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DEC 15 2011

Office of
The State Actuary

12/5/2011

Select Committee on Pension Policy
P.O. Box 40914
Olympia, Wa. 98504-0914
(360) 786-6140
State.actuary@leg.wa.gov

Attention: Kari Wells

Dear Keri,

I received your response dated 11/28/11 to my letter of 11/21/11. You indicated you were forwarding my letter on to the Department of Retirement Systems because they were responsible for recommending investment options now that the "Retired Benefits Board" was abolished.

I'm a little confused because:

- As I stated, I have communicated with 3 individuals at the DRS. The first two deferred to someone else at DRS. The third explained at length what I already knew, indicated ICMA was responsible for certain timing issues, and, frankly, didn't grasp at all the policy issues I asked about nor offer an avenue to address them. It was mentioned, however, that the WSIB made decisions about investments choices so I am copying this letter to them.
- I was under the impression from the title, "Select Committee on Pension Policy", that you did set policy. Indeed, on your web page it says under the heading "What we do:"
 - "Study issues and policies affecting the state's public employee retirement systems."
 - "Make recommendations to the Legislature regarding changes."

Since I am copying the WSIB for the first time I need to reiterate the issues:

1. **The WSIB-managed portion of PERS 3 should have a CASH equivalent option as does the self-directed. This gives a place for funds to sit in CASH pending an imminent plan to annuitize.**
2. **Both PERS3 options (self-directed and WSIB-managed) should have a savings pool like the Deferred Compensation program does.**

When these issues were communicated to a DRS employee, the response to the first issues was:

"The TAP annuity process was developed by the Department of Retirement Systems (DRS) for members of the Plan 3 retirement systems. This includes the timelines associated with the different process. The short term investment fund was designed to facilitate the movement to the TAP. Funds moved from the Self program must purchase shares in the TAP before they can be annuitized. With this in mind, the shortest market exposure that we could create would be one month."

The response reiterates processes as they currently exist, regardless of how illogical they are, but does not address a path to policy or procedural changes. Clearly the statement that funds must be used to purchase TAP shares before they can be annuitized is financially ill-advised and illogical since an annuity seeks to minimize market risk. Further, the statement: "... the shortest market exposure that we could create would be one month" is only an issue because the funds were moved to the TAP in the first place. I grasp the desire to protect the TAP, but the funds should never have been moved to the TAP in the first place. They should sit in a cash position, which does exist because they rested there for a few weeks prior to the purchase of the TAP.

Allow me to point out that a WSIB web page (copy enclosed) states:

Asset Allocation

One of the fiduciary responsibilities of the WSIB is the duty to diversify. The Board makes investments from these eligible investments:

- 1.) Cash equivalents
- 2.) Fixed Income
- 3.) Public Equities
- 4.) Private Equity
- 5.) Real Estate Equity and/or Debt
- 6.) Tangible Assets.

I believe that this fiduciary responsibility dictates that a cash equivalent fund be offered in the WSIB portion of PERS 3. This is especially true when a WSIB-managed annuity is offered and it is dictated that funds must be moved to the WSIB prior to the purchase of a WSIB-managed annuity.

The following is included to provide context for my issues:

- To avoid stock market fluctuations, my wife, who is in the PERS 3 retirement plan, decided to move her PERS 3 defined contribution funds to the cash account in the self-directed portion of PERS 3. Upon further research, she decided, that the annuity offered under the WSIB-managed PERS 3 option was the best for her. She was told she had to move her funds to the WSIB account. This couldn't be done online – which also should be addressed. After sending a letter to request the move and having it moved, we were surprised to see, when looking online, that the funds were eventually moved to the WSIB stock fund. Since they were in CASH in the self-directed PERS 3 portion of the system, we fully expected the funds to remain in CASH when moved to the WSIB portion of the system. The funds actually sat in a cash holding account for some time at ICMA which further reinforced our belief they would stay in cash until we annuitized them or made a decision to move them to the WSIB stock fund.
- We called the PERS 3 plan record keeper – ICMA - and were told that the funds which were in a CASH account in the self-directed plan were only parked temporarily in a cash holding account at the WSIB-managed PERS 3 section and since the WSIB-managed option didn't have a CASH equivalent (except, apparently for this holding account) the funds had to be moved to the WSIB stock fund. Since we didn't want to experience market volatility, we asked to have the funds moved back to the PERS 3 self-directed account where we could in fact leave the funds in cash. The ICMA

representative said they could do that but the move would take place “any time within the next 30 days.” That is really not acceptable. As a result of being told the move would take place at some random date in the next thirty days, we decided we were trapped and better off just leaving the funds where they were.

- Our second request is for the PERS 3 plans to introduce a “savings pool” option similar to the Deferred Compensation program. The DCP program does an excellent job of managing the savings pool, essentially laddering CDs, to achieve a reasonably stable rate of return that over time will move up or down but which will smooth out the volatility in interest rates and which guarantees the principle amount. The cash option in the PERS 3 self-directed plan is essentially a money market account that currently pays next to nothing and is not nearly as attractive as an investment option as the savings pool in the DCP program. The cash option in the WSIB portion of PERS 3, as previously pointed out, has no cash option at all.

