



STATE OF WASHINGTON

**LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'  
PLAN 2 RETIREMENT BOARD**

*P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329*

**SPECIAL BOARD MEETING**

**January 3, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on January 3, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair – Via Teleconference  
Doug Cochran  
Michael Edwards  
Pat Hepler  
Jeff Holy – Via Teleconference  
Mark Johnston  
Maureen Morris  
Representative Geoff Simpson – Via Teleconference

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research Policy Manager  
Greg Deam, Senior Research and Policy Manager

**Guests:**

Steve Davis, Davis Accounting and Auditing

**Board Members Not Present:**

Senator Linda Evans Parlette

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 10:40 a.m. The Board took a moment of silence to remember and honor those who have fallen since the last time the Board met.

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1) **December 8, 2005 Board Meeting Minutes**

*It was moved that the December 8, 2005 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Annual Audit of Expenditures Results, Davis Accounting and Auditing**

Steve Nelsen introduced Steve Davis of Davis Accounting and Auditing Services which is the firm that conducted an independent audit for the LEOFF Plan 2 Retirement Board. Mr. Davis provided a brief overview of his background and presented the results for the year ending June 30, 2005. The results revealed that it was a “clean” audit and the Board had spent \$349,889 less than anticipated.

3) **Survivor Health Care Insurance, Final Proposal – Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented a *Final Proposal* and *Presentation* on Survivor Health Care Insurance. Mr. Valencia included a review of the key features of this topic.

A bill draft (Z-0899.3) was provided.

*It was moved that the Board use the proposed bill draft (Z-0899.3) and move forward pursuing legislation on the topic of Survivor Health Care Insurance. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

4) **\$150,000 Death Benefit for Occupational Illness, Final Proposal – Tim Valencia**

Tim Valencia, Senior Research and Policy Manager provided the Board with *Final Proposal* on the topic of \$150,000 Death Benefit for Occupational Illness. Mr. Valencia’ report included a review of the key issues, as well as a proposal summary on the cost involved:

- Member 0.01%
- Employer 0.01%
- State 0.00%

A bill draft (Z-1026.1) was provided.

*It was moved that the Board use the proposed bill draft (Z-1026.1) and move forward pursuing legislation on the topic of \$150,000 Death Benefit for Occupational Illness. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for January 25, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 11:12 a.m.



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**REGULAR BOARD MEETING**  
**March 29, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on March 29, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Michael Edwards  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Maureen Morris  
Senator Linda Evans Parlette  
Representative Geoff Simpson

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Suzanne Shaw, Assistant Attorney General

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:31 a.m. The Board took a moment of silence to honor Rob McLaughlin, an Ocean Shores fire fighter who was killed in the line of duty while training.

The Chair introduced Greg Cuoio, Lacey City Manager as a possible new member of the LEOFF Plan 2 Retirement Board.

Suzanne Shaw announced that this will be her last meeting serving as legal counsel for the LEOFF Plan 2 Retirement Board. She will be replaced by Linda Sullivan-Colglazier, Assistant Attorney General effective immediately.

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1) **January 3, 2006 Special Board Meeting Minutes**

*It was moved that the January 3, 2006 Special Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **2006 Legislative Session Update – Greg Deam**

Greg Deam, Senior Research and Policy Manager provided the Board with an in-depth look at what occurred during the *2006 Legislative Session* concerning LEOFF Plan 2, as well as potential joint legislation with the Select Committee on Pension Policy (SCPP) during the interim. Mr. Deam reviewed the following legislative bills:

**BOARD LEGISLATION - PASSED**

- Catastrophic Disability (HB 2932) – Effective March 14, 2006
- \$150,000 Death Benefit (SHB 2933) – Effective June 7, 2006
- Survivor Health Care (SB 6723) – Effective June 7, 2006

**BOARD LEGISLATION – NOT PASSED**

- FWEO Service Credit Transfer (HB 2890/SB 6585)

**2006 Interim**

- Death Benefit COLA
- Dual Membership Corrections
- Service Credit Purchase for Injury Corrections
- Board Membership

3) **Interim Issues**

**Rate Setting – Steve Nelsen**

Steve Nelsen, Executive Director presented the *Contribution Rate Setting Schedule for 2006* and explained that 2006 is a rate setting year for the 2007-2009 biennium. The Board already adopted rates in 2004, which remain in effect through the 4 year rate schedule, unless the Board decides to make changes. Mr. Nelsen went on to say that the Board can adopt changes to the rate schedule based on the valuation provided by the Office of the State Actuary. He also suggested that the Board partner with the Pension Funding Council on the Independent Audit of the valuation as they did previously.

*\*Biennial rate changes must be adopted no later than September 30, 2006.*

*\*Supplemental rate increase must be adopted no later than the July 26, 2006 Board meeting, in order to be effective September 1, 2006.*

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### **Strategic Planning – Steve Nelsen**

Steve Nelsen, Executive Director provided the Board with a copy of the *Strategic Plan* that was created and adopted by the Board in 2004. Mr. Nelsen expressed that there has been great progress in meeting the goals of the plan since that time, but suggested revisiting the Strategic Plan during the 2006 Interim. Dates and locations for holding a Special Strategic Planning Session will be explored and brought back to the April 26, 2006 meeting for discussion.

### **Annual Statements – Shawn Merchant**

Shawn Merchant, Deputy Director presented the potential improvements for the *LEOFF Plan 2 Member Annual Statements* that are provided by the Department of Retirement Systems' (DRS). Mr. Merchant stated that the key improvements would be the addition of beneficiary information, service credit earnings, and a benefit estimate. He went on to provide three options for the Board to consider and take action on at the April 26, 2006 meeting.

## **4) Administrative Update**

### **Department of Retirement Systems' (DRS) Rulemaking – Greg Deam**

Greg Deam, Senior Research and Policy Manager presented a report and presentation on the topic of the *Department of Retirement Systems' (DRS) Rulemaking*. Mr. Deam reviewed the seven step approach in developing and implementing rules and explained the following rules that are in process:

- Non-Duty Disability
- Purchased Service Credit
- Duty Disability
- EMT's Into LEOFF

### **Quarterly Budget Update – Steve Nelsen**

The Executive Director presented the Quarterly Budget Update. The members received a copy of the February 2006 *Allotment and Expenditures Report* which reflected that all expenditures are at or below expected levels.

## **5) 2006 Member Survey Report – Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented the Board with the results from the *2006 Dual Response Membership Survey*. Mr. Valencia provided insight into the objectives, methodology, and lessons learned from the survey.

He stated that 1,898 responses have been received to date, which is an 11.7% increase in the response rate from the 2005 survey. This data also provides statistical reliability and a high level of confidence in the results.

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**Public Testimony**

Paul Neal testified at the request of Bill Hanson of the Washington Council of Police and Sheriffs (WACOPS) concerning long-term economic assumptions.

Bill Hanson, Executive Director of WACOPS addressed the Board on the alternate revenue source topic and requested that the Board research this issue in the near future.

