

Today's Presentation

- Purpose of administrative factors
- Board's role
- Overview of factors to update
- Next steps
- No Board action required today

Administrative Factors Adjust Benefits For Optional Payments

- Basic form of pension is payable at normal retirement for the life of the member
- Optional payments are available with adjustments for “actuarial equivalence”
 - Provides alternative benefits for members
 - Creates no expected costs to the system
 - Stream of benefits payable under basic form of pension is equal to stream of benefits payable under optional form of pension
- Actuarial equivalence means equal on an actuarial basis
 - Considers the time value of money
 - Includes future expectations such as life spans



Why Is This Before You?

- Board has authority to adopt factors
- Factors should be reviewed/updated when assumptions change
- Demographic assumptions updated as part of the 2007-2012 Demographic Experience Study
 - New assumptions were adopted by the Board in 2014
 - Key impact will be longer expected life spans
- New 'unlimited' annuity purchase added in 2014 Session
 - May adopt different assumptions

LEOFF 2 Has Four Factors To Update

- Joint and Survivor (J&S) option factors
- Early Retirement Factors (ERFs)
- Annuity purchase factors (Monthly Benefit per \$1 of Accumulation)
- Service credit restoration factors



Optional Retirement Benefits For Members

- Joint and survivor pension
 - Pension payable for the life of the member and continuing in specified amount to the survivor on the member's death
 - Three options available - J&S 50 percent, J&S 66⅔ percent, J&S 100 percent
 - Includes pop-up provision (to original pension amount) if survivor dies before the member
- Early retirement
 - Retiring prior to normal retirement age

Adjustments Are Made So The Expected Costs Are Equal

- Basic pension amount is reduced for J&S or early retirement options
- Pension payable for the lifetime of two people is more expensive than a pension payable for the lifetime of one person
- Pension payments that start before normal retirement are more expensive
 - Less time for investment returns to accumulate
 - More payments are made when the payment stream starts sooner



Additional Pension Benefits Members Can Purchase

- Annuity purchase - made at retirement
 - “Airtime” - up to five years of additional service added to the basic pension calculation
 - Unlimited annuity purchase - funds from eligible retirement plan, minimum \$25,000
- Service credit restoration - made prior to retirement
 - Restore prior service if the member misses the window to pay only past contributions
- Additional purchase requires an administrative factor to convert the stream of additional benefits into a lump sum payment amount

Sample Of Preliminary Estimates For Updated Factors

Administrative Factors - Updated *			
Early Retirement Factors (ERFs)			
Age	Current	Updated	Percentage Change
50	0.765	0.773	1.1%
Joint and Survivor Option 2 - 100% to Survivor			
Age Difference	Current	Updated	Percentage Change
+3	0.859	0.868	1.1%
-1	0.881	0.888	0.8%
Monthly Benefit Per \$1.00 of Accumulation Factor			
Age	Current	Updated	Percentage Change
53	0.00518	0.00486	(6.3%)

*Updated for new demographic assumptions only.

Next Steps

- OSA will calculate new factors based on updated assumptions
- Results shared with LEOFF 2 Board in September
- Board adopts factors and provides them to DRS by October 2015
- DRS begins communication and implementation for October 2016 effective date



Questions?

