

# Contribution Rate Adoption Process

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Office of the State Actuary  
"Securing tomorrow's pensions today."

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## Today's Presentation

- Educational; no decisions required today
- Pension funding basics
- Purpose of contribution rates
- Rate development
- Process timeline
- Next steps



## Pension Funding Basics

- Pension = contract to pay future benefits
- Future obligation is unknown
  - Actuary uses assumptions to estimate obligation
    - Salary growth, retirement age, longevity, etc.
- LEOFF 2 uses systematic actuarial funding to pre-fund the future pension obligation
  - Regular contributions are paid over time
  - Utilizes power of investing
- Pre-funding requires:
  - Funding policy to define how costs are allocated over the time period
  - Assumptions about investment and salary growth, working lifetime, etc.

## State Law Defines Funding Policy and Some Assumptions

- Aggregate actuarial cost method used to determine the allocation of costs to fund the retirement plan
  - "... or other recognized actuarial cost method based on a level percentage of payroll ..." (RCW 41.26.720)
- Inflation = 3.0 percent
- General salary growth (exclusive of merit) = Inflation + 0.75 percent
- Investment return = 7.5 percent (adopted by LEOFF2 Board)
- Demographic assumptions developed by Office of the State Actuary
- Actuarial value of assets
  - Smooth asset gains/losses up to eight years
  - Maintain 30 percent corridor (relationship) to market value of assets