Staff will prepare an Initial Consideration on the topic of Alternate Revenue Source and bring it back to the May Board meeting.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for April 26, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 11:19 a.m.



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**REGULAR BOARD MEETING**

**April 26, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on April 26, 2006.

**Board Members Present:**

Jack Simington, Vice Chair  
Greg Cuoio  
Michael Edwards  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Maureen Morris  
Clinton Olson  
Senator Linda Evans Parlette  
Representative Geoff Simpson

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Linda Sullivan-Colglazier, Assistant Attorney General

**Board Members Not Present:**

Kelly Fox, Chair

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Jack Simington, Vice Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:33 a.m.

Vice Chair Simington introduced Greg Cuoio and Clint Olson as the newest members to join the LEOFF Plan 2 Retirement Board.



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1) **March 29, 2006 Board Meeting Minutes**

*It was moved that the March 29, 2006 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Temporary Duty Disability – Tim Valencia, Preliminary Report**

Tim Valencia, Senior Research and Policy Manager presented the Board with a preliminary report on the topic of *Temporary Duty Disability* which was last presented to the Board in November 2005. The report included an overview of the current LEOFF Plan 2 provisions, recent changes in PERS policy, a policy proposal similar to the PERS policy, and potential joint legislation coordination with the Select Committee on Pension Policy (SCPP).

*Staff will research cost alternatives and bring back a Preliminary Follow-Up Report to a future board meeting.*

3) **Dual Membership – Greg Deam, Preliminary Report**

Greg Deam, Senior Research and Policy Manager presented a Preliminary Report and presentation on the issue of *Dual Membership* which was initially presented to the Board in August 2005. Mr. Deam reviewed the definition of Dual Membership, key areas for actions such as; base salary, thirty-year cap, and the inflation factor for twenty years of service. In addition, the Office of the State Actuary provided a memo which contained the most recent data on LEOFF 2 members with active service in other retirement plans. The LEOFF Plan 2 Retirement Board and the SCPP will be working cooperatively on this issue during the 2006 interim.

In Summary, Mr. Deam explained possible legislative changes to include:

- Overtime included in “base salary”
- Remove thirty-year cap limitation
- Include all service to qualify for inflation factor for twenty years of service

*Staff will research and bring back a Preliminary Follow-Up Report on the topic of Dual Membership to a future board meeting.*

4) **Board Membership – Tim Valencia, Preliminary Report**

Tim Valencia, Senior Research and Policy Manager provided a Preliminary Report on *Board Membership* which was last presented to the Board in December 2005. The presentation included an overview of the Board member term expiration patterns as well as the members impacted. Mr. Valencia noted that several terms will expire in June 2007 and again in July 2009. The issue of replacing two active member representatives with two retiree representatives was also discussed. He then provided five different options for the Board to explore.

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*It was moved that options 2, 3, 4, and 5 be moved forward to the Final Proposal stage and be brought back to the May 24, 2006 Board meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**5) Administrative Update**

Select Committee on Pension Policy (SCPP) Update

Steve Nelsen, Executive Director reported that the SCPP did not have their monthly meeting this month. He will report a formal work plan to the Board at the May 24, 2006 meeting.

Summer 2006 Edition of Dual Response

Mr. Nelsen provided a handout which included possible topics for the next edition of the newsletter.

Supplemental Contribution Rates

A memo was provided by the Office of the State Actuary (OSA) indicating the recommended *LEOFF Plan 2 Supplemental Rate increases*. Proposed rate increases are as follows:

	<b>MEMBER</b>	<b>EMPLOYER</b>	<b>STATE</b>
<b>HB 2932</b>	<b>0.02%</b>	<b>0.01%</b>	<b>0.01%</b>
<b>SHB 2933</b>	<b>0.01%</b>	<b>0.01%</b>	<b>0.00%</b>
<b>SB 6723</b>	<b>0.03%</b>	<b>0.02%</b>	<b>0.01%</b>
<b>TOTAL</b>	<b>0.06%</b>	<b>0.04%</b>	<b>0.02%</b>

*The Supplemental Rate Adoption will take place at the May 24, 2006 meeting.*

**6) \$150,000 Death Benefit Inflation Adjustment –  
Greg Deam, Initial Consideration**

Greg Deam, Senior Research and Policy Manager presented the Board with an Initial consideration on the topic of *\$150,000 Death Benefit Inflation Adjustment*. Mr. Deam explained the current situation of beneficiaries of members who die in the line of duty as a result of an injury or occupational illness and the \$150,000 lump sum entitlement. He also provided background information and policy issues related to the amendments of the \$150,000 Death Benefit. The LEOFF Plan 2 Retirement Board and the SCPP will be working cooperatively on this issue during the 2006 interim.

*Staff will work with OSA on costs associated with this topic and bring back a Preliminary Report to a future Board meeting.*

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7) **LEOFF 2 Annual Statements – Shawn Merchant**

Shawn Merchant, Deputy Director provided the Board with an overview of the progress that has taken place with the *LEOFF Plan 2 Annual Statement Improvement*. Mr. Merchant explained three different cost options with *analysis and assumptions* to the Board that were provided by the Department of Retirement Systems (DRS).

*The Board moved that staff continue to work with DRS to identify potential improvements for the 2007 annual statements and keep the Board apprised of new developments. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

8) **Strategic Planning Coordination – Steve Nelsen**

Steve Nelsen presented the Board with a handout that provided additional dates for the 2006 Strategic Planning Coordination.

*The 2006 Strategic Planning Session will be held on June 21, 2006 following the regular Board meeting.*

9) **Agenda Items for Next Meeting**

Mr. Nelsen reviewed the Agenda Items Calendar for the upcoming meeting with the Board. The Board requested that the topic of Deferred Compensation be added to the May 24, 2006 Board meeting agenda.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for May 24, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 1:27 p.m.



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**REGULAR BOARD MEETING**  
**May 24, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on May 24, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Greg Cuoio  
Jeff Holy  
Mark Johnston  
Maureen Morris  
Clint Olson  
Senator Linda Evans Parlette

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Linda Sullivan-Colglazier, Assistant Attorney General

**Guests:**

Sandy Matheson - Director, Department of Retirement Systems (DRS)  
Mark Feldhausen - Budget & Benchmarking Director, DRS

**Board Members Not Present:**

Representative Geoff Simpson  
Michael Edwards  
Pat Hepler

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:44 a.m. The Board took a moment of silence to remember and honor those who have fallen since the last meeting.

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1) **April 26, 2006 Board Meeting Minutes**

*It was moved that the April 26, 2006 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Alternate Revenue Source, Initial Consideration – Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented the Board with an Initial report and presentation on the Board's goal of identifying an *Alternate Revenue Source* to fund future benefit improvements as an alternative to increasing contribution rates.

The report included alternate funding source examples for Washington, as well as other states.

