



November 15, 2017

Benefit Improvement Pricing

EDUCATIONAL BRIEFING

By Ryan Frost

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ISSUE STATEMENT

One of the goals of the LEOFF 2 Board's strategic plan is to keep the stakeholders informed. One of the ways of meeting that goal, is for the Board to be briefed on the price of certain benefit improvements.

OVERVIEW

It has been over 10 years since the Board has requested pricing on benefit improvements. This briefing will focus on one in particular, the cost of increasing the multiplier. The current multiplier used in the LEOFF Plan 2 benefit formula is 2%, and a change to the existing multiplier could impact all 17,186 LEOFF Plan 2 active members.

Board staff requested the state actuary's office to price two specific multiplier increases:

- 2.50% multiplier on all service
- 2.50% multiplier on prospective service only

BACKGROUND

2005 Pricing

The first report on increasing the multiplier was presented to the Board in 2005. A number of different multiplier options were reviewed; they ranged from an increase of 2.25% to 3.00%.

The actuaries estimated cost for the 2.25% multiplier for the 2007-2009 biennia would have been \$111 million. This would've required a 4.40% increase in the rates, with 2.20% paid for directly by the member¹.

The cost for the 3% multiplier for the 2007-2009 biennia would've been \$444 million. This would've required a 17.58% increase in the rates, 8.79% paid directly by the member.

¹ The contribution rate split set in statute for LEOFF 2 is 50% member, 30% employer, 20% state.

2017 MULTIPLIER PRICING

Impact on Contribution Rates	
2.50% Multiplier - All Service	
Total Rate Increase	12.34%
Employee	6.17%
Employer	3.70%
State	2.47%

Contribution rates if this benefit was approved²:

- Employee: 14.92%
- Employer: 8.95%
- State: 5.97%

Impact on Contribution Rates	
2.50% Multiplier - Prospective Service Only	
Total Rate Increase	4.88%
Employee	2.44%
Employer	1.46%
State	0.98%

Contribution rates if this benefit was approved:

- Employee: 11.19%
- Employer: 6.71%
- State: 4.48%

Budget Impacts - 2.50% Multiplier - All Service			
(Dollars in Millions)	2018-2019	2019-2021	25-Year
General Fund-State	\$42.6	\$97.0	\$1,278.6
Local Government	\$63.7	\$145.5	\$1,917.9
Total Employer	\$106.3	\$242.5	\$3,196.5

Budget Impacts - 2.50% Multiplier - Prospective Service Only			
(Dollars in Millions)	2018-2019	2019-2021	25-Year
General Fund-State	\$16.9	\$41.8	\$777.8
Local Government	\$25.2	\$62.6	\$1,166.5
Total Employer	\$42.0	\$104.4	\$1,944.3

2015 Funded Status	
2015 Valuation Report	105%
2.5% Benefit Multiplier	90%
2.5% Benefit Multiplier Prospective Service Only	100%

² Current contribution rates: Employee – 8.75%; Employer – 5.25%; State – 3.50%

2017 TIERED MULTIPLIER PRICING

The following charts showcase the following options for a tiered multiplier:

1. Increased benefit multiplier from 2.0% to 3.0% for all earned and future service over 16 years (all service). Service earned from years 0 to 16 remains at a 2.0% multiplier.
2. Increased benefit multiplier from 2.0% to 3.0% for all service earned over 16 years after the valuation date (prospective service only). Service earned from years 0 to 16 remains at a 2.0% multiplier.

Impact on Contribution Rates	
Tiered Multiplier - All Service	
Total Rate Increase	11.06%
Employee	5.53%
Employer	3.32%
State	2.21%

Contribution rates if this benefit was approved³:

- Employee: 14.28%
- Employer: 8.57%
- State: 5.71%

Impact on Contribution Rates	
Tiered Multiplier - Prospective Service Only	
Total Rate Increase	7.31%
Employee	3.66%
Employer	2.19%
State	1.46%

Contribution rates if this benefit was approved:

- Employee: 12.41%
- Employer: 7.44%
- State: 4.96%

Budget Impacts - Tiered Multiplier - All Service			
(Dollars in Millions)	2018-2019	2019-2021	25-Year
General Fund-State	\$38.1	\$86.3	\$1,103.5
Local Government	\$57.2	\$129.5	\$1,655.4
Total Employer	\$95.3	\$215.9	\$2,758.9

Budget Impacts - Tiered Multiplier - Prospective Service Only			
(Dollars in Millions)	2018-2019	2019-2021	25-Year
General Fund-State	\$25.2	\$58.7	\$852.6
Local Government	\$37.9	\$88.0	\$1,279.1
Total Employer	\$63.1	\$146.7	\$2,131.8

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Issue

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Overview

- It's been over 10 years since the Board has requested pricing on benefit improvements.
- This briefing will focus on one in particular, the cost of increasing the multiplier.
- The current multiplier used in the LEOFF Plan 2 benefit formula is 2%, and a change to the existing multiplier could impact all 17,186 LEOFF Plan 2 active members.

Overview

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2017 Multiplier Pricing cont.

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Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

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