



Administrative Factors - Preview

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Today's Presentation

- What are administrative factors?
- Why is this before the Board?
- LEOFF 2 has four factors to update
- Policy considerations for the Board
- Next steps



What Are Administrative Factors?

- Factors used by Department of Retirement Systems (DRS) to adjust pensions based on optional payment forms
- Optional payments should be cost-neutral to the plan as a whole
 - Administrative factors set the values equal - Actuarial Equivalence
- Factors use assumptions about uncertain future events such as life expectancy



Why Is This Before You?

- The Board has authority to adopt administrative factors
 - New process - coordination with DRS
- The Board adopted assumption changes after the 2001-2006 Demographic Experience Study
 - When assumptions change, administrative factors may need updating
- Policy decisions guide development of final factors



LEOFF 2 Has Four Factors To Update

- Early Retirement Factors (ERFs)
- Joint and Survivor Option Factors (J&S factors)
- Monthly Benefit per Dollar of Accumulation (annuity factors)
- Service Credit Purchase Factors



Early Retirement Factors

- ERFs reduce a member's benefit for early commencement
- Applies to non-duty disability or death prior to age 53 (NRA)



Joint And Survivor Option Factors

- J&S factors reduce a member's benefit to provide an ongoing benefit for their survivor
- Three options available - survivor receives 100 percent, 50 percent, or 66 2/3 percent of the member's benefit



Monthly Benefit Per Dollar Of Accumulation

- Annuity factors convert a lifetime monthly benefit to a lump sum
- Calculation is made at retirement
- Applies to cash-out of small monthly pension or purchase of "air time"



Service Credit Purchase Factors

- Factors determine the price of the increase in a member's benefit if they purchase or restore service credit
- Purchase is made sometime before retirement
- Example - service withdrawn in the past and member wants to restore it



What Assumption Changes Impact The Factors?

■ Mortality

- Improvement trends recognized - we expect members to live longer
 - We expect that to continue into the future

■ Retirement

- We expect members to work longer

■ Percent male/female

- More women entering LEOFF Plan 2

Policy Considerations For The Board

- Recognize mortality improvements
- Include mortality rates for members with disabilities
- General/administrative considerations



Policy Considerations - Mortality

- Recognize mortality improvements to certain date
- Mortality assumption can be different for the administrative factors compared to the actuarial valuation
- Mortality assumption impacts all factors



Policy Considerations - Disability

- Include mortality rates for members with disabilities in the development of administrative factors
 - Currently only healthy mortality is used
 - Can develop separate factors
 - Can blend mortality rates



Policy Considerations - General

- Coordination with policy decisions made for other plans
- Balance administrative ease with actuarial accuracy
- Manage change in factors from one experience study to another



Next Steps

- OSA, Board, staff to address policy questions
- OSA will develop factors and preview them
- Board adopts final factors
- DRS will communicate factor changes to members and implement new factors





Questions?



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