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WSIPP STUDY FOLLOW-UP

EDUCATIONAL BRIEFING

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EXECUTIVE SUMMARY

At the December 12, 2012 Board Meeting, the Washington State Institute for Public Policy (WSIPP) gave a presentation regarding how LEOFF Plan 2 compared with peer plans throughout the United States. Their peer comparison report focused solely on income replacement as a plan ranking criteria. In order to have a more accurate ranking of plans, it is necessary to look at the many other factors which signify whether a plan is successful. The Board discussed conducting an expanded follow-up study. This report provides for the Board review and comment the additional information that is recommended for collection.

STRATEGIC LINKAGE

This report supports the following Strategic Priority Goals:

Goal 1 – Enhance the benefits for the members: Compares plans from other states and relevant organizations; Assesses existing benefits.

Goal 2 - Provide the stakeholders with a voice in the plan governance: Maintains stakeholder confidence in the integrity of the plan.

Goal 3 – Maintain the financial integrity of the plan: Identifies best practices from other states and organizations; Provides information on the fiscal reality of the plan; Promotes fiduciary education.

Goal 4 - Inform the Stakeholders: Increases member understanding of the benefits provided in the plan.

BACKGROUND INFORMATION

Since retirement plans within each state may have various designs and multiple variables, it is extremely difficult to find a single measure to compare plans. Recognizing that difficulty, WSIPP chose income replacement as the most comparable area to evaluate plans. Income replacement is the percentage of a worker's salary replaced by the pension at the time of retirement. The report ranked LEOFF Plan 2 thirty-third out of forty-two comparison plans in the area of income replacement.

While income replacement allows an “apples to apples” comparison, examining only income replacement provides a limited scope of review and may not be the best way to measure the effectiveness of a plan. An analysis that includes other measures and expanded analysis could provide a more comprehensive comparison of a plans’ adequacy and sustainability. For example, additional measures could include a plan comparison of average salary, contribution rates, benefit multiplier, averaging period, disability benefits, and funding ratio. The next two sections provide examples how analyzing Average Salary and Contribution Rates adds a significant amount of information to the review and comparison of retirement plans.

AVERAGE SALARY EXAMPLE

Average salaries paid in a particular state are important when comparing plans and are important when used in conjunction with benefit multipliers. For example, the average annual salary for LEOFF Plan 2 members in 2011 was \$91,322, and for a fire fighter in the Utah Firefighters Retirement System the average annual salary was \$55,240. In LEOFF Plan 2, a member with 25 years of service would expect an unreduced annual benefit of \$45,661 (2.0% multiplier for twenty-five years) based on the 2011 average annual salary. In Utah, a fire fighter with 25 years of service credit would expect an unreduced annual benefit of \$33,144 (2.5% multiplier for the first twenty years and a 2.0% multiplier for each year of service credit over twenty years) based on the 2011 average annual salary.

CONTRIBUTION RATE EXAMPLE

Contribution rates can also be a very important factor to consider when comparing plans. For example, the LEOFF Plan 2 contribution rates as of 1/1/2011 were 8.46% member, 5.08% employer and 3.38% state for a total of 16.92%. The Minnesota Public Employees Retirement Association Police and Fire Fund have a 3.0% multiplier but their contribution rates as of 1/1/2011 were 9.60% member and 14.40% employer, for a total of 24.00%. That total contribution rate would equate to 12.00% member, 7.20% employer and 4.80% state under the LEOFF Plan 2 funding scheme.

RECOMMENDATION FOR FOLLOW-UP COMPARISON

The tables below provide a list of data collected by the WSIPP study and list of additional data which is recommended for collection and comparison in the follow-up study. This additional information would allow for a more detailed assessment of peer plans. Direction is requested from the Board as to if this additional data meets expectations for the follow-up.

COLLECTED BY WSIPP	DESCRIPTION
Multiplier	A percentage, multiplied by final average salary, and lastly divided by years of service to give the pensioner their annual benefit.
Member Contribution Rate	
Employer Contribution Rate	

ADDITIONAL DATA	DESCRIPTION
Normal Retirement Age	Age a member can retire without any reductions.
Vesting	Years an employee must be enrolled in the plan before s(he) is eligible to receive benefits.
Final Average Salary Period	Average of highest salaries over a specified number of years.
Average Salary	
Funded Ratio	Generally, a ratio of a pension plans assets to its liabilities.
Plan Demographics	Number of active participants in the plan.
Market Value of Assets	Current plan value.
Other Contribution Sources	



WSIPP Study Follow-up

Educational Briefing

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WSIPP Report

- Three topics related to public pension policies:
 - Benefit Levels
 - Portability
 - Excess Compensation
- This presentation focuses on their ‘benefit levels’ section.

WSIPP Report – Benefit Levels

- The WSIPP surveyed all 50 states to analyze pension plan features and benefit levels.
 - Provide an “apples-to-apples” comparison
 - Calculated pension benefits using “income replacement”

Challenges

- Judging a plan solely off of its income replacement ratio ignores many aspects of what makes a plan successful.

Expanded Analysis

- Include other measures
- Comprehensive comparison
 - Adequacy
 - Sustainability

Recommended Follow-up

- **WSIPP DATA**
 - Multiplier
 - Contribution Rate

Recommended Follow-up

- Additional Data
 - Normal Retirement Age
 - Vesting
 - Final Average Salary Period
 - Average Salary
 - Funded Ratio
 - Plan Demographics
 - Market Value of Assets
 - Other Contribution Sources

Next Steps

- Does the additional data/analysis meet expectations for the follow-up?
- Other data/analysis?

Any Questions?

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