fund including LEOFF Plan 2. The report is usually published in January and uses the final audited market value of plan assets as of the end of the preceding fiscal year. The Office of the State Actuary produces an annual Actuarial Valuation Report that includes the funding status of each retirement plan including LEOFF Plan 2. The report is usually published in October and uses the actuarial value of assets as of September 30 of the preceding calendar year.

Key Decision Item(s):
A. Actuarial Report
The Board needs to decide on the content of the report and the distribution list. Content questions include whether to include the DRS CAFR information, the OSA valuation information, or additional actuarial information. The Board may choose to make the report available to other interested parties via Internet publication or including the report with the Board's annual benefit summary.

B. 2003 Report
The Board needs to decide whether to prepare some kind of report prior to the 2004 legislative session. One option would be a simple letter format summarizing key items related to LEOFF Plan 2 from the DRS CAFR and OSA Valuation Report.

Recommendation:
The interim Executive Director recommends sending a letter to the Governor and the chairs/vice-chairs of the legislative fiscal committees in January 2004 summarizing the LEOFF Plan 2 findings from the 2003 DRS CAFR and the 2002 OSA Valuation Report. The topic of future reports should be scheduled for Board action in 2004.

Staff Requirements:
- Design report
- Prepare content for report
- Produce report
- Distribute report
- Coordinate with the Office of State Actuary
- Coordinate with the Department of Retirement Systems

7. Establish administrative rules and operating policies

Due date: Ongoing

Board Meetings:
This topic was addressed by Board action on November 19, 2003. Further Board action may be necessary.

Background:
State agencies are required to adopt operating policies on a number of subjects. The Office of Financial Management has a list of required policies including draft language.

Key Decision Item(s):
A. Board Operating Policies
Several Board operating policies were approved at the November 19, 2003 meeting. The interim Executive Director will research other model operating policies for Board consideration in 2004.

B. Rule-Making Process

Recommendation:
The interim Executive Director should develop a recommendation for Board action in 2004 regarding the use of the rule-making process to adopt contribution rates and actuarial assumptions. The Board will be informed of the adoption of all required agency policies.

Staff Requirements:
- Research model board operating policies
- Draft possible board operating policies
- Adopt required state agency operating policies
- Designate rules coordinator
- Draft rules as directed by the Board
- Publish rules according to Office of Code Reviser requirements
- Conduct hearing(s) on proposed rules
- Adopt rules

8. Hire an administrative staff and acquire office space

Due date: April 2004

Board Meetings:
This topic is on the agenda for Board action on December 17, 2003.

Background:
The Board has approved the hiring of two interim staff, an executive director and an executive assistant. Both are temporary exempt positions. Additional positions will be necessary to support the Board's work plan. The staff for the Board is temporarily located in unused space at the Office of Financial Management while permanent space can be readied.

Key Decision Item(s):
A. Work Plan
This topic is on the agenda for Board action on December 17, 2003.

B. Staff Model
This topic is on the agenda for Board action on December 17, 2003.

Option One:
Authorize the interim Executive Director to develop job descriptions, recruit and hire necessary staff based on the Board's work plan.

Pros:
The Board will be fully staffed earlier.

Cons:
The interim Executive Director will do the hiring.

Option Two:
Defer the hiring of additional staff until the Executive Director recruitment has been completed.

Pros:
The Executive Director will do the hiring.

Cons:
The Board will be fully staffed later.

C. Office Space Plan
This topic is on the agenda for Board action on December 17, 2003.

The Board has entered into an interagency agreement with the Department of General Administration Real Estate Division for assistance in locating office space for the Board's staff. The Board has previously discussed the benefits of co-locating with a larger state agency. The State Investment Board has approximately 6000 square feet of space available in their building. The Office of the State Actuary will move into the same building in December 2003. The Board's Real Estate Agent has begun preliminary negations with the owner of the SIB building

for approximately 2000 square feet. This would be sufficient space for staff. The target occupancy date is April 1, 2004.

