

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

Regular Committee Meeting

April 15, 2008
10:00 a.m. – 12:00 p.m.
Senate Hearing Room 4
Olympia

AGENDA

- 10:00 a.m. **(1) Approval of Minutes**
- 10:05 a.m. **(2) Election of Officers**
- 10:20 a.m. **(3) Update from Washington State Investment Board (WSIB) – Joe Dear, Executive Director of WSIB**
- 10:55 a.m. **(4) Litigation Update – Anne Hall, Assistant Attorney General**
- 11:25 a.m. **(5) Legislative Update – Darren Painter, Policy Analyst**
- 12:00 p.m. **(6) Adjourn**

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***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

***Representative Steve Conway,**
Chair

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

***Randy Davis**
TRS Actives

Representative Bill Fromhold

Senator Steve Hobbs

Senator Janea Holmquist

Robert Keller
PERS Actives

***Sandra J. Matheson, Director**
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Ed Murray

***Glenn Olson**
PERS Employers

***Senator Mark Schoesler,**
Vice Chair

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

***Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Select Committee on Pension Policy
2008 Meeting Dates

Full - 10:00am-12:00pm
Exec. - 12:30-1:30pm
 SHR 4/A/B/C, Olympia, WA

January 15, 2008 . *cancelled*
 February 12, 2008 . *cancelled*
 March 18, 2008 . *cancelled*
 April 15, 2008
 May 13, 2008
 June 17, 2008
 July 15, 2008
 August 12, 2008
 September 16, 2008
 October 21, 2008
 November 18, 2008
 December 16, 2008

Reserved Subgroup Dates
 SHR4

2:00-4:00pm - Mondays

January . *none scheduled*
 February . *none scheduled*
 March . *none scheduled*
 April 14, 2008 . *none scheduled*
 May 12, 2008
 June 16, 2008
 July 14, 2008
 August 11, 2008
 September 15, 2008
 October 20, 2008
 November 17, 2008
 December 15, 2008

JANUARY						
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28	29	30	31			

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29	30	31				

Select Committee on Pension Policy

Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.
2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.
3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.
4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.
5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:
 - a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
 - b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
 - c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
 - d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
 - e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

2007 Rules of Procedure

- RULE 1. Membership. The Committee shall consist of 20 members: two from each caucus of the legislature, four active members or representatives of active members of the state retirement systems, two retired members or representatives of retired members of the state retirement systems, four employer representatives, and the Directors of the Department of Retirement Systems and the Office of Financial Management.

The Directors of the Department of Retirement Systems and the Office of Financial Management may appoint alternates from their respective agencies for membership on the SCPP.

- RULE 2. Meetings. The Select Committee on Pension Policy (SCPP) will typically meet once each month during the Legislative Interim. Meetings may be called or cancelled by the Chair of the SCPP or Executive Committee as deemed necessary.
- RULE 3. Rules of Order. All meetings of the SCPP, its Executive Committee, or any subcommittee created by the SCPP shall be governed by Reed's Parliamentary Rules, except as specified by applicable law or these Rules of Procedure.
- RULE 4. Quorum. A majority of the 20 committee members shall constitute a quorum of the Full Committee (11 members). A majority of the members appointed to a subcommittee shall constitute a quorum of the subcommittee.
- RULE 5. Voting. A majority of the 20 committee members must vote in the affirmative for an official action of the SCPP to be valid (11 members); a majority of those committee members present must vote in the affirmative on procedural matters (at least six members), unless provided otherwise in statute or these Rules of Procedure. Examples of official actions of the SCPP include: recommendations, endorsements, statements, or requests made by the SCPP to the Legislature, the Pension Funding Council, or any other body; election of officers; approval of minutes; adopting rules of procedure; and adopting goals. Examples of procedural matters include: convening or adjourning meetings; referring issues to the Executive Committee or subcommittees; and providing direction to staff. A majority of the members appointed to a subcommittee must vote in the affirmative for an official action of a subcommittee to be valid; a majority of those subcommittee members present must vote in the affirmative on procedural matters, unless provided otherwise in statute or these Rules of Procedure.

- RULE 6. Minutes. Minutes summarizing the proceedings of each SCPP meeting and subcommittee shall be kept. These minutes will include member attendance, official actions taken at each meeting, and persons testifying.
- RULE 7. SCPP Chair, Vice Chair, Executive Committee and Subcommittees. An Executive Committee shall be established and shall include six members. Reorganization elections shall take place at the first meeting of the year as follows: First the Chair shall be elected and then the Vice Chair shall be elected. The Chair shall be a member of the Senate in even-numbered years and a member of the House of Representatives in odd-numbered years. The Vice Chair shall be a member of the House in even-numbered years and a member of the Senate in odd-numbered years. Three members of the Executive Committee shall then be elected, one member representing active members, one member representing employers, and one member representing retirees. In addition, the Director of the Department of Retirement Systems shall serve on the Executive Committee.

Executive Committee members may designate an alternate to attend Executive Committee meetings in the event they cannot attend. Designations shall be made in the following manner:

- a. The Chair and Vice Chair shall designate an SCPP member who is a legislator from the same house.
- b. The Director of the Department of Retirement Systems shall designate an employee of the department.
- c. Active, Employer, and Retiree member representatives shall designate an SCPP member representing their member group.

Subcommittees of the SCPP may be formed upon recommendation of the Executive Committee. The creation of the subcommittee and appointment of members shall be voted on by the full SCPP.

- RULE 8. Duties of Officers.
- A. The Chair shall preside at all meetings of the SCPP and Executive Committee, except that the Vice Chair shall preside when the Chair is not present. In their absence, an Executive Committee member may preside.
 - B. The State Actuary shall prepare and maintain a record of the proceedings of all meetings of the SCPP Committee, Executive Committee, and SCPP Subcommittees.

- C. The Executive Committee shall perform all duties assigned to it by these Rules of Procedure, such other duties delegated to it by the SCPP, and shall set meeting agendas and recommend actions to be taken by the SCPP.
- D. A recommendation to refer an issue to the Assistant Attorney General will be approved by the Chair or by a majority vote of the Executive Committee. The Chair or the Committee will consider priorities of the SCPP of all legal issues and budget constraints in making this decision.

Advice from the Attorney General's Office to the Chair or the Committee may be subject to the attorney client privilege. When subject to the privilege, Committee members are advised to maintain the advice as confidential. The privilege may be waived only by vote of the Committee.

- E. The State Actuary may refer requests for information or services by Select Committee on Pension Policy members that are directly related to current Committee projects or proposals and/or require a significant use of OSA resources to either the Chair of the SCPP or the Executive Committee. Such requests will be approved by either the Chair or by a majority vote of the Executive Committee prior to initiation and completion by the OSA. The Executive Committee will consider priorities of all current OSA projects and budget constraints in making this decision.
- F. The State Actuary shall submit the following to the Executive Committee and the full SCPP for approval: the biennial budget submission for the OSA, and any personal services contract of \$20,000 or more that is not described in the biennial budget submission.
- G. The Chair and Vice Chair shall appoint four members of the SCPP to serve on the State Actuary Appointment Committee. At least one member shall represent state retirement systems' active or retired members, and one member shall represent state retirement system employers. The Chair and Vice Chair may designate an alternate for each appointee from the same category of membership.

RULE 9. Expenses. Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other SCPP members' travel expenses shall be reimbursed by the Office of the State Actuary in accordance with RCW 43.03.050 and 43.03.060.

RULE 10. Staff. The OSA shall provide staff and technical assistance to the Committee. The State Actuary has the statutory authority to select and employ such research, technical, clerical personnel, and consultants as the State Actuary deems necessary. The State Actuary shall inform the Executive Committee of final personnel actions. Any employee terminated by the State Actuary shall have the right of appeal to the Executive Committee. The State Actuary has also implemented a grievance procedure within the OSA. Any employee who has followed the OSA grievance process and disagrees with the outcome may appeal to the Executive Committee. Employee appeals must be filed in writing with the Chair within 30 days of the action being appealed.

Effective Date June 19, 2007.

Revised June 19, 2007 by the Select Committee on Pension Policy.


Chair - Representative


Vice Chair - Senator

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1. Approval of Minutes

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

REGULAR COMMITTEE MEETING DRAFT MINUTES

December 18, 2007

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on December 18, 2007.

Committee members attending:

Representative Conway, Chair	Robert Keller
Senator Schoesler, Vice-chair	Sandra Matheson
Elaine Banks	Corky Mattingly
Representative Bailey	Glenn Olson
Lois Clement	J. Pat Thompson
Representative Crouse	David Westberg
Charles Cuzzetto	
Randy Davis	

Representative Conway, Chair, called the meeting to order at 10:15 a.m.

(1) Approval of Minutes

It was moved to approve the November 13, 2007, Full Committee Draft Minutes. Seconded.

MOTION CARRIED

(2) 2008 Meeting Dates

It was moved to approve the 2008 SCPP meeting dates. Seconded.

MOTION CARRIED

(3) LEOFF 1 Medical Study

Troy Dempsey, Actuarial Assistant, reported on the "LEOFF 1 Medical Study." *Discussion followed.*

Testimony given by:

Jim Justin, Association of Washington Cities

William Kantor, Washington State Retired Deputy Sheriffs and Police Officers Association

Dick Warbrouck, Retired Firefighters of Washington

*Elaine M. Banks
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

*Representative Steve Conway,
Chair

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

*Randy Davis
TRS Actives

Representative Bill Fromhold

Senator Janea Holmquist

Robert Keller
PERS Actives

*Sandra J. Matheson, Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Ed Murray

*Glenn Olson
PERS Employers

Senator Craig Pridemore

*Senator Mark Schoesler,
Vice Chair

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

* Executive Committee

(360) 786-6140

Fax: (360) 586-8135

TDD: 1-800-635-9993

(4) Military Death Benefits

Dave Nelsen, Senior Policy Analyst, reported on "Military Death Benefits."
Discussion followed.

