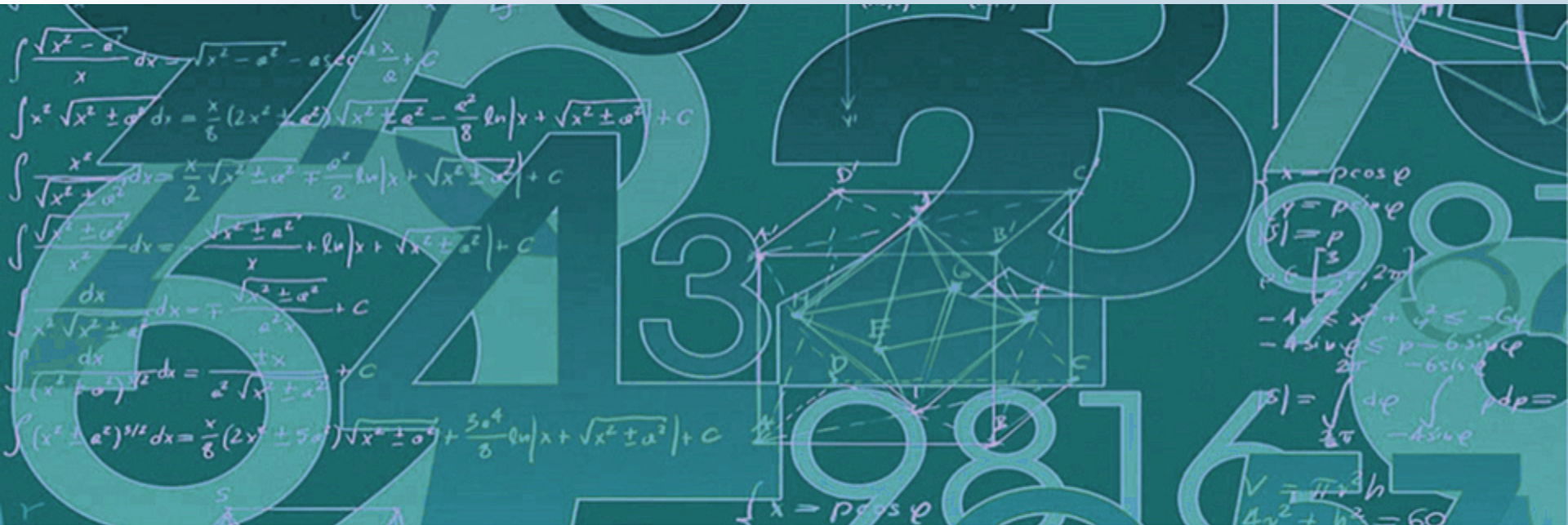


# Pension Funding Wrap-Up

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Presentation to: LEOFF Plan 2 Retirement Board



## Today's Presentation

- Comparing actuarial cost methods
- Funding policies used or required
- Managing plan funded status
- Possible Board action today
  - Change actuarial cost method?
  - Change or adopt new funding policies?
  - Adopt trigger (or corridor) for funded status above 100%?

# What Is Pension Funding?

- Accumulating assets to pay for the benefits provided under the plan
- Managed through the use of two key components
  - Actuarial cost method
    - Determines required contributions to fully fund plan
    - OSA presentations to the Board in July and September
  - Board funding policies
    - Overlay cost method to help achieve specific funding goals
    - OSA presentation to the Board in October



## Any Cost Method Can Achieve The Board's Funding Goals\*

- Why might the Board keep the Aggregate Cost Method?
  - Consistent with all other Washington State retirement plans
  - One contribution rate that rolls all plan costs together
  - No UAAL (or surplus) amount separately identified and requiring an amortization policy
  - Has provided a solid foundation for LEOFF 2 historical funding
- Why might the Board switch to the Entry Age Normal Cost Method?
  - Potential for increased consistency with Board's minimum rate policy
  - Used by majority of public pension plans nationally
  - Consistent with results reported in financial documents (CAFR)

