



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**

June 15, 2011

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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 15, 2011.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Glenn Olson  
Ryan Martin  
Greg Cuoio

**Staff Present:**

Steve Nelsen, Executive Director  
Courtney Dutra, Deputy Director  
Jessica Burkhart, Executive Assistant  
Greg Deam, Senior Research and Policy Manager  
Tammy Harman, Administrative Services and Communications Manager  
Chad Standifer, Assistant Attorney General

Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:40 a.m.

**1) December 15, 2010 Board Meeting Minutes**

*It was moved that the December 15, 2010 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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**WSPRS Governance, Davor Gjurasic**

*Mr. Gjurasic stated that although WSPRS did not have a specific plan for how they'd like to involve the LEOFF Plan 2 Retirement Board, they are still interested in pursuing the possibility of governance and would like to continue the conversation started last fall.*

**2) Supplemental Rate, OSA****Matthew Smith, State Actuary**

Director Nelsen summarized that after the recent study, OSA recommended a .02% increase for Members and .01% increase for both Employers and State. No Board action is required today, however this item will be on the agenda for July's meeting in order to be established September 1, 2011 if necessary.

Matt Smith, State Actuary provided a brief explanation of how and why the supplemental rates were being proposed. Mr. Smith explained that they determined 221 LEOFF members would be impacted by the passing of legislation that reduced State employee salaries as of July 1, 2011.

In anticipation of a statewide funding policy being established, they then looked at all systems and how salary reductions would be impacted. However, due to the decision being made late in session, they had little time to review how local government would play into this. In addition, very little data, if any, exists on specific impacts of fire fighters and law enforcement at the local level. This would increase confidence of the proposal. Suggestions on how to poll employers was explored.

**3) Legislative Update****LEOFF 1/LEOFF 2 Fund Merger****Greg Deam, Senior Research and Policy Manager**

Greg Deam presented the 2011 legislative proposal for merging the LEOFF 1/LEOFF 2 retirement plans. His summary of the merger proposal explained that the plans would be financially combined, while benefits of each plan would remain unchanged. The merger would reduce the LEOFF Plan 2 state contribution rate for the 2011-13 biennium to 2.96%, leaving the member and employer rates unchanged. LEOFF Plan 1 rates for all parties would remain at 0.00%. Expenses, including legal would be at the discretion of the LEOFF Board and paid out of the combined fund. Governance of LEOFF 1 would be moved to the LEOFF Board, including adopting all actuarial assumptions and future rate settings. Adoptions by the combined Board would not be subject to legislative revision. This Bill did not pass during the 2011 Legislative session.

*Chair Fox invited Members of LEOFF Plan 1 to testify. Dick Warbrouck, Jim Fossos, Jerry Taylor, and Lee Rovel all testified concerning HB 2097.*

**Contribution Rates**

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***Greg Deam, Senior Research and Policy Manager***

Greg Deam pointed out that contribution rates were set and adopted through June 30, 2017 during the 2010 Legislative Session. However, projections indicated that it would take the state six additional years to recover from the historic investment losses, pressure was put on legislators to underfund LEOFF Plan 2 and other pension plans as a way of reducing expenditures. The proposal was not passed.

***Alternate Revenue/Benefit Improvement Account***

***Greg Deam, Senior Research and Policy Manager***

Mr. Deam provided historical information regarding the Local Public Safety Enhancement Account (LPSEA) created in 2008 through legislation. He further reviewed the 2011 proposal to waive the first payment due September 30, 2011 if the trigger was met. The proposal was not passed.

Mr. Nelsen explained that for calculation of the trigger the deadline is June 30, 2011. Staff will make an inquiry into how calculations are made and what the trigger status is.

***Remarriage Prohibition***

***Greg Deam, Senior Research and Policy Manager***

Mr. Deam summarized the 2011 proposal to allow surviving spouses of LEOFF Plan 2 or WSPRS members killed in the course of employment may remarry and continue receiving workers' compensation survivor benefits. In addition, those spouses already suspended due to remarriage would have their benefits resumed. The proposal was not passed.

***Duty-Related Heart and Stroke Presumption***

***Greg Deam, Senior Research and Policy Manager***

Mr. Deam explained that this proposal would add strokes to the diseases that are presumptive occupations for fire fighters. In addition, it would create a presumption that death from certain heart problems or strokes is an occupational injury for law enforcement officers. The proposal was not passed.

However, another proposal was passed regarding workers compensation. In the proposal, an occupational illness study was called for. Therefore, L&I will be looking at all illness and disease claims over the next year, including those presumptive illnesses and diseases now used for fire fighters. The idea behind the study is to provide information to determine if further legislation is required for the 2013 session.

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## **Salary Reduction**

### ***Greg Deam, Senior Research and Policy Manager***

Mr. Deam explained that this bill allows members to include certain compensation reductions in their final average salary (FAS) if the reductions were an integral part of expenditure reduction efforts. The proposal passed.