Testimony given by:

Shawn Merchant, Deputy Director, LEOFF Plan 2 Retirement Board

(5) Interruptive Military Service Credit

Laura Harper, Policy and Research Services Manager, reported on "Interruptive Military Service Credit." *Discussion followed.*

Testimony given by:

Shawn Merchant, Deputy Director, LEOFF Plan 2 Retirement Board

Matt Zuvich, Washington Federation of State Employees

(6) FRP (Pre-LEOFF) Survivor Benefits

Darren Painter, Policy Analyst, reported on "FRP (Pre-LEOFF) Survivor Benefits."
Discussion followed.

Discussion followed.

Testimony given by:

Dick Warbrouch, Retired Firefighters of Washington

Jim Justin, Association of Washington Cities

(7) Retiree Access to PEBB - Stakeholder Proposal

John Kvamme, Washington Association of School Administrators and Association of Washington School Principals, reported on "Allow Plan 2 Members Join PEBB as a Separated Employee." Leslie Main, Washington State School Retirees' Association, and Dennis Martin, Health Care Authority, reported on "Updated Cost Projections on '2nd Chance' PEBB Enrollment Window Proposal." *Discussion followed.*

Testimony given by:

Cassandra de la Rosa, Retired Public Employees Council

Randy Parr, Washington Education Association

Tom Lopp, Public School Employees

(8) Post-retirement Employment under EHB 2391

Laura Harper, Policy and Research Services Manager, reported on "Post-Retirement Employment under EHB 2391."

Testimony given by:

John Kvamme, Washington Association of School Administrators and
Association of Washington School Principals
Randy Parr, Washington Education Association
Matt Zuvich, Washington Federation of State Employees

(9) HECB Proposal

Laura Harper, Policy and Research Services Manager, reported on "HECB Proposal." *Discussion followed.*

It was moved that "HECB Proposal" bill draft Z-0637.1/08 be recommended to the Legislature. Seconded. Discussion followed.

David Westberg offered an amendment to the "HECB Proposal" bill draft Z-0637.1/08. Seconded. Discussion followed.

It was later moved to recommend the "HECB Proposal" as amended to the Legislature. Seconded.

MOTION CARRIED

Recess called at 1:15 p.m.

The meeting was called to order at 1:25 p.m.

(10) Fish and Wildlife Service Credit Transfer

Dave Nelsen, Senior Policy Analyst, reported on "Fish and Wildlife Service Credit Transfer."

It was moved that "Fish and Wildlife Service Credit Transfer" bill draft Z-0766.1/08 be recommended to the Legislature. Seconded.

MOTION CARRIED

(11) Salary Bonuses in TRS

Dave Nelsen, Senior Policy Analyst, reported on "Salary Bonuses in TRS."

It was moved that "Salary Bonuses in TRS" bill draft Z-0763.1/08 be recommended to the Legislature. Seconded.

MOTION CARRIED

(12) PERS to SERS Auto Transfer

Dave Nelsen, Senior Policy Analyst, reported on "PERS to SERS Auto Transfer."

It was moved that "PERS to SERS Auto Transfer" bill draft Z-0764.1/08 be recommended to the Legislature. Seconded. Discussion followed.

MOTION CARRIED

(13) Post-Retirement Employment under EHB 2391

It was moved that "Post-retirement under EHB 2391" bill draft H-3755.1/08 be recommended to the Legislature. Seconded. Discussion followed.

MOTION FAILED

(14) Retiree Access to PEBB - Stakeholder Proposal

It was moved to endorse the "Allow Plan 2 Members to Join PEBB as a Separated Employee" proposal. Seconded. Discussion followed.

MOTION CARRIED

It was moved to endorse the "Second Chance PEBB Enrollment Window" proposal. Seconded. Discussion followed.

MOTION CARRIED

(15) Interruptive Military Service Credit

It was moved that "Interruptive Military Service Credit" bill draft Z-0802.1/08 be recommended to the Legislature. Seconded. Discussion followed.

MOTION CARRIED

(16) FRP (Pre-LEOFF) Survivor Benefits

It was moved that "FRP (Pre-LEOFF Survivor Benefits" bill draft Z-0765.1/08 be recommended to the Legislature. Seconded. Discussion followed.

MOTION CARRIED

Regular Committee Meeting

Draft Minutes

December 18, 2007

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(17) Military Death Benefit

It was moved that "Military Death Benefit" bill draft Z-0779.1/08 be recommended to the Legislature. Seconded. Discussion followed.

MOTION CARRIED

Chair Conway thanked the Committee Members and the Office of the State Actuary staff for their services to the Committee.

The meeting adjourned at 1:45 p.m.

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2. Election of Officers

Election of Officers

The SCPP's rules of procedure (Rule 7) require reorganization elections at the first meeting of the year. First the Chair and Vice-Chair shall be elected, then members of the Executive Committee.

Chair

The Chair shall be a member of the Senate in even-numbered years. RCW 41.04.276 (3).

Vice Chair

The Vice Chair shall be a member of the House in even-numbered years. RCW 41.04.276(3).

Executive Committee

The executive committee shall include the Chair, the Vice Chair, one member representative, one retiree representative, one employer representative, and the Director of the Department of Retirement Systems. RCW 41.04.276(4).

Current members of the Executive Committee are:

- ❖ Representative Steve Conway, Chair.
- ❖ Senator Mark Schoesler, Vice Chair.
- ❖ Randy Davis, *TRS Actives**.
- ❖ Elaine M. Banks, *TRS Retirees**.
- ❖ Glenn Olson, *PERS Employers**.
- ❖ Sandra Matheson, *DRS*.

** Elected by full committee.*

State Actuary Appointment Committee

The Chair and Vice Chair of the SCPP shall jointly appoint four SCPP members to serve on the State Actuary Appointment Committee, at least one of which shall represent state retirement system active or retired members, and one representing retirement system employers. RCW 44.44.013(1). Current Members are: Alexander, Conway*, Davis*, Olson*, Prentice, Schoesler*, Sommers, and Zarelli.

**Appointed by Chair and Vice Chair of SCPP.*

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- **Required Elections (SCPP Rule 7)**
 - **Chair (member of Senate)**
 - **Vice Chair (member of House)**
 - **Executive Committee**
 - **Active, retiree, and employer representatives**
 - **Currently**
 - **Randy Davis, *TRS Actives***
 - **Elaine M. Banks, *TRS Retirees***
 - **Glenn Olson, *PERS Employers***