*The Board requested that staff provide the history of legislative fund sources, research the property tax levy, and provide the total insurance premium collections for the state of Washington. An Initial Follow-Up Report will be brought back to the August Board meeting.*

3) **Deferred Compensation, Preliminary Report – Greg Deam**

Greg Deam, Senior Research and Policy Manager provided a Preliminary Report and presentation on the topic of *Deferred Compensation*. Mr. Deam reviewed the current statutes with regards to matching contributions, "payments in lieu of", 401(k) and 401(a) plans, and policy options.

The policy options presented are as follows:

- Amend statute to include 401(a) and 401(k) plans
- Change statute to include employer contributions to deferred compensation plans as "salary"

*Staff will continue to work with the Office of the State Actuary on costs and bring back a Preliminary Follow-Up Report on the topic of Deferred Compensation to the July Board Meeting.*

4) **Board Membership, Final Proposal – Tim Valencia**

Tim Valencia presented a Final Proposal to the Board on the topic of *Board Membership*. Mr. Valencia reviewed the term expiration patterns that were discussed at the April 2006 meeting and went on to discuss a proposal summary with a modified term expiration pattern. A *Board Membership Draft Bill* was also provided.

*It was moved that the Board use the proposed bill draft and move forward pursuing legislation on the topic of Board Membership during the 2007 Legislative Session. Seconded*

**MOTION CARRIED UNANIMOUSLY**

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5) **Supplemental Rate Adoption - Steve Nelsen**

Steve Nelsen, Executive Director provided a memo from the Office of the State Actuary (OSA) which included the recommended *LEOFF Plan 2 Supplemental Rate Increases* due to the passage of Board legislation that passed during the 2006 Legislative Session. The following recommended rates would become effective September 1, 2006:

	<b>MEMBER</b>	<b>EMPLOYER</b>	<b>STATE</b>
<b>HB 2932</b>	<b>0.02%</b>	<b>0.01%</b>	<b>0.01%</b>
<b>SHB 2933</b>	<b>0.01%</b>	<b>0.01%</b>	<b>0.00%</b>
<b>SB 6723</b>	<b>0.03%</b>	<b>0.02%</b>	<b>0.01%</b>
<b>TOTAL</b>	<b>0.06%</b>	<b>0.04%</b>	<b>0.02%</b>

*The Board moved to adopt the proposed supplemental rate increases. 0.06% - Member, 0.04% - Employer, 0.02% - State to become effective on September 1, 2006.*

*Seconded.*

**MOTION CARRIED UNANIMOUSLY**

6) **Administrative Update**

Select Committee on Pension Policy (SCPP) Update

Mr. Nelsen reported that the SCPP held their last meeting on May 16, 2006. The SCPP has set their workplan and includes all of the LEOFF/OSA coordination items requested.

Quarterly Budget Update

The Executive Director presented the Quarterly Budget Update. Board members received a copy of the April 2006 *Allotment and Expenditures Report* which reflected that all expenditures are at or below expected levels.

7) **Department of Retirement Systems' Benchmarking Results**

Mark Feldhausen, Budget and Benchmarking Director of the Department of Retirement Systems (DRS) presented the Board with the results from a retirement system benchmarking survey conducted by Cost Effectiveness Measurement Benchmarking Inc. Overall, when comparing DRS to other states, including the complexity of the Washington State retirement systems, DRS scored very high in most categories concerning the costs and services delivered to customers.

Sandy Matheson, Director of DRS updated the Board on the agency's current project of simplifying the process for its members applying for retirement.

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**8) Agenda Items for Next Meeting**

Mr. Nelsen reviewed the Agenda Items calendar for the upcoming meeting and reminded Board members of the 2006 Strategic Planning Session scheduled on June 21, 2006, following the regular meeting. Representative Curtis will be present to discuss retiree medical with the Board prior to the Strategic Planning Session.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for June 21, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 1:14 p.m.



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**REGULAR BOARD MEETING**  
**June 21, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on June 21, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Greg Cuoio  
Michael Edwards  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Clint Olson  
Glenn Olson  
Senator Linda Evans Parlette

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Suzanne Shaw, Assistant Attorney General

**Guests:**

Jim L. This, P.h.D – Strategic Planning Facilitator

**Board Members Not Present:**

Jack Simington, Vice Chair  
Representative Geoff Simpson

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In the absence of Kelly Fox and Jack Simington, Greg Cuoio called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:40 a.m.



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1) **May 26, 2006 Board Meeting Minutes**

*It was moved that the May 26, 2006 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Retiree Health Care Insurance Legislation – Representative Richard Curtis**

Greg Cuoio, Lacey City Manager, introduced Representative Richard Curtis to the Board. Representative Curtis discussed the need for access into the state retirement health care system for LEOFF Plan 2 members. He explained the goal is to allow members to pay their portion (approximately \$370 per month) and be included in the plan.

Representative Curtis requested the Board consider working on legislation that would allow retired LEOFF Plan 2 Members to access coverage through the Public Employees Benefits Board (PEBB).

3) **Retiree Health Care Insurance, Initial Consideration – Tim Valencia**

As a follow-up to Representative Curtis's comments, Tim Valencia, Senior Research and Policy Manager provided an Initial Consideration and presentation on the topic of *Retiree Health Care Insurance*. The report included the LEOFF Plan 2 retiree projections, a briefing on health care costs, and the two basic funding approaches.

*A Preliminary Follow-Up Report will be presented to the Board on the issue of Retiree Health Care Insurance Access at the August 2006 meeting.*

4) **Administrative Update**

Select Committee on Pension Policy (SCPP) Update

Steve Nelsen, Executive Director reported that at the latest meeting of the SCPP, coordination items such as Temporary Duty Disability, \$150,000 Inflationary Adjustment, and Dual Membership were discussed and moved forward.

5) **Agenda Items for Next Board Meeting**

Mr. Nelsen reviewed the Agenda Items Calendar for the upcoming meeting with the Board. The Board requested that the topic of Pension Forfeiture be moved to the August 2006 Board meeting and an Initial Consideration on Smoothed Interest Rate Assumption be moved to the September 2006 meeting.

6) **2006 Strategic Planning Session**

Jim L. This, P.h.D, conducted the 2006 Strategic Planning Session for the Board. Dr. This provided a copy of the *Board's accomplishments* and the *2004 Strategic Plan* to review.

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The Board reviewed their 2004 Strategic Plan, added new goals and objectives, and removed goals that no longer apply.

Dr. This will be presenting the revised 2006 Strategic Plan for the Board to review and modify at the July 26 Board meeting.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for July 26, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 2:52 p.m.



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**REGULAR BOARD MEETING**  
**July 26, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on July 26, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Michael Edwards  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Clint Olson  
Glenn Olson  
Senator Linda Evans Parlette

**Staff Present:**

Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Suzanne Shaw, Assistant Attorney General

**Guests:**

Robert Klausner, Esquire  
Matt Smith, State Actuary  
Jim L. This, Strategic Planning Facilitator

**Board Members Not Present:**

Greg Cuoio  
Representative Geoff Simpson

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:41 a.m. The Board took a moment of silence to remember and honor those who have fallen since the last time the Board met.

