

Administrative Factors

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Today's Presentation

- Background information
- Assumptions impacting factors
- New factor comparisons
- Recommendations
- Next steps

Background – What Are Administrative Factors?

- Administrative factors adjust pensions for optional payment forms
 - Optional payments should be cost-neutral to the plan as a whole - “Actuarial Equivalence”
- Factors cover all plan members
 - Best actuarial equivalence includes all members in the development of the factors

Background – Why Is This Before The Board?

- The Board has authority to adopt factors
 - DRS adopts factors for all other plans
- The Board adopted new demographic assumptions last interim
 - Key update includes recognition of longer life spans
 - When assumptions change, administrative factors may need updating

LEOFF 2 Has Four Sets Of Factors To Update

- Early Retirement Factors (ERFs)
- Joint and Survivor Option Factors (J&S factors)
- Monthly Benefit per \$1.00 of Accumulation (Annuity Factors)
- Service Credit Restoration Factors (SCRFs)

Early Retirement Factors

- ERFs reduce a member's benefit for early commencement
- Applies to non-duty disability or death benefits prior to Normal Retirement Age (NRA), age 53
- When benefits start earlier, they are paid longer and the total cost of a member's expected lifetime benefits increases

Joint And Survivor Option Factors

- J&S factors reduce a member's benefit to provide an ongoing benefit for their survivor
- Three types of survivor benefits available under the plan:
 - J&S 100 percent
 - J&S 50 percent
 - J&S 66 2/3 percent

Monthly Benefit Per \$1.00 Of Accumulation Factors

- “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 additional pension
 - “Airtime” - up to five years
 - Optional life annuity purchase

Service Credit Restoration Factors

- Factors used to calculate the cost of the increase in a member's benefit if they restore prior service credit
 - Service withdrawn in the past and member wants to restore it after window to pay contributions with interest
- Purchase is made sometime before retirement

Administrative Factors Include Policy Decisions Of The Board

- Incorporate mortality improvement trends
- Blend male and female mortality rates
- Blend healthy and disabled mortality rates
 - ERFs, J&S factors, and Annuity factors - apply to members at retirement
 - SCRFs use healthy mortality rates - apply to active members prior to retirement
- Improves actuarial equivalence for the plan

Assumption Changes Since Last Administrative Factor Update

- No changes to economic assumptions
- Demographic assumptions updated in 2014 Interim based on Demographic Experience Study

Demographic Changes From 2012 Factors		
Metric	2015	2012
Mortality Projection Scale	100% BB	50% AA
Base Mortality Year	2017	2014
Projection Year	2039	2032
Average Male Ret Age	57	56
Average Female Ret Age	54	53
Weighted Average Ret Age	56	55
Percent Male	98.23%	98.86%

Key Impact – Mortality Assumption

- Mortality assumption impacts all factors
- Recognition of additional mortality improvements adopted last interim following the Demographic Experience Study
 - 100 percent of Scale BB
 - Prior assumption based on 50 percent of Scale AA
 - Both mortality projection scales published by the Society of Actuaries
- Mortality projections are different for the actuarial valuation compared to the administrative factors
 - Actuarial valuation uses generational improvements in mortality
 - Administrative factors use a static year for mortality improvements

Early Retirement Factor Comparison

- Compares the value of an annuity that starts at NRA to an annuity that starts immediately
- ERFs reduce a member's benefit to recognize additional cost to pay benefits for a longer period of time

Percent Change From 2012

MIN	0.44%
AVG	4.78%
MAX	8.41%

Early Retirement Factor Example

- Impact on benefit for non-duty disability retirement:
 - Member age = 45
 - Accrued benefit = \$1,500/mo

	Current	New	Change
ERF	0.497	0.512	3.02%
Monthly Benefit	\$746	\$768	\$22

Joint & Survivor Factor Comparison

- J&S factors are not very sensitive to changes in mortality
- Compares the value of a single life annuity to a joint life annuity
- J&S factors reduce a member's benefit to recognize additional cost of providing a benefit payable on two lives

Percent Change From 2012			
	J&S 100%	J&S 50%	J&S 66.67%
MIN	(0.18%)	(0.09%)	(0.12%)
AVG	2.35%	1.31%	1.68%
MAX	5.19%	2.97%	3.77%

Joint & Survivor Factor Example

- Impact on \$2,700 monthly retirement benefit for member electing J&S 100 percent (age difference = 3):

	Current	New	Change
J&S Factor	0.859	0.872	1.51%
Monthly Benefit	\$2,319	\$2,354	\$35

Annuity Factor Comparison

- Also called “Monthly Benefit per \$1.00 of Accumulation” factors
- Annuity factors are sensitive to changes in mortality
- Converts lifetime benefit into lump sum payment
- Payment occurs at retirement

Percent Change From 2012	
MIN	2.31%
AVG	5.54%
MAX	11.71%

Note: Only includes ages 65 and below.

Annuity Factor Example

- Impact on cost to purchase additional \$600 monthly benefit (five years “airtime”) for age 55 member:

	Current	New	Change
Annuity Factor	0.0053643	0.0049520	7.69%
Lump Sum Cost	\$111,900	\$121,200	\$9,300

Service Credit Restoration Factor Comparison

- SCRFs are sensitive to changes in mortality
- Converts expected lifetime benefit into lump sum payment
- Payment occurs prior to retirement
 - Estimate amount of benefit at retirement
 - Use plan retirement assumptions and new ERFs
 - Purchase may qualify member for subsidized early retirement

Percent Change From 2012	
MIN	11.48%
AVG	12.37%
MAX	15.52%

Note: Only includes ages 65 and below

Service Credit Restoration Factor Example

- Impact on cost to restore 15 years of service for age 45 member with 5 years of current service and a salary of \$50,000

	Current	New	Change
SCRF (Factor 1)	0.2358	0.2630	11.54%
SCRF (Factor 2)	0.2325	0.2601	11.87%
Lump Sum Cost	\$177,675	\$197,975	\$20,300

Recommendations

- We recommend adopting new administrative factors
 - Best estimate of life expectancies for impacted members
 - Best actuarial equivalence (accuracy) for cost of optional benefits
 - Consistent with assumptions used in the actuarial valuation to determine funding requirements of the plan

Next Steps

- OSA has provided additional information and tables of new factors
- Board adopts final factors
- DRS will communicate factor changes to members and implement new factors effective October, 2016

Questions?