3. Update from
Washington State
Investment Board
(WSIB)

Select Committee on Pension Policy



April 15, 2008
Joe Dear, Executive Director, WSIB
Investment Briefing



Overview



Capital markets

Credit markets turmoil

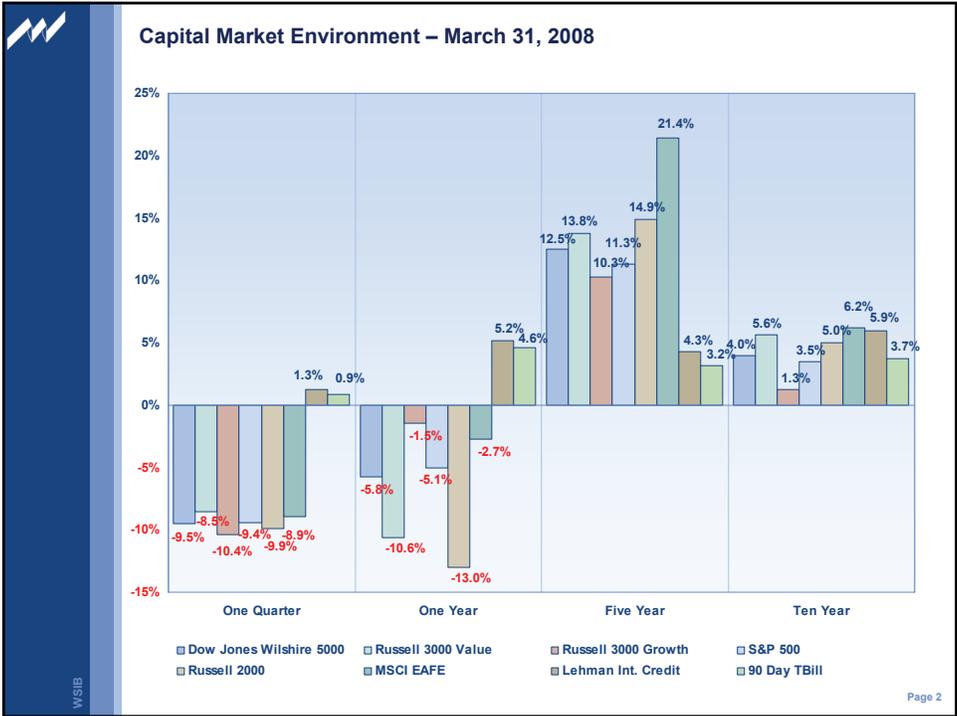
WSIB Governance

Commingled Trust Fund

- ▣ Asset allocation change
- ▣ Returns

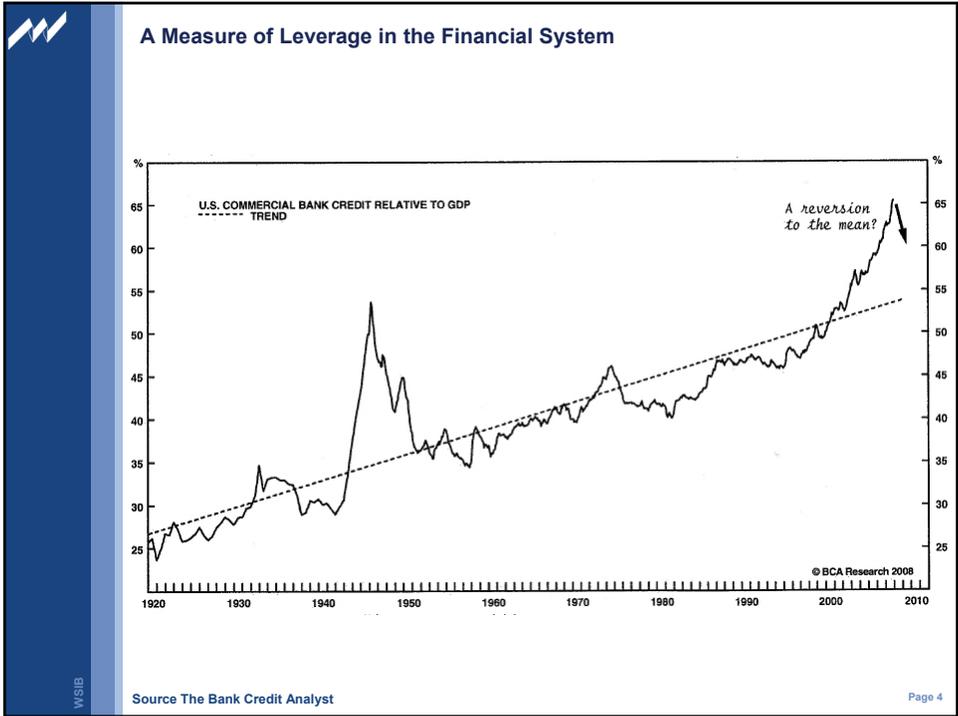
New option for defined contribution plans

Concluding observations



“When the tide goes out, we find out who’s been swimming without a bathing suit.”
 Warren Buffet

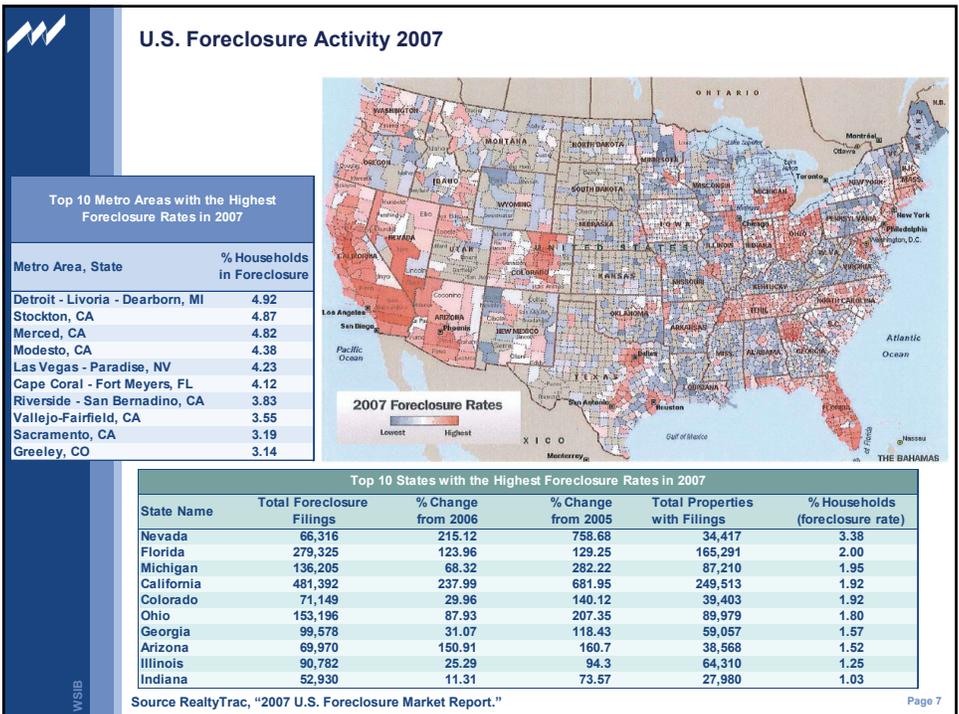
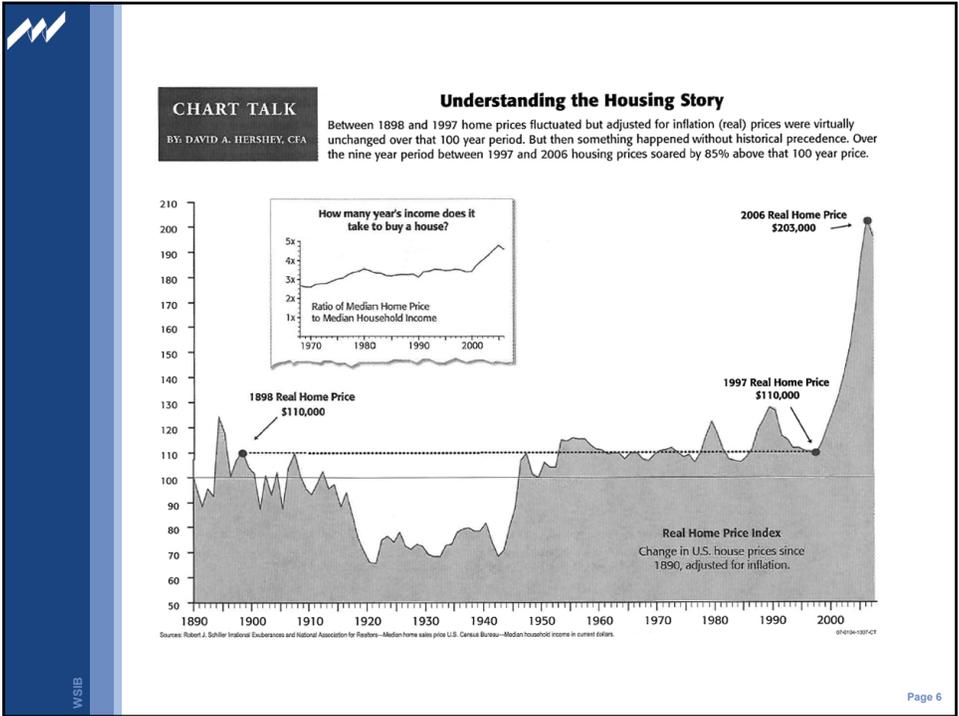
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“One must never forget that leverage doesn’t make investments better; it just magnifies the gains and losses.”

Howard Marks

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“The worst loans are made in the best times.”

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Housing Prices Fall

20 City Home Price Index (YoY%)

Date	YoY% Change
Jan-01	12
Jul-01	10
Jan-02	7
Jul-02	10
Jan-03	12
Jul-03	10
Jan-04	12
Jul-04	17
Jan-05	16
Jul-05	15
Jan-06	15
Jul-06	10
Jan-07	0
Jul-07	-5
Jan-08	-10

- ❑ Borrowers default and new loans become harder to get
- ❑ Loans made assuming asset value increases disappear
- ❑ Loans now being made on income qualifications
- ❑ Fewer buyers and more expensive loans mean lower demand

↓

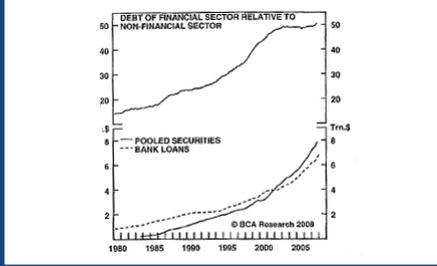
Demand Destruction

Source Case-Shiller, Bloomberg

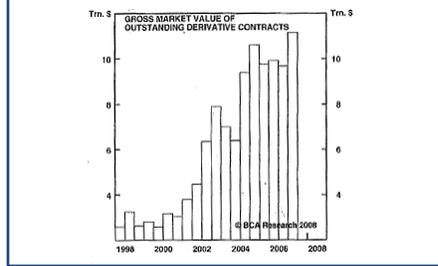
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“A trend which is unsustainable will stop.” – Herbert Stein