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1) **June 21, 2006 Board Meeting Minutes**

*It was moved that the June 21, 2006 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Strategic Planning Results – James L. This, P.h.D**

Dr. This presented the *Strategic Plan Revision*, which was created by the members at the June Board meeting.

The Board reviewed changes made to the goals, objectives, and tactics, and provided comments and suggestions to Dr. This.

Board members will continue to review the Strategic Plan Revision during the next month and provide comments and input to staff for the final review in August.

*This topic will be brought back to the August 23, 2006 meeting for adoption.*

3) **DROP Plans – Initial Consideration, Tim Valencia**

Tim Valencia, Senior Research and Policy Manger presented the Board with an Initial Consideration and presentation on *Deferred Retirement Option Program (DROP) Plans*. Mr. Valencia explained the background and history of the DROP and also provided information on the members that would be impacted.

Mr. Valencia also addressed various DROP design choices and challenges in creating a DROP program.

4) **DROP Plans Discussion – Robert D. Klausner, Esquire**

As a follow-up to Mr. Valencia's Initial Consideration on the topic of DROP Plans, Robert D. Klausner, Esquire at the Law Offices of Klausner and Kaufman provided an in-depth look at this topic. Mr. Klausner addressed key points such as: the objective of a DROP, DROP variations, member eligibility, and tax issues. He then provided the Board with an explanation of how to design a DROP Plan.

*It was moved that the Board move forward with the topic of *Deferred Retirement Option Programs (DROP)*. Robert Klausner will draft a no-cost DROP for the members and this topic will be revisited at the September 2006 Board meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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5) **Administrative Update**

Select Committee on Pension Policy (SCPP) Update

Shawn Merchant, Deputy Director reported that at the latest meeting of the SCPP, the topics of Temporary Duty Disability and \$150,000 Death Benefit will be heard by the committee at the September meeting. Dual Membership is scheduled for October.

Pension Funding Council Workgroup Update

Mr. Merchant briefed the members on the progress that has taken place for the Audit of the Actuarial Valuation. The workgroup reviewed responses from five vendors and selected Oliver Consulting as the winning bidder. The preliminary results will be presented at the August meeting.

Budget Update

The Deputy Director presented the Quarterly Budget Update. Board members received a copy of the May 2006 *Allotment and Expenditures Report* which reflected that expenditures are 18% lower than allocated for the year.

IT Security Audit Update

As required by the Department of Information Services, the LEOFF Plan 2 Retirement Board agency has undergone a Security Audit. Best practices were learned and positive changes have been implemented throughout the agency. The audit will be finalized and presented to the Board at the August Board meeting.

6) **2007-09 Rate Setting – Matt Smith, State Actuary**

Matt Smith, State Actuary presented the Board with a presentation and briefing on *2007-09 Rate Setting*. Mr. Smith provided a background and history of previous Board rate-setting decisions and reviewed decisions that need to be made by the LEOFF Plan 2 Retirement Board by September 2006.

The Board will receive the preliminary results of the 2005 Actuarial Valuation in August, and the 2005 Actuarial Audit Report in late August or early September. The Board will adopt the 2007-09 basic rates at the September 13, 2006 Board meeting.

7) **Deferred Compensation – Preliminary Follow-Up Report, Greg Deam**

Greg Deam, Senior Research and Policy Manager presented a follow-up report and presentation on the topic of *Deferred Compensation*. The report included a clear definition of what is included in basic salary in regard to deferred compensation, as well as background information and policy issues.

*It was moved that the Board move forward with the topic of Deferred Compensation. Board staff will work cooperatively with The Office of the State Actuary and bring back cost information to the August 2006 Board meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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**8) Agenda Items for Next Board Meeting**

Mr. Merchant reviewed the *Agenda Items Calendar* for the upcoming meeting. The members agreed to move the topics of Temporary Duty Disability and \$150,000 Death Benefit Inflation Adjustment to September rather than August. The topic of Dual Membership was moved from August to October.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for August 23, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 1:23 p.m.



STATE OF WASHINGTON

**LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'  
PLAN 2 RETIREMENT BOARD**

*P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329*

**REGULAR BOARD MEETING**  
**August 23, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on August 23, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Clint Olson  
Glenn Olson  
Representative Geoff Simpson

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Linda Sullivan-Colglazier, Assistant Attorney General

**Guests:**

Matt Smith, State Actuary  
Marilyn Oliver – Principal and Actuary, Oliver Consulting  
John Bartel – Bartel Associates, LLC

**Board Members Not Present:**

Greg Cuoio  
Michael Edwards  
Senator Linda Evans Parlette

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:44 a.m. The board took a moment of silence to honor Joselito Barber who died in the line of duty since the last time the members met.

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1) **July 26, 2006 Board Meeting Minutes**

*It was moved that the July 26, 2006 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Preliminary Results of Actuarial Valuation – Matt Smith, State Actuary**

Matt Smith, State Actuary presented the *Preliminary Results of the Actuarial Valuation* to the Board. He also provided input on the 2005 results, actuarial liabilities, participant data, and current LEOFF 2 assets. The Board will adopt basic rates for the 2007-09 biennium at the September 13, 2006 meeting.

3) **Preliminary Results of Actuarial Valuation Audit –**

**Marilyn Oliver, Oliver Consulting and John Bartel, Bartel Associates, LLC**

Marilyn Oliver, Principal and Actuary for Oliver Consulting and John Bartel, President of Bartel and Associates presented the Preliminary Results of the *Actuarial Valuation Audit* to the members. Ms. Oliver reviewed the entire audit process and explained the items that are not reviewed. She also described the changes that have taken place since the last statutory valuation she reviewed on September 30, 2003.

4) **Alternate Revenue Source - Initial Consideration Follow-Up, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager provided an Initial Consideration Follow-Up and presentation on the topic of *Alternate Revenue Source*. Mr. Valencia explained that LEOFF Plan 2 currently has two sources of revenue; contributions and investments earnings. He then briefed the Board on three possible options for an Alternate Revenue Source.

- Firemen's Pension Fund
- Fire Insurance Premium Tax
- Property Tax Levy ("Millage")

*It was moved that the topic of Alternate Revenue Source continue to the Preliminary Report stage and be brought back to the September meeting. Seconded*

**MOTION CARRIED UNANIMOUSLY**

5) **Retiree Health Care Insurance – Initial Consideration Follow-Up, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented an Initial Consideration Follow-Up Report and presentation on *Retiree Health Care Insurance*. Mr. Valencia explained that LEOFF Plan 2 currently does not provide health care benefits. He also provided background information on this issue which included survey results and a comparison of other states. Mr. Valencia went on to review the Public Employee Benefit Board (PEBB) retiree rates and the difference between explicit and implicit subsidies.



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*It was moved that the topic of Retiree Health Care Insurance continue to the Preliminary Report stage and be brought back to the September meeting. Seconded*

**MOTION CARRIED UNANIMOUSLY**

**6) Administrative Update**

Select Committee on Pension Policy (SCPP) Update

Steve Nelsen, Executive Director reported that the topic of gain sharing was discussed at the latest SCPP meeting.