*\*When combined with appropriate funding policies.*

# Actuarial Valuation Reporting—Aggregate Cost Method

<b>Development of Member Contribution Rate</b>	
<b>Aggregate Cost Method</b>	
<i>(Dollars in millions)</i>	
a. Present Value of Benefits	\$13,672
b. Valuation Assets	\$11,037
c. Unfunded PVFB (a - b)	\$2,635
d. Present Value of Salaries (x2)	\$41,227
<b>e. Member Contribution Rate (c / d)</b>	<b>6.39%</b>
f. Member Minimum Contribution Rate	8.54%
<b>g. Final Member Contribution Rate</b>	<b>8.54%</b>

# Actuarial Valuation Reporting—Entry Age Normal Cost Method

Development of Member Contribution Rate	
Entry Age Normal Cost Method	
<i>(Dollars in Millions)</i>	
a. 2018 Benefits Cost	\$320
b. 2018 Salaries (x2)	\$3,742
<b>c. Normal Cost Rate (a / b)</b>	<b>8.54%</b>
d. Unfunded Accrued Liability	(\$878)
e. 15-Year Present Value of Salaries (x2)	\$34,107
<b>f. UAAL Rate (d / e)</b>	<b>(2.57%)</b>
<b>g. Total EAN Rate (c + f)</b>	<b>5.97%</b>
h. Member Minimum Contribution Rate	8.54%
<b>i. Final Member Contribution Rate</b>	<b>8.54%</b>



## Funding Policies Help Achieve Funding Goals

- Funding policies can address
  - Adequacy, stability, and affordability of contribution rates
  - Risk management
- Policies can achieve similar outcomes even when applied to different actuarial cost methods
- Current LEOFF 2 funding policies used to achieve rate stability
  - Minimum contribution rates
  - Asset smoothing method
  - Four-year rate adoption

## Entry Age Normal Cost Method Requires Additional Policy

- Amortize the UAAL, whether positive or negative (surplus)

EAN Cost Method - Member Contribution Rate			
	UAAL Amortization Period		
	10-Year	15-Year	20-Year
<b>Normal Cost*</b>	8.59%	8.59%	8.59%
<b>UAAL</b>	(3.21%)	(2.57%)	(2.31%)
<b>Total EAN Rate</b>	<b>5.38%</b>	<b>6.02%</b>	<b>6.28%</b>