As it stands now, my wife’s PERS 3 funds have been moved to the WSIB TAP fund. We were told that moving them back to a cash-equivalent fund, in the self-directed program of PERS 3, could not be done online and would take anywhere from 1 to 30 days at a date PERS 3 apparently picks. These were funds that we wished to eliminate from market risk and annuitize. I don’t see the logic in not having a cash equivalent in the WSIB program – especially when funds could be used to purchase an annuity – the very definition of risk of aversion.

cc: WSIB, P.O. Box 40916, Olympia, Wa. 98504-0916

Sincerely,



Bill & Kathy Storms

930 East Chestnut

Walla Walla, Wa. 99362

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(w) 509-527-4560 bill@wwcc.edu

Asset Allocation

One of the fiduciary duties of the WSIB is the duty to diversify. The Board makes investments from these eligible investments:

- 1) Cash Equivalents
- 2) Fixed Income
- 3) Public Equities
- 4) Private Equity
- 5) Real Estate Equity and/or Debt
- 6) Tangible Assets

To maintain the desired diversification, the Board has adopted asset allocation policies. Quarterly, Board staff report the current allocation of assets with a comparison of how allocations match the Board adopted ranges for each asset class.

Asset allocation policies are periodically reviewed by the Board and can be changed or retained depending on the results of studies and long-term market expectations.



Office of the State Actuary

"Securing tomorrow's pensions today."

December 16, 2011

Mr. and Mrs. Storms
930 East Chestnut
Wall Walla, WA 99362

Dear Mr. and Mrs. Storm,

I received your letter dated 12/5/2001. Please allow me to clarify the role of the Select Committee on Pension Policy (SCPP) as it relates to your policy questions. I would also like to let you know the additional steps I have taken to connect you with someone who can discuss your investment policy questions/concerns.

Pension policy is generally divided into three areas:

- ❖ Benefits policy (what benefits are provided and who qualifies).
- ❖ Funding policy (who pays for pensions and how).
- ❖ Investment policy (how contributions for pension are invested).

The SCPP studies **benefits** and **funding** policy and makes recommendation to the Legislature. For example, the SCPP has studied issues around retirement age, service credit, disability benefits, and contribution rates, to name a few. The Legislature, in turn, sets the benefits and funding policy for the state retirement systems.

In contrast, the Washington State Investment Board (WSIB) studies and sets **investment** policy for the state's retirement systems. This includes the investment options offered to Plan 3 members. Your suggestions for new savings pool or cash equivalent investment options for Public Employees' Retirement System Plan 3 members fall under investment policy—a primary responsibility of WSIB.

As I mentioned in my previous letter, until recently, there was a separate board that recommended Plan 3 investment options to WSIB. However, that board was abolished and its duties transferred to the Department of Retirement Systems (DRS).

I have contacted DRS on your behalf and have been assured that they will be responding to the issues/concerns raised in your letters within a few days. I apologize that I wasn't able to provide you with a contact person at DRS in my first response to you. Marcie Frost, Deputy Director, will be responding to you letters. She can be reached by phone at 800-547-6657 or by mail at PO Box 48380, Olympia, WA 98504-8380.



As a procedural matter, your letters and our responses will be included in the record of correspondence to the SCPP. Correspondence to the SCPP is distributed to members monthly and posted to the SCPP web site at <http://www.leg.wa.gov/SCPP/meetings/pages/corr.aspx>.

Thank you for your patience in working with the agencies while we determine how best to direct your suggestions and comments to the appropriate policy makers for their consideration.

Sincerely,

Keri Wallis

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STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS

PO Box 48380 • Olympia WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

December 15, 2011

Bill and Kathy Storms
930 East Chestnut
Walla Walla, WA 99362

Dear Mr. and Mrs. Storms:

Thank you for writing to share your thoughts about the recent changes in investment fund options. Your letter to the Select Committee on Pension Policy was forwarded to the Department of Retirement Systems for response.

Contributions directed to the WSIB Investment Program are invested in the WSIB's Total Allocation Portfolio (TAP). Since the TAP is a monthly value fund, contributions or transfers from the Self-Directed Investment Program received during the month are invested in the WSIB Short-Term Investment Fund (STIF) and begin to earn the fund's yield on the next business day. The assets remain invested in the WSIB STIF until the first business day of the next month, when they are invested in the TAP.

The WSIB STIF is essentially the cash-equivalent option for the WSIB Investment Program. I am enclosing a copy of the Plan 3 Investment Guide that has more information about the timing of contributions, distributions and transfers to and from the investment program.

We recognize that the current timing of investments in the WSIB TAP can expose members to risk associated with short term volatility. We are currently looking at ways to streamline this process to minimize the risk, as well as improving how we communicate the process with members.

RCW 41.34.130 gives the Washington State Investment Board (WSIB) authority to select and provide Plan 3 investment options and invest Plan 3 contributions. Both the WSIB and the Public Markets Committee hold monthly meetings that are open to the public. The Public Markets Committee is responsible for developing policy for public market investments and for reviewing individual equity managers for recommendation to the Board. Information on their meetings can be found on the WSIB website www.sib.wa.gov.

The most recent review was a thorough and collaborative process in which recommendations for investment options were reviewed in detail by DRS and at meetings of the WSIB's Public Markets Committee and the full Board. This review began in 2009 and culminated with the fund transition in October of this year.



Bill and Kathy Storms

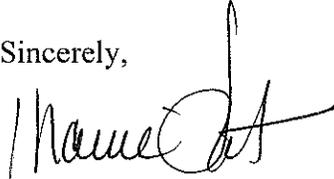
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Another option to purchasing a TAP annuity is purchasing additional service credit. This option may help you avoid risks associated with short term market volatility. I am enclosing information on this option.

Thank you again for writing, we appreciate your feedback. I encourage you to visit the WSIB website for more information on how Plan 3 investment policy is set. If you need additional information, please contact me at 360-664-7224.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcie Frost". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Marcie Frost

Deputy Director