Leveraging Up the Financial System



A Derivatives Explosion



Time for a Consumer Retrenchment



It Was Great While it Lasted



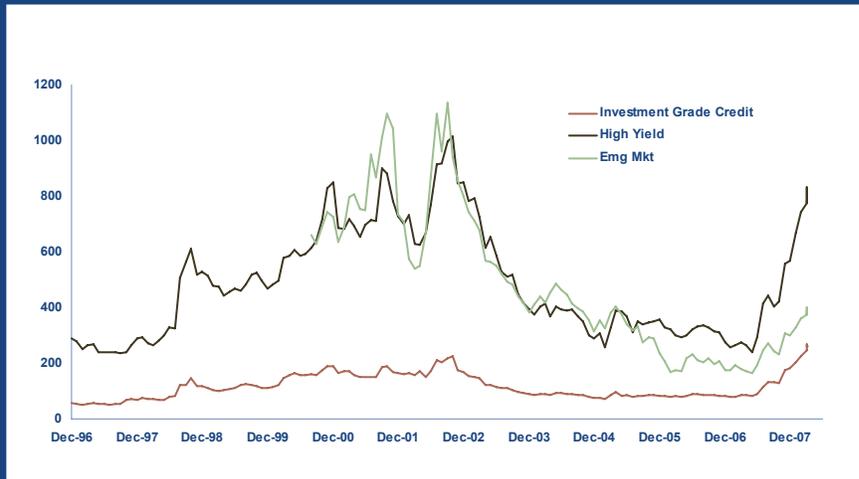
WSIB

Source The Bank Credit Analyst

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Credit Spreads Widen

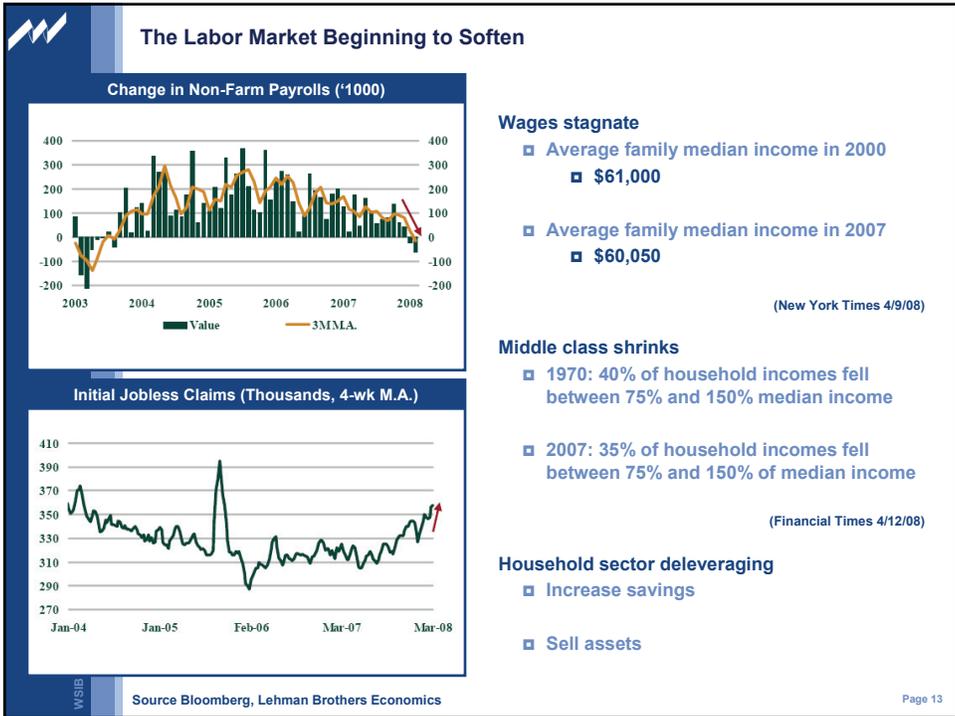
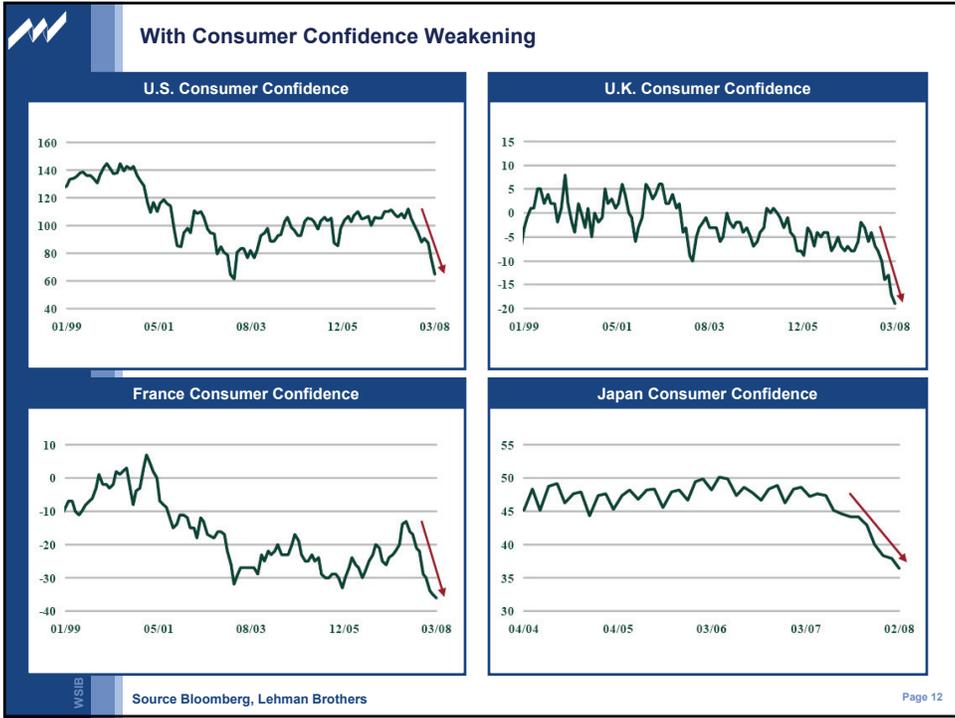
Credit Spreads (bp)



WSIB

Source Bloomberg, Lehman Brothers

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Flight from the U.S. Dollar Also Intensified with Currency Reaching New Lows



WSIB

Source Bloomberg, Lehman Brothers

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“When people are buying—I’m scared. When people are scared—I’m buying.”

Warren Buffet

WSIB

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Policymakers Are Responding



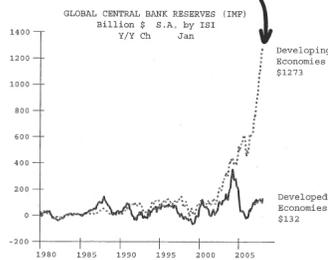
- ❑ Fed funds cut by -300 bps
- ❑ Discount rate cut by -375 bps
- ❑ ABCP and MBS accepted at the discount window
- ❑ Paulson interest rate freeze program
- ❑ New liquidity facilities for banks—TAF, TSLF
- ❑ Swap lines with the ECB, etc.
- ❑ BoE and BoC eased
- ❑ Coordinated injections of liquidity by central banks
- ❑ Tax rebates
- ❑ Accelerated depreciation
- ❑ Raising of conforming meeting loan limits
- ❑ Raising capital to rescue bond insurers
- ❑ “Project Lifeline” to halt foreclosures on mortgages
- ❑ Fed extends to primary dealers (PDCF)
- ❑ Fed guarantees Bear Stearns’ mortgage loans
- ❑ OFHEO eases FNM and FRE’s capital requirements
- ❑ Federal Home Loans Banks may buy \$150 billion of bonds



Emerging Market Countries are Liquidity Providers

Developing Economies Flooding the World with Investable Funds

Money is being shifted from low-saving consumers in developed economies to high-saving economies, eg, the Middle East and China. Reserves for developing economies are up \$1,273 billion y/y.



	CENTRAL BANKS RESERVES			
	Billion \$	YY %	\$ Ch	
			m/m	y/y
Global	\$6482	27.6%	\$83	\$1402
Developed Economies	\$1519	9.5%	\$21	\$132
Developing Economies	\$4967	34.5%	\$63	\$1273

Current Environment – Not All Bleak

Negatives	Positives
<p>Home prices falling</p> <ul style="list-style-type: none"> ▣ Demand destruction <p>Credit market turmoil</p> <ul style="list-style-type: none"> ▣ Spreads <p>Profits declining</p> <p>Wages stagnating</p> <p>Employment weakening</p> <p>Consumer confidence eroding</p> <p>Dollar falling</p>	<p>Trade balance improving</p> <p>Emerging markets currency reserves</p> <p>Emerging markets growth rates</p> <p>Aggressive action by policy makers</p> <p>Damage contained in financial sector</p> <p>Plenty of liquidity -- sovereign wealth funds, hedge funds and private equity</p> <p>Opportunities for patient capital</p>

WSIB

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WSIB Mission



Invest with integrity, prudence, and skill to meet or exceed the financial objectives of those we serve.

WSIB

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Fundamental Policies



“The Board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.” (RCW 43.33A.110)

“The State Investment Board shall invest and manage the assets entrusted to it with reasonable care, skill, prudence, and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose.” (RCW 43.33A.140)

“The Board shall consider investments not in isolation, but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for that fund.” (RCW 43.33A.140)

WSIB
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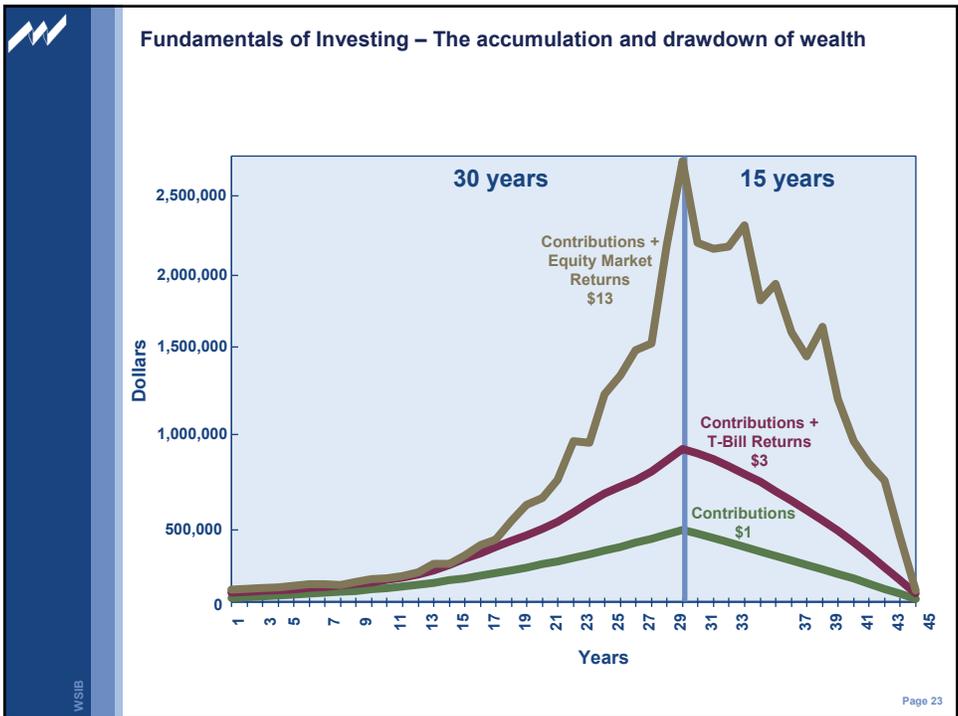
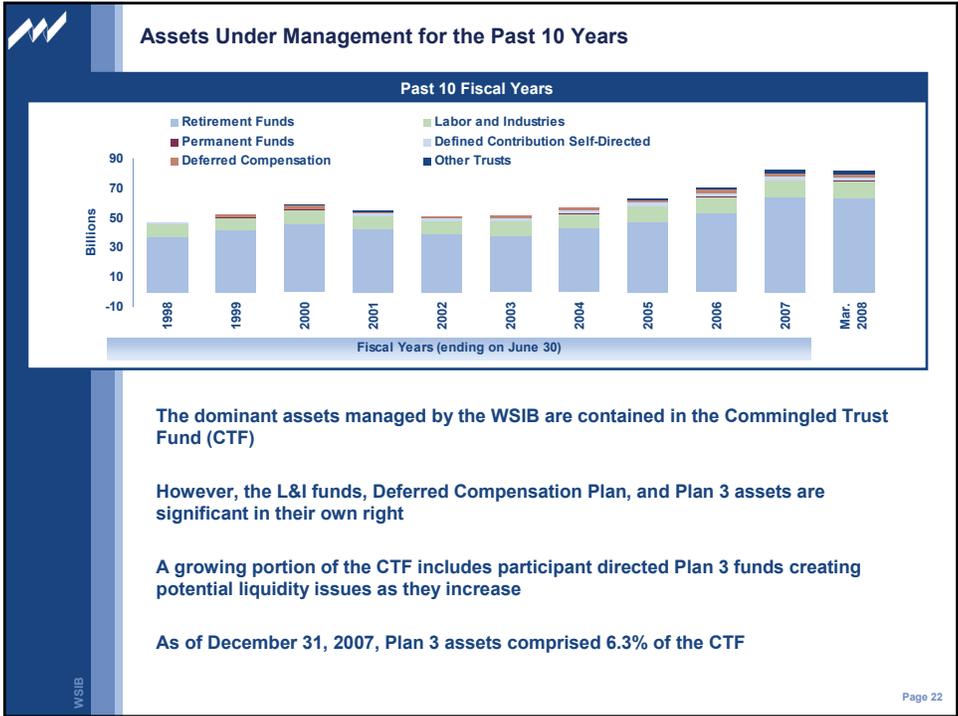
Organizational Structure

