



Contribution Rates Final Proposal

LEOFF Plan 2 Retirement Board

July 23, 2008

Issue

- The Board must adopt member, employer, and state LEOFF Plan 2 contribution rates for the 2009-11 biennium.

Option 1: Fixed Contribution Rates

■ Experience Study Assumptions Only

Contribution Rates			
	Member	Employer	State
July 1, 2009	8.20%	4.92%	3.28%
July 1, 2010	8.20%	4.92%	3.28%
July 1, 2011	8.20%	4.92%	3.28%
July 1, 2012	8.20%	4.92%	3.28%

Option 1: Fixed Contribution Rates

- Experience Study Assumptions Including Projected Improvements in Mortality

Contribution Rates			
	Member	Employer	State
July 1, 2009	8.45%	5.07%	3.38%
July 1, 2010	8.45%	5.07%	3.38%
July 1, 2011	8.45%	5.07%	3.38%
July 1, 2012	8.45%	5.07%	3.38%

Option 1: Fixed Contribution Rates

- Experience Study Assumptions Plus Change in Salary Growth Assumption

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.97%	4.78%	3.19%
July 1, 2010	7.97%	4.78%	3.19%
July 1, 2011	7.97%	4.78%	3.19%
July 1, 2012	7.97%	4.78%	3.19%

Option 1: Fixed Contribution Rates

- Experience Study Assumptions Including Projected Improvements in Mortality Plus Change in Salary Growth Assumption

Contribution Rates			
	Member	Employer	State
July 1, 2009	8.21%	4.93%	3.28%
July 1, 2010	8.21%	4.93%	3.28%
July 1, 2011	8.21%	4.93%	3.28%
July 1, 2012	8.21%	4.93%	3.28%

Option 2: Variable Contribution Rates

■ Experience Study Assumptions Only

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.38%	4.43%	2.95%
July 1, 2010	7.38%	4.43%	2.95%
July 1, 2011*	7.38%	4.43%	2.95%
July 1, 2012*	7.38%	4.43%	2.95%

*The rates for 2011/12 biennium are projected at 90% of the expected long-term cost of the plan, but could increase as a result of the 2009 Actuarial Valuation Report

Option 2: Variable Contribution Rates

■ Experience Study Assumptions Including Projected Improvements in Mortality

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.60%	4.56%	3.04%
July 1, 2010	7.60%	4.56%	3.04%
July 1, 2011*	7.60%	4.56%	3.04%
July 1, 2012*	7.60%	4.56%	3.04%

*The rates for 2011/12 biennium are projected at 90% of the expected long-term cost of the plan, but could increase as a result of the 2009 Actuarial Valuation Report

Option 2: Variable Contribution Rates

- Experience Study Assumptions Plus Change In Salary Growth Assumption

Contribution Rates			
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*The rates for 2011/12 biennium are projected at 90% of the expected long-term cost of the plan, but could increase as a result of the 2009 Actuarial Valuation Report

Option 2: Variable Contribution Rates

- Experience Study Assumptions Including Projected Improvements in Mortality Plus Change In Salary Growth Assumption

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.39%	4.44%	2.95%
July 1, 2010	0.00%	0.00%	0.00%
July 1, 2011*	0.00%	0.00%	0.00%
July 1, 2012*	0.00%	0.00%	0.00%

*The rates for 2011/12 biennium are projected at 90% of the expected long-term cost of the plan, but could increase as a result of the 2009 Actuarial Valuation Report

Proposal Summary

- Fixed Rate

- Based on the long-term cost of the plan
- Rate fixed for 4 years

- Variable Rate

- The greater of the State Actuary's recommendation based on their valuation or 90% of the long-term cost of the plan
- Rates adopted annually or biennially



Contribution Rates

Questions?

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Contribution Rates

Final Proposal

July 23, 2008

1. Issue

The Board must adopt member, employer, and state LEOFF Plan 2 contribution rates for the 2009-2011 biennium.

2. Staff

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3. Members Impacted

Any change to the existing LEOFF Plan 2 funding policies would impact all active members and employers. As of the most recent actuarial valuation, there are approximately 15,718 active LEOFF Plan 2 members and 481 employers.

4. Current Situation

In December of 2004, the Board adopted a four-year schedule that raised contribution rates annually beginning July 1, 2005, until they expire on June 30, 2009.

5. Background Information and Policy Issues

Background

Prior to the creation of the Board, contribution rates for LEOFF Plan 2 were adopted by the Pension Funding Council. This is still the same process used for all other systems and plans today. However, with the creation of the LEOFF 2 Board in July 1, 2003 under Initiative 790, the Board became responsible for contribution rate adoption.