## **4) Interim Planning**

### ***Greg Deam, Senior Research and Policy Manager***

#### **Legislative Impacts to the Board**

- **Labor and Industries (L&I) Occupational Disease Study**

Mr. Deam discussed legislation that was put forth requiring L&I to conduct a study on impacts of claims that will include presumptive illnesses and diseases. Mr. Nelsen explained that L&I asked the Board and/or its staff be involved in the process somehow, but it is unclear to what capacity at this time.

- **LEOFF 1 / LEOFF 2 Merger Study**

Mr. Deam provided information on interim planning regarding the merger including a study that will be conducted by the Office of the State Actuary (OSA), assisted by the Department of Retirement Systems, input from LEOFF Plan 2 Board members and LEOFF 1 stakeholders. The study will be due to the Legislature by December 15, 2011.

A full hearing of this topic will take place at the July 27, 2011 meeting so that information can be provided to OSA as soon as possible in order to be included in the study.

#### **Actuarial Topics for the Board**

- **LEOFF 1 / LEOFF 2 Merger** (discussed under Item 1, Legislative Updates)

- **Supplemental Contribution Rates**

Mr. Deam stated a rate change would take place on September 1 and a 30-day notice to employers is required, therefore action in at the July meeting is necessary.

OSA will be providing the Long Term Economic Assumptions report in September as well as the Actuarial Valuation Report.

- **Risk Assessment**
- **Rate Setting Education**
- **Fiscal Note Education**
- **Smoothing Method Education**

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### Topics Deferred from 2010 Interim

- **WSPRS Governance** (discussed earlier)
- **Member Contributions to the Benefit Improvement Account**
- **Ombudsman**
- **Negative COLA**
- **Deferred Compensation as Salary**

### **Other Topics**

- **Definition of “Fire Fighter”** – Some discussion has taken place between stakeholders and DRS outside the Board. Continued coordination is needed.

### **Next Steps**

- **Select Committee on Pension Policy Coordination**
- **Labor and Industries Coordination**
  - Role Board may have in the L&I study
  - Coordination where Board and L&I overlap
- **Interim Schedule**

The Board would also like a study to determine whether or not medical premiums paid for by the employers could be pensionable. During this study, the LEOFF staff and Department of Retirement Systems will be working cooperatively.

The Board staff will also be researching more information on long term potential future rate increases from OSA.

Mr. Nelsen asked the Board to consider action today on sending a letter to SCPP regarding the joint study/bill. Items of interest include: Purchase of Annuities, Negative COLA, and Technical Corrections.

*It was moved to direct staff to draft a letter to the select committee (SCPP) for coordination on all three items as discussed. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

*It was moved to add the LEOFF 1 / LEOFF 2 Merger discussion and hearing to the July meeting as discussed. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

Mr. Cuoio explained that he had to leave the meeting early, but being his last meeting wanted expressed gratitude to the Board and staff. Mr. Cuoio was thanked by Board members for his service.

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**5) Administrative Update**

- **Department of Retirement Systems (DRS) Update**

Director Nelsen provided an update on the latest coordination with DRS. Included is: 1) the facilitation of stakeholder meetings to discuss the definition of fire fighter and; 2) the number of members applying for and receiving catastrophic disabilities is increasing. DRS now tracks separately and reports to the Board.

- **Legislative Impacts on Agency**

Mr. Nelsen reviewed legislative activities impacting the Board budget. 1) The state hiring freeze is lifted as of July 1 and; 2) training and travel freeze will also be lifted for staff. In addition, staff salary reductions and state auditor costs will have an impact on the budget.

- **Staff Update**

Board members were informed that Jeralyn Faulhaber submitted her resignation effective May 31. Tammy Harman was introduced as the new Administrative Services and Communications Manager effective July 1. Mr. Nelsen expressed his intentions to get a newsletter out as soon as possible after she starts.

- **Budget Update**

Board members were provided a preliminary 2011-2013 biennial budget to review. Mr. Nelsen highlighted specific areas of interest and stated that the Board is well within Budget from the last biennium.

- **Select Committee on Pension Policy**

The SCPP will have their first meeting in July, before the LEOFF Board meeting, so feedback will be available before the Board meets next.

**6) Agenda Items for Next Meeting**

Director Nelsen reviewed the topics for the July 2011 meeting. A new Agenda Items Calendar will be available at the next meeting.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for July 27, 2011 from 9:30 a.m. – 3:00 p.m. at the JA Cherberg Building located on the Capitol Campus. More information will follow.

There being no further business, the meeting adjourned at 1:16 p.m.



