



STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS

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**DRS Advisory Committee
February 19, 2010
Meeting Minutes**

Chair Nancy Baldwin called the meeting to order at 9:32 a.m.

Committee Members Present:

Nancy Baldwin, Pat Dull, Judge Michael Heavey, Darrell Heisler, Lt Michael Turcott, Jonni Lissner, Pat McElligott, John Payne, Eva Jean Shamley, and Dick Warbrouck.

Staff and Resource Personnel Present:

Director Steve Hill, Deputy Director Marcie Frost, Jeff Wickman, Cathy Cale, Dave Nelsen, Dawn Gothro, Mark Feldhausen, Rose Bossio, Wilma Eby, and Beth Eerkes.

A-1 Approval of Minutes

Pat McElligott made a motion, seconded by Dick Warbrouck, to approve the December 4, 2009 meeting minutes as submitted. The motion passed unanimously.

Focus Areas

B-1 Director's Report

Director Steve Hill reported that the Department of Retirement Systems (DRS) is receiving letters from members and labor organizations requesting contribution rate flexibility in the Public Employees' Retirement System (PERS) and the School Employees' Retirement System (SERS) Plans 3 as provided in the Teachers' Retirement System (TRS) Plan 3. The requests are to have the plans resubmitted to the Internal Revenue Service (IRS) for qualification with that provision included. A response to the requests can be found on the DRS Web site at <http://www.drs.wa.gov/news-announcements/default.htm#flex>.

Steve also reported that the State Investment Board (SIB) is conducting a review of investment options offered to Plan 3 members and Deferred Compensation Program (DCP) participants. The review is scheduled to be completed by June 30. DRS and SIB are working on shared project planning and, if necessary, a plan for implementing any board-approved changes to the investment line-up.

On February 18, the PEW Center on the States (PEW) released a report titled *The Trillion Dollar Gap, Unfunded State Retirement Systems and the Road to Reform*. Steve and Marcie Frost noted that the report points out that in 2008 only four states in the country had fully funded public pension systems. Washington was one of them. The report grades states based on pension funding and funding for other post employment benefits like retiree health care, and shows Washington's aggregate pension funding at the highest levels (91%-107%).

The “gap” is not attributable to pensions, but rather to retiree health care funding. In fiscal year 2008, states’ pension plans had \$2.8 trillion in long-term liabilities, with more than \$2.3 trillion invested to cover these costs. In aggregate, states’ systems were 84% funded, a relatively positive outcome because most experts advise at least an 80% funding.

Health care financing structures are very different from pensions. In Washington, as in most every other state, retiree health care is on a “pay as you go” basis. Washington received a “needs improvement” grade for two primary reasons; making less than the annual required contributions during difficult budget times and retiree health care funding.

B-2 Deputy Director’s Report

Marcie Frost, Deputy Director, provided an update on several operational issues. She reported that the DRS Executive Management Team held meetings with employees to discuss and update the agency’s strategic plan, goals and projects for the next year. As a cost saving measure and to encourage members’ use of electronic services, annual statements are now available online, rather than in print. Committee members expressed some concern about the 100% electronic change because it may be the only time a member interacts with the department that year. Staff will take the input back to the team and report back to the committee. Members who would like to receive a printed copy can simply contact the department and one will be mailed.

Marcie also asked committee members to comment on the Outlook newsletters that are mailed to both active and retired members and options the department should be looking at to control costs. Options included combining the two newsletters into one and reducing the number of editions or generating a retiree edition on paper and an active edition through an electronic channel. The committee members indicated a preference for the latter, since retirees may not have ready access to computers.

The State Actuary has provided DRS with the 2010 COLA amounts for the different retirement systems. The COLA amount for most retirees is based on the Consumer Price Index for Seattle/Tacoma. She also reported that in January 147,492 1099s were mailed out with a return rate of only 0.586%.

