Work Session 2

Benefit Improvement

Work Group
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Issue Summary

The Board's current strategic goal of improving benefits is not clearly understood by plan members. What is the goal? Why is that the goal? What is the plan for achieving the goal?

Issue Background

The Board discussed priorities for improving benefits in the 2004 and 2006 strategic planning sessions. The Board initially prioritized duty-related death and disability benefits. The Board adjusted the plan in 2010 to deprioritize duty-related death and disability benefits because this goal had been largely accomplished. The Board prioritized low-cost improvements at that time in recognition of the budget constraints related to the economy.

The Board studied a number of general benefit improvements from 2004-2006 including: reducing the cost of providing survivor benefits, decreasing the average final salary period, lowering the retirement age, providing retiree medical insurance, and increasing the benefit multiplier from 2%. There was general consensus that increasing the multiplier was preferred because this change applied the most equally to all members. This goal also seemed properly aligned with the purpose of the retirement plan to recruit and retain desired employees. However, the costs of such a benefit improvement are very high . The Board identified several intermediary steps (such as an alternate revenue stream) which could be taken as part of a long-term plan to increase the multiplier. The 2006 long-term plan to increase the multiplier needs to be reviewed and updated. Costs for employers and members were last updated May 16, 2005. Is this still the consensus benefit to improve? How do you increase the multiplier (a flat increase for all members or target the increase to career employees)?

A recent report to the Board by the Washington State Institute for Public Policy identified LEOFF 2 as below-average in terms of the percentage of pre-retirement income provided in retirement. This finding is consistent with the concerns previously identified by the Board related to retirement adequacy (minimum of 60% of pre-retirement income; requires 30 years of service which is longer than typical public safety career).

Action Plan

1. Should the Board get updated costs from the State Actuary for increasing the multiplier?
2. Should the Board schedule a hearing to review historical analysis related to benefit improvements?
3. Should the strategic priorities for benefit improvements be adjusted?
4. Should the Team be doing more to educate stakeholder groups about the Board's priorities for benefit improvements, why those are the priorities, and the plan for achieving benefit improvements?

Work Session 2

Funding Ratio

Work Group
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Issue Summary

The funding of LEOFF Plan 2 currently exceeds 100% which historically has created pressure to increase benefits and/or lower contribution rates. Increasing benefits or decreasing rates creates additional long term costs and sustainability risks for the plan.

Issue Background

The volatility of investment returns can result in periods of time where the funding ratio of the plan exceeds 100% even if the contributions made to the plan are equal to the expected long-term costs of the plan as is currently the case with LEOFF Plan 2. There is a strong historical correlation between the funded status of the plan and benefit improvements/rate decreases. [handout: SIB overlay slide with funding ratio]

Increasing benefits and/or decreasing contributions to the plan will increase future contribution rates. What options exist besides improving benefits or lowering rates?

a. Do nothing: the funding ratio will fluctuate over time based on investment returns; save the current "surplus" for next investment downturn.
b. Use the current positive funding status as an opportunity to offset the cost of adding additional desired actuarial conservancy to the plan. Has the Board already done everything they want to do with respect to demographic and economic assumptions?
c. Use the current positive funding status as an opportunity to offset the cost of decreasing investment return volatility (i.e. "de-risking the portfolio"). Determining the appropriate level of investment risk for the commingled trust fund is a WSIB responsibility.

Action Plan

What are the Board's Expectations? What would you like to see done next by the Team? What would the Board like to do next?

Should the Board change any of its current strategic goals related to maintain the financial integrity of the plan or improving plan benefits based on the current funding status of the plan?

Should the Board take action to educate stakeholders and legislature regarding the Board's strategic goals and policy decisions in support of those goals?