Pension Funding Council Workgroup Update

Mr. Nelsen briefed the members on the progress of the Pension Funding Council and noted that Shawn Merchant, Deputy Director will be attending the next meeting.

**7) Strategic Plan Adoption**

The Board members reviewed the revisions made to the Strategic Plan since the July Board meeting.

*It was moved that the 2006-2010 Strategic Plan revised at the July 26, 2006 Board meeting be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**8) Deferred Compensation (OSA Costs) – Preliminary Follow-Up Greg Deam**

Greg Deam, Senior Research and Policy Manager provided the Board with a clear definition of what is included in basic salary with regard to *Deferred Compensation*. Mr. Deam reviewed policy issues and costs, as well as the following policy options.

1. Include employer contributions to a 457 deferred compensation plan as basic salary, except in lieu of Social Security
2. Include employer contributions to a 457 deferred compensation plan as basic salary, no exceptions.
3. Add 401(a) and 401(k) defined contribution plans to the definition basic salary and include employer contributions from a 457, 401(a) or 401(k) deferred compensation plan as basic salary.

The Office of the State Actuary provided a memo with projected costs related to Deferred Compensation.

*It was moved that policy option #2 (Include employer contributions to a 457 deferred compensation plan as basic salary, no exceptions) be brought back to the Board as a Final Report to the October meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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**9) Actuarial Reductions – Initial Consideration, Steve Nelsen**

Steve Nelsen, Executive Director presented an Initial consideration on Actuarial Reductions. Mr. Nelsen's report included how the Department of Retirement Systems applies early retirement actuarial reductions when there is a disability or duty related death.

*It was moved that the topic of Actuarial Reductions move forward to the Preliminary proposal stage and be brought back to the September meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

*The Board moved to write a letter to the Governor expressing their dissatisfaction concerning the way actuarial reductions were interpreted in a recent disability case by the Governor's appointee at the Department of Retirement Systems. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**10) Agenda Items for Next Board Meeting**

Mr. Nelsen reviewed the *Agenda Items Calendar* for the upcoming meeting. The members agreed to defer the topics of Smoothed Interest Rate Assumption and DROP Plans to the next interim. \$150,000 Death Benefit and Temporary Duty Disability will be moved from September to the October meeting.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for September 13, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 2:25 p.m.



STATE OF WASHINGTON

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PLAN 2 RETIREMENT BOARD**

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**REGULAR BOARD MEETING**  
**September 13, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on September 13, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Greg Cuoio  
Michael Edwards  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Senator Linda Evans Parlette  
Representative Geoff Simpson

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Linda Sullivan-Colglazier, Assistant Attorney General

**Guests:**

Marilyn Oliver, Oliver Consulting  
Matt Smith, State Actuary

**Board Members Not Present:**

Jack Simington, Vice Chair  
Clint Olson  
Glenn Olson

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:41 a.m. The Board took a moment of silence to honor Eddie Thompson, A Brier police officer who was killed in the line of duty.

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1) **August 23, 2006 Board Meeting Minutes**

*It was moved that the August 23, 2006 Board meeting minutes be Adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Follow-Up to Preliminary Results of Actuarial Valuation**  
**Matt Smith, State Actuary**

Matt Smith, State Actuary provided the Board members with a *Follow-Up to the Preliminary Results of the Actuarial Valuation* that was presented last month. He recommended the following 2007-09 contribution rates to the Board:

**Contribution Rates Including Projected Mortality Improvement**

	<b><u>2007-08</u></b>	<b><u>2008-09</u></b>
<b>Member</b>	8.73%	8.92%
<b>Local Employer</b>	5.25%	5.36%
<b>State</b>	3.48%	3.56%

*Excludes administrative expense rate, currently 0.18%*

**Contribution Rates Excluding Projected Mortality Improvement**

	<b><u>2007-09</u></b>	<b><u>2008-09</u></b>
<b>Member</b>	8.06%	8.25%
<b>Local Employer</b>	4.84%	4.95%
<b>State</b>	3.22%	3.30%

*Excludes administrative expense rate, currently 0.18%*

Mr. Smith also provided a letter addressed to the Pension Funding Council explaining his position on mortality assumptions.

3) **Results of Actuarial Valuation Audit – Marilyn Oliver, Oliver Consulting**

Marilyn Oliver, Principal and Actuary for Oliver Consulting presented the Results of the *Actuarial Valuation*. Ms. Oliver stated that the audit of the recommended contribution rates encompassed member data, valuation software, actuarial value of assets, contribution rate formulas and calculations and assumption changes.

Ms. Oliver stated that as a result of the audit they did not find any material gaps in the valuation process or procedures.

4) **Change in Mortality Assumption – Steve Nelsen, Executive Director**

Steve Nelsen, Executive Director provided the Board with an Initial Consideration on the topic of *Change in Mortality Assumption*. Mr. Nelsen provided background information regarding the use of projected mortality improvements in other retirement plans in the United States.

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5) **2007-09 Rate Adoption**

After reviewing the recommended 2007-09 Contribution Rates with and without the mortality assumption, the Board took the following action.

*The Board moved to adopt the recommended 2007-09 Contribution Rates excluding Mortality Assumption. Seconded.*

**OPPOSED: Greg Cuoio, Pat Hepler, Mark Johnston, and Senator Linda Evans Parlette**

**MOTION FAILED**

*The Board moved to adopt the recommended 2007-09 Contribution Rates including Mortality Assumption. Seconded.*

**OPPOSED: Michael Edwards, Kelly Fox, Pat Hepler, Jeff Holy, Mark Johnston, Representative Geoff Simpson**

**MOTION FAILED**

*Since neither motion passed, the rates that were previously adopted for the 2007-09 biennium at the May 24, 2006 meeting will remain in effect.*

- 6) **Washington State Investment Board Briefing – Diane Will, Senior Investment Officer/Asset Allocation**  
*This topic was rescheduled for the October Board meeting.*

7) **Administrative Update**

2007 Proposed Meeting Calendar

A calendar with proposed meeting dates for 2007 was given to the Board members. Members will review their schedules and the Board will revisit this topic at the October meeting.

IT Security Audit

As required by the State of Washington, the LEOFF staff finished the IT Security Audit and incorporated the suggested changes.

Budget Update

Mr. Nelsen reported that the 2007 budget has been submitted to the Office of Financial Management. He indicated that the Board will now be required to pay an additional \$1,000 per year for the state's self insurance premium which is mandatory. A budget decision package was submitted for this item as well.

- 8) **Pension Forfeiture – Steve Nelsen, Executive Director**  
*This topic was rescheduled for the December 2006 Board meeting.*

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- 9) **Retiree Health Care Insurance – Preliminary Report, Tim Valencia**  
Tim Valencia, Senior Research and Policy Manager presented a Preliminary Report and presentation on *Retiree Health Care Insurance*. Mr. Valencia included key issues such as access to retiree healthcare, increasing retirements, erosion of benefits and frequently requested benefits.

