

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/1/06	LEOFF 2 Actuarial Reductions for Disability

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) by providing that the retirement benefit of a member who is non-duty disabled and who is at least age 50 with at least 20 years of service will be reduced using the 3 percent per year "early retirement reduction factors" (ERRF) rather than by the full actuarial amount. Retroactively, this bill impacts LEOFF 2 members by providing that the retirement benefit of a member who is duty-disabled or non-duty-disabled and who is at least age 50 with at least 20 years of service will be reduced using the 3 percent ERRF rather than the full actuarial amount.

Assumed Effective Date: September 1, 2000

CURRENT SITUATION:

Currently, the retirement benefit of a LEOFF 2 member who is non-duty disabled is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age fifty-three, regardless of age and years of service. A member who is at least age 50 with at least 20 years of service may receive a service retirement benefit that is reduced using the 3 percent per-year early retirement reduction factors. Between the effective date of this bill and July 1, 2005, the retirement benefit of a LEOFF 2 member who is either duty or non-duty disabled was actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age fifty-three, regardless of age and years of service.

MEMBERS IMPACTED:

We estimate that 4 members out of the 60 total members of this system with a disability retirement would be affected retroactively by this bill. Prospectively, we estimate that potentially all of the current 15,168 active LEOFF 2 members and all future LEOFF 2 members could be affected by this bill.

We estimate that for a typical member impacted retroactively by this bill, the increase in benefits would be approximately \$1,000 per year indexed from the time of their retirement. Prospectively, we estimate that for a typical member impacted by this bill, the increase in benefits would be the 5 percent per year difference in early retirement reduction factors for members between ages 50 and 53, with at least 20 years of service.

ASSUMPTIONS:

We assume that all members who took a full actuarially reduced disability retirement benefit despite being eligible for a 3 percent per year reduced service retirement would retroactively receive their disability retirement benefit calculated using the 3 percent per year reduction. We assume that all members who were eligible to take either the full actuarially reduced disability retirement benefit or a 3 percent per year reduced service retirement prior to this bill, and chose to take the reduced service retirement, will not have an impact on plan liability by switching to a disability retirement with a 3 percent ERRF after this bill since the value of their benefit from the plan will not have changed.

To calculate the change in benefits for the eligible members retroactively, we isolated their current annual benefit and recalculated it using a 3 percent ERRF instead of the full eight percent actuarially equivalent ERRF. The difference in annual benefits was multiplied by the indexed annuity factor for a 52 year old, disabled LEOFF 2 member choosing a Joint and 100 Survivor Option. We used this annuity factor because all four eligible members were age 52 at the time of their retirement. This factor, when rounded, is 16.7. The prospective liability was simply the difference in liability between the non-duty-disability retirement benefit calculated using both a 3 and 8 percent ERRF.

The effective date of the bill was not provided in the draft bill language. We assumed an effective date of September 1, 2000 based on a communication with LEOFF 2 Retirement Board staff.

FISCAL IMPACT:

None. The liability increase of approximately \$0.1 million is insufficient to impact contribution rates.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
4. This draft fiscal note is intended for use only during the 2007 Legislative Session.
5. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
6. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.