

**DRS Advisory Committee  
Meeting Minutes  
November 13, 2015**

**Committee Members Present:** Bill Copland, Darrell Heisler, Bev Hermanson, Cheri Ingersoll, Rick Jensen, Richard McDermott, Travis Matheson, Jacque Meddles, Deirdre Walker, Dick Warbrouck, and Kathy Whitlock

**Also Present:** Marcie Frost, Lisa Won, Phil Paroian, Dave Nelsen, Jacob White, Shawn Merchant, Mike Ricchio, John Borne, Rose Bossio, and Rubi Reaume.

**Election of Vice Chair**

Judge Richard McDermott nominated Rick Jensen. The nomination was seconded by Bill Copland. The motion passed unanimously.

Vice Chair Rick Jensen called the meeting to order at 9:35 a.m.

**Approval of Minutes**

Darrel Heisler made a motion, seconded by Jacque Meddles, to approve the May 1, 2015 meeting minutes as submitted. The motion passed unanimously.

**Focus Areas**

**Director's Report**

Director Marcie Frost provided an update on the two major projects that are underway. She stated that replacing the employer reporting application is the first step of DRS' IT modernization effort. The Employer Reporting Application (ERA) project team issued the Request for Proposals and received several qualified proposals. She noted that the team is busy going through the proposals to make the determination of who goes into the Implementation Planning Study (IPS) Workshop. She also provided a brief update on the Record Keeper Transition project. She noted that the team is very cautious about adding more initiatives because resources are limited due to these major projects.

Ms. Frost provided an update on DRS operations, noting that a decision was made to overfill the Retirement Specialist positions to allow for turnover. Ms. Frost also discussed the participation rate in the statewide employee engagement survey by DRS team members, increasing from 74 percent last year to 94 percent this year.

**Actuarial Update for the State Retirement Plans**

Lisa Won, Deputy State Actuary at the Office of the State Actuary (OSA), discussed the key services that are provided by OSA. She provided a brief highlight of the 2014 Actuarial Valuation, where she noted that the funded status for all plans combined is 87 percent, down from 94 percent.

Ms. Won explained how the financial condition of the pension plans are assessed. She stated that the key measures they have identified for assessing the health of the plan include funding level, adequacy and affordability, and risk. She noted that the funded status has declined since the 2013

Report on Financial Condition. The lower discount rate assumption, recognition of longer expected life spans, and a different actuarial cost method used for reporting funded status have all contributed to the decline in the funded status of the plans. The open plans and Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 1 remain at least 90 percent funded and on target to be fully funded. The Public Employee's Retirement System (PERS) Plan 1 and Teachers' Retirement (TRS) Plan 1 have a funded status of below 70 percent, but there is a plan in place to improve the funding level of these two plans.

Ms. Won explained that assumptions are reviewed and updated regularly to ensure they remain reasonable over the long term. She noted that all current assumptions remain reasonable, although two assumption changes were recommended. Those assumption changes were lowering the long-term rate of return and a higher TRS system growth rate. In summary, Ms. Won reported that overall, Washington plans are still among the best funded nationally but future contribution increases are expected.

Ms. Won also provided a brief overview of the work that OSA is doing on the Higher Education Supplemental Plan.

### **Investment Performance**

Phil Paroian, Washington State Investment Board (WSIB) Senior Investment Officer for Public Equity, presented information about investment performance for the Plans 3 and the Deferred Compensation Program (DCP). He noted that while returns over the last few years have been very strong, the last year has been flat and in particular the last quarter has been very volatile. He reported the quarterly changes within each of the plans, which includes regular contributions added, member movement between investment options, and investment returns. His report also provided information about investment returns for the quarter, one year, three year and five year time period. For the Retirement Strategy Funds, Mr. Paroian reported that the funds are lagging their benchmarks slightly but it is something the team is very focused on.

### **Risk Management Enhancements for Defined Contribution Plans**

Mr. Paroian also presented on the research the WSIB has done on potential risk management enhancements and changes for the Defined Contribution and Savings Plans. He provided background information about the plans, specific risks in Defined Contribution or Savings Plans, and provided potential risk mitigation strategies. With respect to the fact that the addition of some strategies might require the retirement strategy funds to move towards quarterly, rather than daily, liquidity, Committee members expressed support for the funds being managed for the long-term benefit of the majority of members rather than being constrained by the daily liquidity requirements of a few active participants who might prefer the flexibility to transfer money between funds on a short-term basis.

### **Record Keeper Transition Update**

Shawn Merchant, Project Management Division Assistant Director, provided an update on the Record Keeper Transition project. He stated that the transition date was moved from the beginning of October 2<sup>nd</sup>, 2015 to March 4<sup>th</sup>, 2016 in order to make sure that it would still be a non-event for the members. He explained that Empower is finishing the build in their computer system and then the DRS project team will test the system. He summarized the advantages of having one record keeper instead of two. He noted that Empower's record keeping system is bigger and that they have allotted a larger budget to keep that system modernized. He also stated that Empower will be able to

provide a consolidated statement for members who participate in Plan 3 and the Deferred Compensation Program.

**Plan 3 Website Demo**

John Borne, West Region Vice President for Empower, introduced himself and provided information about the company. He provided a demonstration of the Homepage that will be made available in the future to the members. The Homepage offers a clear view of the projected income needed in retirement, while taking into account other retirement or savings plans and deducting items such as health care costs.

**Pension Legislation**

Dave Nelsen, Customer and Policy Services Assistant Director, provided information about pension proposals under discussion by the Select Committee on Pension Policy.

**New Business**

**Round Table and Agenda Setting**

Committee members requested the following updates at the April 2016 meeting; a Record Keeper Transition update, timeline on new features available through Plan 3 website, Online Retirement Application update, and a legislative update.

Committee members adopted the 2016 meeting schedule. Meetings will be held on April 29<sup>th</sup> and November 4<sup>th</sup>, 2016.

With no additional business, the meeting adjourned at 12:45 p.m.

Approved:

  
Nancy Baldwin, Chair