*\*Includes 2017 Supplemental Rate of 0.05% adopted by the Board.*

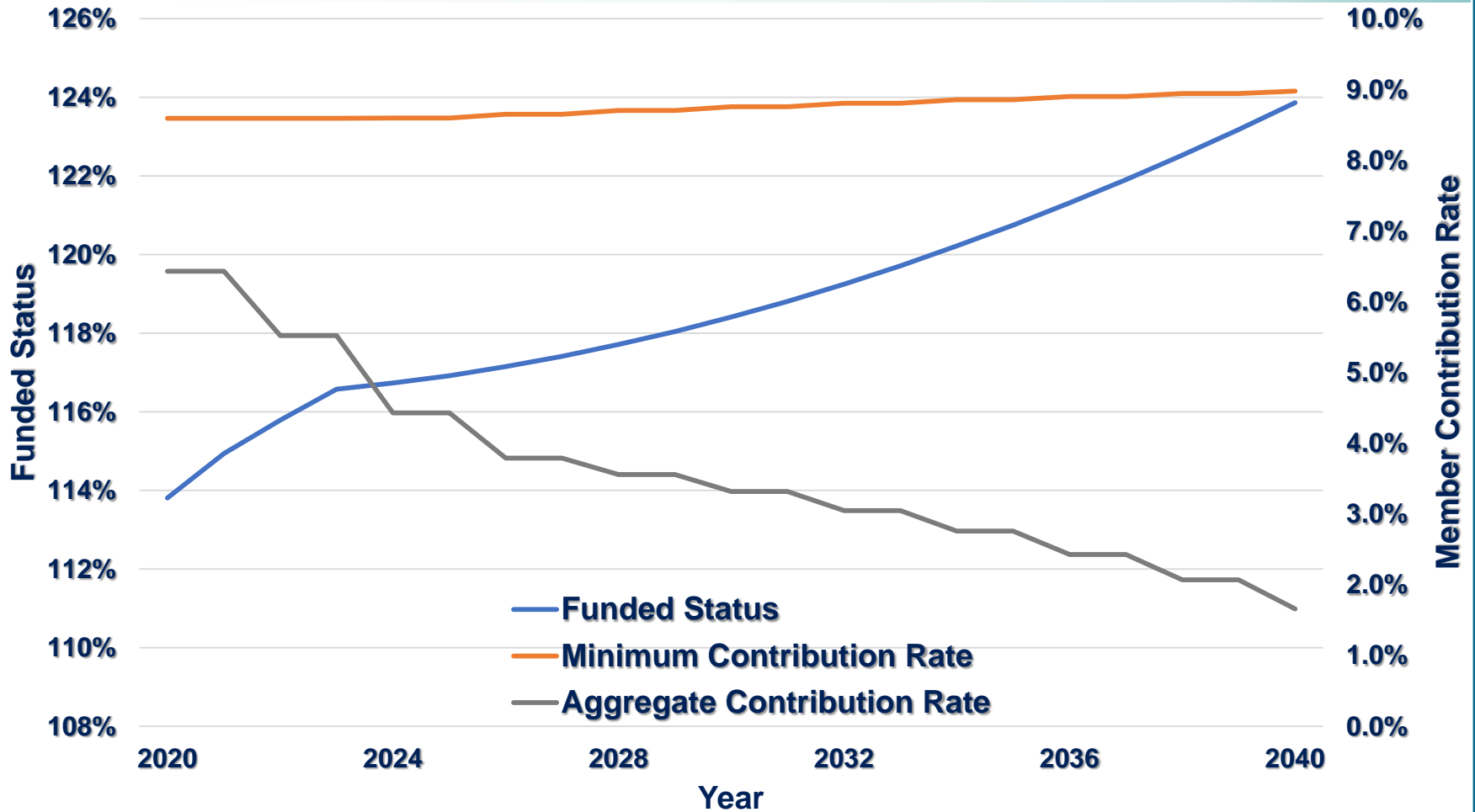
- Determines how quickly the UAAL is paid and funded status returns to 100%
- Policy can be set with goal of achieving intergenerational equity
  - Amortize over remaining working life of active members