D. Executive Director Hiring
Board action on this topic has been deferred until 2004.

Recommendation:
The interim Executive Director recommends Option One for the Staff Model. The development of job descriptions and the hiring process could be coordinated with the Board's Administrative Committee. The interim Executive Director requests approval of the office space plan.

Staff Requirements:
- Research and evaluate possible office locations
- Interagency agreement with co-tenant agency
- Draft job descriptions based on staff model/work plan
- Recruit and hire staff
- Lease office space
- Develop floor plan
- Make necessary changes to office space based on floor plan
- Purchase necessary equipment
- Purchase necessary supplies
- Purchase necessary furnishings
- Install/test information system network
- Install/test phone system
- Conduct mandatory employee training

9. Publish an annual summary of benefits

Due date: December 31, 2004

Board Meetings:
This topic will be on the agenda for Board action in 2004

Background:
The Department of Retirement Systems publishes a LEOFF Plan 2 Member Handbook which provides information concerning state pension benefits. Certain federal tax benefits are available to public safety officers (including law enforcement officers and firefighters). Social Security benefits may be available to some members. State Worker's Compensation benefits may also be available in some cases.

Key Decision Item(s):
A. Annual Summary of Benefits
The scope of the benefits in the annual summary needs to be defined. The distribution method for the annual summary would also need to be determined (mail or internet or both).

Recommendation:
The interim Executive Director recommends scheduling this topic for Board action in 2004.

Staff Requirements:
- Coordinate with Department of Retirement Systems
- Design document
- Develop content
- Produce document
- Distribute document

10. Be fiduciaries of the plan

Due date: Ongoing

Board Meetings:
This topic will be on the agenda for Board action in 2004

Background:
The State Investment Board has retained fiduciary counsel as special assistant Attorney Generals through the Office of the Attorney General.

Key Decision Item(s):
A. Fiduciary Counsel

B. Fiduciary Training

Recommendation:
The interim Executive Director recommends retaining fiduciary counsel as special assistant Attorney Generals through the Office of the Attorney General. Fiduciary counsel could conduct Board member training. Staff could seek out other fiduciary training opportunities for Board members in 2004.

Staff Requirements:
- Coordinate hiring and use of fiduciary counsel with Office of Attorney General
- Issue an RFP for fiduciary counsel
- Evaluate bidders
- Negotiate contract with successful bidder
- Consult with fiduciary counsel as required
- Fiduciary training for the Board
- Research Board member fiduciary training opportunities

11. Prepare an annual budget

Due date: Ongoing

Board Meetings:
This topic is scheduled for Board action on December 17, 2003
This topic will be on the agenda for Board action in 2004

Background:
The Board's budget is subject to the state Office of Financial Management allotment process but is not subject to legislative appropriation. Allotments may be adjusted on a quarterly basis. The Board's operating expenses are paid from a sub-account of the LEOFF Plan 2 retirement fund.

Key Decision Item(s):
A. 2004 Budget Plan

Recommendation:
The interim Executive Director recommends adjusting the allotments previously approved by the Board to include any additional costs related to approval of the Board's Actuarial Support Model, Work Plan, Staff Model, Office Space Plan, Tax Counsel, Fiduciary Counsel, Fiduciary Training, and Independent Audit Plan.

Staff Requirements:
- Report allotment changes to OFM
- Monitor expenditures against allotments
- Report budget status to the Board on a regular basis

12. Have an independent CPA annually audit the expenses of the fund

Due date: Ongoing

Board Meetings:
This topic is scheduled for Board action on December 17, 2003
This topic will be on the agenda for Board action in 2004

Background:
The State Auditor's Office conducts periodic audits of all state agencies. Small agencies are audited every three years. The SAO entrance and exit conferences can be scheduled in conjunction with Board meetings. The first audit has not yet been scheduled. The Board has contracted with the state Office of Financial Management - Small Agency Client Services to handle payroll, reporting and accounting functions.

