

**Law Enforcement Officers' and Fire Fighters' Plan 1 – Medical Study Workgroup
Meeting Minutes
May 22, 2008**

Department of Retirement System (DRS) Director Sandy Matheson called the meeting to order at 10:00 am. Workgroup members present were:

WACOPS	LEOFF 1 Coalition	RFFOW	WSCFF
Ken Crowder	Mark Curtis	Randy Plain	Keven Rojecki
	Dan Downs	Dick Warbrouck	

Retired Seattle Police Association (RSPA)

Gerald Taylor

Attorney	Assoc. of Counties	Assoc. of Cities	WA. Fire Commissioners
Joe Fischnaller	Brad Banks	Jim Justin	Roger Ferris

Introductions and Background

Director Matheson welcomed everyone to the meeting and invited the attendees to introduce themselves and the groups they were representing. After introductions the Director provided a brief overview of prior LEOFF Plan 1 medical studies and discussed the report she developed and submitted to the Governor in 2007. The Director indicated that she had been tasked by the Governor's office and the Office of Financial Management to determine how to follow-up on the 2007 study.

Medical benefits for LEOFF Plan 1 have been a significant source of controversy and debate over the last several years. The presumption is there is a shortfall of funding for these benefits. Because of the complexity of pension issues and law, frequent misunderstanding of the complex factors, differing assumptions of fact, and a resulting level of distrust among key stakeholders, the Director decided to engage key stakeholders in a follow-up study. This meeting is the first in the follow-up study.

Meeting Goals and Objectives

Director Matheson provided an outline for workgroup's products and asked for comments on the following:

1. **Group Formation** – Director Matheson stated that the group's make-up for Phase 1 of this effort is not as critical for her as the group's make-up for Phase 2. In fact, the Director welcomed as much input as possible in Phase 1, with the assumption that all stakeholders would consider the group's make-up more sensitive in Phase 2.
2. **Fact Finding (Phase 1)** – The purpose of this phase is to create a level and consistent playing field of knowledge. There are differing assumptions about the level of funding available to fund the approximately \$1.745 billion actuarial accrued liability (AAL) as reported in the Actuary's 2007 LEOFF 1 Medical Benefits Report. Combined with multiple stakeholders with varying interests and differing understandings of the pension plan and laws, Director Matheson structured the follow-up study into two phases. The first phase is a fact-finding phase to create a common factbook on which stakeholders agree regarding the LEOFF Plan 1 medical liability.

**Law Enforcement Officers' and Fire Fighters' Plan 1 – Medical Study Workgroup
Meeting Minutes
May 22, 2008**

The purpose of this phase is to create a common understanding of and set of information about the LEOFF Plan 1 medical liability. Further, the purpose of this phase is to allow stakeholders to determine if a problem actually exists, and then if they want to work on it jointly or if they wish to separately pursue their solutions with the legislature or other authoritative bodies. Director Matheson stated she will not allow discussions of solutions in this phase as they are premature before all the facts are gathered and considered, and that could easily lead to further mistrust and complication of an already difficult situation. She indicated the most harmful activity we collectively can do to members of this plan is to spread inaccurate information or create false perceptions.

Workgroup members will determine the facts that need to be gathered and questions that need to be answered to create a commonly acceptable fact book. In order to gain credibility for the workgroup by members and other stakeholders, DRS will independently gather all information based on the workgroup's direction, present it to the workgroup for discussion, and then modify the information as appropriate. The goal is to create factual information that is acknowledged by all members as accurate.

3. **Solutions (Phase 2)** – This phase will only be initiated at the request of workgroup participants. If, based on the outcome of the fact finding, participants believe they can develop jointly desirable actions, DRS will facilitate Phase 2 of this activity. Director Matheson will strictly prohibit any discussion regarding solutions in Phase 1, but will capture any ideas identified in Phase 1 for evaluation in Phase 2.

The Director indicated that her goal for the meeting was to get agreement that this is the approach, including the goals and steps that should be undertaken. She opened the meeting up for discussion of the approach.

Workgroup Discussion

The first comment was whether this approach exceeded the study that was originally included in the Substitute House Bill (SHB) 2688. The Director discussed the Governor's veto of the study proposed in Section 2 of SHB 2688. She assured the workgroup that the approach aligned with the veto message and reaffirmed that she had been given authority to present the approach as a follow-up to her 2007 study report. Read **veto message**. (Please see the reference to a broader range of possibilities.) Further, the follow-up actions to the 2007 study were left up to the discretion of the Director.

Workgroup members suggested that the ultimate goal for this effort can be generally stated as identifying funding sources to assist local government employers with addressing the LEOFF Plan 1 medical liability. To meet this goal the group will need a better understanding of the individual impact to each employer and an understanding of what funding options, for example, current taxation authorities, might be available to raise revenues to fund the liability. It is possible that the problem is not universal for all local government and that all the issues have yet to be fully understood. It was noted that in publishing GASB 45 medical liability, there was no discussion of what revenues may be available to address the liability. In collecting the factual information, a corresponding revenue stream that could balance the liability may become visible.

There was discussion about whether the work would focus only on funding or would include some of the items included in the Director's 2007 study. The Director stated that all issues must

**Law Enforcement Officers' and Fire Fighters' Plan 1 – Medical Study Workgroup
Meeting Minutes
May 22, 2008**

be identified and the facts presented for common understanding. If only the funding is looked at, there will be a rush to solutions without having addressed and put to rest other related or underlying issues.

There was general consensus that a comprehensive set of facts must be understood and agreed to in order to understand all aspects of the potential problem. The facts would also create an even playing field for all stakeholders. There was also discussion about the structure or steps in Phase 2 which will be addressed only if the group decides to initiate Phase 2. At the end of the discussion Director Matheson asked again whether the workgroup was comfortable with the approach of a) fact finding and then moving onto b) solutions for funding. The group acknowledged that the approach was appropriate with no one dissenting.