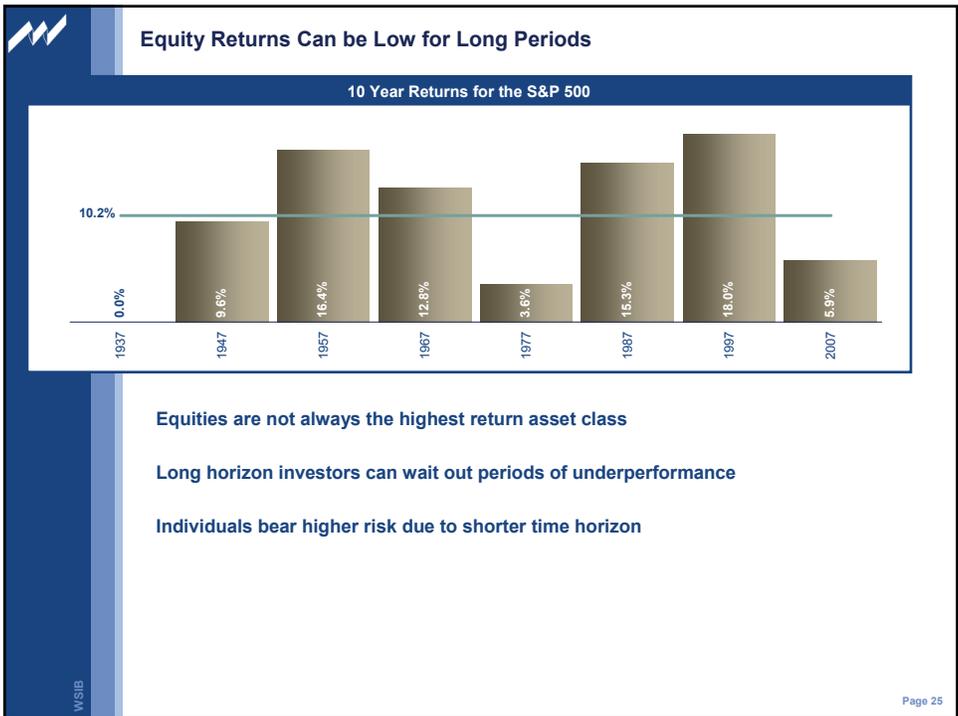
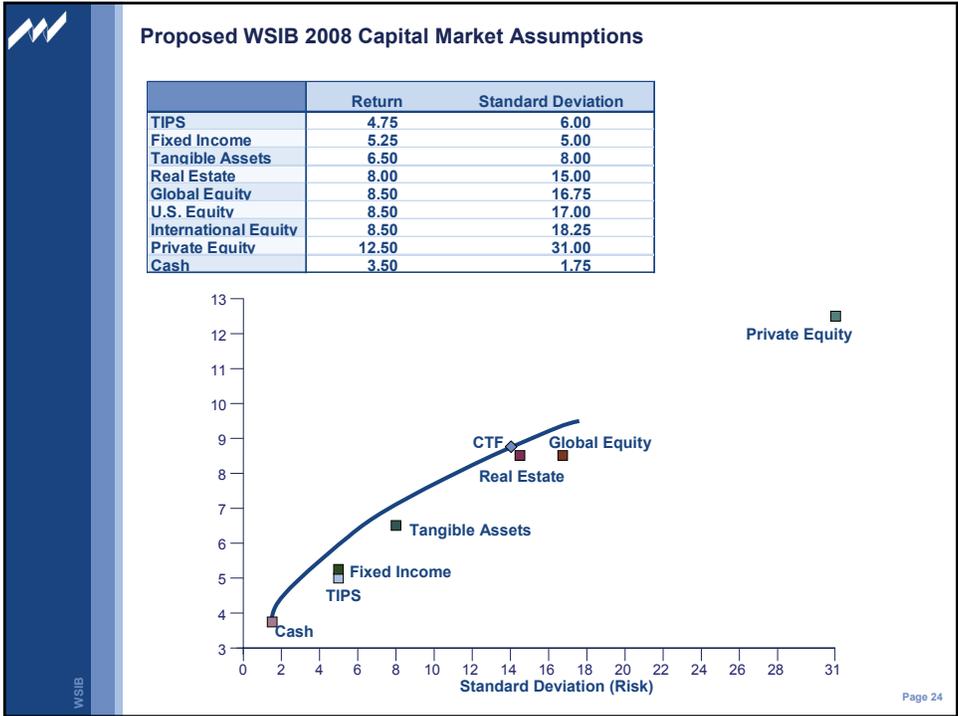


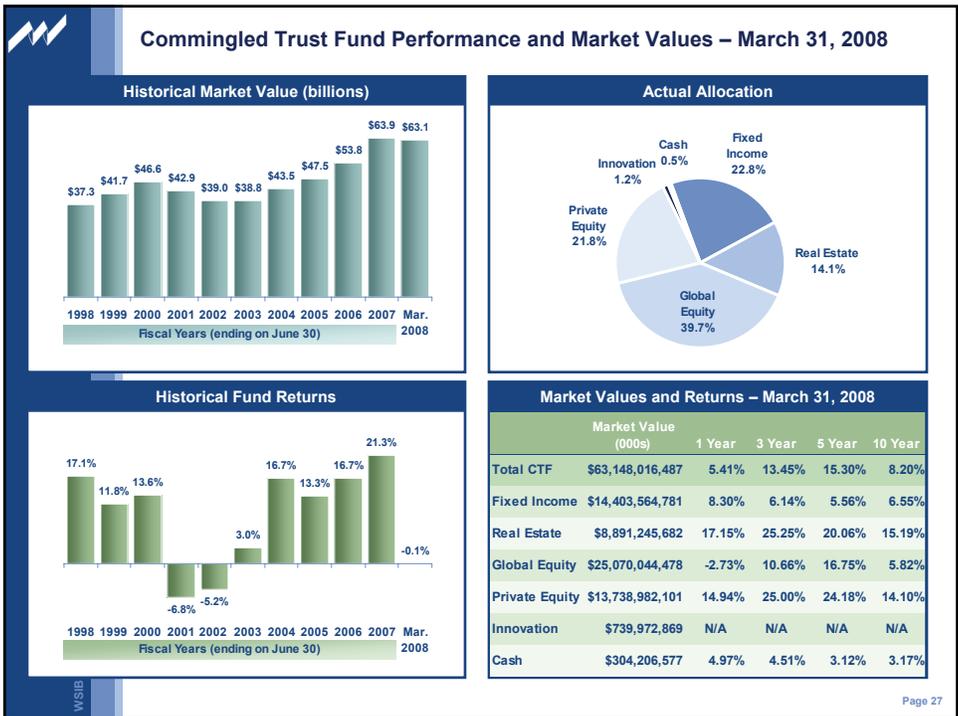
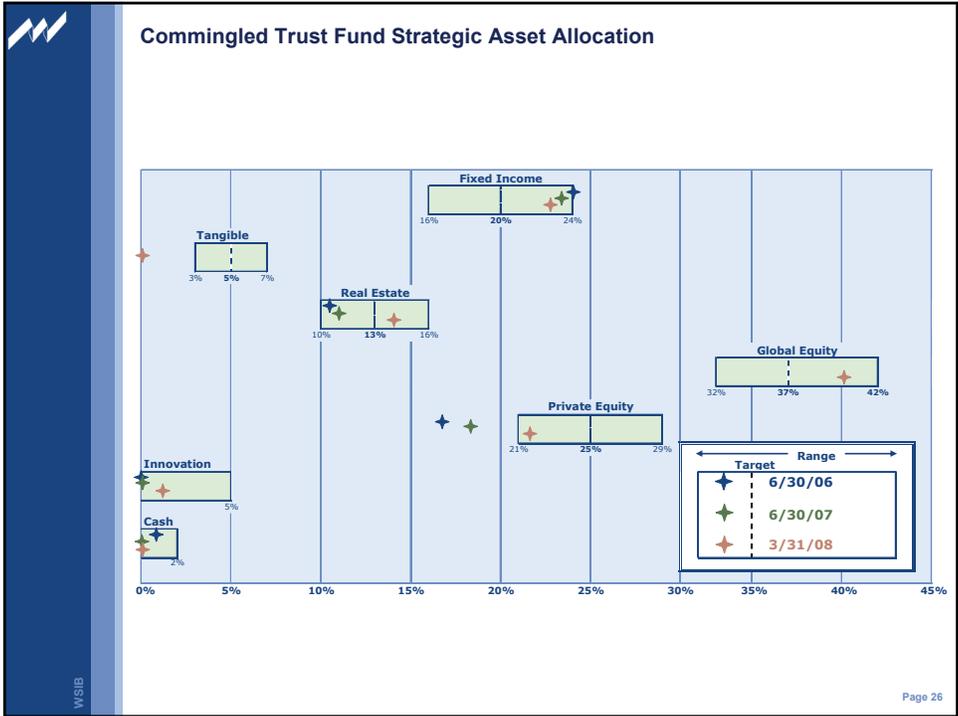
- Board comprised of 15 members
 - 10 voting
 - 5 non-voting
- 67 staff
- 120 investment managers under contract