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**REGULAR BOARD MEETING**

**APPROVED**

**July 27, 2011**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met at the John A. Cherberg Building in Conference Rooms A-C in Olympia, Washington on July 27, 2011.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Paul Golnik  
Pat Hepler  
Jeff Holy  
Senator Honeyford  
Mark Johnston  
Glenn Olson  
Ryan Martin

**Staff Present:**

Steve Nelsen, Executive Director  
Jessica Burkhart, Executive Assistant  
Greg Deam, Senior Research and Policy Manager  
Tammy Harman, Administrative Services and Communications Manager  
Tim Valencia, Senior Research and Policy Manager  
Chad Standifer, Assistant Attorney General

**Not Present:**

Representative Van De Wege

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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 9:37 a.m. The members took a moment of silence to honor those who had fallen since the last time the Board met.

**1) June 15, 2011 Board Meeting Minutes**

*It was moved that the June 15, 2011 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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2) **Supplemental Rate**

*Greg Deam, Senior Research and Policy Manager*

Mr. Deam presented the *Supplemental Rate Adoption Final Proposal* for the members. Mr. Deam explained the Board must decide whether it is necessary to increase contribution rates due to the passage of Substitute House Bill 2070 (determining salary for pension purposes).

Mr. Deam included a letter from Oliver Consulting providing an actuarial review of HB 2070 and the supplemental contribution rates recommended by the Office of the State Actuary. The Office of the State Actuary provided a letter revealing the following supplemental rates:

Employee	0.02%
Employer	0.01%
State	0.01%
<b>Total</b>	<b>0.04%</b>

Mr. Deam presented two options for the Board to consider. The Board may use the current assumptions and adopt supplemental rates with an effective date of September 1, 2011. The members may also delay adoption until the October Board meeting to gain further data.

**PUBLIC TESTIMONY**

Ashley Probart with the Association of Washington Cities (AWC) provided testimony in regard to the survey the AWC is conducting.

*The Board moved Option number 2 forward. The Supplemental Contribution Rate adoption will be delayed to conduct a joint study with the AWC, present data to OSA, and provide a presentation to the Board in October. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

3) **DRS Annual Update**

*Marcie Frost, Deputy Director*

Ms. Frost introduced Alexandra Kasuske-Carroll as the LEOFF Administrator. She provided an update on the latest activities happening at the Department of Retirement Systems.

Ms. Frost continued with her *Annual Administrator Update*. Her presentation covered the vision, purpose, and strategies the agency has been using.

Ms. Frost discussed LEOFF Plan 2 specific information such as catastrophic disability applications. She reported that in 2010, 47 applications were received and 8 approved. In 2011, 29 applications were received and 1 approved.



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Ms. Frost noted many projects that are completed or underway in regard to LEOFF Plan 2 such as: member statements, handbook update, 401 (h) medical accounts, fire fighter definition rule, and also the LEOFF 1/LEOFF 2 Merger study.

Director Nelsen thanked Ms. Frost for the amount of cooperation between DRS and the LEOFF Plan 2 Board.

**4) DRS CEM Benchmarking Presentation**

*Mark Feldhausen, Budget and Benchmarking Director*

Mr. Feldhausen presented the annual *CEM Benchmarking Analysis*. The analysis is a comprehensive approach to measure where the Department of Retirement Systems rates in comparison to peers internationally.

Mr. Feldhausen reported DRS is in the larger peer group having more than 250,0000 participants.

CEM recognized Washington State for looking at international data. Mr. Feldhausen also stated DRS is in the lowest cost quartile compared to other plans. The agency typically provides faster turn-around times to customers and scored higher in 8 out of the 12 service measures compared to other plans.

Although DRS administers one of the most complex groups of retirement systems, the results of the survey indicate DRS is very efficient in providing services.

**5) Assistant Attorney General's Report**

*EXECUTIVE SESSION*

*Break for Executive Session at 10:42 a.m.*

*Board resumes business at 11:10 a.m.*

**6) Administrative Update**

*Steve Nelsen, Executive Director*

- Department of Retirement Systems (DRS) Update  
Director Nelsen discussed the projects that are underway at DRS. He also mentioned LEOFF Plan 2 members use the online benefit estimator more than any other plan.
- Select Committee on Pension Policy (SCPP) Update  
Director Nelsen provided an update on the July 19 SCPP meeting. He also provided a copy of the response Chairman Fox received from OSA in regard to the study of LEOFF Plan 2 issues during the interim.

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Director Nelsen reported that Representative Barbara Bailey was elected as new Chair and Senator Steve Conway elected as Vice Chair. Board staff will keep members aware of activity taking place in regard to the LEOFF Plan 2 activities.

- Newsletter Update

Tammy Harman, Administrative Services and Communications Manager is currently working on the next edition of Dual Response. The mailing will take place in August.

Staff Update

Courtney Dutra, former Deputy Director accepted a new position with the Department of Labor and Industries effective July 15, 2011.

