



STATE OF WASHINGTON

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'  
PLAN 2 RETIREMENT BOARD

*P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329*

September 12, 2012

The Honorable Christine Gregoire  
Washington State Governor  
Mail Stop 40002

Dear Governor Gregoire:

Initiative 790 created the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board in 2003 and RCW 41.26.720(e) requires the Board to submit an annual actuarial funding status report to the Governor and the Legislature. The Board is pleased to report that the funding of LEOFF Plan 2 is sound.

RCW 41.26.725 requires the Board to adopt reasonable contribution rates for the plan. The Board adopted rates for 2013-2017 of 8.41% for members, 5.05% for employers and 3.36% for the State. These rates are a slight decrease from the rates currently in place for the plan.

These rates are expected to achieve several significant goals for plan members, employers and taxpayers:

- These rates are expected to be sufficient to keep the plan fully funded through 2017 at which time all the deferred investment losses from the 2008-2009 fiscal years will be fully recognized. No unfunded liability will be deferred to future taxpayers.
- These rates are equal to the expected long-term cost of the plan and are expected to remain stable both short-term and long-term. This will assist state and local government budget planners in developing future expense projections. Contribution rates for LEOFF Plan 2 are not projected to increase as long as long-term economic assumptions are met.
- These rates fully incorporate changes in long-term economic assumptions recommended by the State Actuary in 2011. The State Actuary recently recommended lowering the long-term outlook for investment returns, inflation and salary growth. These rates incorporate a prudently cautious view of economic expectations for the future and reduce the risk that bad economic experience will require increases in future contributions.

As you may know, the funding policies adopted by the Board are nationally recognized and considered a model for “best practice” with other states across the nation.

The Department of Retirement Systems (DRS) produces a *Comprehensive Annual Financial Report* that includes the funding status of each retirement fund, including LEOFF Plan 2. The current DRS report uses the final audited market value of LEOFF Plan 2 assets as of June 30, 2010. The solvency test for LEOFF Plan 2 that was published in the current DRS report indicates that LEOFF Plan 2 remains at 100%. A copy of the solvency test is copied below.

Solvency Test: LEOFF Plan 2 (dollars in millions)								
Accrued Liabilities (Aggregate Cost Method)					Portion of Accrued Liabilities Covered by Assets			
Valuation Date	(1)	(2)	(3)	(1+2+3)	Valuation Assets	(1)	(2)	(3)
	Active Member Contributions	Inactive Members Liabilities	Excess Accrued Liability	Total Accrued Liability		Active Members Contributions	Inactive Members Liability	Excess Accrued Liability
6/30/10	\$1,615.0	\$924.7	\$3,503.0	\$6,042.7	\$6,042.7	100%	100%	100%
6/30/09	1,479.5	682.5	3,402.1	5,564.2	5,564.2	100%	100%	100%
6/30/08	1,319.7	547.5	3,185.5	5,052.7	5,052.7	100%	100%	100%
6/30/07	1,178.3	451.7	2,729.6	4,359.6	4,359.6	100%	100%	100%
9/30/06	1,087.8	355.6	2,400.3	3,843.8	3,843.8	100%	100%	100%
9/30/05	980.4	264.7	2,084.0	3,329.1	3,329.1	100%	100%	100%

*Source: Washington State Office of the State Actuary*

The Office of the State Actuary (OSA) has completed preliminary work on the *2011 LEOFF Plan 2 Actuarial Valuation Report* which also analyzed the funding ratio of LEOFF Plan 2. The OSA valuation uses the Projected Unit Credit (PUC) actuarial cost method to calculate the plan’s liabilities for purposes of preparing the funding ratio exhibit in the valuation. It is important to note that this the PUC actuarial cost method is not used as a funding method for LEOFF Plan 2 or any of the state plans. Also, the liability calculation uses the actuarial (“smoothed”) value of assets which may differ up to 30% from the actual market value of the plan’s assets. Nevertheless, reporting the funding ratio in this way does facilitate comparison of the health of the plan relative to past years and relative to other plans across the country.

The OSA report found that LEOFF Plan 2 had a PUC liability of \$5,576 million and an actuarial value of assets of \$6,621 million for a funding ratio of 119%. This ratio is unchanged from the previous year.

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I hope that you find this report useful. Please feel free to contact me at (360) 586-2320 or at [steve.nelsen@leoff.wa.gov](mailto:steve.nelsen@leoff.wa.gov), if you have any questions or would like additional information.

Sincerely,



Steve Nelsen  
Executive Director

Enclosure

cc: The Honorable Ross Hunter  
House Ways and Means Committee Chair  
Mail Stop 40600

The Honorable Ed Murray  
Senate Ways and Means Committee Chair  
Mail Stop 40482

Marty Brown, Director  
Office of Financial Management  
Mail Stop 43113