



Benefit Improvement Account

Educational Briefing Follow-Up
June 16, 2021

Issues

1. The mechanics and impact of using the LEOFF 2 Benefit Improvement Account to pay for a benefit improvement
2. Issues related to purchase with BIA when the BIA does not have enough money to fully pay for the benefit

SB 5453 – Proposed LEOFF 2 Benefit Improvement

\$896 million – Cost of the Benefit Improvement for 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

\$87 Million - Cost of the Benefit Improvement for 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

BIA Background

Previous benefit improvements have been paid for through contribution rate increases

The BIA is a new method for funding a benefit improvement

- Goal is to prefund a benefit improvement, so that contribution rates do not need to increase
- BIA has never been used to fund a benefit

Current Funding Policies

The rate is set at the greater of two contribution rates:

- Aggregate Funding Method
- Minimum Rate Funding Policy
 - Based on Normal Cost of Entry Age Normal Cost Method (expected long-term cost of the plan excluding the current level of assets)
 - 100% minimum rate if funded status equal to or less than 105% (floor)
 - 90% minimum rate if funded status exceeds 105% (ceiling)

The Board's strategic plan goals – stable rates and fully funded plan

- Aggregate Method – Normal cost
 - Can have aggressive swings in rates when experience doesn't line up with assumptions
 - The state and LEOFF 2 Board use asset smoothing and rate floors to lessen this risk
- Minimum Rates
 - Stable unless there are large shifts in member demographics or changes to benefits or assumptions

Issue 1 - Mechanics of Using BIA

- All benefit improvements increase the liabilities of the plan
- Increasing the benefits also increases the plan minimum rate
- A change in the Board's funding policy may be necessary to implement the intent of the BIA

Issue 2 – Purchasing a benefit improvement when the BIA does not have enough to pay for the benefit

- \$899 million cost of the benefit improvement for active members
- \$87 million cost of the benefit improvement for retirees/survivors
- \$322 million - Transfer BIA funds (value used in Fiscal Note) into LEOFF 2
 - \$404 million as of June 2021
- 2.94% – Total LEOFF 2 contribution rate impact to pay for the difference between \$899 million and total asset changes of \$235 million
 - 2.94% is under the Aggregate rate and would not be the rate adopted under current funding policy

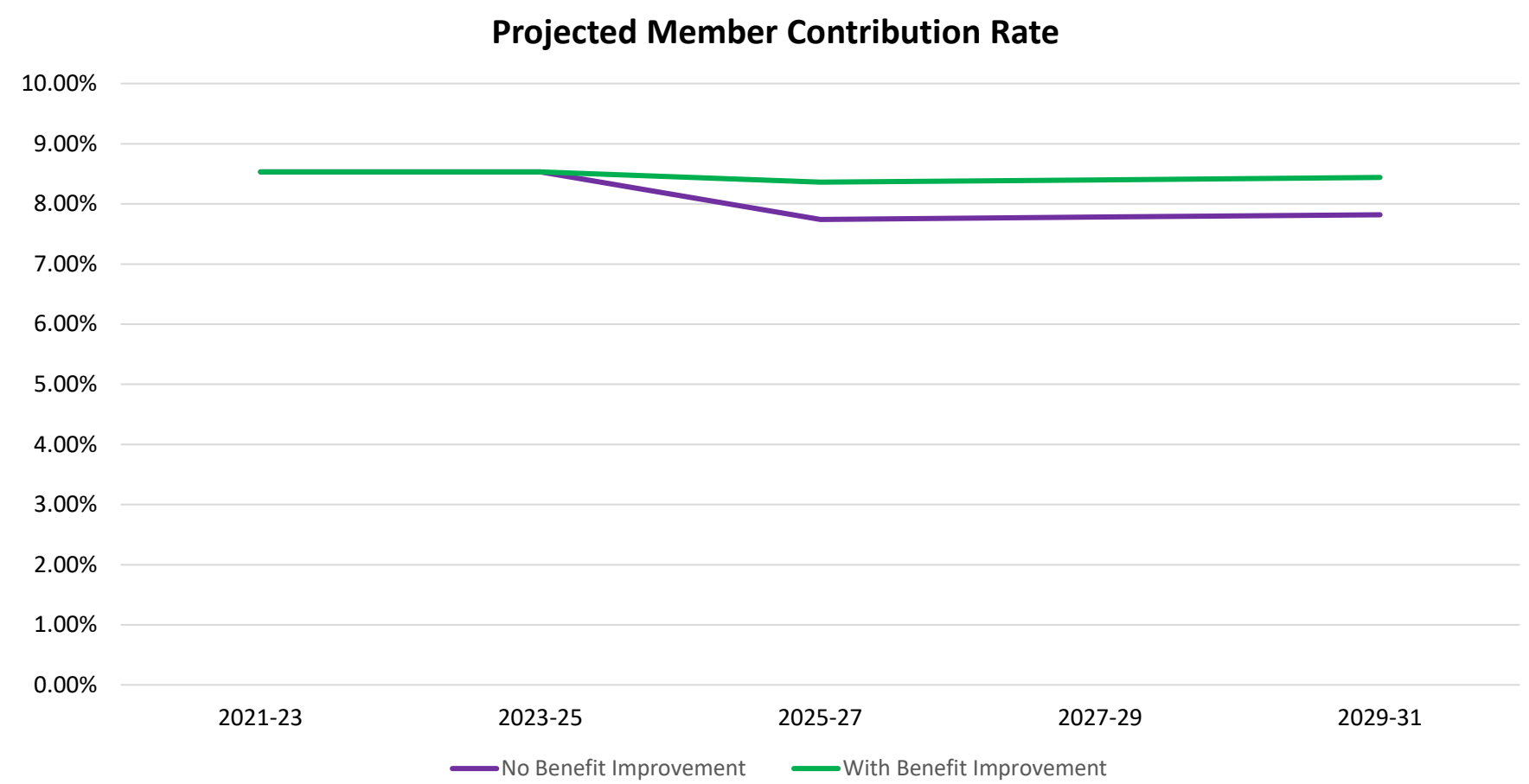
Funded status and contribution rate impacts of benefit improvement

Because the funded ratio is more than 105% current funding policy would be to drop down to 90% of the normal cost

- For the Board's current adopted rates, the Board choose not to follow this policy because of the uncertainty of the extent and duration of the economic downturn related to Covid-19

The contribution rates under this benefit improvement will go down from the current level not because of the cost of the benefit but because of the funding status of the plan and the Board's funding policy

LEOFF 2 Contribution Rate Impact under SB 5453



What happens to LEOFF 2 contribution rate under SB 5453?

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 are frozen at current level by the bill
- Funded status in 2025-27 Biennium and beyond expected to exceed 105 percent
- Assume rates are adopted at 90% of minimum rate based on funding policy

Summary

1. Despite having funds in the BIA, a benefit improvement would cause contribution rates to increase because of the funded status of the plan and the Board's funding policy
2. The Board may need to modify its funding policy to address the potential conflict between the intent of the BIA to prefund a benefit and the Board's current funding policy

Next Steps

- LEOFF 2 Board staff will consult with OSA staff regarding what, if any, funding policy changes may be necessary
- At the July Board meeting LEOFF 2 Board staff will present on the benefit improvement component of SB 5453



Thank You

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