In June of 2004, the Board identified that contribution rate stability was one of its top priorities. At the December 9, 2004 meeting, the Board adopted a four-year plan of annual increases to raise rates to the levels they needed to be to fund current benefits through June 30, 2009.

The Board also adopted two other policies to help stabilize long-term contribution rates. The first was the adoption of a minimum contribution rate of 90% of the entry age normal cost of the plan. The second was to establish a funding corridor. Under the funding corridor policy a 30% maximum and minimum ratio of actuarial to market asset value was established. This helps ensure rates do not go too high or low if there are successive years of gains or losses relative to the assumed rate of return. In addition to these policies and the four-year contribution rate increase policy, the Legislature passed another statutory funding policy in 2003 that allows gains and losses to be “smoothed” over a period of up to eight years, depending on the magnitude of the deviation between actual investment return and the current 8% assumption.

The final contribution rate increase scheduled for July 1, 2008, is currently in effect. There were no bills passed during the 2008 Legislative Session that affect the contribution rates, so no supplemental increase will be due in September.

Policy Issues

The policy issue to be addressed by the Board is for contribution rate setting after June 30, 2009. The Board could adopt rates periodically based on the Office of the State Actuary’s actuarial valuation or they could adopt a fixed rate based on the plan’s expected long-term cost.

Both methods have pros and cons. With a periodic rate adoption, the contributions might more closely reflect the actual cost of the plan, but the variations could be more difficult from a budgeting standpoint. With a fixed rate, budgeting is easier from the standpoint of projecting costs.

6. Policy Options

Option 1: Use a Fixed Contribution Rate for Four Years

Under this option the Board would approve a fixed rate based on the current expected long-term cost of the plan for the next four years (July 1, 2009 through June 30, 2013).

The advantage of this type of approach is that it makes budgeting for employers and the state much easier. It also makes the administration of collecting contributions easier for both the employers and state as well as for the Department of Retirement Systems.

The disadvantage of this approach is that the benefit fund could be over or under funded depending upon how well or how poor investment performance is during this fixed period. The Board would need to review the funding status annually to determine if an adjustment is necessary.

Option 2: Change the Rate Periodically Based on OSA Recommendation/Valuation

Under this option the Board would adopt contribution rates annually or biennially, based on the State Actuary's recommendations from their annual valuations. The rate could not go lower than 90% of the expected long-term cost of the plan.

The advantage of this type of approach is that the funding ratio of the plan is likely to remain at 100% since any investment gains or losses would be reflected in the change in contribution rate.

The disadvantage to this approach is that there are increased administrative costs to accommodate rate changes and the necessary notification process for contribution rate changes.

Assumptions

Regardless of which option is chosen, the Board's decisions on the demographic and economic assumptions will affect the long-term cost of the plan. Appendices B and C show what the long-term cost of the plan would be based on various assumptions. Please note that in the tables, the projected improvements in mortality and the change in salary growth assumptions are separate from the other experience study assumptions.

7. Supporting Information

Appendix A – Historical Contribution Rate Schedule

Appendix B – Fixed Contribution Rate Options

Appendix C – Variable Contribution Rate Options

Appendix A – Historical Contribution Rates

Historical Contribution Rates			
Effective Date	Member	Employer	State
10/1/77	8.14%	4.88%	3.26%
7/1/79	8.08%	4.85%	3.23%
7/1/81	7.74%	4.65%	3.09%
7/1/83	7.90%	4.74%	3.16%
7/1/85	7.00%	4.70%	3.13%
7/1/87	8.09%	4.85%	3.24%
7/1/89	7.60%	4.56%	3.04%
1/1/92	7.01%	4.21%	2.80%
9/1/93	8.41%	5.05%	3.36%
9/1/96	8.43%	5.06%	3.37%
9/1/97	8.48%	5.09%	3.39%
7/1/99	5.87%	3.52%	2.35%
5/1/00	5.41%	3.25%	2.16%
9/1/00	6.78%	4.07%	2.71%
7/1/01	4.50%	2.70%	1.80%
4/1/02	4.39%	2.64%	1.75%
7/1/03	5.05%	3.03%	2.02%
2/1/04	5.07%	3.04%	2.03%
9/1/04	5.09%	3.06%	2.03%
7/1/05	6.75%	4.05%	2.70%
9/1/05	6.99%	4.20%	2.79%
7/1/06	7.79%	4.68%	3.11%
9/1/06	7.85%	4.72%	3.13%
7/1/07	8.60%	5.17%	3.43%
9/1/07	8.64%	5.19%	3.45%
7/1/08	8.83%	5.30%	3.53%

Appendix B – Fixed Contribution Rate Options

Option 1: Fixed Rate

Under this option the Board would adopt a four-year rate based on one-hundred percent of the most current OSA valuation for the long-term expected cost of the plan. The rates that would result from this method are as follows:

A: Experience Study Assumptions Only

Contribution Rates			
	Member	Employer	State
July 1, 2009	8.20%	4.92%	3.28%
July 1, 2010	8.20%	4.92%	3.28%
July 1, 2011	8.20%	4.92%	3.28%
July 1, 2012	8.20%	4.92%	3.28%

B: Experience Study Assumptions including Projected Improvements in Mortality

Contribution Rates			
	Member	Employer	State
July 1, 2009	8.45%	5.07%	3.38%
July 1, 2010	8.45%	5.07%	3.38%
July 1, 2011	8.45%	5.07%	3.38%
July 1, 2012	8.45%	5.07%	3.38%

C: Experience Study Assumptions plus Change in Salary Growth Assumption

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.97%	4.78%	3.19%
July 1, 2010	7.97%	4.78%	3.19%
July 1, 2011	7.97%	4.78%	3.19%
July 1, 2012	7.97%	4.78%	3.19%

D: Experience Study Assumptions including Projected Improvements in Mortality, plus Change in Salary Growth Assumption

Contribution Rates			
	Member	Employer	State
July 1, 2009	8.21%	4.93%	3.28%
July 1, 2010	8.21%	4.93%	3.28%
July 1, 2011	8.21%	4.93%	3.28%
July 1, 2012	8.21%	4.93%	3.28%

Rates are based on the 06/30/07 Actuarial Valuation Report

Appendix C – Variable Contribution Rate Options

Option 2: Variable Rate

Under this option the Board would adopt rates based on the OSA valuation and use the current smoothing and rate floor policies. The projected contribution rate increases over the next four years are as follows:

A: Experience Study Assumptions Only

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.38%	4.43%	2.95%
July 1, 2010	7.38%	4.43%	2.95%
July 1, 2011*	7.38%	4.43%	2.95%
July 1, 2012*	7.38%	4.43%	2.95%

B: Experience Study Assumptions including Projected Improvements in Mortality

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.60%	4.56%	3.04%
July 1, 2010	7.60%	4.56%	3.04%
July 1, 2011*	7.60%	4.56%	3.04%
July 1, 2012*	7.60%	4.56%	3.04%

C: Experience Study Assumptions plus Change in Salary Growth Assumption

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.17%	4.30%	2.87%
July 1, 2010	7.17%	4.30%	2.87%
July 1, 2011*	7.17%	4.30%	2.87%
July 1, 2012*	7.17%	4.30%	2.87%

D: Experience Study Assumptions including Projected Improvements in Mortality, plus Change in Salary Growth Assumption

Contribution Rates			
	Member	Employer	State
July 1, 2009	7.39%	4.44%	2.95%
July 1, 2010	7.39%	4.44%	2.95%
July 1, 2011*	7.39%	4.44%	2.95%
July 1, 2012*	7.39%	4.44%	2.95%

**The rate(s) for 2011/12 biennium are projected at 90% of the expected long-term cost of the plan, but could increase as a result of the 2009 Actuarial Valuation Report.*



Office of the State Actuary

"Securing tomorrow's pensions today."

July 21, 2008

TO: Mr. Steve Nelsen, Executive Director
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

FROM: Matthew M. Smith, FCA, EA, MAAA
State Actuary

SUBJECT: 2009-11 PENSION CONTRIBUTION RATES

I am providing the preliminary results of the 2007 actuarial valuation of the Law Enforcement Officers' and Fire Fighters' Retirement System, Plan 2 (LEOFF 2). The primary purpose of the valuation is to determine contribution requirements for LEOFF 2 as of the valuation date, June 30, 2007, and should not be used for other purposes. The results are based on the economic assumptions and asset value smoothing technique included in RCW 41.45.035 and funding policies established under Chapter 41.45 RCW and by the Board. I have also included contribution rates calculated under a recommended change to the existing general salary increase assumption.

The actuarial auditor has completed the review of the 2007 valuation results. These results have changed from the preliminary results provided in June. Still the results are considered preliminary until the Board adopts contribution rates.

Experience Study

My recommended contribution rates include updates to all existing demographic assumptions. These assumptions were reviewed and updated as part of the six-year experience study required under RCW 41.45.090. We performed this experience study using standard actuarial practices and recommend regular updates to existing assumptions. The actuarial auditor reviewed the results of the experience study in addition to the resulting contribution rates.

I'm also recommending two new policy changes:

- Lower the current general salary increase assumption from 4.5 percent to 4.25 percent.
- Project mortality tables beyond the valuation date to reflect longer life spans in the future. I recommend 50 percent of the Society of Actuaries' Scale AA for this projection.



I addressed these policy changes and provided supporting information at your June meeting.