Mr. Valencia provided the members with two policy options. The first option would provide all LEOFF Plan 2 retirees' access to PEBB (all costs paid by the retiree). The second option would provide all LEOFF Plan 2 retirees' access to PEBB with all or part of the cost paid by a revenue source to be determined.

*The Board moved to forward the topic of Retiree Health Care Insurance to the Preliminary Follow-Up stage and bring it back to the October 25, 2006 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- 10) **Alternate Revenue Source – Preliminary Report , Tim Valencia**  
Tim Valencia, Senior Research and Policy Manager Provided the Board with a Preliminary Report and presentation on the topic of Alternate Revenue Source. The report included a brief summary on enhancing benefits, maintaining financial integrity, and locating an alternate revenue source.

Mr. Valencia went on to provide the Board with the following policy options:

**OPTION #1:**

Increase Fire Insurance Premium Tax

**OPTION #2:**

Expand Property Tax Authority and Purpose

*The Board moved to forward the topic of Alternate Revenue Source to the Preliminary Follow-Up stage and bring it back to the October 25, 2006 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- 11) **Service Credit Transfer Waiting Period – Initial Consideration, Greg Deam**

*The Board moved Service Credit Transfer Waiting Period to the Preliminary Report Stage. A presentation will be brought back to the October Board meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- 12) **Actuarial Reductions – Preliminary Report, Steve Nelsen**  
Steve Nelsen presented a Preliminary Report on Actuarial Reductions. Mr. Nelsen's Report included background information on disability benefits, death benefits and actuarial reduction with respect to the calculation of benefits. He also provided the Board two policy options concerning Actuarial Reductions.

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**OPTION #1**

Draft a bill to provide that the eligibility requirements for service retirements and disability retirements are identical with respect to members who are 50 with 20 years of service. Request that the Department of Retirement Systems adopt rules regarding the actuarial reductions that will be applied to death benefits.

**OPTION #2**

Draft a bill to provide the eligibility requirements for service retirements are identical with respect to members who are age 50 with 20 years of service. The bill would codify the intended legislative interpretation of “actuarial reductions” with respect to death benefits.

*The Board moved to forward the topic of Actuarial Reduction to the Final Proposal stage and bring back further information on option #2 (Draft a bill to provide the eligibility requirements for service retirements are identical with respect to members who are age 50 with 20 years of service. The bill would codify the intended legislative interpretation of “actuarial reductions” with respect to death benefits). Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**13) Agenda Items for Next Meeting**

Mr. Nelsen reviewed the Agenda Items Calendar for the upcoming meeting. The Board members agreed to defer the topics of Pension Forfeiture and the Washington State Investment Board Briefing until an upcoming meeting.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for October 25, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 1:34 p.m.



STATE OF WASHINGTON

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PLAN 2 RETIREMENT BOARD**

*P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329*

**REGULAR BOARD MEETING**  
**October 25, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on October 25, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Greg Cuoio  
Pat Hepler  
Mark Johnston  
Glenn Olson  
Clint Olson  
Senator Linda Evans Parlette

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Linda Sullivan Colglazier, Assistant Attorney General

**Guests:**

David Nelsen, Department of Retirement Systems  
Rick Peterson, House Finance Committee Coordinator  
Diana Will, Washington State Investment Board

**Board Members Not Present:**

Michael Edwards  
Jeff Holy  
Representative Geoff Simpson

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:35a.m. The Board took a moment of silence to honor brothers and sisters who have died in the line of duty since the last time the Board met.



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1) **September 13, 2006 Board Meeting Minutes**

*It was moved that the September 13, 2006 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Department of Retirement Systems' Customer Satisfaction Results**

**David Nelsen, Retirement Services Division (RSD) Assistant Director**

David Nelsen, RSD Assistant Director with the Department of Retirement Systems (DRS) presented the *2006 Customer Satisfaction Results*. Mr. Nelsen provided a detailed explanation of the various ways such as annual surveys, customer comment cards, feedback mailers and planning seminars that DRS uses to track customer satisfaction.

The overall satisfaction of the LEOFF 2 active members in 2005-2006 was 4.54 and 4.68 for LEOFF 2 retirees on a scale of 1-5 with 5 being very satisfied. These numbers are based on courtesy, timeliness, quality, and accuracy.

3) **Washington State Investment Board Briefing-**

**Diana Will, Senior Investment Officer – Asset Allocation**

Diana Will, Senior Investment Officer – Asset Allocation with the Washington State Investment Board provided a briefing on *LEOFF Plan 2 assets*, retirement commingled trust fund (CTF), and the Washington State Investment Board capital market assumptions.

Ms. Will stated that LEOFF Plan 2 assets in the CTF and short term assets as of September 30, 2006 were \$4,327,755,507.

4) **Alternate Revenue Source – Preliminary Follow-Up Report, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented a Preliminary Follow-Up Report on the topic of *Alternate Revenue Source*. Mr. Valencia provided an overview on alternate revenue sources such as insurance premium taxes and the Public Safety and Education Account.

**Property Tax Briefing – Rick Peterson,  
House Finance Committee Coordinator**

Rick Peterson, staff with the House Finance Committee provided the Board with an overview of *Property Tax*. Mr. Peterson's presentation included a briefing on property tax limits, voting requirements, taxing districts, rate allocation, and prorationing.

5) **Administrative Update**

**Select Committee on Pension Policy (SCPP) Update**

Steve Nelsen, Executive Director, provided an update concerning the most recent Select Committee on Pension Policy (SCPP) meeting. The SCPP has

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been cooperatively working with the Board on Dual Membership, \$150,000 Death Benefit Inflation Adjustment, and Temporary Duty Disability.

**Budget Update**

Mr. Nelsen reviewed the *August 2006 Allotments and Expenditures* report with the Board and reported that all expenditures are at or below expected levels.

**2007 Proposed Board Meeting Schedule**

The members reviewed and discussed the *2007 Proposed Board Meeting Schedule*.

*It was moved that the 2007 Proposed Board Meeting Schedule be adopted with a May 30, 2007 date.*

**MOTION CARRIED UNANIMOUSLY**

**Early Retirement Reduction Factors**

The Chair and Executive Director met with DRS concerning the topic of Disability Early Retirement Reduction Factors within the last month. DRS is moving forward with this issue and looking into legislative and non-legislative remedies.

**6) 2006 Federal Pension Protection Act Summary – Tim Valencia**

Tim Valencia, Senior Research and Policy Manager reviewed the *2006 Federal Pension Protection Act Summary*. This particular piece of legislation contained the following four provisions that affect public safety plans:

- Purchase of service credit clarification
- Exception to early distribution penalty
- Retiree health deductions
- Treatment of tribal plans as government plans

**7) Purchase of Annuity – Initial Consideration, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented an Initial Consideration on the Purchase of Annuity. Mr. Valencia provided background information on this topic as well as discussed annuity fundamentals, an annuity example from Washington, and the Plan 3 Annuity.

