



SB 5453 Benefit Improvement

Educational Briefing
May 26, 2021

Issue

- **At the LEOFF 2 Board Meeting in May the Board requested a briefing on the LEOFF 2 benefit improvement proposed as part of SB 5453**

Bill History

- **SB 5453 was proposed by Senator Mark Scheosler as part of the Senate Operating Budget (SB 5451) proposal by Senate Republicans**
 - SB 5453 did not receive a hearing
 - OSA completed an actuarial fiscal note

SB 5453 Summary

- Merge LEOFF 1 with the Teachers' Retirement System (TRS) Plan 1
- Create a benefit improvement for LEOFF 2 members
- Transfer LEOFF 2 Benefit Improvement Account funds
- Freeze LEOFF 2 contribution rates for two biennia

Benefit Improvement – Active Members

- **Active members:**
 - **2% final average salary for the first 15 years of service;**
 - **2.5% final average salary for the 10 years of service between 15 and up to 26**
 - **2% final average salary for years of service above 26**

Benefit Improvement – Retirees/Survivors

- **\$20,000 payment to all LEOFF 2 retirees, or survivor beneficiaries of members, with at least 15 years of service**
- **\$20,000 payment to all LEOFF 2 survivor beneficiaries of a member who died in the line of duty**

No Benefit Improvement

- Does not provide a benefit improvement for the following:
 - Retirees with less than 15 years of service
 - Disability Retirees with less than 15 years of service
 - Inactive Vested Members
 - Inactive Non-Vested Members

BIA asset transfer

- **Transfer all BIA assets to the LEOFF 2 Trust Fund to fund the benefit improvements**
- **BIA Value as of December 31, 2020 - \$374,633,947**

Freeze LEOFF 2 contribution rates

- For the 2021-2023 and 2023-2025 biennia, contribution rates for LEOFF 2 may not exceed the rates adopted by the LEOFF 2 board on July 22, 2020
- Those rates are:
 - Member 8.53%
 - Employer 5.12%
 - State 3.41%



Thank You

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SB 5453–Cost Summary

Impact on Contribution Rates*

(Effective 9/1/2021)

FYs 2021-23 State Budget	TRS	LEOFF 2
Employee	0.00%	0.00%
Employer	(5.75%)	0.00%
State		0.00%

*Under current law, LEOFF 1 contribution rates are expected to remain at 0.00%. Under this bill, no UAAL contributions to the merged plan are required from LEOFF employers.

Budget Impacts

(Dollars in Millions)	2021-23	2023-25	25-Year
General Fund-State	(\$800)	(\$940)	(\$2,019)
Local Government	(\$120)	(\$141)	\$0
Total Employer	(\$920)	(\$1,081)	(\$2,019)

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.

- Budget impacts table above includes impacts from all bill provisions

Impact on Pension Liability

LEOFF 2 as of June 30, 2019			
<i>(Dollars in Millions)</i>	Current Law	Increase	This Bill
Present Value of Future Benefits	\$16,096	\$899	\$16,995
Accrued Liability	\$11,992	\$625	\$12,617

Note: Totals may not agree due to rounding.

■ Present Value of Future Benefits

- Today's value of all future expected benefits for current members

■ Accrued Liability

- Today's value of all future plan benefits that have been accrued or "earned" as of the valuation date by current plan members

Changes in Plan Assets

Lump Sum Payout and BIA Assets	
<i>(Dollars in Millions)</i>	
Eligible Annuitants	5,218
Lump Sum at January 3, 2022 <i>(Eligible Annuitants x \$20,000 Benefit)</i>	(\$104)
Discounted 2.5 Years to June 30, 2019 (A)	(\$87)
L2-BIA at June 30, 2019 (B)	\$322
Total Asset Change (A) + (B)	\$235

Change in Plan Funded Status

LEOFF 2 as of June 30, 2019			
<i>(Dollars in Millions)</i>	Current Law	Increase	This Bill
Actuarial Value of Assets (A)	\$13,294	\$235	\$13,529
Accrued Liability (B)	\$11,992	\$625	\$12,617
Funded Status (A)/(B)	110.9%		107.2%

Note: Totals may not agree due to rounding.

