

EDUCATIONAL BRIEFING

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OVERVIEW

At the December 12, 2012 Board Meeting, the Washington State Institute for Public Policy (WSIPP) gave a presentation regarding how LEOFF Plan 2 compared with peer plans throughout the United States. Since retirement plans within each state may have various designs and multiple variables, it is extremely difficult to find a single measure to compare plans. WSIPP chose income replacement as the most comparable area to evaluate plans. Income replacement is the percentage of a worker's salary replaced by the pension at the time of retirement. The report ranked LEOFF Plan 2 33rd out of 42 comparison plans in the area of income replacement.

While income replacement allows an "apples to apples" comparison, examining only income replacement provides a limited scope of review and may not be the best way to measure the effectiveness of a plan. In order to have a more accurate ranking of plans, it is necessary to look at the many other factors which signify whether a plan is successful. The Board was presented with a follow-up study of possible factors to consider in addition to income replacement.

At the September 21, 2016 Board Meeting, staff gave an updated presentation comparing LEOFF 2 to 159 other public pension funds across the country in an attempt to get a look at that whole picture and attempt to answer the question of "how do you measure if a pension plan is successful?" You can compare how the pension benefit is calculated, or what pension benefit you end up with. To compare calculations, you start with the benefit formula:

- $\text{Years of Service} \times \text{Final Average Salary} \times \text{Multiplier} = \text{Pension Benefit}$

Isolating one factor in that equation without considering how they interact can distort the comparison. For instance, LEOFF Plan 2 uses a 2% multiplier. Compare that to the New Mexico police and firefighter plan, ranked number one in the WSIPP study, which has a 3% multiplier. That's 50% higher than the LEOFF multiplier, so some may assume that they would have a higher benefit in New Mexico. By only looking at the multiplier, and not the entire picture, you'd miss that New Mexico has an average salary \$50,000 lower than in Washington State. Even with a 2% multiplier, a career in Washington State gives you a higher pension than the same career in New Mexico.

HOW DO YOU MEASURE IF A PENSION PLAN IS SUCCESSFUL?

As written previously, WSIPP ranked LEOFF Plan 2 33rd out of 42 plans in income replacement, but how does that ranking change if we simply use the total pension dollars each retiree receives? Using an average benefit metric, LEOFF 2 would've ranked 8th out of 42 plans.

What if two plans have the same benefit? If a retiree from jurisdiction A gets a \$60,000 pension and a retiree from jurisdiction B gets a \$60,000 pension, whose pension is better? Does a member really care how that pension is calculated if they will receive the same amount?

There are a couple relevant questions that must be asked when measuring the success of a pension plan. First, how much are you contributing into your plan, and how stable are those contributions? Using New Mexico again as a comparison, the employee contribution rate in that plan is nearly twice what you're paying for LEOFF plan 2. That's a real impact to your take-home pay, and your employers' bottom line.

Second, how well funded is your plan, and why should you care about funding? The great recession showed us all how that issue can come home to roost with both employers and employees. Underfunded plans got hammered, simultaneously raising contribution rates and lowering benefits for future members and members who had already retired.

LEOFF 2 MEASURES

CONTRIBUTION RATE STABILITY

LEOFF Plan 2 was the only Washington State pension plan, and the only state-wide pension plan in the nation, to make it out of the great recession without an increase in contribution rates, or benefit reductions.

FUNDING

LEOFF Plan 2 is ranked as the highest funded public pension plan in the country, with a funded ratio of 107%. The average funded status nationwide is 73%.

AVERAGE SALARY

The average salary in LEOFF Plan 2 is \$99,048, while the national average is at \$56,354.



Video Production Schedule

Purpose:

Produce and distribute informational videos answering member benefit questions.

Productions to Date:

COLA Timing - *How retiring before or after July 1 effects your COLA*

Enhancing Your Benefit - *Compare and contrast service credit purchase and annuity purchase benefits*

Windfall Elimination Provision - *Social Security benefit reductions applicable to LEOFF 2 members.*

Government Pension Offset - *Social Security survivor benefit reduction.*

Career Change - *Post-retirement employment in Washington's public sector.*

Comparing LEOFF Plan 2 - *Comparison of LEOFF Plan 2 to 160 other plans nationwide.*

Future Production Schedule:

| Video Project | Production Schedule |
|---|---------------------|
| What is the LEOFF Plan 2 Board? <ul style="list-style-type: none">• Formation• History of Proposed Legislation | January 2018 |
| Ombudsman Program | April 2018 |
| Retirement Planning <ul style="list-style-type: none">• FAS Calculation• Benefit Calculation | September 2018 |
| LEOFF Disability Benefit Overview <ul style="list-style-type: none">• Nonduty• Duty• Catastrophic | December 2018 |
| LEOFF Survivor Benefit Overview | April 2019 |