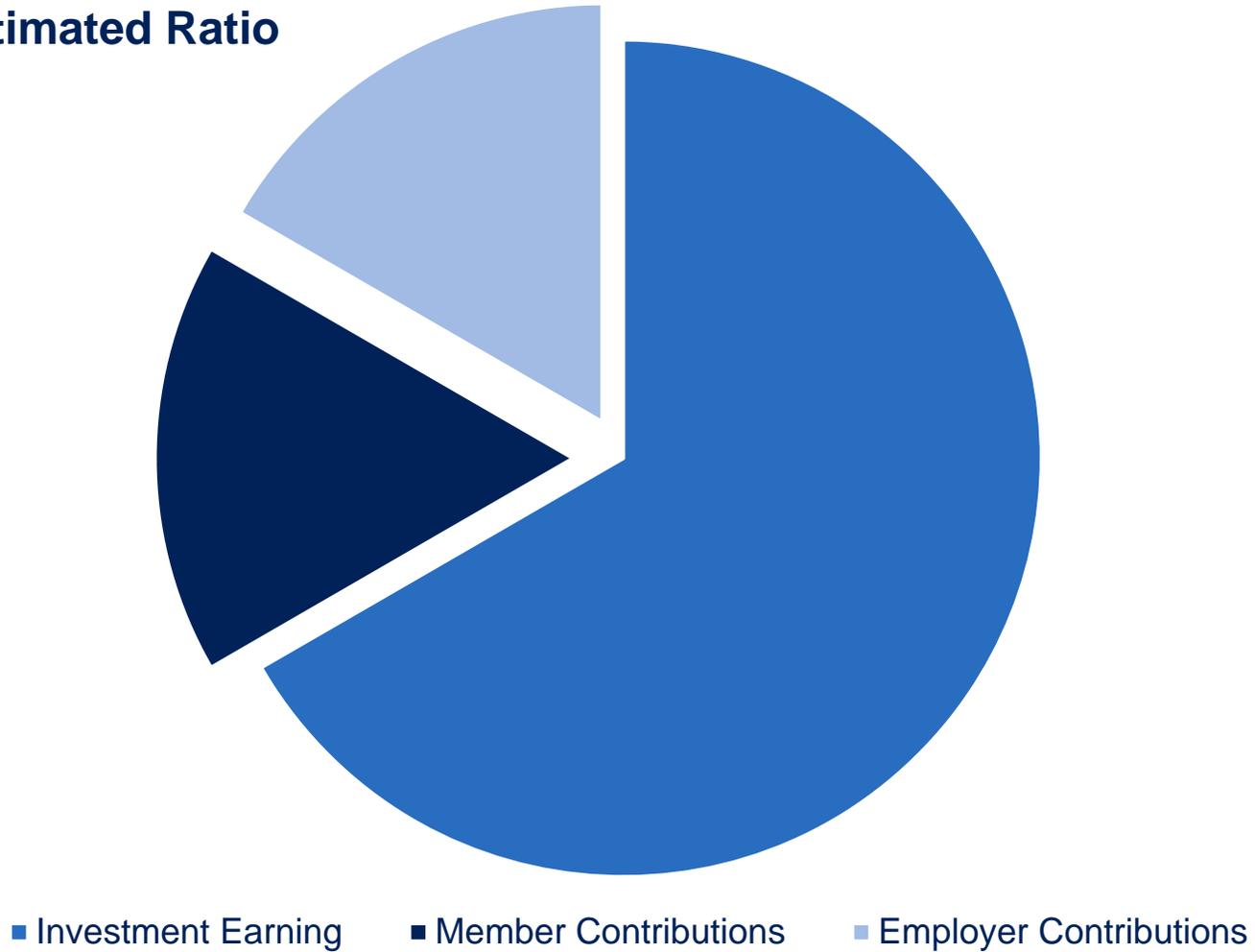


## Purpose of Contribution Rates

- Pre-fund pension obligation
- Members and employers make contributions into pension trust fund during member's working life
  - As a percent of member's salary
- Contributions are invested and grow with investment earnings
- Goal:  
Accumulated Fund at Retirement = Cost of All Future Benefit Payments

# Funding Sources for Pension Obligations

Estimated Ratio



## Contribution Rates Calculated by Board-Retained Actuary

- Every even-numbered year (RCW 41.45.0604)
  - Based on actuarial valuation from odd-numbered year
- Actuary calculates:
  - Today's value of expected future plan obligations (PVFB)
  - Actuarial Value of Assets (AVA)
  - Today's value of expected future salaries (PVFS)

$$\text{Contribution Rate} = (\text{PVFB} - \text{AVA}) / \text{PVFS}$$

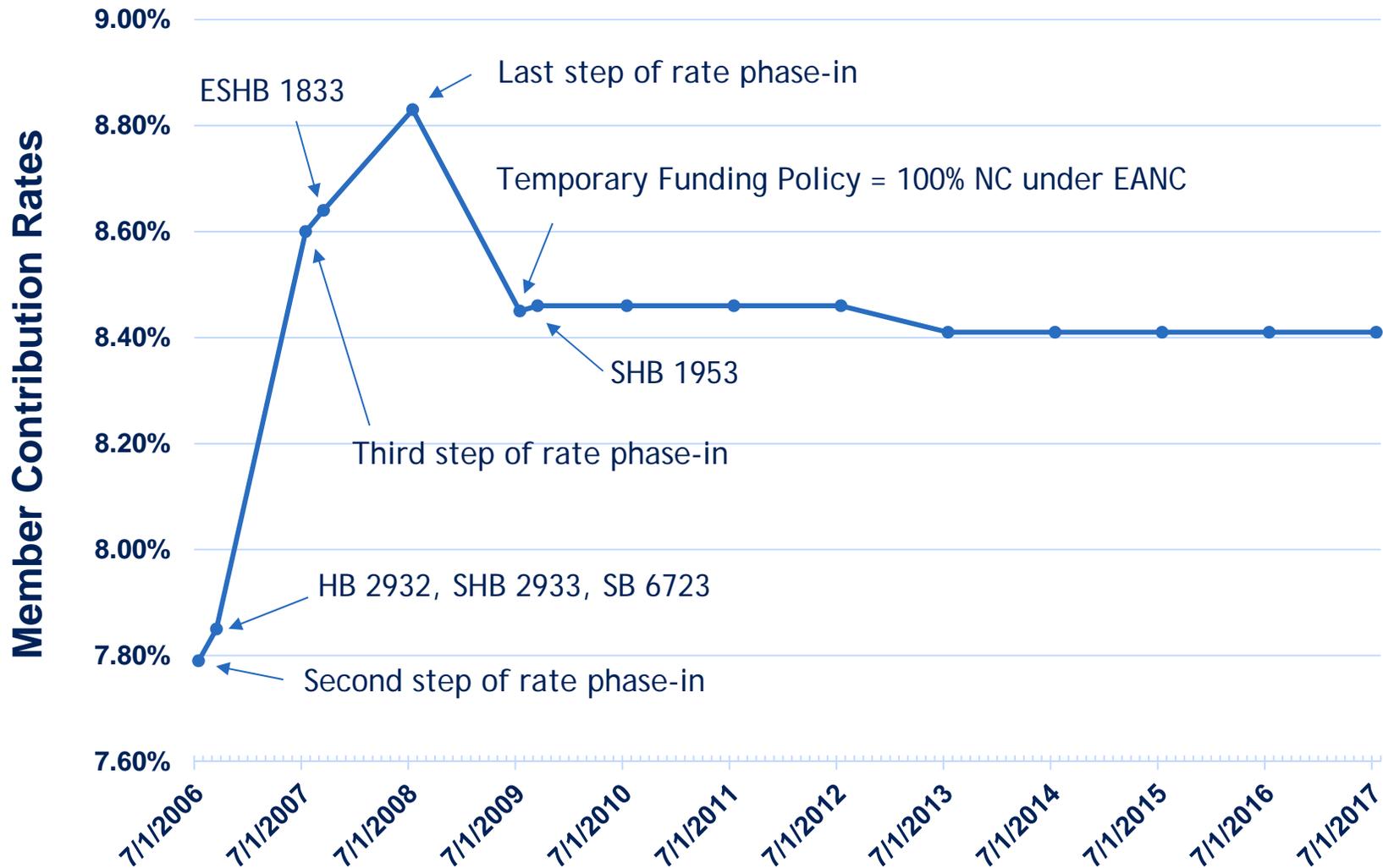
- Actuary presents contribution rate options based on past practices and policies adopted by the Board

