


Pension Funding Part 2

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Presentation to: LEOFF 2 Retirement Board



Office of the State Actuary
"Supporting financial security for generations."

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Today's Presentation

- Review of pension funding
- Current LEOFF 2 funding
- Comparing contribution rates with funding levels
- Projection modeling

- No Board action required today

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Review Of Pension Funding

- Defines how to accumulate assets to pay for the plan benefits
- Two key components
 - Actuarial cost method (Part I)
 - Formula that determines required contributions to fully fund plan
 - Aggregate and Entry Age Normal Cost Methods
 - Board funding policy (Part II)
 - Overlay cost method to help achieve specific funding goals
 - Example—Minimum Contribution Rate policy

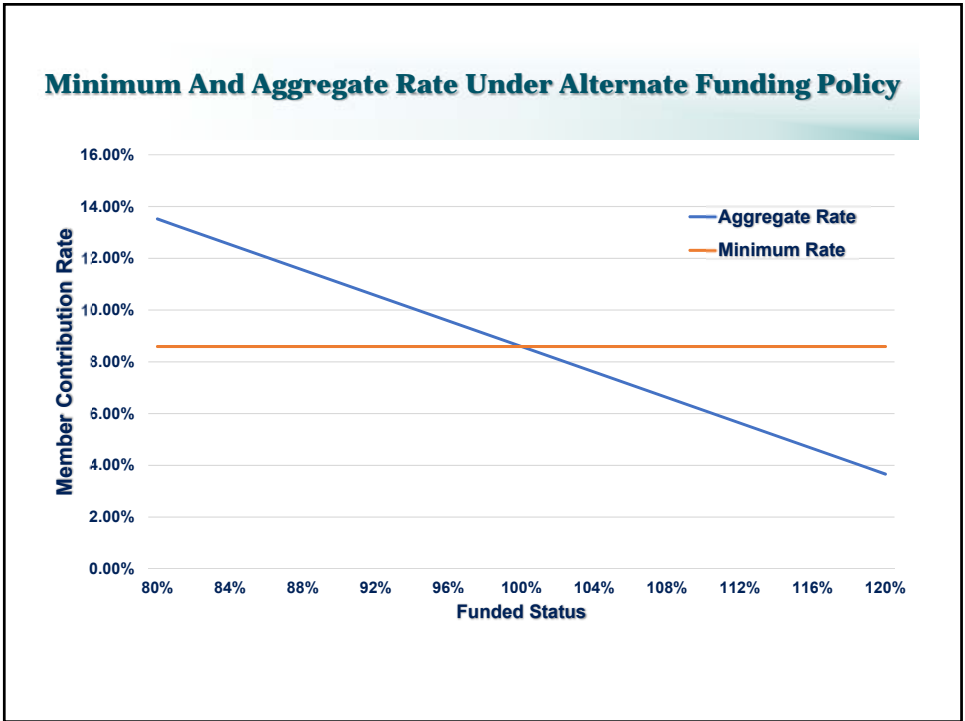
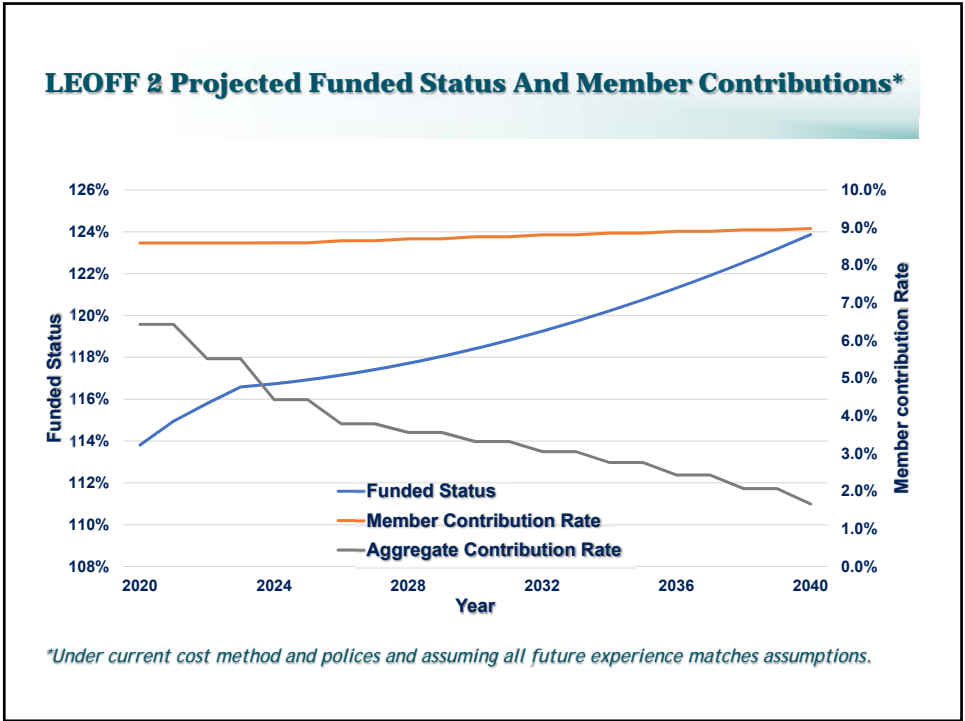


