



June 24, 2015

Supplemental Rate Adoption

FINAL PROPOSAL

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 2, 2015 indicating the cost of this benefit enhancement would require a contribution rate increase of four basis points for the member (0.04%), three basis points for the employer (0.03%), and one basis point for the state (0.01%). 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 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 the Board may be adopting a new funding policy that could also involve a rate change, may 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. Previously, 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: Do not adopt a 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 0.04% for members, 0.03% for employers, and 0.01% for the state. Rates would increase to:

Member	8.45%
Employer	5.08%
State	3.37%

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, including the cost of the new benefit. This would increase rates to:

Member	8.89%
Employer	5.34%
State	3.55%



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Final Report
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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
- Full Normal Cost of the Plan

Options

Option 1: Do not adopt a supplemental rate

The Board would leave rates at:

Member	8.41%
Employer	5.05%
State	3.36%

Options

Option 2: Adopt OSA's recommended supplemental rates

The Board would adopt an increase in contribution rates of 0.04% for members, 0.03% for employers, and 0.01% for the state. Rates would increase to:

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Options

	Option 1 – Do not adopt a supplemental rate	Option 2- Adopt OSA's recommended supplemental rates	Option 3- Adopt the full normal cost, including the new benefit
Member	8.41%	8.45%	8.89%
Employer	5.05%	5.08%	5.34%
State	3.36%	3.37%	3.55%

Questions?

Contact:

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