Contribution Rate Setting Process

Matthew M. Smith
Office of the State Actuary

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Current Rates

- Member = 5.07%
- Employer = 3.26%*
- State = 2.03%

** Includes DRS administrative expense rate of 0.22%*

Where did they come from?

- Actuarial valuation performed as of September 30, 2001 (odd-year)
- Rates recommended to the Pension Funding Council (PFC)
- PFC solicited audit of valuation results
- PFC adopted “basic” rates in September, 2002 (even-year)
- Legislature set “basic” rates for 03-05 biennium

Where did they come from?

- 2001 valuation rates ("basic" rates):
  - – Member = 5.05%
  - – Employer = 3.03%
  - – State = 2.02%

Where did they come from?

- "Basic" rates plus "supplemental" rates:
  - – Member = 5.05% + 0.02% (HB 1205*)
  - – Employer = 3.03% + 0.01% (HB 1205)
  - – State = 2.02% + 0.01% (HB 1205)

** Chapter 388, Laws of 2003, added enforcement officers from the Department of Fish and Wildlife under LEOFF 2 membership.*

Where did they come from?

- Current rates:
  - Member = 5.05% + 0.02% = 5.07%
  - Employer = 3.03% + 0.01% + 0.22%* = 3.26%
  - State = 2.02% + 0.01% = 2.03%

** DRS administrative expense rate*

Process Overview
(Before I-790)

- Odd-year actuarial valuation
- Recommendation to PFC
- Audit of actuarial valuation
- PFC adoption of rates in September of even-numbered years
- Rates effective for ensuing biennium
  - Subject to revision by the Legislature

Process Overview
(Before I-790)

- “Supplemental” rates calculated by the State Actuary
- Rate increases typically effective in September following effective date of legislation

Process Overview - LEOFF 2
(After I-790)

- Odd-year actuarial valuation
- Recommendation to ~~PFC~~ LEOFF 2 board
- Audit of actuarial valuation
- ~~PFC~~ LEOFF 2 board adoption of rates in September of even-numbered years
- Rates effective for ensuing biennium
  - Subject to revision by the Legislature

Process Overview
(After I-790)

- “Supplemental” rates calculated by the State Actuary and the actuary retained by the board
- Rate increases typically effective in September following effective date of legislation

2004 Board Action

- Adoption of 2004 “supplemental” rates for HB 2418 and HB 2419 (July)
- Receive audit report on 9/30/2003 actuarial valuation (August)
- Adoption of “basic” rates for 05-07 biennium (September)

Projected Rates

	Current	05-07*
Member	5.07%	7.50%
Employer	3.26%	4.72%
State	2.03%	3.00%

** Estimated contribution rates based on actual investment return through August 31, 2003. Includes current administrative expense rate for employers.*

Projected Rates*

	07-09	09-11
Member	8.34%	8.53%
Employer	5.22%	5.33%
State	3.34%	3.42%

** Estimated contribution rates based on actual investment return through August 31, 2003. Includes current administrative expense rate for employers.*

Contribution Rate Basics

- LEOFF 2 rates are calculated under the Aggregate funding method
- Excess of the:
  - Present value of pension liability; over
  - Actuarial value of assets
- Spread over the projected salary of each active member

Pension Liability Principles

- Actuary calculates the expected future pension payments for each participant
- Future payments consider pay and service history, and when someone might be expected to die, quit, retire, etc.
- Each future payment is discounted from the date of payment to today using actuarial assumptions to determine the "actuarial present value" of each payment

Actuarial Value of Assets

- Calculated under an adjusted market value method
- Start with the market value of assets
- For subsequent years, the actuarial value of assets is determined by adjusting the market value for differences between actual and assumed investment return
- Smoothes the effects of short-term volatility in the market value of assets

“Normal Cost”

- “Normal cost” is the annual cost of a pension plan for the benefits accrued by employees
- Computed differently under different funding methods

"Unfunded Liability"

- The difference between the:
  - "Actuarial liability" – the value of benefits already earned – and;
  - Assets
- Sources of unfunded liability:
  - Experience not in sync with assumptions
  - Under funding
  - Benefit enhancements for past service

Amortization Methods

- Separate amortization of unfunded liability is common
  - Separate from the normal cost
- Length of amortization period tied to:
  - Availability of future contributions
  - Funding goal and benefit security
- No unfunded liability under the Aggregate funding method