	Appointment Authority	Name	Position
10 Voting	Ex-Officio	Michael Murphy	State Treasurer
		Sandra Matheson, Vice Chair	Director, DRS
		Judy Schurke	Director, Labor & Industries
	Senate President	Lisa Brown	State Senator
	House Speaker	Helen Sommers	State Representative
	Governor	Mason Petit	Active Member, PERS
		George Masten	Retired Member, PERS
Superintendent of Public Instruction	Patrick McElligott	Active Member, LEOFF	
	Glenn Gorton, Chair	Active Member, SERS	
5 Non-voting		Mike Ragan	Active Member, TRS
	Selected by the Board	Charles Kaminski	
		John Magnuson	
		Robert Nakahara	
		Jeffrey Seely	
	David Nierenberg		

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DC Participant Challenges

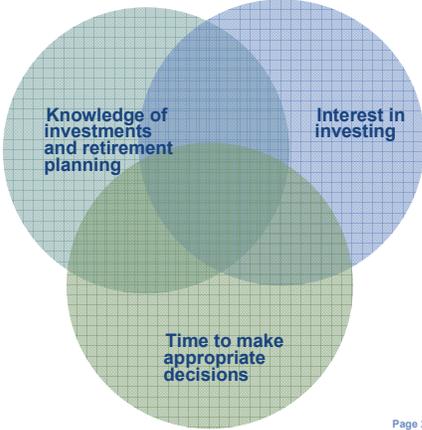
5 big challenges investors face

- ❑ Making the time available to manage investment choices
- ❑ Knowing how they feel about risk and what that means
- ❑ Understanding all available investment options
- ❑ Making the optimal investment allocations
- ❑ Changing their investment mix over time

2 Frequent mistakes

- ❑ Risk averse initial choice
- ❑ Never rebalance

Target date retirement funds fill a gap in investment choices



WSIB

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Benefits of Target Date Retirement Funds



Appropriate risk level at every age

Easier for participants to understand “one stop shopping”

Places the critical asset allocation and rebalancing decisions in the hands of investment professionals

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Concluding observations



- The deleveraging of the financial system is not over**
- Returns will revert to long term averages**
- Patience and confidence in our strategies will be tested**
- The virtues of a globally diversified portfolio of high quality assets managed by skilled investors will be revealed**
- Risk management is a priority**
- An 8% return is realistic and challenging**

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“What the wise man does in the beginning, the fool does in the end.”

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4. Litigation Update

There are no handouts for this agenda item.

5. Legislative Update

Legislative Update Introduction

In response to numerous member requests for more executive summary type materials, staff is pleased to present a new format for the Legislative Update for 2008. This year, the Legislative Update is presented as a high-level summary table with active links to the underlying bill histories and fiscal notes. Members may click on a bill number to pull up the complete bill history from the Legislature's website. The bill history provides a detailed account of the progress of the bill in the Legislature, and has links to the various versions of the bill and the corresponding fiscal notes.

The new Legislative Update is designed to provide a large amount of information in a concise and readable manner. The following hints will help members get the most out of the information provided in the table.

- Bills recommended or endorsed by the SCPP are listed first.
- Entries for bills that passed the Legislature are highlighted in bold, colored type.
- The bill numbers for bills that passed one house of the Legislature are shown in a larger font size to distinguish them from a companion bill that did not pass.
- Click on bill numbers to pull up additional details about a bill.
- Amended bills are flagged with an "**A**" in the column next to the bill number.
- Bills that were requested by a policy committee or board have the name of the committee or board in the **Sponsor** column.
- The cost provided is the total 25-Year Employer Cost: bills with an indeterminate fiscal cost are shown as "**Ind**;" bills that do not have an impact on the pension system are shown as "**N/A**."
- The **09-11 Rate Impact** column shows whether a bill would require a supplemental rate to be charged for the remainder of the 2007-2009 Biennium. Bills with an indeterminate rate impact are shown as "**Ind**." Bills with a 25-year employer cost that show no 07-09 rate impact can still have rate impacts in subsequent biennia.
- The **Status** column shows the furthest stage to which a bill advanced during the 2008 Legislative Session.

We hope you find this document a useful tool for understanding the 2008 Legislative Session and welcome your comments on the new format.

2008 Legislative Update: Pension & Pension-Related Bills as of 4/7/2008

Bill	A*	Sponsor	Brief Description	Cost* (\$Millions)	07-09 Rate Impact?**)	Status
<u>HB 3019</u> <u>SB 6654</u>		SCPP	Allows educational employees who work 630 hours or more in five months of a six month period within a school year to receive six months of service credit.	\$1.0	No	Gov. Signed, C 204 L 08
<u>HB 3021</u> <u>SB 6657</u>		SCPP	Makes annual bonuses for teachers certified by the National Board for Professional Teaching Standards includable in salary for pension purposes.	\$97.6	Yes	Gov. Signed, C 175 L 08
<u>HB 3024</u> <u>SB 6656</u>		SCPP	Reduces from five to two the number of required years of TRS service credit for TRS 2/3 members who purchase out-of-state service credit .	\$0.0	No	Gov. Signed, C 101 L 08
<u>HB 3005</u> <u>SB 6655</u>		SCPP	Gives certain PERS members who were automatically transferred to SERS the option to move their service and associated savings funds back to PERS.	\$0.0	No	Passed House Passed Senate W&M
<u>HB 3006</u> <u>SB 6652</u>		SCPP	Provides an optional survivor annuity for certain inactive PERS 1 members who die prior to retirement.	\$1.0	No	Passed House Passed Senate W&M
<u>HB 3007</u> <u>SB 6646</u>		SCPP/L2Board	Provides an unreduced joint and survivor annuity to the survivor of a member who dies in war while serving in the National Guard or Military Reserves.	\$1.7	No	Passed House Passed Senate W&M

***Excludes rate impact for subsequent biennia.*

***Key: A=Amended Cost=Total 25-Year Employer Cost Ind=Indeterminate**

Bill	A*	Sponsor	Brief Description	Cost* (\$Millions)	07-09 Rate Impact?**)	Status
<u>HB 3008</u> <u>SB 6645</u>	A	SCPP/L2Board	Allows free retirement system service credit for members whose interruptive military service is during a period of war.	\$2.4	No	Passed Senate W&M No hearing in House
<u>HB 3020</u> <u>SB 6650</u>		SCPP	Enhances survivor benefits in the pre-LEOFF firefighter plans by providing an optional survivor benefit for certain ineligible spouses and allowing certain survivor benefits to continue after remarriage.	Ind	Ind	Passed House Passed Senate W&M
<u>HB 3022</u> <u>SB 6651</u>		SCPP	Changes the vesting period for the defined benefit portion of PERS, TRS, and SERS Plan 3 to five years of service for all members.	\$71.8	Yes	Heard in Senate W&M No hearing in House
<u>HB 3023</u> <u>SB 6653</u>		SCPP/L2Board	Allows enforcement officers for the Department of Fish & Wildlife to convert prior PERS 2 service to LEOFF 2 by paying the difference in contribution rates plus interest.	\$0.0***	No	Passed Senate No hearing in House
<u>HB 3025</u> <u>SB 6647</u>		SCPP	Authorizes the Higher Education Coordinating Board to offer participation in higher education retirement plans to any or all of its employees who are not retirees of state-administered plans.	(\$2.2)	No	Passed House Heard in Senate W&M
<u>HB 3026</u> <u>SB 6664</u>		SCPP/L2Board	Indexes the amount of the \$150,000 death benefit provided for all public employees to changes in the Consumer Price Index.	\$7.1	Yes	Heard in Senate W&M No hearing in House