Valuation Results

We provided an executive summary of the preliminary 2007 valuation results at your June Board meeting. I will forward a final actuarial valuation report to the Board this fall. This report will reflect your final decisions on rates and assumptions.

Contribution Rates

Changes in current state, employer, and employee contribution rates are required to continue to fund LEOFF 2 retirement benefits under the state's funding policy as provided in Chapter 41.45 RCW - Actuarial Funding of State Retirement Systems and under the policies adopted by the Board.

We have provided state, employer, and employee contribution rates for the 2009-11 biennium under different sets of assumptions (Attachments A through D). We have also provided the required increase above current contribution rate levels for your reference.

Attachment A shows the recommended contribution rates that reflect all my recommended assumption changes.

Attachment B provides the recommended contribution rates with the 4.25 percent general salary increase assumption removed. Attachment C provides the recommended contribution rates with projected mortality improvements removed. Attachment D shows the contribution rates if both the 4.25 percent general salary increase and projected mortality improvement recommendations are not adopted.

In an effort to further stabilize future contribution rates, the Board adopted minimum contribution rates in 2006. These rate floors are effective at the beginning of the 2009-11 biennium. The rate floors increased contribution rates in LEOFF 2.

I hope the Board finds this information useful during their deliberations. Please don't hesitate to contact me directly should you require any additional information.

Attachments (A, B, C, D)

cc: Kelly Fox, Chair, LEOFF 2 Board

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Attachment A OSA Recommendation, All Assumption Changes

2009-11 Contribution Rates With 4.25% General Salary, With Mortality Improvements

	Contribution Rates		
	2009-11 Rates	2008-09 Rates	Difference
Member	7.39%	8.83%	(1.44%)
Local Employer*	4.44%	5.30%	(0.86%)
State	2.95%	3.53%	(0.58%)

*Excludes DRS administrative expense rate of 0.16%.



Attachment B Current Salary Policy, New Mortality Policy

2009-11 Contribution Rates Without 4.25% General Salary, With Mortality Improvements

	Contribution Rates		
	2009-11 Rates	2008-09 Rates	Difference
Member	7.60%	8.83%	(1.23%)
Local Employer*	4.56%	5.30%	(0.74%)
State	3.04%	3.53%	(0.49%)

*Excludes DRS administrative expense rate of 0.16%.



Attachment C Current Mortality Policy, New Salary Policy

2009-11 Contribution Rates Without Mortality Improvements, With 4.25% General Salary

	Contribution Rates		
	2009-11 Rates	2008-09 Rates	Difference
Member	7.17%	8.83%	(1.66%)
Local Employer*	4.30%	5.30%	(1.00%)
State	2.87%	3.53%	(0.66%)

*Excludes DRS administrative expense rate of 0.16%.



Attachment D Current Mortality Policy, Current Salary Policy

2009-11 Contribution Rates Without 4.25% General Salary, Without Mortality Improvements

	Contribution Rates		
	2009-11 Rates	2008-09 Rates	Difference
Member	7.38%	8.83%	(1.45%)
Local Employer*	4.43%	5.30%	(0.87%)
State	2.95%	3.53%	(0.58%)

*Excludes DRS administrative expense rate of 0.16%.



Office of the State Actuary

"Securing tomorrow's pensions today."

July 21, 2008

TO: Steve Nelsen, Executive Director
Greg Deam, Senior Research and Policy Manager
LEOFF 2 Retirement Board

FROM: Matthew M. Smith, FCA, EA, MAAA
State Actuary

SUBJECT: 2009-11 ENTRY AGE NORMAL COST RATES

I am providing the Entry Age Normal Cost (EANC) rates based on the preliminary results of the 2007 actuarial valuation of the Law Enforcement Officers' and Fire Fighters' Retirement System, Plan 2 (LEOFF 2). The EANC rates are used to calculate the contribution rate floors. These results have changed from the preliminary results provided in June.

The results of the 2007 actuarial valuation are considered preliminary until the Board adopts contribution rates. I will forward a final actuarial valuation report to the Board this fall. This report will reflect your final decisions on rates and assumptions.

The following table shows the preliminary member, employer, and state EANC rates for the 2009-11 biennium under four different sets of assumptions.

2009-11 Entry Age Normal Cost Rates

	Member	Employer	State
Experience Study Changes Only	8.20%	4.92%	3.28%
Experience Study Changes Plus Projected Improvements in Mortality Only	8.45%	5.07%	3.38%
Experience Study Changes Plus 4.25% General Salary Only	7.97%	4.78%	3.19%
Experience Study Changes Plus Projected Improvements in Mortality Plus 4.25% General Salary	8.21%	4.93%	3.28%

I hope the Board finds this information useful during their deliberations. Please don't hesitate to contact me directly should you require any additional information.

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