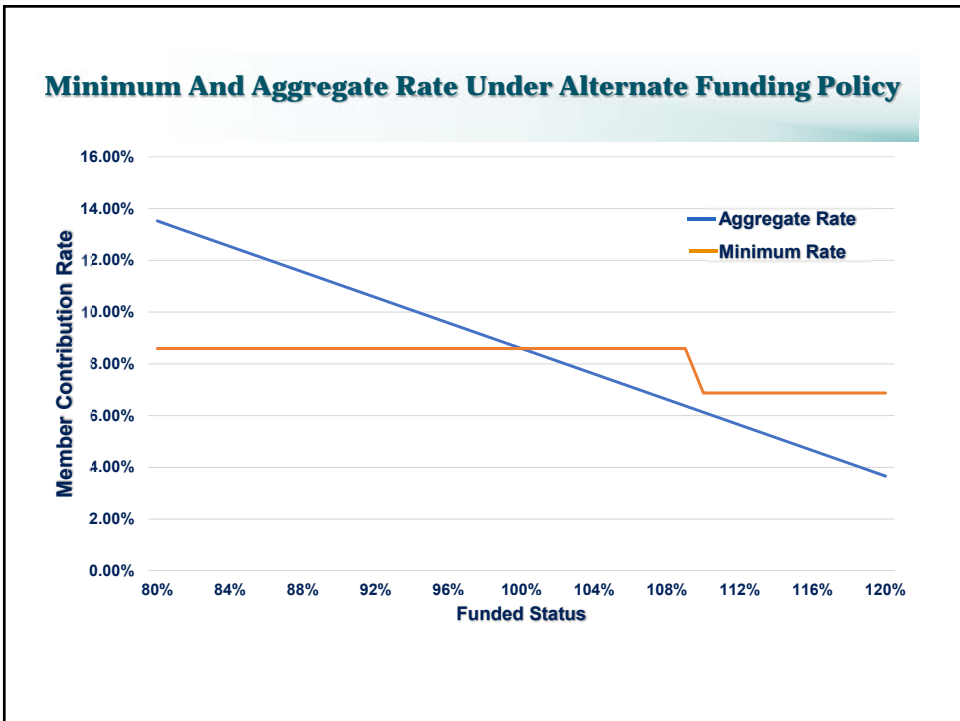
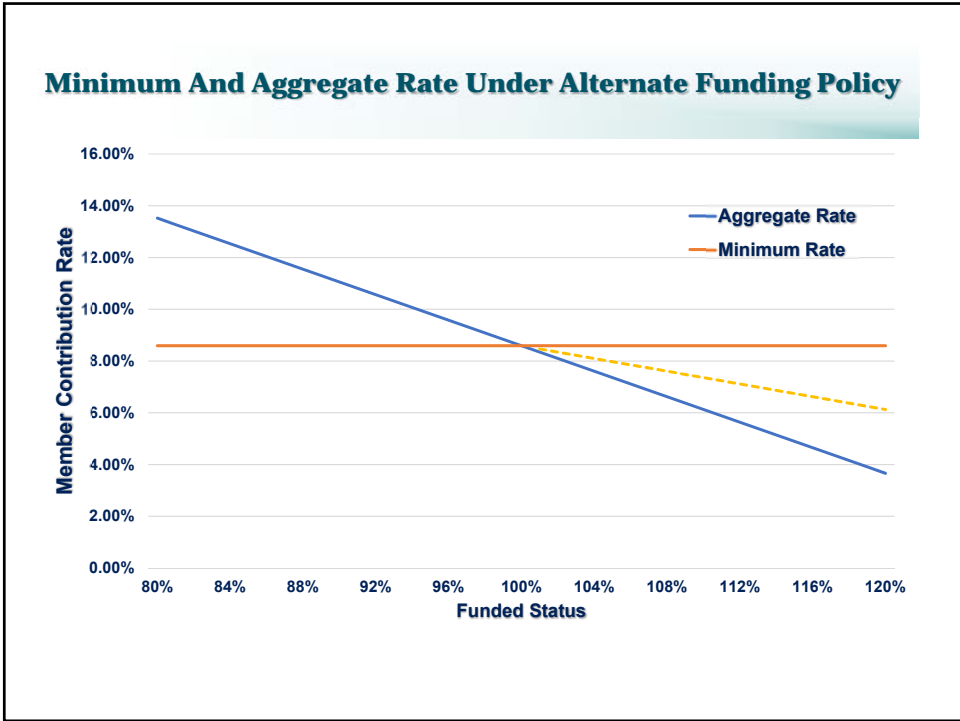
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Current LEOFF 2 Funding Method And Policies

