



STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS

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**DRS Advisory Committee
Meeting Minutes
April 26, 2013**

Chair Nancy Baldwin called the meeting to order at 9:30 a.m.

Committee Members Present: Nancy Baldwin, Bill Copland, Darrell Heisler, Cheri Ingersoll, Rick Jensen, Mark Mears, Jacque Meddles, John Payne, Jeff DeVere, Deirdre Walker, Dick Warbrouck, and Kathy Whitlock

Also Present: Marcie Frost, Theresa Whitmarsh, Phil Paroian, Dave Nelsen and Wilma Eby

Introductions

Director Marcie Frost announced new committee members – Jacque Meddles, representing members of the School Employees Retirement System, Captain Jeff DeVere, representing members of the Washington State Patrol Retirement System and Bev Hermanson, representing members of the Public Employees' Retirement System.

Approval of Minutes

Dick Warbrouck made a motion, seconded by Cheri Ingersoll, to approve the November 2, 2012 meeting minutes as submitted. The motion passed unanimously.

Director's Report

Director Marcie Frost provided an update on DRS operations, including the three R's for customer satisfaction – Responsive, Respectful and Right. Each month all DRS team leaders are calling a member who retired in the previous month to conduct a short interview about the member's retirement application experience, in order to gather stories about positive interactions and processes that need to be improved. The positive comments are used for employee recognition and the process improvements are assigned to a Lean Green Belt for review and a proposal for resolution. One area of focus as a result of the customer interviews is follow-up in the time period between when the department receives a retirement application and when the retiree receives his or her first payment. Another area is decreasing the time it takes to do a benefit recalculation. Ms. Frost also discussed the ongoing team engagement work and changes in expectations for agency leaders from being a problem solver to being a coach and teaching team members how to solve problems. The goal is high customer satisfaction and high team engagement.

Additionally, the Retirement Services division recently implemented a work flow change from teams for each separate plan to a contact center team that answers phone calls and meets with walk in customers, and a process center team that provides retirement estimates, calculates benefits and works with employers on final recalculations. Work assignment for the process team



was also changed from a social security number range for each Retirement Services Analyst to a first in, first out work flow for the entire team.

Ms. Frost also reported that the agency prepared a decision package to the legislature requesting funds to develop a new information technology platform and new employer reporting system. The new system would make it much easier for the employers to report member data and provide better data for planning purposes.

Focus Areas

Washington State Investment Board (WSIB) Update

Executive Director Theresa Whitmarsh provided information about the WSIB mission, fundamental policies and board member make up. The WSIB pursues a global strategy, managing investments in 33 different funds and 74 different countries across six continents. She reported the retirement fund has gained back the losses experienced in 2008-2009 and now totals \$68 billion. She noted that Private Equity is the single largest contributor to performance, followed by real estate. The return since inception of the Commingled Trust Fund averages 8.70 percent. Ms. Whitmarsh also provided information about the market outlook and WSIB's essentials for success in a complex global market - being ahead of the market, willingness to be different and a disciplined approach to managing investments. The result is that the state retirement fund is one of the four top funded systems nationally. Ms. Whitmarsh also provided a two-page document telling the WSIB story. The document is available on the web site at sib.wa.gov.

Investment Performance

Phil Paroian, Washington State Investment Board (WSIB) Senior Investment Officer for Public Equity, presented information about investment returns and market values for the Plan 3 programs and the Deferred Compensation Program (DCP). He reported the quarterly changes in each of the plans, which includes member movement between funds and investment returns. His report also provided information about investment returns for the quarter, one year, three year and five year time period. He noted that the stock market returns have been very strong in the past quarter; however, emerging markets had a negative quarter. For the Retirement Strategy Funds, Mr. Paroian reported that performance for the one year has been lagging and the team will be addressing that in the next few months.

Pension Legislation

Dave Nelsen, Legal and Legislative Services Manager provided an update on pension legislation still being considered by the Legislature, including a bill to address benefit calculations and medical payments discussed in several recent news stories. Mr. Nelsen also mentioned the early retirement bill introduced again this session. He noted early retirement is very expensive and the bill has not had a hearing.

Marcie Frost reported that DRS is reviewing the member accounts and auditing the employer mentioned in the news articles to ensure that compensation and calculations were appropriate for the LEOFF Plan 1 system. The department will report its review to the Select Committee on Pension Policy.

Dick Warbrouck also provided a response to the news stories and noted that when the LEOFF 1 system was created 40 years ago, law enforcement officers and fire fighters did not have the safety tools provided today, did not have access to L&I coverage for on the job injuries and were not covered by social security. He also reported on discussions held in the past to help employers cover the medical costs for LEOFF 1 retirees. Mr. Warbrouck encouraged the department to investigate the allegations.

Deferred Compensation Program Briefing

Dave Nelsen provided information about his research in response to a question from committee member Dick Warbrouck asking whether state retirees can become members of the Deferred Compensation Program (DCP). He reported that the answer is no because under federal law, only current governmental employees may establish membership in a plan like DCP, which is qualified under Title 26 USC section 457.

Retirees, even retirees from qualifying governmental employers, do not perform service for the employer, and have been ruled as ineligible for *becoming* a participant in a plan. A retiree who was a participant while working can maintain contributions in the plan, can roll over funds from another qualified plan, but cannot contribute to the plan from pension payments or other sources of income. To change this would require changes to section 457 of federal law, and would require a significant change or expansion of federal policy behind the establishment of these plans.

A 457 plan offers tax-deferred benefits to employees during their working career, but distributions will be taxed when taken after leaving employment. Law currently requires withdrawal prior to age 70 ½. The design of this and other retirement plans encourages distributions as participants age. Allowing retirees to continue to defer the taxes on these plan payments is contrary to that policy.

One way to address the issue could be to ensure all public employers offer DCP to their employees. Prior to leaving employment, retirees could establish an account in the plan, and use DCP to manage their funds from other sources during their retirement years. All public employers in Washington State are eligible to offer this plan, but many local governmental employers do not. Many offer other 457 plans administered by industry vendors.

He also noted that the Economic Opportunity Institute (EOI) has proposed legislation in the past that would create a publicly operated retirement plan for private employees. The State of California has passed laws creating such a plan, but they are still designing it and must get IRS approval. While these plans seem to target employees of private employers who don't offer viable retirement programs, such as 401Ks, it may be possible to allow participation by non-employees.

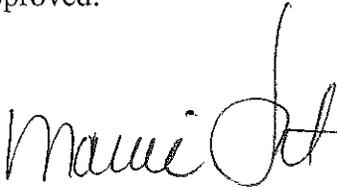
Mr. Nelsen will provide information to Mr. Warbrouck about the EOI.

Agenda Setting

Suggestions for the next meeting agenda included an update from the State Actuary, a report on CEM Benchmarking and information on any proposed pension legislation.

With no additional business, the meeting adjourned at 12:00 p.m.

Approved:



Marcie Frost, Director



Nancy Baldwin, Chair