## Managing Plan Funded Status

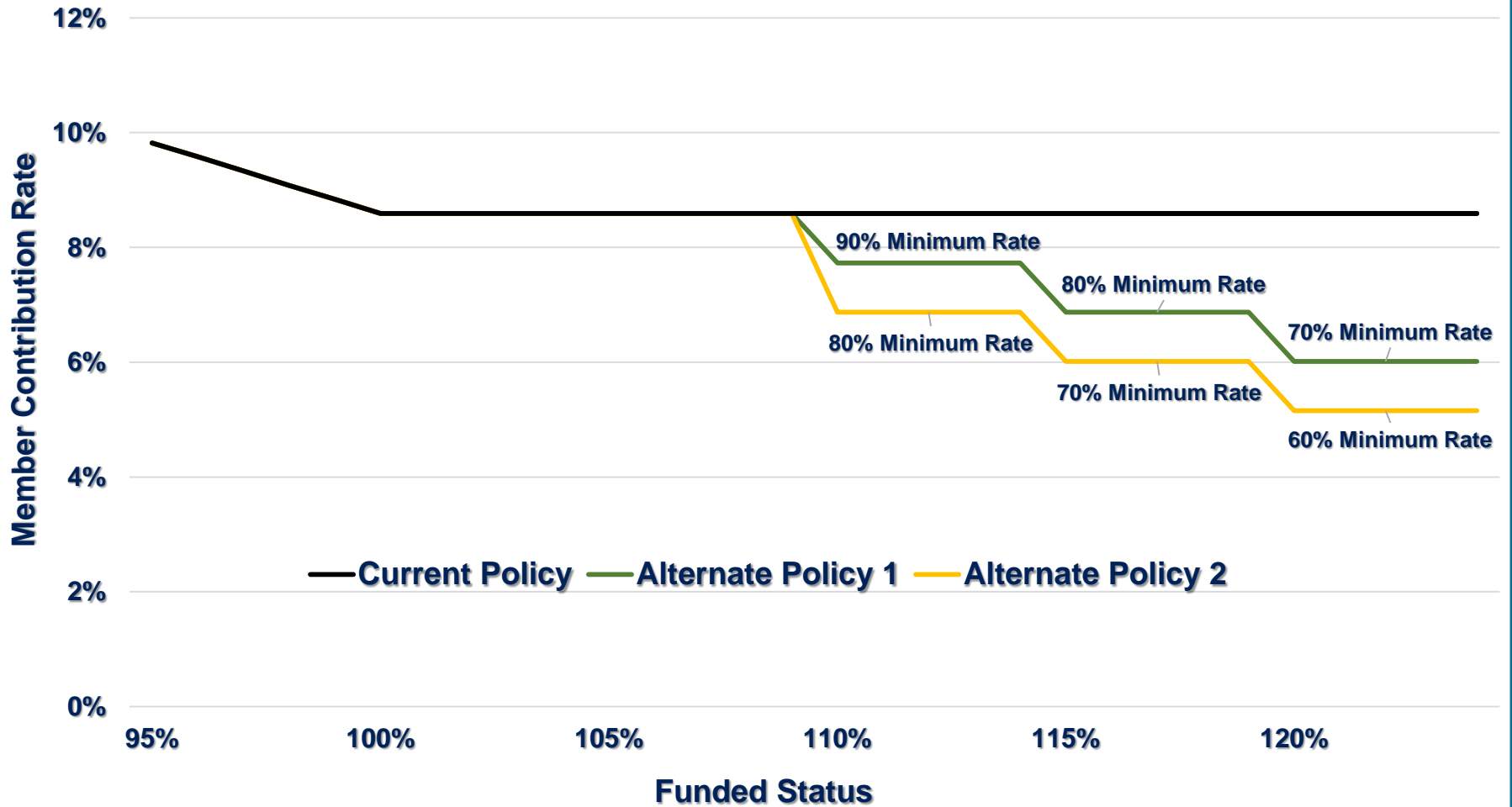
- Actuarial cost method produces contribution rates to achieve full funding (100% funded status)
  - If funded status drops below 100%, contribution rates will increase
  - If funded status goes above 100%, contribution rates will decrease
  - Contribution rate volatility is present
- Funding policies can impact the progression of the funded status
  - Minimum rate policy increases funded status
- Current LEOFF 2 pension funding manages a declining funded status but not an increasing funded status
  - Upside trigger or corridor could be added to funding policies