**Excludes rate impact for subsequent biennia.

***Added cost is paid for by members (\$2 million) and Department of Fish & Wildlife (\$3 million).

*Key: A=Amended Cost=Total 25-Year Employer Cost Ind=Indeterminate

Bill	A*	Sponsor	Brief Description	Cost* (\$Millions)	07-09 Rate Impact?***	Status
<u>HB 3027</u> <u>SB 6648</u>		SCPP (endorsed)	Allows certain members of PERS, TRS, and SERS Plans 2 who separate from employment to continue participation in Public Employees' Benefits Board insurance plans and contracts.	N/A	N/A	Passed House No hearing in Senate
<u>HB 3028</u> <u>SB 6649</u>		SCPP (endorsed)	Allows certain previously retired or disabled school and state employees an opportunity to enroll in medical or dental plans offered by the Public Employee Benefits Board.	N/A	N/A	Heard in Senate W&M No hearing in House
<u>HB 2887</u>	A	Fromhold	Allows certain Judges and Justices in PERS to increase their benefit by purchasing a higher multiplier for their eligible past judicial service.	\$10.9	No	Gov. Signed, C 300 L 08
<u>HB 2962</u> <u>SB 6573</u>	A	L2Board	Provides a new funding source for benefit improvements in LEOFF2 by potentially transferring monies from the General Fund.	Ind	Ind	Gov. Signed, C 99 L 08
<u>HB 2134</u>		VanDeWege	Expands the definition of fire fighter in LEOFF Plan 2 to include certain employees of Port Districts.	\$1.3	No	Passed House Passed Senate W&M
<u>HB 2603</u>		Chandler	Establishes a new investment policy for the retirement system trust funds by requiring the State Investment Board to avoid investing in companies that have certain business operations in Iran.	Ind	Ind	No Hearing
<u>HB 2982</u>		Haigh	Allows certain prior members of TRS 1 who are currently employed by the Public School Employees of Washington to elect to join PERS 1.	\$0.6	No	No Hearing

***Excludes rate impact for subsequent biennia.*

***Key: A=Amended Cost=Total 25-Year Employer Cost Ind=Indeterminate**

Bill	A*	Sponsor	Brief Description	Cost* (\$Millions)	07-09 Rate Impact?***	Status
<u>HB 3049</u> <u>SB 6635</u>		L2Board	Makes employer contributions to LEOFF Plan 2 member 457 accounts (deferred compensation) includable in salary for pension calculations.	\$94.9	Yes	Heard in Senate W&M No hearing in House
<u>HB 3070</u> <u>SB 6687</u>		Conway/Regala	Deletes provisions enacted in EHB 2391 (Chapter 491, Laws of 2007) that prohibit those retiring under newly improved alternate early retirement provisions from utilizing post-retirement employment benefits until they reach age 65.	\$17.3	Yes	No Hearing
<u>HB 3089</u>		Miloscia	Extends the presumption of occupational disease to include public employee fire investigators. This presumption is used in determining eligibility for certain benefits from the retirement system.	Ind	Ind	No Hearing
<u>HB 3182</u>		Lantz	Allows SERS members to receive service credit for periods of partial service prior to September 1, 1987.	\$1.0	Yes	No Hearing
<u>HB 3211</u> <u>SB 6455</u>		Simpson/Haugen	Creates a new board of trustees for the Washington State Patrol Retirement System.	N/A	N/A	Heard in Senate Trans. No hearing in House
<u>HB 3257</u>		Chase	Provides future plan choice for Plan 2/3 members of PERS, TRS, and SERS if they change employers or have a break in service.	\$189.0	Yes	No Hearing
<u>HB 3258</u>		Chase	Provides an increasing annual payment for each year of service to the defined contribution account of eligible Plan 3 retirees and vested inactive members.	\$47.7	Yes	No Hearing

***Excludes rate impact for subsequent biennia.*

***Key: A=Amended Cost=Total 25-Year Employer Cost Ind=Indeterminate**

Bill	A*	Sponsor	Brief Description	Cost* (\$Millions)	07-09 Rate Impact?***	Status
<u>HB 3331</u>		Conway	Amends the definition of occupational disease for fire fighters in RCW 51.32.185. This definition is used in determining eligibility for certain benefits from the retirement system.	Ind	Ind	Heard in House Comm. & Labor
<u>SB 6571</u>		Honeyford	Creates a window for certain former judges to increase their benefit multiplier for prior judicial service by paying the actuarially equivalent value of the increased benefit.	\$0.0	No	No Hearing (provisions were amended into HB 2887 which passed Legislature)

***Excludes rate impact for subsequent biennia.*

***Key: A=Amended Cost=Total 25-Year Employer Cost Ind=Indeterminate**



The Select Committee on Pension Policy

Legislative Update

Darren Painter, Policy Analyst

April 15, 2008



Office of the State Actuary

"Securing tomorrow's pensions today."

Overview



- Informational briefing
 - No decisions required
- Structure
 - High-level session overview
 - Bills that passed
 - Bills that did not pass
- Goal: Answer the question
 - What happened with pensions in 2008?



Office of the State Actuary
"Securing tomorrow's pensions today."

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2008 Session Background



- Major restructuring of benefits in 2007
- Litigation around 2007 pension legislation
- 2008 was short session
 - Sixty days instead of 105



What Happened With Pensions?



- Five pension bills passed Legislature
- More pension bills passed House (12) than Senate (6)
- Pension bills from policy committee/board tended to go further in the legislative process

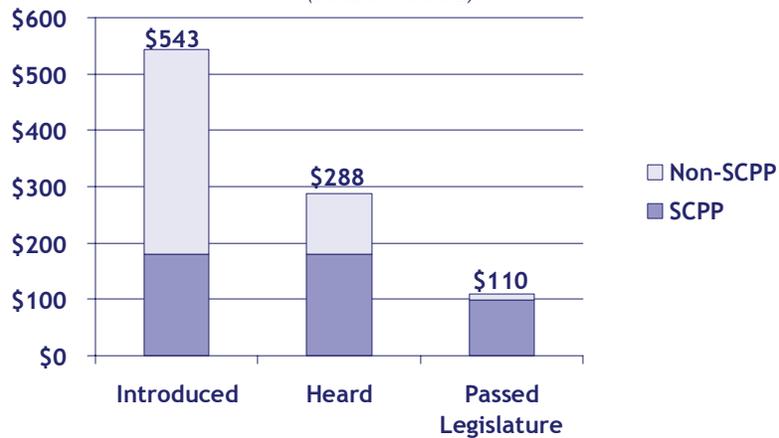


Cost of 2008 Pension Legislation



Total 25-Year Employer Cost

(Dollars in Millions)



Costs shown exclude indeterminate and OPEB costs.



Office of the State Actuary
"Measuring tomorrow's pension policy."

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Cost Factor?



- Cost was not necessarily the controlling factor
- Some relatively high-cost bills passed
- Many no-cost or low-cost bills did not pass



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Who Was Impacted?



- Judges
- Teachers
- School Employees
- Police and Fire Fighters



2008 Session Summary



- Twenty-eight pension-related bills introduced
 - Fourteen SCPP, two LEOFF 2 Board, twelve other
 - Four SCPP bills coordinated with LEOFF 2 Board
- Twenty pension-related bills receiving hearings
 - Fourteen SCPP, two LEOFF 2 Board, four other
- Thirteen pension-related bills passed at least one house of Legislature
 - Ten SCPP, one LEOFF 2 Board, two other
- Five pension-related bills passed Legislature
 - Three SCPP, one LEOFF 2 Board, one other

SCPP Bills: Passed Legislature



- **Three SCPP bills passed Legislature**
 - TRS/SERS Half-Year Contracts (*HB 3019*)
 - Salary Bonuses in TRS (*SB 6657*)
 - Public Education Experience Program Waiting Period (*HB 3024*)
- **Bills impacted educational employees**
 - Easier for members working partial year contracts to receive one-half year of service credit
 - Allowed certain bonuses (NBPTS) for teachers to be included in salary for pension purposes
 - Allowed teachers to purchase service credit for out-of-state teaching experience sooner

Non-SCPP Bills: Passed Legislature



- **Two Non-SCPP bills passed Legislature**
 - **LEOFF 2 Alternate Revenue** (*ESSB 6573, LEOFF 2 Board*)
 - Creates new funding source for LEOFF 2 benefits
 - Conditionally transfers up to \$50 million/biennium from General Fund
 - Transfers tied to future growth in general state revenue
 - Restrictions on how funds can be used
 - **Judges Benefit Multiplier** (*HB 2887, Fromhold*)
 - Allows certain PERS Judges to increase their benefit by purchasing a higher multiplier for past judicial service
 - Extends purchase options provided in recent legislation to additional judges

Fiscal Impact: Bills Passed Legislature



(Dollars in Millions)	General Fund-State	Total Employer
2008-2009	\$2.2	\$3.2
2009-2011	4.7	7.8
25-Year	\$68.4	\$109.5

SCPP Bills: Did Not Pass Legislature



- Eleven SCPP bills did not pass Legislature
 - Survivors of PERS 1 Inactives (Passed House)
 - FRP (Pre-LEOFF) Survivor Benefits (Passed House)
 - Military Death Benefits (Passed House)
 - Indexed \$150,000 Death Benefit (Heard in Senate)
 - Interruptive Military Service Credit (Passed W&M)
 - PERS to SERS Auto-Transfer (Passed House)
 - Fish and Wildlife Service Credit Transfer (Passed Senate)
 - Plan 2 Access to PEBB (Passed House)
 - PEBB Second Chance Enrollment Window (Heard in Senate)
 - Plan 3 Vesting (Heard in Senate)
 - HECB Proposal (Passed House)

Non-SCPP Bills That Moved



- Three Non-SCPP pension bills moved in Legislature
- All related to public safety
 - Created a new board of trustees for WSPRS *(Heard in Senate)*
 - Eliminated the applicability of the SCPP over WSPRS
 - Placed port employees with certain fire fighting duties in LEOFF 2 *(Passed House and W&M)*
 - SCPP was briefed in 2007
 - Allowed LEOFF 2 employer contributions to certain deferred compensation plans to be included as salary for pension purposes *(Heard in Senate)*
- OFM directed to study WSPRS governance and report to Legislature in November

High-Profile Non-SCPP Bills



- Socially responsible investing *(no hearing)*
 - Required WSIB to avoid investing in companies with certain business operations in Iran
 - Public plans often deal with issues around socially responsible investing
- Gain-sharing related bills *(no hearing)*
 - Plan 2/3 choice upon separation from employer
 - Additional payment to Defined Contribution account of Plan 3 retirees and inactive members
 - Remove restrictions enacted in 2007 on post-retirement benefits for certain Plan 2/3 early retirees

Conclusion



- Few pension bills passed the Legislature in 2008
- Bills that passed primarily targeted educational and public safety employees
- Cost was not necessarily the deciding factor
- Several SCPP bills passed one house but not both
 - Six passed House but not the Senate
 - One passed Senate but not the House



More Information?