Board Update

Director Nelsen introduced and welcomed three new members:

Senator Honeyford

Representative Van De Wege

Paul Golnik

**7) LEOFF 1/LEOFF 2 Merger Study**

*Steve Nelsen, Executive Director*

Director Nelsen stated this was the first time the LEOFF 1/LEOFF 2 Merger topic had been presented. He reviewed background information such as investments, contributions, the actuarial funding method, long term economic assumptions, demographic assumptions, asset value smoothing, and market value corridor.

Director Nelsen also provided information in regard to the governance of a merger, as well as the legal framework that would take place.

He also highlighted the direction the Office of the State Actuary would be given while conducting a study on the LEOFF 1/LEOFF 2 Merger.

The Board members reviewed the draft questions that would be included in the study.

*The Board moved the proposed LEOFF 1/LEOFF 2 Merger questions forward for the Office of the State Actuary to study.  
Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**PUBLIC TESTIMONY**

Dick Warbrouck, President of the Retired Fire Fighters of Washington (RFFOW) testified against the LEOFF 1/LEOFF 2 Merger.

Jerry Taylor, RFFOW testified against the LEOFF 1/LEOFF 2 Merger.

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Mark Curtis, LEOFF 1 Coalition testified that he does not consent to the LEOFF 1/LEOFF 2 Merger.

James Hill, prior vice president of the Washington State Council of Fire Fighters mentioned Director Nelsen did an excellent job presenting and it would be a benefit for both parties to get together to draft legislation that meets both LEOFF 1 and LEOFF 2 needs.

Michael Duchemin, International Association of Fire Fighters - Local 1604 testified that he is in support of research being done on the LEOFF 1/LEOFF 2 Merger.

Craig Bulkley, Washington Council of Police and Sheriffs testified in support of the LEOFF 1/LEOFF 2 Merger study.

*The Board moved to discuss the request to waive privilege on legal advice received in Executive Session at the August 24 Board meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**8) Agenda Items for Next Meeting**

Director Nelsen reviewed the upcoming agenda items for the August meeting.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for August 24, 2011 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 1:25 PM.



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**REGULAR BOARD MEETING**  
**August 24, 2011**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Washington State Investment Boardroom in Olympia, Washington on August 24, 2011.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair (Via Teleconference)  
Paul Golnik  
Pat Hepler  
Jeff Holy  
Senator Honeyford  
Mark Johnston  
Glenn Olson  
Ryan Martin  
Representative Van De Wege

**Staff Present:**

Steve Nelsen, Executive Director  
Jessica Burkhart, Executive Assistant  
Greg Deam, Senior Research and Policy Manager  
Tammy Harman, Administrative Services and Communications Manager  
Tim Valencia, Senior Research and Policy Manager  
Chad Standifer, 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 9:45 a.m. The members took a moment of silence to honor those who had fallen since the last time the Board met.

Chair Fox welcomed Representative Kevin Van De Wege as the LEOFF Plan 2 Retirement Board's newest member.

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1) **July 27, 2011 Board Meeting Minutes**

*It was moved that the July 27, 2011 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Negative COLA – Preliminary Follow-Up Report**

*Greg Deam, Senior Research and Policy Manager*

Mr. Deam presented the *Negative Cost of Living Adjustment (COLA)* Preliminary Follow-Up Report. The report included an explanation of how negative inflation or deflation could cause a retiree's pension benefits to decline.

Historical inflation data and examples of negative COLA were provided. Mr. Deam explained two policy options for the members to consider.

1. Introduce legislation to mitigate deflation
2. Make no changes and keep the current COLA

This topic will be studied (pending information from the SCPP) and brought back to a future meeting.

3) **Purchase of Annuity – Preliminary Follow-Up Report**

*Greg Deam, Senior Research and Policy Manager*

Mr. Deam provided a Preliminary Follow-Up Report on *Purchase of Annuity*. He explained that members are limited in the amount of money they can convert to LEOFF Plan 2 by the amount required to purchase five years of service.

This topic was first reviewed by the Board during the 2004 interim following requests made to the Select Committee on Pension Policy to study this issue during the 2007-2011 interims.

Mr. Deam presented two options for the Board to consider if they choose to introduce legislation.

1. Utilize the same features as the plan 3 annuity
2. Allow plan 3 features to be optional

*It was moved that the topic of Purchase of Annuity be deferred to the next interim. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

4) **Technical Corrections – Initial Consideration**

*Tim Valencia, Senior Research and Policy Manager*

Mr. Valencia provided an Initial Consideration on the topic of *Technical Corrections*. Technical corrections are needed to correct errors and oversights in the statutes for the definition of fire fighter concerning Emergency Medical

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Technicians and language related to educational waivers for Reserve Police Officers.