Key Decision Item(s):
A. Independent Audit Plan

Recommendation:
The interim Executive Director recommends hiring an independent CPA to audit the expenses of the Board in those years when SAO does not conduct an audit. The external audit would be conducted following the close of the fiscal year. The Executive Director would develop an internal audit plan for board action in 2004.

Staff Requirements:
- Consult with State Auditor's Office
- Develop internal audit plan
- Coordinate external audit activities with OFM SACS
- Issue an RFP for independent audit
- Evaluate bidders
- Negotiate contract with successful bidder
- Consult with independent auditor as required
- Report audit results to the Board

13. Recommend benefit changes to the Legislature

Due date: Second Monday in January

Board Meetings: Ongoing

Background:
Initiative 790 established two processes for making benefit changes to LEOFF Plan 2. One process was limited to the use of surplus investment gains. SHB 2198 in 2003 eliminated section 6(5) of Initiative 790 regarding the use of surplus investment gains to fund benefit improvements. Accordingly, the benefit change process in Initiative 790 related to surplus investment gains is not available.

Board recommendations for legislative benefit changes will go through the same process as all other bills. The bills will be identified as LEOFF Plan 2 Retirement Board request legislation. The bills must have legislative sponsors. Draft legislation will be provided to the Governor's Office for review.

The Board will consider two pieces of potential request legislation at the December 17, 2003 meeting.

Key Decision Item(s):
A. Process for Bringing Forward Legislative Agenda Items
This topic is on the agenda for Board action on December 17, 2003.

Recommendation:
The interim Executive Director will attend all legislative hearings on Board-recommended bills and other LEOFF 2 related legislation. Regular email updates will be sent to Board members.

Staff Requirements:
- Answer questions at legislative hearings related to Board request legislation
- Draft legislation
- Liaison with Legislature, Governor's Office and Department of Retirement Systems
- Inform the Board regarding the status of Board request legislation

14. Establish an Internet website

Due date: To be determined by the Board

Board Meetings:
This topic is on the agenda for Board action on December 17, 2003.

Background:
The Internet is an efficient means of delivering information, particularly outside of regular business hours. The Department of Information Services provides web site design services, technical support and leases server space for state agency websites. Content of the web pages is the responsibility of the agency.

Key Decision Item(s):
A. Internet Model

Recommendation:
The interim Executive Director recommends establishing an internet page for the Board that would include the Board's meeting schedule, minutes of Board meetings, copies of Board presentations and handouts, copies of Board publications, and links to LEOFF Plan 2 related sites. Server space for the website would be leased from DIS.

Staff Requirements:
- Content development
- Training on necessary software
- Interagency agreement with DIS for website development and maintenance
- Negotiate lease for necessary server space

15. Enter into interagency agreements

Due date: Ongoing

Board Meetings:
This topic will be on the agenda for Board briefing in 2004.

Background:
The Board entered into an interagency agreement with the Office of the State Actuary following the Board's adoption of the actuarial support model at the November 19, 2003 meeting. The Board has also entered into interagency agreements with the Office of Financial Management Small Agency Client Services Unit for payroll and accounting services and with the Department of General Administration Real Estate Division for assistance in locating office space.

An interagency agreement will need to be developed with the State Investment Board, the Department of Retirement Systems and the Department of Information Services.

Recommendation:
The interim Executive Director recommends proceeding with necessary interagency agreements in coordination with the Board's Administrative Committee. The status of agreements would be a topic for a Board briefing in 2004.

Staff Requirements:
- Interagency agreement with the State Investment Board
- Interagency agreement with the Department of Retirement Systems
- Interagency agreement with the Department of Information Services

16. Execute necessary contracts

Due date: Ongoing

Board Meetings:
This topic will be on the agenda for Board briefing in 2004.

Background:
The Board will need to enter into contracts with outside parties for necessary services such as actuarial services and independent audits.

Recommendation:
The interim Executive Director will enter into all necessary contracts on behalf of the Board in consultation with the Board's Administrative Committee. Regular updates will be provided to the Board.

Staff Requirements:
- Mandatory OFM training
- Draft contracts