



Deferred Compensation as Salary Actuarial Pricing

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Comparison Of The Options

■ Option 1

- All employer contributions to 457 accounts become pensionable salary (plan level)
- Deferred effective date
- Fiscal note has been audited

■ Option 2

- Employer contributions to 457 accounts become pensionable salary when the employers and employees declare them as such (employer level)
- No deferred effective date
- OSA needs to make key assumption



Are The Options Different In The Long-Term?

- Some groups will make their employer 457 contributions salary as soon as possible
- Each bargaining period, existing 457 employer contributions could be bargained as salary
 - Over time all the 457 plans with employer contributions could be bargained as salary
- If all the employees bargain for their 457 contributions as salary, Option 2 could be exactly like Option 1



Why Bargain For Option 2?

■ Employees

- Pro: For those already receiving employer 457 contributions
Option 2 provides great value, even for new entrants
- Con: Increased LEOFF 2 contributions on employer 457 contributions

■ Employers

- Pro: For those already contributing to employee 457 accounts,
Option 2 provides a great bargaining item
- Con: Increased LEOFF 2 contributions on employer 457 contributions



Why We Need An Assumption - Prefunding

- Option 1 cost from 2008 session fiscal note: 0.26 percent increase in LEOFF 2 contribution rate to prefund
- If Option 2 could ultimately be like Option 1, we need an assumption to model participation and determine the level of Option 2 prefunding
- Setting the assumption in a conservative manner protects the plan from adverse experience
 - Conservative assumptions decrease the chance of underfunding, as opposed to having a 50-50 chance
 - Adverse experience to the plan, in this case, would mean Option 2 was more like Option 1 than we expected



Help Us With The Assumption

- If Option 2 was designed to decrease costs, help us understand why participation would be low
 - At first
 - In the long run
- How will members and employers respond to Option 2?



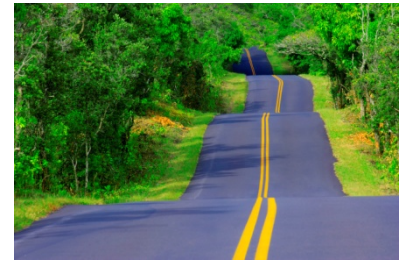
Recap

- The impact of Option 2 on LEOFF 2 could be similar in magnitude to Option 1
- We need information to set assumptions and zero in on the cost of Option 2
- Option 1 requires an updated fiscal note



Next Steps

- Discuss and possibly refine options
- New survey to update data?
- OSA will set assumptions and draft fiscal notes based on the options selected by the Board





Questions?



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