*The Board moved that Purchase of Annuity be forwarded to the Preliminary Report stage and be brought back to the November meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**8) Retiree Health Care Insurance – Preliminary Follow-Up Report, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented a Preliminary Follow-Up Report on Retiree Health Care. The report and presentation included an overview of retiree participation in health care programs, the LEOFF Plan 2 Survey Results, and retiree health care access.

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*It was moved that the topic of Retiree Health Care Insurance Move forward to the Final Proposal stage and be brought back to the December 2006 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**9) Service Credit Transfer Waiting Period – Preliminary Report, Greg Deam**

Greg Deam, Senior Research and Policy Manager provided the Board with a Preliminary Report on *Service Credit Transfer Waiting Period*. Mr. Deam explained what happens to the service credit and payment for Emergency Medical Technician transfers if a member dies or becomes disabled during the five year window between the purchase and the transfer of their LEOFF Plan 2 account. He also provided the following policy options:

**1. DEATH BENEFIT**

Service credit and payments transfer immediately  
Used in benefit calculation  
Used in lump sum calculation

**2. LINE OF DUTY DISABILTY**

Service credit payments transfer immediately  
Used in benefit calculation

**3. ANY DISABILITY**

Service credit and payments transfer immediately  
Used in benefit calculation

*The Board moved that the topic of Service Credit Transfer Waiting Period be forwarded to the Final Proposal stage with policy options 1 and 2 being brought back to the December meeting. Seconded.*

**MOTION CARRIED**

*The Board amended the motion above and moved that the topic of Service Credit Transfer Waiting Period be forwarded to the Final Proposal stage with policy options 1,2, and 3. The Board will hear the Final Proposal at the December meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**10) Dual Membership – Preliminary Follow-Up Report, Greg Deam**

Greg Deam, Senior Research and Policy Manager presented a Preliminary Follow-Up Report on Dual Membership. Mr. Deam addressed key areas for action such as; base salary, thirty year cap, and inflation adjustment for twenty years of service. Three policy options were provided to the Board:

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- Policy Option #1** – Amend Base Salary Language  
**Policy Option #2** – Amend Thirty-Year Cap  
**Policy Option #3** – Add LEOFF Plan 2 to 20 year Inflation Adjustment

*It was moved that the topic of Dual Membership move forward to the Final Proposal stage and be brought back to the December 2006 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- 11) \$150,000 Death Benefit Inflation Adjustment- Preliminary Report, Greg Deam**  
Greg Deam, Senior Research and Policy Manager presented a Preliminary Report and presentation on the topic of *\$150,000 Death Benefit Inflation Adjustment*. Mr. Deam reviewed the death benefit as a fixed amount and the costs related to adding an inflation adjustment to this benefit.

*It was moved that the topic of \$150,000 Death Benefit Inflation Adjustment move forward to the Final Proposal stage and be brought back to the December 2006 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- 12) Temporary Duty Disability – Preliminary Follow-Up Report, Tim Valencia**  
Tim Valencia, Senior Research and Policy Manager provided the Board with a Preliminary Follow-Up Report on *Temporary Duty Disability (TDD)*. Mr. Valencia reviewed the problems with the current provisions of TDD, such as injuries over six months, not all members eligible for leave supplement, and injuries taking place during the final average salary period.

He also addressed the recent change in the PERS policy and the coordination items with the Select Committee on Pension Policy.

Mr. Valencia provided the Board with the following policy option:

Adopt PERS Plan 2 policy (2005 – SB 5522)

- Purchase up to 24 consecutive months
- Must be receiving Workers' Compensation benefits

*It was moved that the topic of Temporary Duty Disability move forward to the Final Proposal stage and be brought back to the December 2006 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- 13) Agenda Items for Next Board Meeting**  
Steve Nelsen, Executive Director reviewed the Agenda Items Calendar with the members. The Board agreed to cancel the November 15, 2006 meeting and move topics to December.

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*The Board moved to suspend operating policy #9 and schedule the topic of Purchase of Annuity for Final Proposal at the December Board meeting. Seconded.*

**MOTION PASSED UNANIMOUSLY**

**Public Testimony**

Gil Hall, Daniel Schultz, and Todd Smith testified to the Board concerning the purchase of service credit, the five year waiting period, and their personal injuries.

Tom Foster testified regarding the 2% Multiplier. He asked that the Board continue to address service credit as it translates to survivor benefits.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for December 13, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 2:06 p.m.



STATE OF WASHINGTON

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**REGULAR BOARD MEETING**  
**December 13, 2006**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on December 13, 2006.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Greg Cuoio  
Michael Edwards, Teleconference at 10:45 a.m.  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Glenn Olson  
Clint Olson  
Senator Linda Evans Parlette  
Representative Geoff Simpson

**Staff Present:**

Steve Nelsen, Executive Director  
Shawn Merchant, Deputy Director  
Jessica Burkhart, Executive Assistant  
Jeralyn Faulhaber, Administrative Services Manager  
Tim Valencia, Senior Research and Policy Manager  
Greg Deam, Senior Research and Policy Manager  
Linda Sullivan Colglazier, Assistant Attorney General

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Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:48 a.m. The Board took a moment of silence to recognize fallen Law enforcement Officers Elizabeth Nowak and Steve Cox.

**1) October 25, 2006 Board Meeting Minutes**

*It was moved that the October 25, 2006 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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2) **Fish and Wildlife Service Credit Transfer – Final Proposal, Greg Deam**

Greg Deam, Senior Research and Policy Manager presented a Final Proposal on *Fish and Wildlife Service Credit Transfer*. This subject has not been heard since it was not passed out of the legislature last year. Mr. Deam explained that there are approximately 70 members that are affected and would be impacted by the passage of this bill. The cost of this liability is between \$0 and \$2 million depending on how many members transfer. The proposal summary included the three following points:

- Member has five-year window to elect to transfer
- Member pays difference in contribution rates plus interest
- Fish and Wildlife pays any additional liability one year after window closes

The Board received a *letter from the Director* of the Department of Fish and Wildlife expressing his support of HB 2890 and SB 6585 allowing the Department of Fish and Wildlife Officers to transfer service credit.

Chief Bruce Bjork addressed the Board on behalf of the Department of Fish and Wildlife supporting the transfer of service credit for Fish and Wildlife Enforcement Officers.

Mike Ryherd with the Joint Council of Teamsters addressed the Board in support of the Fish and Wildlife Service Credit Transfer bill.

A copy of bill draft Z-0331.1 was provided to the Board.

*The Board moved to forward the topic of Fish and Wildlife Enforcement Officers. Bill draft Z-0331.1 will move to the Legislature during the 2007 legislative session. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

3) **Temporary Duty Disability – Final Proposal, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager provided a Final Proposal and presentation on *Temporary Duty Disability*. Mr. Valencia discussed the problems with the current provisions, the recent expansions in PERS policy, and the coordination with the Select Committee on Pension Policy.