- Aggregate actuarial cost method
- Minimum rate policy
 - Normal cost from Entry Age Normal actuarial cost method
 - Provides stable contribution rates measured as the long term cost of the plan
- Asset smoothing
 - Smooth (amortize) annual investment gains or losses up to 8 years
 - Reduces contribution rate volatility
- 4-year rate adoption

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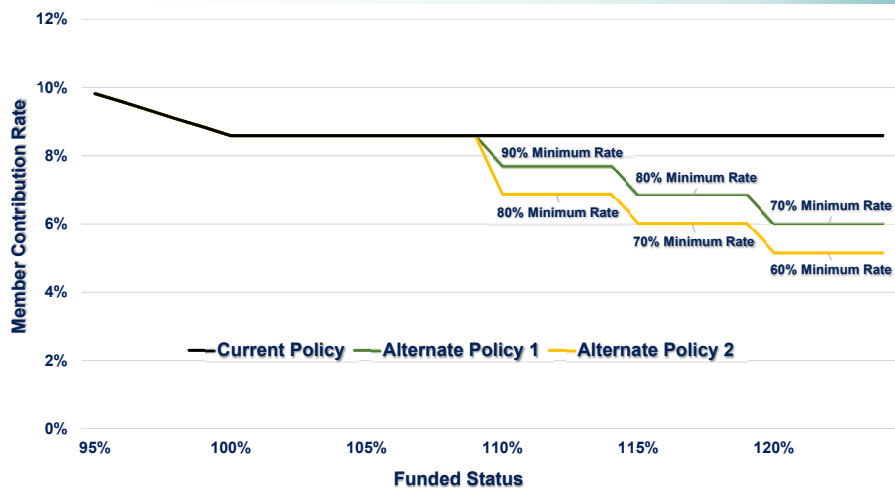


