



Rate Setting Adoption

July 22, 2020

Issue

- **The Board has the option to adopt new contribution rates for the 2021-23 and 2023-25 biennia**

Board Funding Goals and Policies

- The Board sets policies to assist meeting funding goal of stable contribution rates to ensure predictable and adequate rates
- **Short Term Rate Setting Policy**
 - 100% of the current normal cost component of the EANC method
 - This is the policy the Board has used since 2008
- **Long Term Rate Setting Policy**
 - 100% of the normal cost component of the EANC method if funded status equal to or less than 105%
 - 90% of the normal cost component of the EANC method if funded status exceeds 105%
- **4-Year Rate Adoption Policy**
 - Last adopted rates in 2018, based on 2017 valuation
 - May choose to adopt new rates, based on 2019 valuation

Current Funded Status

- Funded status in the 2019 valuation is **111%**
 - Does not recognize remaining net investment gains from 2014 to 2019
 - Increases funding status
 - Does not recognize expected market losses due to Covid-19
 - Decreases funded status

Asset gains left to recognize

Calculation of Actuarial Value of Assets				
LEOFF 2				
<i>(Dollars in Millions)</i>				6/30/2019
Market Value of Assets				\$13,916
Plan Year Ending	Return on Assets	Years Deferred	Years Remaining	Amount Deferred*
6/30/2019	8.89%	2	1	\$97
6/30/2018	9.56%	3	1	85
6/30/2017	14.14%	7	4	387
6/30/2016	2.48%	6	2	(166)
6/30/2014	18.93%	8	2	219
Total Deferral				623
Actuarial Value of Assets**				\$13,294

*Amount of asset gains and (losses) left to recognize, or apply, in future valuations.

**Actuarial Value of Assets can never be less than 70% (\$9,742) or greater than 130% (\$18,091) of the Market Value of Assets.

Impact of Covid-19

- Preliminary investment returns for FY 2020 are 0% as of March 31st
- The Board's current investment assumption is 7.4%

Option 1: 90% Normal Cost

- Member 7.68%; Employer 4.61%; State 3.07%
- Pros
 - Adheres to the Board's long term funding policy
 - Lowering rates to account for funded status
 - Rate reduction helps employers/state/members with budgets impacted by Covid-19
- Cons
 - Lowers rates while the impacts of Covid 19 on investment returns are still unknown
 - Lowers rates while the impacts of potential demographic changes (retirements, layoffs) are unknown

Option 2: 100% Normal Cost

- **Member 8.53%; Employer 5.12%; State 3.41%**
- **Pros**
 - Adheres to the Board's short term funding policy
 - Funding method the Board has used since 2008
 - Slight rate reduction helps employers/state/members with budgets impacted by Covid-19
 - Allows the Board to delay lowering rates until the impacts of Covid-19 on investment returns are better known
- **Cons**
 - Doesn't address the positive funded status of the plan

Option 3: No action - 100% Normal Cost from 2017 valuation

- Member 8.59%; Employer 5.15%; State 3.44%
- Pros
 - Utilizing the 4-year rate adoption policy, the Board is not required to update contribution rates already adopted for the 2021-23 biennium
 - Allows the Board to delay changing rates until the impacts of Covid-19 on investment returns are better known
- Cons
 - Doesn't follow the Board's short term funding policy



Thank You

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