



Work Session 1

LEOFF Plan 2 Funding Method

Issue Summary

The Board's current policy of having both a "temporary" and "long term" actuarial funding method creates confusion in fiscal notes and actuarial valuation reports.

Background

The statutorily designated actuarial funding method for LEOFF Plan 2 when the Board was first created in 2003 is the Aggregate Cost Method. This method remains in statute and is referred to by the Office of the State Actuary (OSA) as the Board's "long-term funding method." This method always keeps the plan 100% funded but produces more volatile contribution rates over time.

The Board has the authority to adopt a different actuarial funding method and has done so since the Board first began operations. From 2004 to 2008 the Board adopted a series of annual increases in the contribution rates based on the expected long-term cost of the plan or the "normal cost" of the plan using the Entry Age Normal Cost (EANC) method. Beginning in 2008, the Board adopted contribution rates equal to 100% of the expected long-term cost of the plan. This policy of setting rates equal to the expected long-term cost of the plan is referred to by OSA as the Board's "temporary funding method" and is referred to by Board staff as the Fixed Normal Cost (FNC) method. This method has been used by the Board to set contribution rates through the 2015-17 biennium with some modest deviations to reflect the Board's goal of stable contribution rates.

This method provides very stable rates but it does not account for positive or negative unfunded liability, which will fluctuate up and down depending on investment performance. The plan is funded at 113% according to the most recent actuarial valuation.

Strategic Questions

- (1) What would be the pros and cons of adopting the EANC Method as the long-term funding method for the plan?
- (2) Should the Board direct staff to work with OSA to develop options for adopting some version of the EANC method as the Board's sole actuarial funding method?