*The Board moved the topic of Technical Corrections to the Final Proposal stage where more data and information will be given at the December 2011 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**5) Washington State Council of Fire Fighters Resolution 23**

*Greg Deam, Senior Research and Policy Manager*

Mr. Deam presented an Initial Consideration on the Washington State Council of Fire Fighters (WSCFF) Resolution 23. He explained the resolution created at the 2011 WSCFF Convention has two issues:

1. Creating enhanced plans that the individual locals would fund and;
2. Creating a statewide benefit enhancement that would be funded by plan members.

Two policy considerations were provided to the Board. Benefit improvement at the local level and statewide benefits funded by members.

*Chair Fox will address this issue and ask the group of members that pursued Resolution 23 if they would like to testify at an upcoming meeting.*

**Executive Session**

*Chad Standifer, Assistant Attorney General*

The Board members met in Executive Session for approximately 45 minutes. The meeting was reconvened at 12:30 PM.

**Public Testimony**

Dick Warbrouck, President with the Retired Fire Fighters of Washington testified that he received a public disclosure response from the Attorney General's office. Mr. Warbrouck stated he has questions. Chair Fox advised Mr. Warbrouck to submit a letter with his questions to the Board.

**6) Administrative Update**

*Steve Nelsen, Executive Director*

- LEOFF 1/LEOFF 2 Merger Study  
The Office of the State Actuary (OSA) will conduct the LEOFF 1/LEOFF 2 Merger Study with assistance from the Department of Retirement Systems. The first meeting is scheduled for August 30.
- Correspondence  
The members were given copies of correspondence sent to and received from Treasurer McIntire. The Board sent a letter to the Treasurer asking about the scheduled September 2011 transfer to the local public safety enhancement

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account. Treasurer McIntire responded and indicated the required growth level had not been met so no transfer would take place in September 2011.

Director Nelsen reviewed a letter from Bob Zutter, a paramedic for Cascade Medical Center. Mr. Zutter is inquiring about eligibility in LEOFF Plan 2 for several paramedics in his workplace.

*The members requested an update on this issue at the next Board meeting.*

- Supplemental Contribution Rates

*The Board moved to suspend the supplemental contribution rate adoption until the survey is complete. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

- Pension Funding Council

The PFC Workgroup will start planning for the review of the Long Term Economic Assumptions that OSA will release in October.

- Select Committee on Pension Policy (SCPP) Update

Director Nelsen informed the Board that the SCPP did not meet during August. The next meeting will be held on September 20, 2011.

- Quarterly Budget Update

Director Nelsen reported that the LEOFF Plan 2 Retirement Board is under budget around 14% - \$141,000.

**7) State Employees Compensation Reduction**

*Tim Valencia, Senior Research and Policy Manager*

Mr. Valencia provided an overview of the state employee compensation reduction. His report included salary reductions, performance awards, and a salary freeze. He explained that these are all impacts of legislation from the 2011 legislative session.

**8) Agenda Items for Next Meeting**

Director Nelsen reviewed the upcoming agenda items for the September meeting.

*The Board moved for staff to draft a letter to the Select Committee on Pension Policy requesting a study of LEOFF Plan 1 funding policies. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for September 28, 2011 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 12:46 PM.





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**REGULAR BOARD MEETING**  
**September 28, 2011**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Washington State Investment Boardroom in Olympia, Washington on September 28, 2011.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Paul Golnik  
Pat Hepler  
Jeff Holy  
Senator Honeyford  
Mark Johnston  
Ryan Martin  
Representative Van De Wege

**Board Members Absent:**

Glenn Olson

**Guests:**

Steve Davis, Davis Accounting Tax and Auditing Services  
Theresa Whitmarsh, Executive Director (WSIB)  
Matt Smith, State Actuary  
Lisa Won, Actuary

**Staff Present:**

Steve Nelsen, Executive Director  
Jessica Burkhart, Executive Assistant  
Greg Deam, Senior Research and Policy Manager  
Tammy Harman, Administrative Services and Communications Manager  
Tim Valencia, Senior Research and Policy Manager  
Chad Standifer, 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 9:40 AM. The Board members took a moment of silence to honor those who had fallen since the last time the Board met.

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**1) August 24, 2011 Board Meeting Minutes**

*It was moved that the August 24, 2011 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**2) Independent Audit Results –**

*Steve Davis, Davis Accounting Tax and Auditing Services*

Steve Davis with Davis Accounting Tax and Auditing Services, presented the LEOFF Plan 2 Retirement Board's *Independent Audit Results* for the year ending June 30, 2011.

Mr. Davis provided an overview of the Schedule of Expenditures, the Independent Audit Report, and also supplementary information. Mr. Davis has been conducting the independent audits for the LEOFF Plan 2 Board for the last seven years and ensures that all internal controls are properly functioning. The report concluded that in all aspects the audit presented fairly in accordance with the auditing standards generally accepted in the United States.

The LEOFF Plan 2 Retirement Board was \$242,174 under budget for the biennium.