- 2008 Legislative Update included in members' packets
- Concise summary of pension legislation
- Electronic version contains active links
 - Bill history
 - Fiscal notes



WEA
WASHINGTON
EDUCATION
ASSOCIATION

724 Columbia St. N.W., #220
Olympia, WA 98501

telephone: 360-943-3150
fax: 360-352-3986

www.washingtonea.org

Mary Lindquist, President
Mike Ragan, Vice President
Armand L. Tiberio, Executive Director
Rod Regan, Legislative and Political Director

April 15, 2008

Select Committee on Pension Policy
Executive Committee Members
P. O. Box 40914
Olympia, WA 98504-0914

Dear Executive Committee Members;

On behalf of the 81,000 members of the Washington Education Association, we would appreciate your consideration of the following issues for study and/or action during the 2008 interim in preparation for the 2009 Legislative Session.

The WEA's highest priority for pension improvements continues to be the establishment of a "Rule of 85" for Plans 2 and 3. We recognize the committee has spent considerable time studying this issue, and are not seeking any duplication of those prior efforts. However, the WEA does seek the committee's recommendation of Rule of 85 legislation to the 2009 legislature.

Similarly, we would seek the committee's recommendation, without the need for further study, several proposals previously studied and/or recommended by the committee, but not acted on by the legislature. These issues include:

- **Addressing post-retirement employment for members of Plans 2 and 3** who retire early under the Alternate Early Retirement benefit provided in EHB 2391. (HB 3070/SB 6687 during 2008 legislative session)
- **Five-year vesting for Plan 3 members** regardless of age. (HB 3022/SB 6657 during 2008 legislative session)
- **Plan 2 member access to Public Employee Benefits Board health plans.** (HB 3027/SB 6648 during 2008 legislative session)

In addition to committee action on these issues, the WEA would also ask the committee to study and make recommendations on the following issues:

(continued)

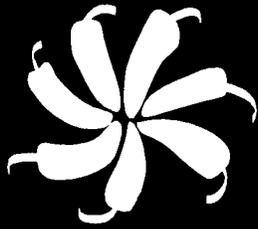
- **Disability benefits.** We were encouraged by last year's study of these issues and support continued efforts in this area such that we can realize more affordable solutions to the sudden drop off in benefits for those who do not qualify under the rules in place for those with 30 years of service.
- **Compulsory Plan 3 membership.** The WEA acknowledges the difficulty in transfers between plans, especially for those who've exercised an "irrevocable choice" to transfer. However, now that there is optional enrollment in TRS and SERS, we would advocate for an opportunity for Plan 3 members to switch to Plan 2, especially those members who were never provided a choice in plan enrollment.
- **Education Staff Associates with multiple employers.** Several professions are common to both the state and school systems. These include speech language pathologists, physical therapists and others. Some of these employees began their careers in the state system under PERS 2 and then gained employment in schools where they were enrolled in TRS 3 (or the reverse). There is a concern that combining these two plans do not add up to a whole pension benefit. We would ask the committee to study the issue of those whose employment has forced them to earn service credit in the two separate systems in this manner and seek a resolution that assures that their career of public service to the state results in a full pension without having been penalized for service in two separate systems. (see RCW 41.32.032 for how this was addressed in the 1980's)

We are prepared to discuss these issues in more detail and would welcome the opportunity to work with the committee in determining the best way to address these issues. Thank you for your consideration.

Sincerely;



Randy Parr
Budget Analyst/Lobbyist
Washington Education Association
(360) 943-3150
(360) 481-2825



Public Employees for Pension Reform

A coalition of Washington State Public Employee Unions and Retiree Associations serving active and retired state and public employees

MEMORANDUM

TO: Select Committee on Pension Policy

FROM: Public Employees for Pension Reform (PEPR)

DATE: April 15, 2008

SUBJECT: Requested Prioritization of Pension Benefit Improvements

We are writing to you to express our deep concern with your committee's responsibility to address the problems visited upon active and retired state and public employees in Plan 3 due to the repeal of gain-sharing. The negative impact on our members has been acknowledged but left to the courts to decide just what the remedy should be. Suggested legislation to provide financial "trade-offs" for employees and retirees so affected was turned down by the 2007 Legislature and ignored by the SCPP last summer.

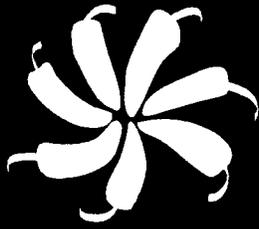
Please acknowledge that, regardless of the outcome of the lawsuit, the Legislature will still have to pass legislation to redress problems that will be the result of whatever ruling the court should make. For example, if the state should prevail and not have to reinstate gain-sharing, the Legislature will be morally obligated to ascertain the value of lost income to Plan 3 members and provide some compensation for those affected as acknowledged by both Republican and Democratic legislators during the 2007 debate in the House.

There are other legal and financial issues that are too complicated to even bring up in a letter such as this. That's why it's so important that the SCPP begin considering likely impact(s) as a 2008 Interim Issue. There will be an *impact* on upcoming state budgets and affected employees/retirees regardless of the court's decision which needs to be assessed now rather than later. Prospective planning for this may even reveal other options short of an extended multi-year court case.

We would submit that, given the role and authority the legislature has given the committee, the SCPP should demonstrate to Plan 3 members and retirees that they are concerned about their welfare and will make an effort in the 2008 Interim to research these problems.

Addressing these issues would be a positive commitment by the legislature to repair problems with recruitment and retention in both school and public employees systems. Members of PEPR look forward to working with the SSCP throughout 2008-09 on these key issues. Please feel free to contact any of the following organizations if you have any questions about the PEPR coalition or our priorities.

Washington State Federation of State Employees (WFSE) <i>Matt Zuvich, Chair – 306-352-7603</i>	
American Federation of Teachers <i>Bernal Baca- 206-242-4777 x 20</i>	Washington Education Association & Washington Education Association - Retired <i>Randy Parr - 360-943-3150</i>
Association of Washington School Principals & Washington Association of School Administrators <i>John Kvamme - 360-943-5717</i>	Washington Public Employees Association <i>Luis Moscoso - 360-943-1121</i>
Public School Employees of Washington <i>Tom Lopp – 866-820-5662</i>	Washington State Council of City & County Employees – Council 2 <i>J. Pat Thompson – 425-303-8818</i>
Retired Public Employees Council of Washington <i>Cassandra de la Rosa & Beverly Hermanson – 360-352-8262</i>	Washington State School Retirees' Association <i>Ed Gonion, Leslie Main & Don Carlson - 360-413-5496</i>
	Teamsters Union – Local 117 <i>Mike Ryherd – 206-441-4860</i>



Public Employees for Pension Reform

A coalition of Washington State Public Employee Unions and Retiree Associations serving active and retired state and public employees

TO: Select Committee on Pension Policy
FROM: Public Employees for Pension Reform (PEPR)
DATE: April 15, 2008
SUBJECT: Requested Prioritization of Pension Benefit Improvements

PEPR is comprised of organizations representing various active and retired members of Washington State's retirement systems. Though member organizations of PEPR will be individually submitting their respective priorities, we have joined together to coalesce around three key issues for 2008-09. The PEPR coalition requests that the following issues be placed on the Select Committee on Pension Policy's (SCPP) 2008 Interim agenda:

- **Disability Retirement Benefits:**
Due to differences in benefits between systems and plans, and other state programs, the current patchwork of disability retirement policy results in substantive benefit inadequacies. **PEPR asks that guaranteed and/or earned service, duty and non-duty benefits are considered in the SCPP's deliberation of Disability benefits.**
- **Plan 1 Purchasing Power – COLA Improvement:**
The value of TRS/PERS Plan 1 pension benefits needs to be protected from continuing substantial losses in purchasing power that occur due to the design of Plan 1. **PEPR asks that the SCPP develop short and long-term options that address inadequacies of the current Plan 1 COLA.**
- **Plan 2/3 Post-Retirement Employment – Repeal of Penalty on Improved ERRF:**
Members of Plans 2/3 who utilize the improved Early Retirement Reduction Factor (ERRF) under the Gain Sharing Repeal legislation, ESHB 2391 (2007), are prohibited from any post-retirement public employment. **PEPR asks that the SCPP support repeal of restrictions included in ESHB 2391 (2007) that forbids Plan 2/3 post-retirement public employment for those who take advantage of the improved ERRF.**

Addressing these issues would be a positive commitment by the legislature to repair problems with recruitment and retention in both school and public employees systems. Members of PEPR look forward to working with the SCPP throughout 2008-09 on these key issues. Please feel free to contact any of the following organizations if you have any questions about the PEPR coalition or our priorities.

**PEPR
(Public Employees for Pension Reform)**

Washington State Federation of State Employees (WFSE)
Matt Zuvich, Chair – 306-352-7603

American Federation of Teachers
Bernal Baca - 206-242-4777 x 20

**Association of Washington School Principals &
Washington Association of School Administrators**
John Kvamme - 360-943-5717

Public School Employees of Washington
Tom Lopp – 866-820-5662

Retired Public Employees Council of Washington
Cassandra de la Rosa & Beverly Hermanson – 360-352-8262

Teamsters Union – Local 117
Mike Ryherd – 206-441-4860

**Washington Education Association &
Washington Education Association - Retired**
Randy Parr - 360-943-3150

Washington Public Employees Association
Luis Moscoso - 360-943-1121

Washington State Council of City & County Employees – Council 2
J. Pat Thompson – 425-303-8818

Washington State School Retirees' Association
Ed Gonion, Leslie Main & Don Carlson - 360-413-5496