He provided the Board with a policy option to adopt the PERS Plan 2 policy (2005-SB 5522) which would expand service credit recovery to 24 months per incident.

A copy of bill draft Z-0244.4 was provided to the Board.

*The Board moved to forward the topic of Temporary Duty Disability. Bill draft Z-0244.4 will move to the Legislature during the 2007 legislative session. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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- 4) **\$150,000 Death Benefit Inflation Adjustment – Final Proposal, Greg Deam**  
Greg Deam, Senior Research and Policy Manager presented a Final Proposal and presentation on the *\$150,000 Death Benefit Inflation Adjustment*. Mr. Deam reviewed costs related to adding an inflation adjustment to this benefit and the calculations used to determine a LEOFF Plan 2 member's retirement benefit.

A copy of bill draft Z-0267.2 and a *Draft Fiscal Note* from the Office of the State Actuary were provided to the Board.

*The Board moved to forward the topic of \$150,000 Death Benefit Inflation Adjustment. Bill draft Z-0267.2 will move to the Legislature during the 2007 legislative session. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- 5) **Dual Membership – Final Proposal, Greg Deam**  
Greg Deam, Senior Research and Policy Manager provided a Final Proposal and presentation on *Dual Membership*. Mr. Deam addressed key areas for action such as; base salary, thirty year cap, and inflation adjustment for twenty years of service. The proposal included the following:

- Redefine base salary so if a payment is defined as salary/compensation in both dual member systems, then it would be included in base salary.
- Eliminate the potential benefit reduction for members with more than thirty years of combined service in TRS or PERS Plan 1 and LEOFF Plan 2, provided they have less than 15 years of Plan 1 service.
- Add LEOFF Plan 2 to the list of plans that are allowed to use shared service to qualify for the twenty-year inflation adjustment.

Bill Hanson, Executive Director with the Washington State Fraternal Order of Police addressed the Board concerning Dual Membership. He expressed his personal concerns relating to this proposal due to the exclusion of Washington State Patrol members. Mr. Hanson does not endorse the Dual Membership legislative proposal.

The Board Members also received a copy of a *letter* from the Washington State Patrol Troopers Association opposing the Dual Membership proposal as it relates to the use of overtime in the calculation of final average salary.

A copy of bill draft Z-0.318.2 was provided to the Board.

*The Board moved to endorse the Dual Membership proposal and further seek to amend it during the legislative process to ensure equity for all LEOFF members. Seconded.*

**MOTION CARRIED UNANIMOUSLY**



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6) **Service Credit Transfer Waiting Period – Final Proposal, Greg Deam**

Mr. Deam, Senior Research and Policy Manager provided the Board with a Final Proposal on *Service Credit transfer Waiting Period*. The key issues of death and disability during the five-year waiting period were discussed. The following is a summary of the proposal given to the Board:

- Service credit/payments transfer immediately upon death or disability
- Service credit/payments are used in calculation
- Creates options for unpaid bills

A copy of bill draft Z-0298.1 and a *Draft Fiscal Note* from the Office of the State Actuary were provided to the Board.

*The Board moved to forward the topic of Service Credit Transfer Waiting Period. Bill draft Z-0298.1 will move to the Legislature during the 2007 legislative session. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

7) **Administrative Update**

**Select Committee on Pension Policy (SCPP) Update**

Steve Nelsen, Executive Director, provided an update concerning the most recent Select Committee on Pension Policy (SCPP) meeting. The SCPP was presented a bill summary concerning the Contribution Rate Process. The bill would amend the timing of when rates are adopted making it two months earlier. The SCPP chose to endorse this OSA request legislation.

The Board was provided with the Contribution Rate Adoption Process Bill Summary (Z-0319.1) and given the opportunity to ask questions.

*The Board moved to endorse the Contribution Rate Adoption Process bill during the 2007 legislative session. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**Possible Executive Action on Executive Director Salary**

Chair Fox addressed the members concerning the Executive Director's Performance Evaluation.

*The Board moved to delegate authority to the Administrative Committee. The Committee will perform the evaluation and report back to the members. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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**8) Retiree Health Care Insurance – Final Proposal, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented a Final Proposal on *Retiree Health Care*. Mr. Valencia discussed issues such as access, increasing costs vs. erosion of benefits, and frequently requested benefits. The following proposal summary was provided to the Board:

- Permit LEOFF Plan 2 retirees to purchase health care benefits from the PEBB
- All benefits costs will be paid by retirees, no direct cost to state
- FY2007 implicit subsidy \$573,667
  - \$0.33per active/non-Medicare pool participant
  - HCA fiscal note HB 2162 (2005)

*The Board moved to forward the topic Retiree Health Care Insurance. The proposed bill draft will move to the Legislature during the 2007 legislative session. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**9) Actuarial Reductions – Final Proposal, Steve Nelsen**

Steve Nelsen, Executive Director presented the Board a Final Proposal on the topic of *Actuarial Reductions*. Mr. Nelsen provided an update on the status of this topic concerning the Department of Retirement Systems. The Board discussed the opportunity of using rule-making rather than legislation.

**10) Deferred Compensation – Final Proposal, Greg Deam**

Greg Deam, Senior Research and Policy Manager provided a Final Proposal and presentation on *Deferred Compensation*. Mr. Deam reviewed the definition of basic salary and shared a proposal summary that included guaranteed and matching contributions.

A copy of bill draft Z-324.1 was provided to the Board.

*The Board moved to defer the topic of Deferred Compensation until next year to work cooperatively with the Select Committee on Pension Policy during the 2007 interim. Seconded.*

**MOTION CARRIED**

**11) Purchase of Annuity – Final Proposal, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented a Final Proposal and presentation on *Purchase of Annuity*. Mr. Valencia reviewed the key issues and the proposal summary which would permit LEOFF Plan 2 retirees to purchase an actuarially equivalent life annuity from the LEOFF Plan 2 retirement fund.

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Dave Nelsen testified on behalf of the Department of Retirement Systems (DRS). Mr. Nelsen would like this issue to be explored further to see if it is allowable under the federal tax laws. He added that DRS would consult outside tax counsel to locate this information.

*The Board moved to defer the topic of Purchase of Annuity until next year to work cooperatively with the Department of Retirement Systems during the 2007 interim. Seconded.*

**MOTION CARRIED**

**12) Pension Forfeiture – Initial Consideration, Steve Nelsen**

Steve Nelsen, Executive Director provided an Initial Consideration on the topic of *Pension Forfeiture*. Mr. Nelsen reviewed a *Problematic Sanction for Public Corruption* handout written by Georgetown University Law Center and answered questions from the members.

*No motion was made on this topic. The purpose of this discussion was education of the LEOFF 2 Board members.*

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**Meeting Cancellation**

The Board moved to cancel the January 24, 2007 Board meeting due to legislative session. Seconded.

**MOTION CARRIED UNANIMOUSLY**

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for February 28, 2007 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 1:29 p.m.