

# Revised Administrative Factors



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## Today's Presentation

- Background on administrative factors
- Revisions made to prior factors
- New factor comparisons
- Recommendations
- Next steps



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## Background – What Are Administrative Factors?

- Administrative factors adjust pensions for optional payment forms
  - Optional payments should be cost-neutral to the plan as a whole - “Actuarial Equivalence”
- Factors cover all plan members
  - Best actuarial equivalence includes all members in the development of the factors

## Background – Why Is This Before The Board?

- The Board has authority to adopt factors
  - DRS adopts factors for all other plans
- The Board adopted new factors in September
  - OSA discovered corrections/improvements after factors were adopted

## Three Revisions Recommended

- Correct the application of future mortality improvements
  - Prior factors presented in September incorrectly applied mortality improvements in the valuation model
- We determined we could use generational mortality improvements instead of estimating an equivalent static year
- Add return of contributions death benefit to “Monthly Benefit per \$1.00 of Accumulation Factors” (aka annuity purchase factors)
  - If member purchases additional annuity at retirement and dies before receiving monthly benefits at least equal to the cost of the purchase, the excess is paid in a lump sum



## LEOFF 2 Has Four Sets Of Factors

- Early Retirement Factors (ERFs)
  - Joint and Survivor Option Factors (J&S factors)
  - Monthly Benefit per \$1.00 of Accumulation (Annuity) Factors
  - Service Credit Restoration Factors (SCRFs)
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- Background on each factor provided in September presentation to the Board and attached in the Appendix

## Early Retirement Factor Comparison

- Compares the value of an annuity that starts at Normal Retirement Age (NRA) to an annuity that starts immediately
- ERFs reduce a member's benefit to recognize additional cost to pay benefits for a longer period of time

Percent Change From 2012		
	Prior	Revised
<b>MIN</b>	0.44%	<b>0.22%</b>
<b>AVG</b>	4.78%	<b>3.35%</b>
<b>MAX</b>	8.41%	<b>6.54%</b>

## Early Retirement Factor Example

- Impact on benefit for non-duty disability retirement:
  - Member age = 45
  - Accrued benefit = \$1,500/month

	Current	Prior	Revised
<b>ERF</b>	0.497	0.512	<b>0.506</b>
<b>Monthly Benefit</b>	\$746	\$768	<b>\$759</b>

## Joint & Survivor Factor Comparison

- Compares the value of a single life annuity to a joint life annuity
- J&S factors reduce a member's benefit to recognize additional cost of providing a benefit payable on two lives

Percent Change From 2012						
	J&S 100%		J&S 50%		J&S 66.67%	
	Prior	Revised	Prior	Revised	Prior	Revised
<b>MIN</b>	(0.18%)	<b>(0.71%)</b>	(0.09%)	<b>(0.37%)</b>	(0.12%)	<b>(0.48%)</b>
<b>AVG</b>	2.35%	<b>0.04%</b>	1.31%	<b>0.03%</b>	1.68%	<b>0.04%</b>
<b>MAX</b>	5.19%	<b>1.41%</b>	2.97%	<b>0.82%</b>	3.77%	<b>1.04%</b>

## Joint & Survivor Factor Example

- Impact on \$2,700 monthly retirement benefit for member electing J&S 100 percent (age difference = 3):

	Current	Prior	Revised
<b>J&amp;S Factor</b>	0.859	0.872	<b>0.855</b>
<b>Monthly Benefit</b>	\$2,319	\$2,354	<b>\$2,309</b>

## Annuity Factor Comparison

- Also called “Monthly Benefit per \$1.00 of Accumulation” factors
- Converts lifetime benefit into lump sum payment
- Payment occurs at retirement

Percent Change From 2012		
	Prior	Revised
<b>MIN</b>	2.31%	<b>1.97%</b>
<b>AVG</b>	5.54%	<b>4.48%</b>
<b>MAX</b>	11.71%	<b>9.36%</b>

*Note: Only includes ages 65 and below.*

## Annuity Factor Example

- Impact on cost to purchase additional \$600 monthly benefit (five years “airtime”) for age 55 member:

	<b>Current</b>	<b>Prior</b>	<b>Revised</b>
<b>Annuity Factor</b>	0.0053643	0.0049520	<b>0.0050474</b>
<b>Lump Sum Cost</b>	\$111,900	\$121,200	<b>\$118,900</b>

## Service Credit Restoration Factor Comparison

- Converts expected lifetime benefit into lump sum payment
- Payment occurs prior to retirement
  - Estimate amount of benefit at retirement
  - Use plan retirement assumptions and new ERFs
  - Purchase may qualify member for subsidized early retirement

Percent Change From 2012		
	Prior	Revised
<b>MIN</b>	11.48%	<b>8.44%</b>
<b>AVG</b>	12.37%	<b>8.80%</b>
<b>MAX</b>	15.52%	<b>9.37%</b>

*Note: Only includes ages 65 and below.*

## Service Credit Restoration Factor Example

- Impact on cost to restore 15 years of service for age 45 member with five years of current service and a salary of \$50,000

	Current	Prior	Revised
<b>SCRF (Factor 1)</b>	0.2358	0.2630	<b>0.2559</b>
<b>SCRF (Factor 2)</b>	0.2325	0.2601	<b>0.2530</b>
<b>Lump Sum Cost</b>	\$177,675	\$197,975	<b>\$192,650</b>

## Recommendations

- We recommend adopting revised administrative factors
  - Best estimate of life expectancies for impacted members
  - Best actuarial equivalence (accuracy) for cost of optional benefits
  - Consistent with assumptions used in the actuarial valuation to determine funding requirements of the plan

## Next Steps

- OSA has provided additional information and tables of revised factors
- Board adopts final factors
- DRS will communicate factor changes to members and implement new factors effective October 2016

# Questions?



## Source Links

- Slide 10 and 12-18: [S:\Projects\Admin Factors\Admin Factors 2015\Under Construction--Factors Exhibits\(2017\).xlsx](S:\Projects\Admin Factors\Admin Factors 2015\Under Construction--Factors Exhibits(2017).xlsx)

## Appendix

- Additional information on LEOFF 2 Administrative Factors

## Early Retirement Factors

- ERFs reduce a member's benefit for early commencement
- Applies to non-duty disability or death benefits prior to NRA, age 53
- When benefits start earlier, they are paid longer and the total cost of a member's expected lifetime benefits increases

## Joint And Survivor Option Factors

- J&S factors reduce a member's benefit to provide an ongoing benefit for their survivor
- Three types of survivor benefits available under the plan:
  - J&S 100 percent
  - J&S 50 percent
  - J&S 66 2/3 percent

## Monthly Benefit Per \$1.00 Of Accumulation Factors

- Factors convert a lifetime monthly benefit to a lump sum
- Calculation is made at retirement
- Applies to cash-out of small monthly pension or purchase of additional pension
  - “Airtime” - up to five years
  - Optional life annuity purchase

## Service Credit Restoration Factors

- Factors used to calculate the cost of the increase in a member's benefit if they restore prior service credit
  - Service withdrawn in the past and member wants to restore it after window to pay contributions with interest
- Purchase is made sometime before retirement