

OSA Study Update: LEOFF Merger

A budget proviso in the 2011-13 Operating Budget (2011 c 50 s105) requires the Office of the State Actuary (OSA) to study the issue of merging the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 into a single retirement plan.

The merger study language contained the following minimum requirements for OSA:

- ❖ Analyze the impact on contribution rates and changes to available assets under a range of possible economic and demographic experience and a variety of funding policies.
- ❖ Solicit input from stakeholders and provide representative samples of that input.

In addition, the Department of Retirement Systems (DRS) is required to assist OSA by providing information and advice.

What Is The Current Status Of The Study?

Most of the initial research has been completed and two stakeholder meetings have been held. OSA has established a plan for actuarial analysis and has begun that analysis accordingly.

How Might The Study Impact The SCPP?

Currently, LEOFF 1 is governed by the Legislature, with the SCPP serving in an advisory role. A plan merger could increase or decrease the SCPP's role. Some possible examples:

- ❖ SCPP's advisory role in governing LEOFF 1 could be assigned to a different agency or entity.
- ❖ SCPP could acquire an advisory role in governing LEOFF 2.
- ❖ SCPP could be assigned direct oversight of a combined LEOFF plan.

Does The SCPP Choose To Provide Input?

The SCPP is a stakeholder due to its role in LEOFF 1 governance. However, the budget proviso does not specifically call for SCPP involvement.

The SCPP has the option of providing input for OSA's consideration via discussion at the work session. Additional input can also be provided to OSA in writing.

Next Steps For OSA

- ❖ Complete actuarial analysis.
- ❖ Draft and finalize report.
- ❖ Submit report to Legislature by December 15, 2011.

Next Steps For SCPP

- ❖ Receive OSA update on study.
- ❖ Optional SCPP discussion or feedback
- ❖ Can also be provided in writing

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OSA Study Update: LEOFF Merger

Draft Outline

Draft Report Outline

This draft is provided for the November SPCP meeting to provide an idea of what will appear in the report. The actual contents of the final report may differ from this outline.

1. Introduction

- About the study (budget proviso).
- Disclosure.
- Goals of the study.
- Interagency agreement.
- Other states.
 - ◇ Similar studies underway in at least two other states.

2. Executive summary.

3. Background.

- Plan membership.
- Brief history of plans.
- Summary of basic plan provisions.

4. What do we mean by “merging the two plans”?

- What could a merger look like? How would it be structured?
 - ◇ “Merger” is undefined.
 - ◇ Theoretically, it could range from a complete merging of all aspects (akin to closing both plans and creating a new plan from whole cloth) to simple administrative changes.
 - ◇ Some structures are much more likely than others.
- Other states.
 - ◇ Very brief, high-level view of two recent mergers in other states.
- Governance issues.
 - ◇ General oversight.
 - ◇ Review boards (Disability and Medical).

- Funding policy.
 - ◇ Contribution rates.
 - ◇ Cost sharing.
 - ◇ Assumptions and methods.
 - Assets and liabilities.
 - ◇ Fully merged or not?
 - Impact on investments.
 - Plan administration (and efficiencies).
 - Other considerations.
5. Tax and legal framework/issues.
- Federal.
 - ◇ Ice Miller analysis.
 - State.
 - ◇ Attorney General analysis.
6. Actuarial analysis of sample scenarios.
- Control scenarios (no merging of assets and liabilities).
 - a. Applying current law.
 - b. Same as (a), but assuming local governments pick up any unfunded liability.
 - c. Same as (a), but establishing a direct contribution to LEOFF 1 to eliminate pay-go risk.
 - d. Applying PERS 1/TRS 1 funding method to LEOFF 1.
 - Merger scenarios (full merger of assets and liabilities).
 - a. Applying LEOFF 2 funding policy to combined plan.
 - b. Same as (a), but with guaranteed 0 percent contributions for LEOFF 1 members.
 - c. Same as (b), but with maximum contribution rates for LEOFF 2 members.
 - d. Possible other scenarios to be determined.
7. Summary of stakeholder input with representative samples.
8. Conclusion.
9. Appendices.