# LEOFF 2 Projected Funded Status And Member Contributions\*

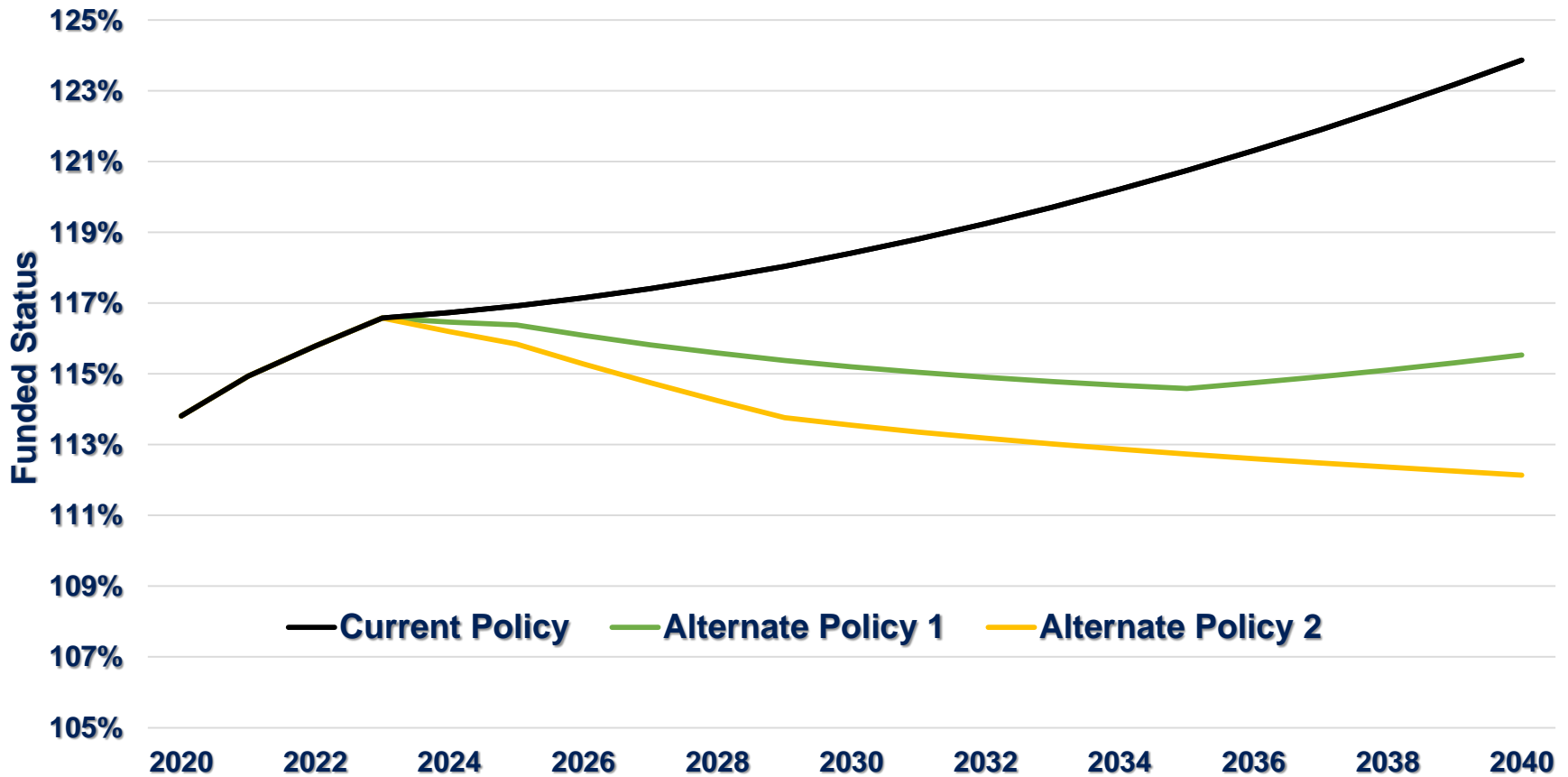


*\*Under current cost method and polices and assuming all future experience matches assumptions.*