**3) Long Term Economic Assumptions –**

*Matt Smith, State Actuary*

Matt Smith, State Actuary, presented highlights of the current financial condition and *Long Term Economic Assumptions*.

Mr. Smith discussed budget impacts as it relates to the General Fund and the employer budgets for 2013-2015. He indicated that the financial condition has improved since his last report due to investment returns and a reduction in benefits.

He continued to provide information related to annual and historical investment returns, as well as historical system growth. Mr. Smith discussed the budget impact of a phase-in and the contribution impacts of such.

Mr. Smith acknowledged there is an opportunity to make a recommendation to the Pension Funding Council (PFC) at the next Select Committee on Pension Policy (SCPP) meeting on October 12, 2011.

*The Board requested specific information related to LEOFF Plan 2 be brought back to the October 26, 2011 Board meeting.*

**4) Actuarial Valuation Report –**

*Lisa Won, Actuary*

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Lisa Won, Actuary with the Office of the State Actuary provided a report and presentation on the *2010 LEOFF Plan 2 Actuarial Valuation Results*. Ms. Won stated that the valuation is a snap-shot of the financial condition of LEOFF Plan 2.

She indicated that the return on the market value of assets was 13.21%. The funded status decreased from 128% to 124%.

Ms. Won reviewed the change of assets, the actuarial value of assets, a change in liabilities from the last LEOFF 2 valuation, and a background on contribution rates.

She indicated the current funded status still remains healthy.

**5) Modifications to Actuarial Valuation Report (AVR)**

*Steve Nelsen, Executive Director*

Executive Director, Steve Nelsen, has been working with the Office of the State Actuary to make fundamental changes to the yearly valuation report.

Mr. Nelsen discussed the importance of the AVR, which includes actuarial information, assumptions, rate calculation, and funding status. He also reviewed possible changes that may take place in the AVR with the members.

**6) Administrative Update**

*Steve Nelsen, Executive Director*

• Department of Retirement Systems (DRS) Update

Executive Director Nelsen discussed the recent cooperation with DRS to define the definition of “fire fighter”. Ongoing meetings between the agencies have been taking place.

Mr. Nelsen indicated that DRS has been facilitating meetings for the LEOFF Plan 1/LEOFF Plan 2 Merger. Additional meetings are scheduled.

• Survey Results

Mr. Nelsen reviewed the 2011 LEOFF Salary Reduction Survey conducted by David Elliott with the Department of Commerce. The survey will be used to provide data to the Office of the State Actuary (OSA) to change the supplemental contribution rate increase.

• Miscellaneous

Executive Director Nelsen noted the Governor announced a Special Legislative Session that will begin at the end of November.

**7) Strategic Plan Review**

*Steve Nelsen, Executive Director*

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Executive Director Nelsen provided a review of the *LEOFF Plan 2 Board's current Strategic Plan*. He then noted the key items to take place during the 2011 interim and 2012 legislative session related to maintaining the financial integrity of the plan.

Mr. Nelsen discussed the interim agenda and the following 2012 Legislative Agenda:

- 1. Maintain Board adoption of contribution rates and assumptions**
- 2. Long-term Economic Assumptions**
- 3. Potential LEOFF 1/LEOFF 2 merger legislation**
- 4. Possible benefit changes**

The LEOFF Plan 2 Board staff will follow-up with the OSA Risk Analysis. The Strategic Plan will be revisited at a later meeting.

**8) WSIB Update**

*Theresa Whitmarsh, Executive Director*

Theresa Whitmarsh, Executive Director of the Washington State Investment Board (WSIB) provided the annual *WSIB Update*. Ms. Whitmarsh presented a report and presentation on the WSIB governance structure, CTF performance, market value, the capitol market assumptions, long and short term investment return expectations, and market volatility.

Ms. Whitmarsh explained that approximately 75-80% of the state's cost for pension benefits is generated by investment returns.

Having the WSIB maintain their disciplined approach to investing with high standards of integrity has enabled them to have a positive and dramatic impact on the state's bottom line.

**Public Testimony**

*Chair Fox reviewed the sign-in document and called James Fossos to testify at approximately 12:45 PM. He was no longer in attendance.*

**9) Agenda Items for Next Meeting**

*Steve Nelsen, Executive Director*

Executive Director Nelsen reviewed the agenda items the members will review at the October 26, 2011 LEOFF Plan 2 Retirement Board meeting:

- Long Term Economic assumptions, Matt Smith
- Long Term Economic Assumptions – Initial Consideration
- Disability Process – Alex Kasuske-Carroll and Jennifer Dahl, DRS
- Cafeteria Plans – Dave Nelsen, Legal & Legislative Services Manager
- Proposed 2012 Meeting Schedule

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**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for October 26, 2011 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 12:55 PM.



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**  
**APPROVED MINUTES**  
**October 26, 2011**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Washington State Investment Boardroom in Olympia, Washington on October 26, 2011.

