



May 27, 2015

## Supplemental Rate Adoption

### COMPREHENSIVE REPORT

By Ryan Frost

Research Analyst

360-586-2325

ryan.frost@leoff.wa.gov

### ISSUE STATEMENT

The Board must decide whether it is necessary to increase contribution rates due to the passage of Substitute House Bill 1194, providing surviving spouses of members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) and Washington State Patrol Retirement System (WSPRS) monthly survivor benefits regardless of remarriage.

### OVERVIEW

Based on the preliminary actuarial data as of May 18, 2015, there were 16,773 active LEOFF Plan 2 members. Adopting supplemental contribution rates impacts all active LEOFF Plan 2 members, employers, and the state.

One of the Board's strategic goals is to ensure the financial integrity of the plan. In order to maintain that goal, it may be necessary for the Board to pay for benefit improvements. Not all benefit improvements will have costs necessitating an increase in contribution rates, but if they do, the Board has the option of adopting a supplemental rate increase. Changes are usually effective September 1 following the effective date of the legislation.

### BACKGROUND & POLICY ISSUES

The Office of the State Actuary (OSA) provided a fiscal note on March 2nd, 2015 indicating the cost of this benefit enhancement would require a contribution rate increase of seven basis points for the member (0.07%), four basis points for the employer (0.04%), and three basis points for the state (0.03%). The House and Senate have funded this bill in their preliminary budgets.

Just last year, the Board decided to leave contribution rates at their current levels for the upcoming biennium. With the addition of this new bill, there is potentially a larger gap between actual rates and what the normal cost of the plan is projected to be.

However, the vast majority of the costs of this bill are related to the assumptions of remarriage among current widows. With limited information and experience about this matter, it may be the Board's decision to let experience play out before assuming changes to the normal cost of

the plan. The actuary's fiscal note and assumptions are currently under audit by an outside actuary, with the results of that audit to come soon.

The Board will be studying its funding policy this interim. Adopting a rate change now when you may be changing the funding policy in the near future, which could involve another change in rates, could lead to rate volatility in the short term. The Board could discuss its funding policy first, then come back later in the interim to review supplemental rate adoption.

Lastly, the Board could decide to adopt the full entry age normal cost (EANC) of the plan now. The majority of the rate increases were tied to mortality improvements among the population. The Board elected to leave rates at their current levels through the 2015-2017 biennium, then adopt the full normal cost rates for the 2017-2019 biennium.

## POLICY OPTIONS

### Option 1: Adopt no supplemental rate

Under this option, the Board would recommend no increase in contribution rates. This would leave rates at:

Member	8.41%
Employer	5.05%
State	3.36%

### Option 2: Adopt OSA's recommended supplemental rates

Under this option, the Board would recommend to adopt an increase in contribution rates of 0.07% for members, 0.04% for employers, and 0.03% for the state. This would increase rates to:

Member	8.48%
Employer	5.09%
State	3.39%

### Option 3: Adopt the full normal cost

Under the option, the Board would adopt the full normal cost of the plan as presented by OSA last interim, with the addition of the cost of the new benefit. This would increase rates to:

Member	8.92%
Employer	5.35%
State	3.57%



# Supplemental Rate Adoption

Comprehensive Report  
May 27, 2015

# Issue

**A supplemental rate change may be necessary due to the passage of SHB 1194.**

# Overview

- Impacts
  - Member
  - Employee
  - State
- Ensuring Actuarial Soundness

# Background

- Rate Adoption History
- Fiscal Note Assumptions
- Funding Policy Changes
- Full Normal Cost of the Plan

# Options

## Option 1: Adopt no supplemental rate

Under this option, the Board would recommend no increase in contribution rates. This would leave rates at:

Member	8.41%
Employer	5.05%
State	3.36%

# Options

## Option 2: Adopt OSA's recommended supplemental rates

Under this option, the Board would recommend to adopt an increase in contribution rates of 0.07% for members, 0.04% for employers, and 0.03% for the state. This would increase rates to:

Member	8.48%
Employer	5.09%
State	3.39%



# Options

## Option 3: Adopt the full normal cost

Under the option, the Board would adopt the full normal cost of the plan as presented by OSA last interim, with the addition of the cost of the new benefit. This would increase rates to:

Member	8.92%
Employer	5.35%
State	3.57%

# Options

	Option 1 – Adopt no supplemental rate	Option 2- Adopt OSA’s recommended supplemental rates	Option 3- Adopt the full normal cost
Member	8.41%	8.48%	8.92%
Employer	5.05%	5.09%	5.35%
State	3.36%	3.39%	3.57%

# Questions?

## **Contact:**

Ryan Frost

Research Analyst

(360) 586-2325

[ryan.frost@leoff.wa.gov](mailto:ryan.frost@leoff.wa.gov)