- Plan funded status decreases because accrued liability increases more than the assets
- Funded status is an important measure for LEOFF 2 because it's tied to funding policy

Quick Review of LEOFF 2 Funding Policy

- LEOFF 2 funding policy selects the greater of two contribution rates:
Aggregate and Minimum contribution rates
- Aggregate Cost Method Rates
 - Underlying cost method for LEOFF 2 and all Washington state open plans
- Minimum Rates
 - Based on Normal Cost of Entry Age Normal Cost Method
 - 100% minimum rate if funded status equal to or less than 105%
 - 90% minimum rate if funded status exceeds 105%

Projected LEOFF 2 Employee Rates and Funded Status

LEOFF 2					
Biennium	2021-23	2023-25	2025-27	2027-29	2029-31
Current Law					
Employee	8.53%	8.53%	7.74%	7.78%	7.82%
Funded Status*	112.6%	113.2%	113.4%	113.3%	113.3%
This Bill					
Employee	8.53%	8.53%	8.36%	8.40%	8.44%
Funded Status*	108.3%	108.4%	108.1%	107.8%	107.6%
Difference					
Employee	0.00%	0.00%	0.62%	0.62%	0.62%
Funded Status	(4.3%)	(4.8%)	(5.4%)	(5.5%)	(5.7%)

**Funded status calculated at the start of the biennium.*

- 2021-23 and 2023-25 Biennia contribution rates adopted by the Board and capped at current levels in the bill
- Funded status in 2025-27 Biennium and beyond expected to exceed 105 percent
 - We assumed rates are adopted at 90% of minimum rate based on funding policy

Budget Impacts

Short Term Budget Impacts	
<i>(Dollars in Millions)</i>	LEOFF 2
2021-2023 Biennia	
General Fund	(\$0.3)
Non-General Fund	\$0.0
Total State	(\$0.3)
Local Government	(\$0.5)
Total Employer	(\$0.8)
Total Employee	(\$0.8)
2023-2025 Biennia	
General Fund	(\$0.5)
Non-General Fund	\$0.0
Total State	(\$0.5)
Local Government	(\$0.7)
Total Employer	(\$1.2)
Total Employee	(\$1.2)

Note: Totals may not agree due to rounding.

Long Term Budget Impacts	
<i>(Dollars in Millions)</i>	LEOFF 2
2021-2046	
General Fund	\$222.2
Non-General Fund	\$0.0
Total State	\$222.2
Local Government	\$334.8
Total Employer	\$556.9
Total Employee	\$556.9

Note: Totals may not agree due to rounding.

Risk Analysis

Probability of Employee Contribution Rates Above 10%*				
	2022	2025	2030	2035
Current Law	0%	0%	23%	32%
This Bill	0%	0%	33%	39%

*Employers and the state combined contribute rate equal to the employee rate.

Likelihood of Funded Status Less Than 90%				
	2022	2025	2030	2035
Current Law	1%	7%	24%	29%
This Bill	1%	11%	28%	31%

- We considered changes in certain risk measures when future experience does not match our assumptions
- We used two measures to assess risk
 - Affordability risk measured by the probability of employee contributions above 10 percent
 - Solvency risk measured by the likelihood funded status is less than 90 percent

Appendix–Retirement Rates

LEOFF 2 SB 5453 Retirement Rates					
Age	Current Law	Best Estimate Bill		High Sensitivity	
	All Service	Service < 25	Service >= 25	Service < 25	Service >= 25
50	0.03	0.03	0.03	0.03	0.03
51	0.03	0.03	0.03	0.03	0.03
52	0.05	0.05	0.05	0.05	0.05
53	0.09	0.09	0.10	0.09	0.11
54	0.09	0.09	0.10	0.09	0.11
55	0.09	0.09	0.10	0.09	0.11
56	0.09	0.09	0.10	0.09	0.11
57	0.10	0.10	0.11	0.10	0.12
58	0.14	0.14	0.15	0.14	0.17
59	0.15	0.15	0.17	0.15	0.18
60	0.15	0.15	0.17	0.15	0.18
61	0.19	0.19	0.21	0.19	0.23
62	0.23	0.23	0.25	0.23	0.28
63	0.20	0.20	0.22	0.20	0.24
64	0.20	0.20	0.22	0.20	0.24
65-69	0.30	0.30	0.30	0.30	0.30
70	1.00	1.00	1.00	1.00	1.00

Appendix—Disclosures

- The information in this presentation is based on analysis performed for the Legislature during the 2021 Legislative Session on SB 5453.
- This information presented here is for informational purposes only and will change with updates to the underlying data, assumptions, and methods.
- Please see our full [fiscal note on SB 5453](#) for a complete list of the data, assumptions, and methods we relied on.

Questions? Please Contact: The Office of the State Actuary

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Thank You