**Board Members Present:**

David Cline  
Pat Hepler  
Jeff Holy  
Senator Honeyford  
Mark Johnston  
Glenn Olson  
Ryan Martin  
Representative Van De Wege

**Board Members Absent**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
Paul Golnik

**Guests Present:**

Matt Smith, State Actuary  
David Nelsen, Assistant Director – DRS  
Alex Kasuske-Carroll, LEOFF Plan 2 Administrator – DRS  
Jennifer Dahl, Assistant Director – Retirement Services – DRS

**Staff Present:**

Steve Nelsen, Executive Director  
Jessica Burkhart, Executive Assistant  
Greg Deam, Senior Research and Policy Manager  
Tim Valencia, Senior Research and Policy Manager  
Chad Standifer, Assistant Attorney General

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Glenn Olson, Acting Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:30 AM. The members took a moment of silence to honor those who had fallen since the last time the Board met.

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Director Nelsen welcomed David Cline as the newest member of the LEOFF Plan 2 Retirement Board. Mr. Cline is the City of Tukwila Administrator.

**1) September 28, 2011 Board Meeting Minutes**

*It was moved that the September 28, 2011 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**2) Long Term Economic Assumptions**

*Matt Smith, State Actuary*

Matt Smith, State Actuary provided a report and presentation on *Long Term Economic Assumptions*. Mr. Smith addressed the Board with the current assumptions, recommended changes in long term economic assumptions, and why a “phase-in” of the investment return assumption is not recommended for LEOFF Plan 2.

Mr. Smith provided inflation and investment return assumptions and a handout on the *General Salary Growth*. Growth in LEOFF Plan 2 membership and budget impacts for the plan were discussed.

*The Board requested rate projections for the future. This information will be brought back to the November 2011 Board meeting.*

**3) Long Term Economic Assumptions – Initial Consideration**

*Tim Valencia, Senior Research and Policy Manager*

As a follow-up to Mr. Smith presentation, Tim Valencia provided the members with an Initial Consideration report and presentation on the *Long Term Economic Assumptions*. Mr. Valencia discussed the background of the Select Committee on Pension Policies (SCPP) recommendations and adoption of rates.

He provided actuarial policy considerations for the Board to review such as not adopting the recommendations, choosing to adopt the Office of the State Actuary’s (OSA) recommendations, adopting OSA’s recommendations with a five biennia phase-in, and adopting OSA recommendations with an investment return assumption reduced from 8% to 7.9% with future review.

**4) Cafeteria Plans**

*David Nelsen, Legal and Legislative Services Manager – DRS*

Dave Nelsen with the Department of Retirement Systems (DRS) presented a report on *Cafeteria Plans and Basic Salary*. Mr. Nelsen discussed whether a payment is basic salary or earned salary for services rendered. He went on to provide information on fringe benefits and how basic salary is reported. He described the process DRS follows to determine basic salary.

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**5) Duty and Catastrophic Disability**

*Alex Kasuske-Carroll, LEOFF Plan Administrator – DRS*

*Jennifer Dahl, Assistant Director Retirement Services – DRS*

Alex Kasuske-Carroll and Jennifer Dahl with the Department of Retirement Systems (DRS) provided a presentation on *Duty and Catastrophic Disability*. Prior legislation, the application, review, and disability process and determination were discussed, along with disability benefits.

**6) Administrative Update**

*Steve Nelsen, Executive Director*

- Select Committee on Pension Policy (SCPP) Update

Director Nelsen provided an update on the latest meeting of the SCPP. He stated that none of the LEOFF Plan 2 topics have been scheduled by the SCPP. The committee will have a hearing regarding the LEOFF Plan 1 Merger at their November meeting. Director Nelsen will keep the Board member informed of what took place.

**7) Proposed 2012 Meeting Schedule**

*Steve Nelsen, Executive Director*

Director Nelsen presented the *2012 Proposed Meeting Schedule*. He asked the members to review their calendars to make sure there aren't any conflicts. This item will be discussed and adopted at the November 2011 Board meeting.

*The members moved all agenda items previously scheduled for the December 14, 2011 meeting to the November 16, 2011 meeting. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**8) Supplemental Rate**

*Greg Deam, Senior Research and Policy Manager*

Greg Deam presented the *Supplemental Rate Adoption* to the Board. Mr. Deam provided an overview of House Bill 2070 (a members based on salaries earned during the 2011-2013 biennium will not be reduced by compensation due to reduced work hours, leave without pay, temporary layoff, or reductions to current pay if the measures are an integral part of an employer's expenditure reduction efforts).

Mr. Deam discussed the following two policy options the Board can consider:

1. Adopt a zero supplemental rate based on the preliminary information from the Office of the State Actuary (OSA).
2. Delay adoption and ask for a full report from OSA at the November meeting.



