

## 2019 LEOFF 2 Actuarial Valuation Contribution Rates

*Presentation to:*

**LEOFF Plan 2 Retirement Board**

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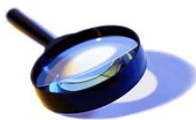
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## Today's Presentation

- Funding policy review
- Contribution rate comparison
- Scenario impacts from investment returns
- Informational – No Board action required today



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## Brief Review of Key Board Funding Policies

- The Board sets policies to assist meeting funding goals
  - Goal of stable contribution rates to ensure predictable and adequate rates
  - Supported by two key policies below
- **Minimum Contribution Rates**—Calculated from Normal Cost of Entry Age Normal Cost Method (EANC)
  - Minimum rate changes based on plan funded status
    - 100% minimum rate if funded status equal to or less than 105%
    - 90% minimum rate if funded status exceeds 105%
- **4-Year Rate Adoption**—Adopted rates may still be updated with new rate setting valuations

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## Contribution Rate Comparison

Contribution Rates for 2021-23 Biennium			
	Member	Employer	State
Current Adopted Rate	8.59%	5.15%	3.44%
2019 Valuation			
Funded Status = 111%			
Contribution Rate = 90% Minimum	7.70%	4.62%	3.08%

- Current adopted rates from the 2017 valuation based on 100% minimum rate
- Funded status in the 2019 valuation exceeds 105%
  - Funding policy results in 90% minimum rate
  - 90% minimum rate greater than underlying cost method rate of 5.84%

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## Projected Funded Status under Investment Return Scenarios and 2021-23 Rates

2020 Fiscal Year Investment Return		
	Scenario 1	Scenario 2
Return	0%	(7.50%)

- Scenario 1 estimates the March 30 return from WSIB
- Scenario 2 is approximately half the 2009 loss
- Projection methods and disclosures
  - Set 2021-23 rates equal to current adopted or 90% minimum from 2019 valuation
  - Assumes 7.4% annual return starting in FY 2021
  - Future contribution rates adopted according to policy
  - Excludes assets held in the Benefit Improvement Account

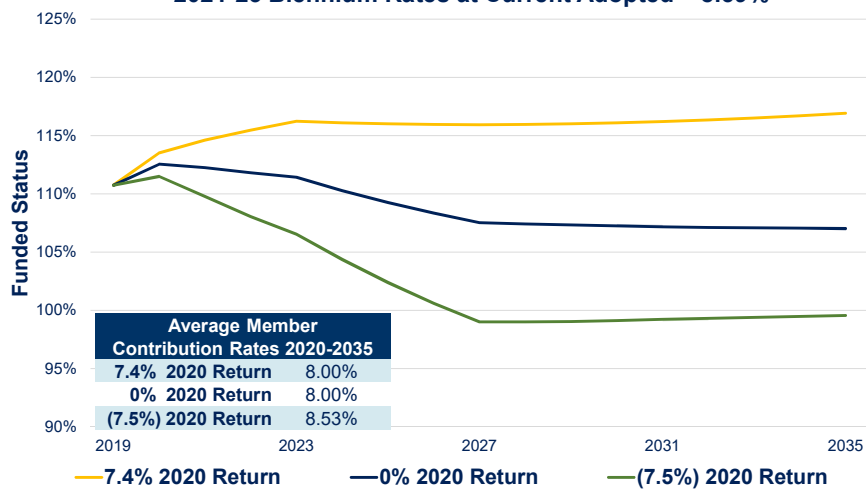
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## Projected LEOFF 2 Funded Status under 2020 Return Scenarios

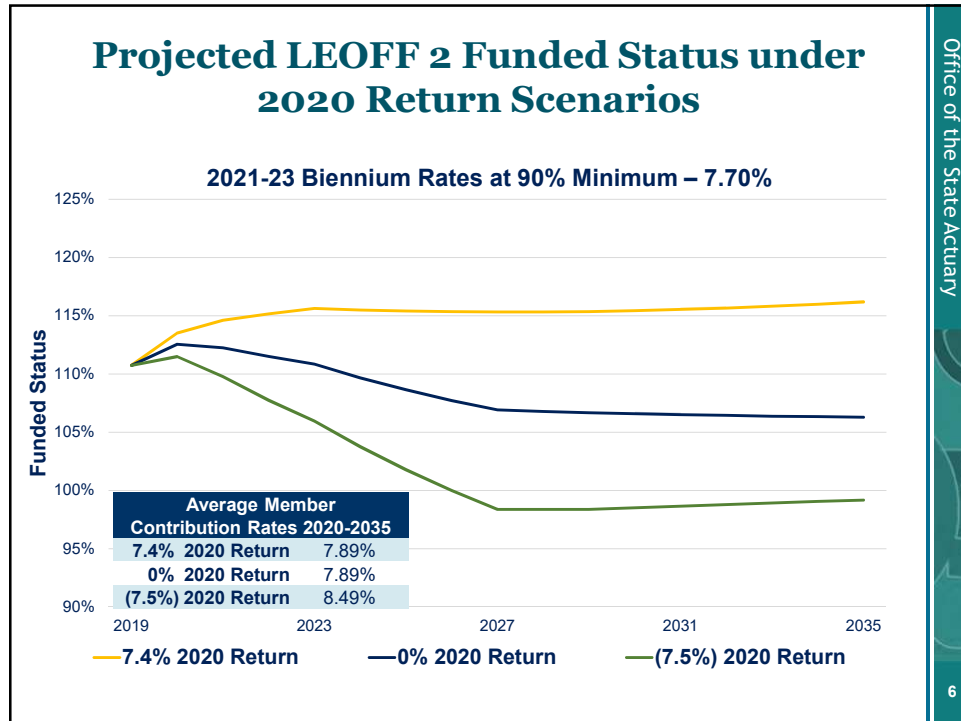
2021-23 Biennium Rates at Current Adopted – 8.59%