# Member Contribution Rates Under Alternate Policies

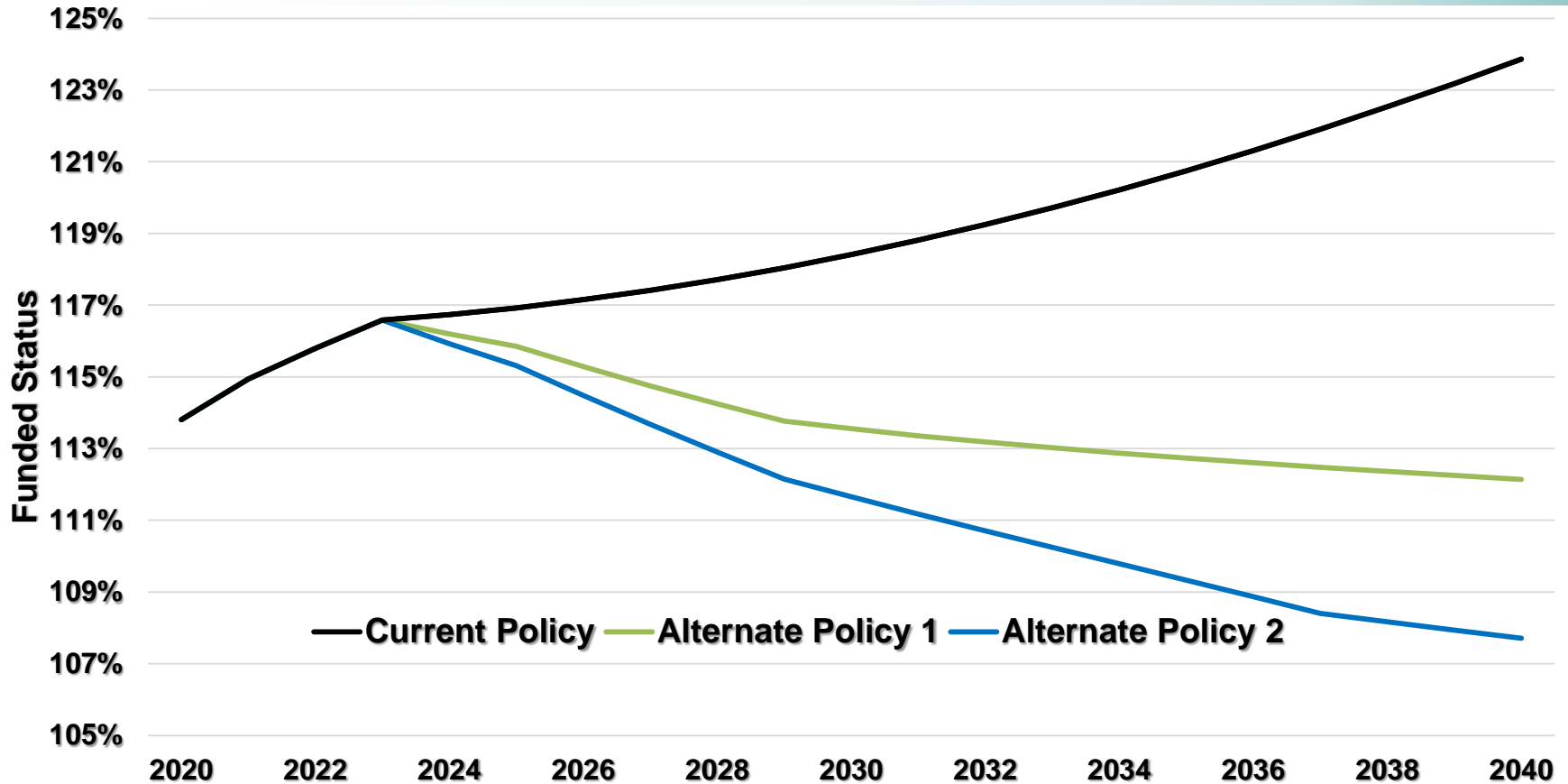


# Expected Funded Status Under Alternate Policies With 110% Funded Status Trigger



Policy	Current	Alternate 1	Alternate 2
Percent of Minimum Rate	100%	90% / 80% / 70%	80% / 70% / 60%
Funded Status Trigger	None	110% / 115% / 120%	110% / 115% / 120%

# Expected Funded Status Under Alternate Policies With 105% Funded Status Trigger



Policy	Current	Alternate 1	Alternate 2
<b>Percent of Minimum Rate</b>	100%	90% / 80% / 70%	80% / 70% / 60%
<b>Funded Status Trigger</b>	None	105% / 110% / 115%	105% / 110% / 115%

## Additional Comments

- Step-down approach to minimum contribution rates can support rate stability while addressing issue of rising funded status
- Funded status stabilizes around reasonable levels under each alternate policy
  - Provides a buffer against adverse deviation in the future
- Additional risks added to the system under each alternate policy is limited