B-3 Cost Effectiveness Management (CEM) Report

Mark Feldhausen, DRS Budget Director, provided information about the results of the most recent CEM survey. CEM benchmarks defined benefit administration for public retirement systems. DRS has participated in the study since 1999. He reported that 72 retirement systems participated in the FY 09 study; including US, Canadian, Australian, Dutch and Danish systems. DRS’ peer group is the 16 largest US systems. Although DRS is near the median of the peer group when it comes to total membership, it is relatively unique. DRS is the only peer that administers pension benefits for all member groups, administers a defined benefit plan with a defined contribution component, yet is not responsible for investment management.

The results again show that DRS administers very complex systems and plans while providing a high level of service to members and employers. CEM uses a variety of measures to predict a cost per member. DRS' cost of \$58 per member is less than its predicted cost of \$110 per member.

B-4 Pension Legislation

Dave Nelsen, Legal and Legislative Services Manager, provided an update on pension bills still moving through the legislature. Current information about pension legislation is available on the DRS Web site at <http://www.drs.wa.gov/legislative/2010/>.

Bills recommended by the Select Committee on Pension Policy (SCPP):

- SERS Past Part-Time Service Credit - HB1541/SB5302
- Higher Education Retirement Plan – HB1545/SB5308
- Increase Duty-Related Death Benefit to \$175K – HB1541/SB5312

Bills recommended by the LEOFF Plan 2 Retirement Board:

- Duty Related Death Benefits – H2519/SB6407
- Shared Leave for LEOFF Plan 2 Members – HB2492/SB6453
- Medical Reimbursement for Total Disability in LEOFF Plan 2 and WSPRS – HB 1679

Other Pension Bills:

- CVEO Service Transfer into WSPRS – HB3013/SB6621
- PERS Military Service Credit and Prior LEOFF 1 Service – HB2196
- Court Commissioners – SB5523

B-5 Strategic Projects

Online Video

Dawn Gothro, DRS Communication Manager, reported that the newest tool available for members will be online videos. A project team has been assembled to pull together the resources and expertise necessary to produce informational videos for the DRS Web Site. The first video will focus on signing up for and using the online account access tool. The plan is to have the first video produced and on the Web site by March 31, 2010.

Dawn asked committee members for ideas on topics for future videos. Suggestions included:

- Topics from the retirement seminars;
- An explanation of the difference between defined benefit and defined contribution plans;
- Available investment options;
- An overview of decisions that new employees must make with plan choice; and
- Thinking about retiring “How do I get started”.

Online Retirement Application

Jeff Wickman, Policy and Strategic Initiatives Assistant Director, reported on the project to develop an online retirement application process. The project team is reviewing best practices from other state retirement systems that already allow online applications. The team is also coordinating project activities with HCA and other DRS technology projects and identifying and

resolving issues – primarily requirements for collecting notarized signatures and the types of retirements an online application will support.

DRS & HCA Innovation Teams

Rose Bossio, DRS Project Manager, provided an update on the DRS and Health Care Authority (HCA) Innovation Teams. The cross-agency teams are continuing to work together to improve services to our customers. Current initiatives include:

- Strategic Initiatives
 - HCA Print-to-Media
 - DRS Online Channels - online video, online retirement application and single sign-on
- Customer-Focused Initiatives
 - Continuation of the survivor benefit project
 - Health benefit information to prospective K-12 retirees
 - Customer needs assessment

Rose requested feedback from committee members about the needs or expectations they or the groups they represent have of DRS and where the agency should focus its efforts. Send any suggestions to rose.bossio@drs.wa.gov or call Rose at 360-664-7286.

New Business

C-1 Round Table

No issues were raised.

C-2 Agenda Setting

Committee members requested an update from Theresa Whitmarsh, Executive Director of the State Investment Board and Matt Smith, the State Actuary. Marcie Frost will contact Theresa and Matt.

With no additional business, the meeting adjourned at 11:30 a.m.

The next meeting is scheduled for May 21, 2010 at 9:30 a.m. in the DRS Board Room.

Approved:

Steven R. Hill, Director

John Payne, Vice Chair