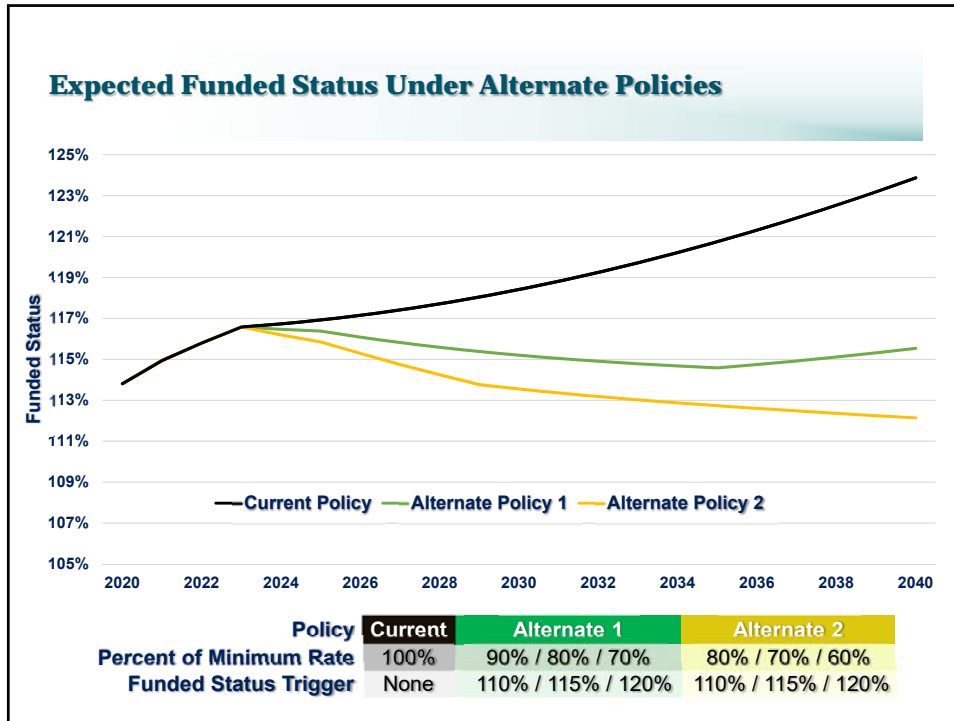
Parameters We Considered For Alternate Minimum Rate Policies

- Policy modifications that support the Board's funding goal of stable contribution rates
- Addresses increasing funded status on an expected basis
- Provides a reasonable buffer against future adverse experience
- Consider future plan risks when experience deviates from assumptions

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Member Contribution Rates Under Alternate Policies





OSA Projections System

- Relied on our projections system to analyze potential risks of current and reduced minimum contribution rate policy
- Creates 2,000 simulations of 50-year periods randomizing future investment returns
 - Assumed no future benefit improvements and all contributions are adopted according to policy
 - More information on the projection system is available on [our website](#)
- What are the current risk metrics for LEOFF 2?
- Are we adding risk to the plan if we reduce the minimum contribution rates at certain levels of funded status?

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Change In Funded Status Risk Measure

Chance of Funded Status (FS) Exceeding Target*			
Funded Status Target	Current Policy	Alternate Policy 1	Alternate Policy 2
FS >= 120%	48%	45%	44%
FS >= 110%	57%	54%	53%
FS >= 100%	66%	64%	63%
FS >= 90%	74%	73%	72%
FS >= 80%	82%	81%	81%

*Calculated as average probability from 2025 to 2040.

- Analyzed the chance of funded status exceeding various targets
- Risk model estimates a limited change to the chance of reaching funded status targets
 - Smaller difference in policies at lower levels of funded status target
 - Requires large economic event which impacts the system regardless of policy

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Additional Comments

- Step-down approach to minimum contribution rates helps support the Board’s goal of stable rates while addressing issue of rising funded status
- Funded status stabilizes around reasonable levels under both alternate policies
 - Provides a buffer against adverse deviation in the future
- Additional risks added to the system under either alternate policy are limited

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OSA Consulting

- Either cost method, combined with reasonable funding policies, can provide sound plan funding
- If funded status falls below 100%, either cost method will automatically increase rates to achieve full funding
- Minimum rate policy provides stable contribution rates
 - Can lead to increasing funded status
 - Can be managed through use of upper corridor (or trigger) to reduce contribution rates

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Summary And Next Steps

- The use of corridors to reduce minimum rates will adjust funded status to lower levels on an expected basis
- We presented 2 alternate funding policy options based on our understanding of the Board's funding goals
 - We are happy to produce additional analysis or bring more options to the Board
- We are available to answer questions



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Questions?



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