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*The Board moved forward with option #1 to adopt a zero supplemental rate based on the preliminary information from the Office of the State Actuary. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

**9) Agenda Items for Next Meeting**

*Steve Nelsen, Executive Director*

Director Nelsen reviewed the November agenda items. The Board discussed the Special Legislative Session that will begin on November 28. The member agreed to move all agenda items previously scheduled for December to the November 16, 2011 agenda.

**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for November 16, 2011 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 11:05 AM.



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**REGULAR BOARD MEETING**  
**FINAL MINUTES**  
**November 16, 2011**

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The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Washington State Investment Boardroom in Olympia, Washington on November 16, 2011.

**Board Members Present:**

Kelly Fox, Chair  
Jack Simington, Vice Chair  
David Cline  
Paul Golnik  
Pat Hepler  
Jeff Holy  
Mark Johnston  
Glenn Olson  
Ryan Martin

**Board Members Absent:**

Senator Honeyford  
Representative Van De Wege

**Guests Present:**

Lisa Won, Actuary

**Staff Present:**

Steve Nelsen, Executive Director  
Jessica Burkhart, Executive Assistant  
Greg Deam, Senior Research and Policy Manager  
Tammy Harman, Administrative Services and Communications Manager  
Tim Valencia, Senior Research and Policy Manager  
Chad Standifer, 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 9:40 a.m. The members took a moment of silence to honor those who had fallen since the last time the Board met.

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1) **October 26, 2011 Board Meeting Minutes**

*It was moved that the October 26, 2011 Board meeting minutes be adopted as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

2) **Long Term Economic Assumptions & Rate Projections**

*Lisa Won, Actuary*

Lisa Won with the Office of the State Actuary presented the *LEOFF Plan 2 Economic Assumptions and Rate Projections*. Ms. Won provided an overview of the 2010 valuation results, reviewed the contribution rates the Board adopted in 2010, and provided the current and recommended projected contribution rates.

*The members requested the LEOFF Plan 2 2010 Actuarial Valuation Report be changed to reflect the most current data. Matt Smith, State Actuary and his staff agreed to produce an updated 2010 AVR.*

3) **Long Term Economic Assumptions – Preliminary Report**

*Tim Valencia, Senior Research and Policy Manager*

Mr. Valencia presented a Preliminary Report on *Long Term Economic Assumptions*. He reviewed the Office of the State Actuary's (OSA) changes to the long term economic assumptions and provided the members with four policy options to choose from. OSA's recommendation is below:

<b>Assumption</b>	<b>Current</b>	<b>Recommended</b>
Inflation	3.50%	3.00%
General Salary Growth	4.50%	3.75%
Annual Investment Return	8.00%	7.50%

*The Board moved to adopt Option #2 – OSA's recommended changes to the Long Term Economic Assumptions. The changes are effective immediately. Seconded.*

**Opposed:** Ryan Martin opposed this motion. Mr. Martin wanted to adopt option #4-Adopting the OSA recommended changes, except for only reducing the investment return assumption from 8.00% to 7.9% starting in 2013-2015.

4) **Adoption of 2012 Meeting Schedule**

The Board members were provided a 2012 Meeting Schedule to review.

*The Board moved to adopt the 2012 Meeting Schedule as presented. Seconded.*

**MOTION CARRIED UNANIMOUSLY**

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5) **Administrative Update**

*Steve Nelsen, Executive Director*

- Select Committee on Pension Policy (SCPP) Update  
Director Nelsen provided an update on the SCPP meeting. The SCPP met yesterday and discussed the LEOFF 1 / LEOFF 2 Merger Study. They have a tentative meeting scheduled for December 13. There may be a presentation on the merger at their upcoming meeting.
- Governor's Supplemental Budget  
Director Nelsen informed the Board that the Governor's Supplemental Budget has not yet been released; however, reductions to the LEOFF Plan 2 contribution rates may be included in the budget.
- Quarterly Budget Update  
The Allotment and Expenditures report was provided to the members. Director Nelsen advised the Board that the agency is \$41,000 under budget after the first quarter.

6) **Technical Corrections – Final Proposal**

*Tim Valencia, Senior Research and Policy Manager*

Mr. Valencia presented the Final Proposal on Technical Corrections. He included the technical correction that could be changed in RCW 28B.15.380 if the Board chooses to take action. Mr. Valencia provided two policy options for the members.

The Board moved to adopt the recommended technical corrections. Seconded.

**MOTION CARRIED UNANIMOUSLY**

7) **Interim Agenda Items**

*Steve Nelsen, Executive Director*

Director Nelsen reviewed possible agenda items for the interim.

*The Board moved to defer agenda items until it is known whether a Board meeting is needed for December. Seconded*

**MOTION CARRIED UNANIMOUSLY**

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**Next Meeting**

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for December 15, 2011 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 11:54 AM.