Supplemental Rate Methodology

Initial Consideration

LEOFF Plan 2 Retirement Board

October 21, 2009

Issue

- The Board may want to adopt a formal policy regarding the methodology used to calculate a supplemental contribution rate.

Minimum Rate Policy

- Rates not reduced below 90% of expected long-term cost
  - Avoid rate fluctuations
  - Improve budget management
- 2009-2011 Minimum Rates
  - Member: 7.60%
  - Employer: 4.56%
  - State: 3.04%

Flat Rate Policy

- Rates adopted for two biennia equal to expected long-term cost of the plan
  - Eliminate contribution rate volatility for 4 year period
- Deviation from Minimum Rate Policy

Supplemental Rate Policy

- Adopt supplemental rate for cost of estimated additional liabilities from legislation passed
  - FWEO (SHB 1953) supplemental adopted in July
  - 0.01% member and 0.01% employer
- Begins payment for increased liabilities as soon as possible

Policy Coordination

- Fiscal note audit noted that there may be cases where different policies conflict

- Example: Increased liabilities from legislation when minimum rates are in effect
  - Adopt full supplemental or 90% of rate?

Supplemental Rate Methodology

QUESTIONS?

Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

Supplemental Rate Methodology

Initial Consideration

October 21, 2009

1. Issue

The Board may want to adopt a formal policy regarding the methodology used to calculate a supplemental contribution rate.

2. Staff

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3. Members Impacted

This issue could affect future contribution rates for all members, employers, and the State.

4. Current Situation

A supplemental contribution rate calculation is performed by the Office of the State Actuary (OSA) for all pension legislation and the result of that calculation is reported in the fiscal note published by OSA. Any supplemental contribution rate for LEOFF 2 is adopted by the LEOFF Plan 2 Retirement Board. The Board has all supplemental rate recommendations audited by an outside actuary.

OSA calculates a supplemental rate by evaluating proposed legislation, developing assumptions for how the legislation will affect future benefit payments and future plan experience, calculating the expected increase in plan liabilities, and determining what increase in contributions, if any, is sufficient to off-set the increase in liabilities. The State Actuary made a presentation to the Board in September 2009 explaining the development of assumptions for fiscal notes and why those assumptions may differ from the assumptions used in actuarial valuations.

The most recent audit of a supplemental rate recommendation was reported to the Board in July, 2009. The auditing actuary noted that the Board does not have a formal policy regarding when a supplemental rate should be charged.

5. Background Information and Policy Issues

Minimum Rate Policy:
The Board has adopted a policy that contribution rates should not be reduced below 90% of the expected long-term cost of the plan. The goal of this policy is to avoid large fluctuations in contribution rates which may create budget management challenges for the State, employers and plan members. The 2007 Actuarial Valuation Report published by the Office of the State Actuary in September 2008 calculated the minimum contribution rates for the 2009-11 biennium as:

Member:	7.60%
Employer:	4.56%
State:	3.04%

Flat Rate Policy:
The Board adopted contribution rates in September 2008 for the 2009-11 and 2011-13 biennia equal to the expected long-term cost of the plan. These rates reflect a deviation in policy from the minimum rate policy. The goal of this policy is to eliminate contribution rate volatility for that four year period.

Supplemental Rate Policy:
The Legislature passed SHB 1953 during the 2009 Legislative Session. The fiscal note on this legislation produced by the Office of the State Actuary estimated the additional liabilities to the plan from this legislation and calculated a necessary supplemental contribution of 0.01% for the member and 0.01% for the employer. The Board adopted these supplemental rate increases in July 2009. The goal of the supplemental rate policy is to begin paying for increases in plan liabilities as soon as possible.

Policy Coordination:
During the course of the audit of the fiscal note for SHB 1953, the auditing actuary noted that there may be cases in which these different funding policies could come into conflict. For instance, if legislation increasing liabilities was passed during a period of time where minimum rates were in effect, should the resulting rate increase be the full supplemental rate or 90% of the rate?