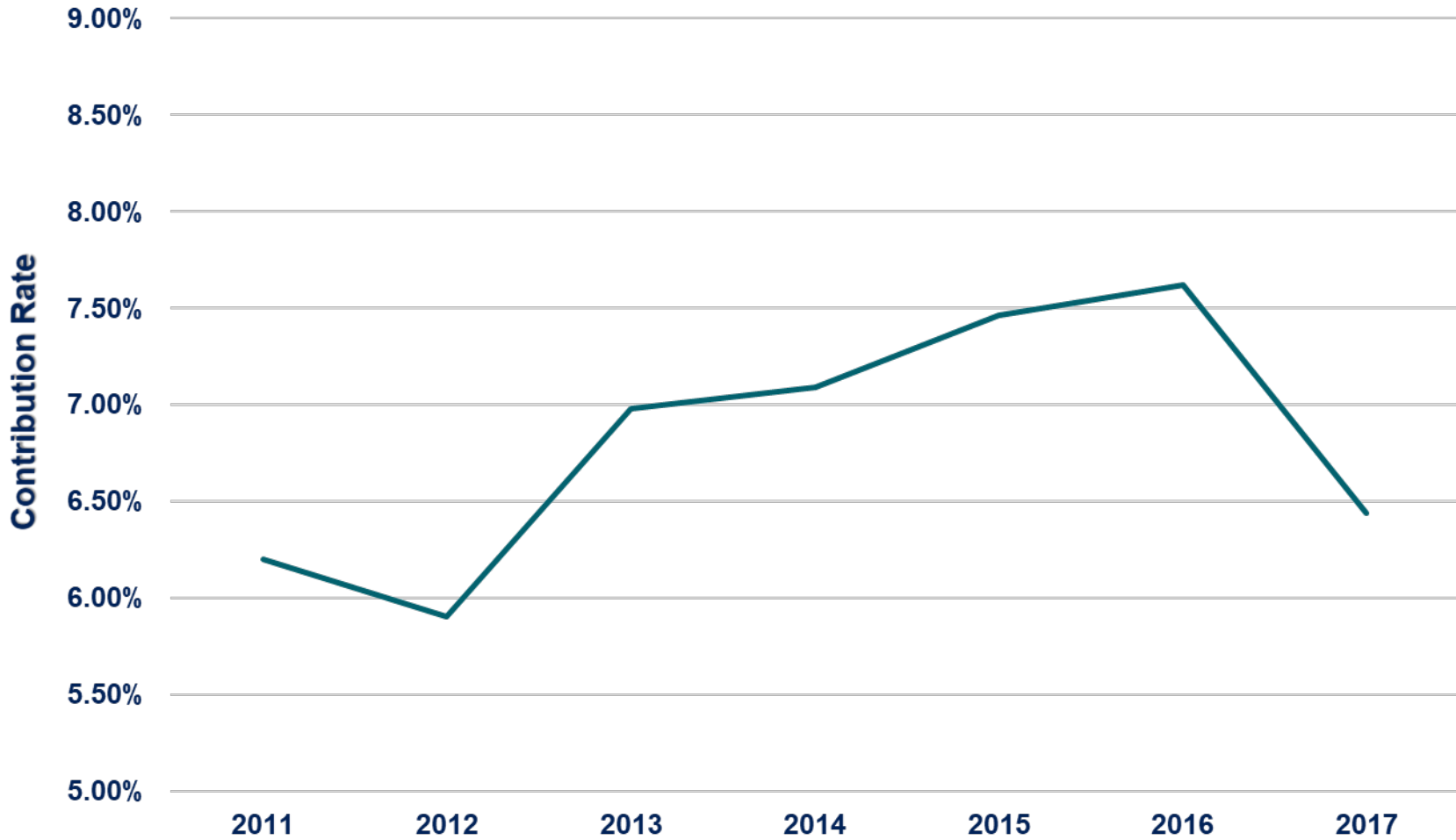
# Questions?



## Appendix And Disclosures

- We relied on our projections system to estimate future funded status of LEOFF 2 under current and reduced minimum contribution rate policies. Please see [our website](#) for additional information.
- All analysis in this presentation was developed with assumptions, data, and methods consistent with the [June 30, 2017, Actuarial Valuation Report \(AVR\)](#). More information on the AVR is available on our website.
- The analysis presented came from earlier presentations to the LEOFF 2 Board. Please see our [July](#), [September](#), and [October](#) presentations on pension funding for more details.

## Historical LEOFF 2 Aggregate Contribution Rates



# Historical LEOFF 2 EAN Data