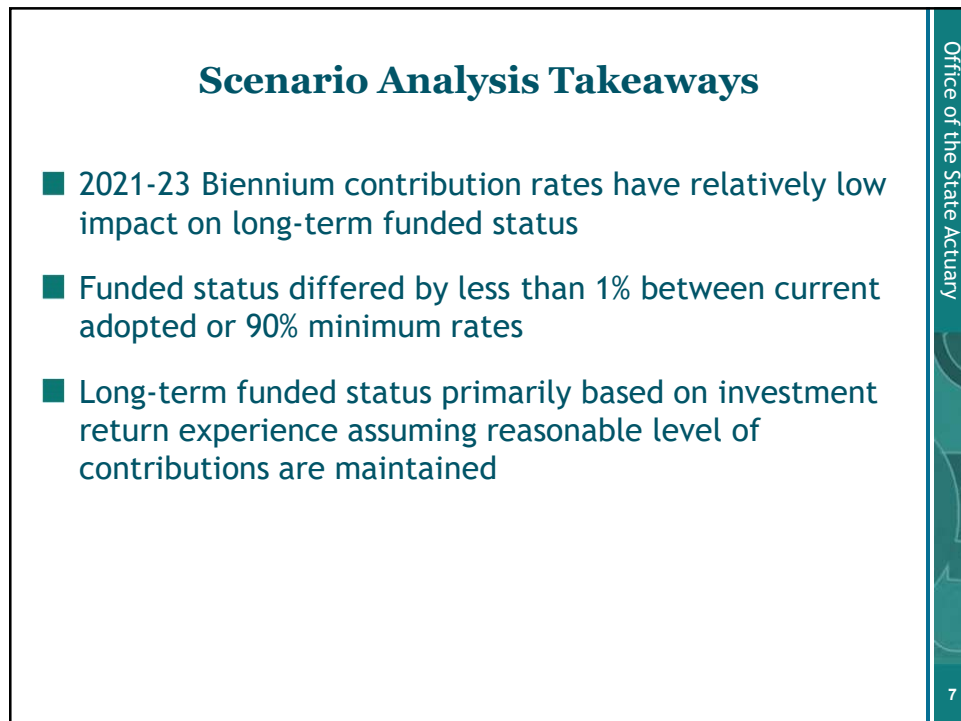
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## Contribution Rate Volatility Stress Testing

- Question: What investment returns trigger 100% minimum rates for next rate setting?

Stress Test Investment Returns		
Fiscal Year	Expected	Stress Test
2020	7.4%	0%
2021	7.4%	(20%)
2022+	7.4%	7.4%

### ■ Stress Test Scenario

- Started with 0% FY 2020 return from prior analysis
- Tested for FY 2021 return required to increase minimum contribution rates in 2023-25 Biennium
- Return is similar in magnitude to Great Recession impact

## Stress Testing Results

Expected Member Contribution Rates		
Biennium	Expected	Stress Test
2021-23	7.70%	7.70%
2023-25	7.72%	8.58%
2025-27	7.75%	9.13%
2027-29	7.79%	11.93%

- Expected - Rates remain at 90% minimum
- Stress Test - Rates shift to 100% minimum in 2023-25 and underlying Aggregate Cost Method kick in starting 2025-27
- Other considerations
  - Stress testing did not include potential market bounce-back
  - OSA is available to consult on rate adoption in volatile markets

## Next Steps

- The Board has the option to adopt new contribution rates for the 2021-23 Biennium based on the 2019 valuation
  - Final and audited contribution rates available at the July meeting
- OSA available to provide additional analysis as needed

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**Questions? Please Contact:  
The Office of the State Actuary**

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# Thank You



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## Sources and Disclosures

- We prepared this presentation to assist the LEOFF 2 Board in understanding potential impacts to the system under a select set of scenarios at their June 24 meeting
  - Please do not rely on this analysis beyond this meeting or for other purposes
- We relied on the [Preliminary 2019 Valuation](#) and [Projection Methods](#) to produce this analysis
  - Please see our website for more information
- The 2019 valuation is currently under audit and subject to change
- Lisa Won, ASA, FCA, MAA served as the reviewing and certifying actuary of this work product