## Board Adoption Practice

- Aggregate funding method is actuarial cost method in statute
- In 2004, the Board identified contribution rate stability as one of its top strategic priorities
- Board adopted minimum contribution rates based on the Entry Age Normal (EAN) actuarial cost method
  - 90 percent of the normal cost under EAN adopted in 2004 to take effect July 1, 2009
  - 100 percent of the normal cost under EAN adopted in 2008 to take effect July 1, 2009



# Historical LEOFF 2 Member Contribution Rates

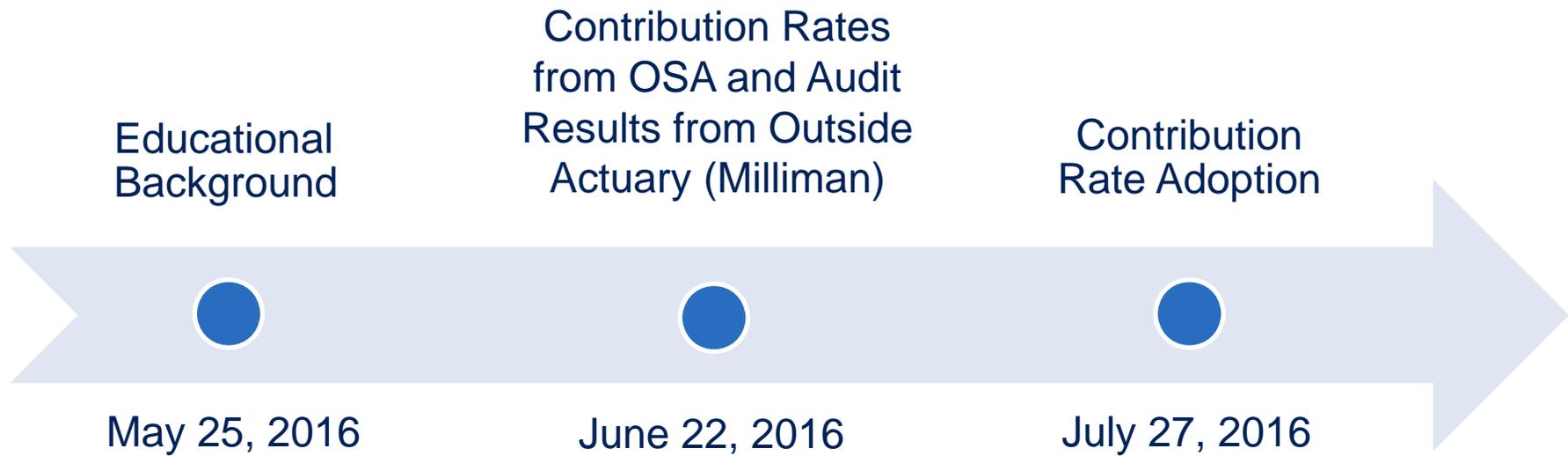


## Supplemental Contribution Rates

- Temporary rate increases to fund the cost of benefit improvements not yet included in basic rates
  - Added to basic rates during the following rate-setting cycle
- 2006 Legislative Session, 0.06 percent member increase on 9/1/2006
  - HB 2932 - Catastrophic Disability
  - SHB 2933 - \$150,000 Death Benefit
  - SB 6723 - Survivor Health Care Insurance
- 2007 Legislative Session, 0.04 percent member increase on 9/1/2007
  - ESHB 1833 - Occupational Disease
- 2009 Legislative Session, 0.01 percent member increase on 9/1/2009
  - SHB 1953 - Fish & Wildlife Enforcement Officers



# Process Timeline



OSA analysis and concurrent audit with outside actuary.

## Next Steps

- Concurrent audit process continues
- OSA finalizes actuarial valuation results and contribution rates
  - Presents results to the Board in June
- Milliman (outside actuary) presents preliminary audit results in June
- Board adoption of contribution rates occurs in July
- Adopted rates effective July 1, 2017, through June 30, 2019
  - Subject to revision by the Legislature
  - Supplemental rate changes can occur outside of the normal rate adoption process if benefit improvements are enacted



# Questions?