Timelines, Approach and Work Group Composition

There was a question about when the work of the group would be completed. Director Matheson indicated that she would like to have all fact finding completed before the start of the 2009 Legislative session. At that point the workgroup could decide whether it was feasible to move to the next phase of identifying solutions. The group asked if information on local government taxing authority would be included in the facts. This data will be included in the fact finding. The group agreed that all questions and data should be presented with a balanced approach so as to not raise undue concerns over the goals of the workgroup.

Participants concurred that under the two phase approach, the composition of the workgroup for Phase 1 will include all attendees at the May 22, 2008 meeting, Bill Kantor, and a representative finance manager or support person from the cities, counties and fire districts. The Director will contact Bill Hanson to see if he or someone representing the Washington Fraternal Order of Police would like to participate in the workgroup.

Rules of Conduct

Director Matheson stated that the conduct of group participants will dictate the credibility and success of this effort. DRS commits to facilitating the meetings, to providing factual answers and professional references to questions to the best of its ability to the group for discussion and input, and to its employees conducting themselves in a manner that is unbiased, from both an actual and a perceived perspective. Further, DRS commits to providing minutes from each meeting as soon as possible, and to posting information on its website that the group has determined to be factually accurate.

Director Matheson stated rules of conduct DRS needs from participants in order to create a successful Phase 1 outcome. She requested that workgroup participants review the minutes provided by DRS, provide necessary corrections, if any, and post only those minutes on their organizational websites to ensure consistency across the LEOFF Plan 1 membership. Contributing comments to the group's product and publishing one consistent work product will provide members with accurate information and help develop confidence among Plan 1 members. Director Matheson reiterated that she will entertain all questions with a goal of a uniformly acceptable set of facts as the end product of Phase 1. Workgroup participants concurred with no dissensions.

**Law Enforcement Officers' and Fire Fighters' Plan 1 – Medical Study Workgroup
Meeting Minutes
May 22, 2008**

Research Items for Next Meeting

The workgroup identified the first set of facts to be developed. The Director will prioritize the items that will be presented at the next meeting. It was agreed that the information will be provided to workgroup members before the meeting but that, until there is agreement on the facts, the information should not be disseminated outside of workgroup members. The following questions are presented in the order that they were raised.

Question #1

Identify employers who still have active or retired LEOFF Plan 1 members.

- Break down the data by employer type (city, county, fire district, etc.)
- Break down the data by police and fire
- Identify data by specific employers, if needed
- Break down data by active and retired member, by employer

Question #2

Identify employers who still have active or retired pre-LEOFF members.

Question #3

How have other states addressed paying for mandated medical costs? This question will be put on hold until the workgroup gets to Part 2: Solutions.

Question #4

What taxing authority exists for cities, counties and fire districts?

Question #5

Do employers have a contractual obligation to provide the medical benefits to LEOFF Plan 1 members as provided in RCW 41.26.150?

Question #6

What is the total value of the LEOFF Plan 1 assets being held for the benefit of members, retirees and survivors? This question will be addressed with an education session on funding, investing and the purpose and scope of the valuation reports produced by the Office of the State Actuary and annual financial reports produced by DRS.

Question #7

Is LEOFF Plan 1 a defined benefit plan?

Question #8

Is there a surplus of assets in the LEOFF Plan 1 fund? If so, who “owns” the assets?

Question #9

How does the Pension Protection Act of 2006 affect the ability to use excess pension assets to pay for medical costs? This question is formula driven. Any discussion as to the use of excess assets will be deferred to Phase 2 if it is initiated.

The workgroup agreed to go through the questions included in the Director’s 2007 report at the next meeting to identify any items that should be included in the fact finding. There was a discussion about including other individuals in future meetings.

**Law Enforcement Officers' and Fire Fighters' Plan 1 – Medical Study Workgroup
Meeting Minutes
May 22, 2008**

Next Meeting and Miscellaneous

The next meeting is scheduled for June 12th at 11:00 a.m. in the President's Boardroom at North Seattle Community College. A contact list of workgroup participants will be sent out. The workgroup agreed to refer all press inquiries to Director Matheson. With no further business, the meeting adjourned at 12:30 p.m.

Attachment 1

Veto Message on SHB 2688

March 30, 2006
To the Honorable Speaker and Members,
The House of Representatives of the State of Washington

Ladies and Gentlemen:

I am returning, without my approval as to Section 2, Substitute House Bill No. 2688 entitled:

"AN ACT Relating to the law enforcement officers' and fire fighters' retirement system plan 1."

Local governments face challenges in providing health care benefits for retired members of the Law Enforcement Officers' and Firefighters' Retirement System Plan 1 (LEOFF 1). The cost of these benefits can be significant, especially for smaller jurisdictions. It is sensible for the state to assist local governments in their search for ways to address this obligation in the most efficient way possible. However, a thorough and careful review of options will take longer than provided in the bill, and will need to include a broader range of possibilities. The bill also charges a task force to study the use of excess pension assets to provide health care coverage. Notwithstanding potential legal barriers to this use of pension assets, the current financial situation of the LEOFF Plan 1 clearly does not support this option.

While I am vetoing Section 2, I am directing the Department of Retirement Systems and the Health Care Authority to lay the groundwork for study of this issue, and to consult plan members and representatives of local governments in their work.

For these reasons, I have vetoed Section 2 Substitute House Bill No. 2688.

With the exception of Section 2, Substitute House Bill No. 2688 is approved.

Respectfully submitted,
Christine O. Gregoire
Governor