LEOFF
Plan 2 Retirement Board

Paying for Benefit Improvements using the Benefit Improvement Account

October 27, 2021

Issues

1. The mechanics and impact of using the LEOFF 2 Benefit Improvement Account (BIA) 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

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
  - 100% minimum rate if funded status equal to or less than 105% (floor)
  - 90% minimum rate if funded status exceeds 105% (ceiling)

Issue 1 - Mechanics of Using BIA

- All benefit improvements increase the liabilities of the plan
- Increasing the benefits also increases the plan minimum rate, which the Board has historically used to set rates
- Moving money from the BIA back into the trust fund does not adjust 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

- Previous Fiscal Note
  - $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
    - 1.22% – Total LEOFF 2 contribution rate impact (under the minimum rate funding policy) to pay for the difference between the cost of the benefit improvements in the bill and the assets in the BIA
- Updated costs on Benefit Improvement
  - $454 million as of September 30, 2021
  - Cost of proposed benefit improvement will be known in December

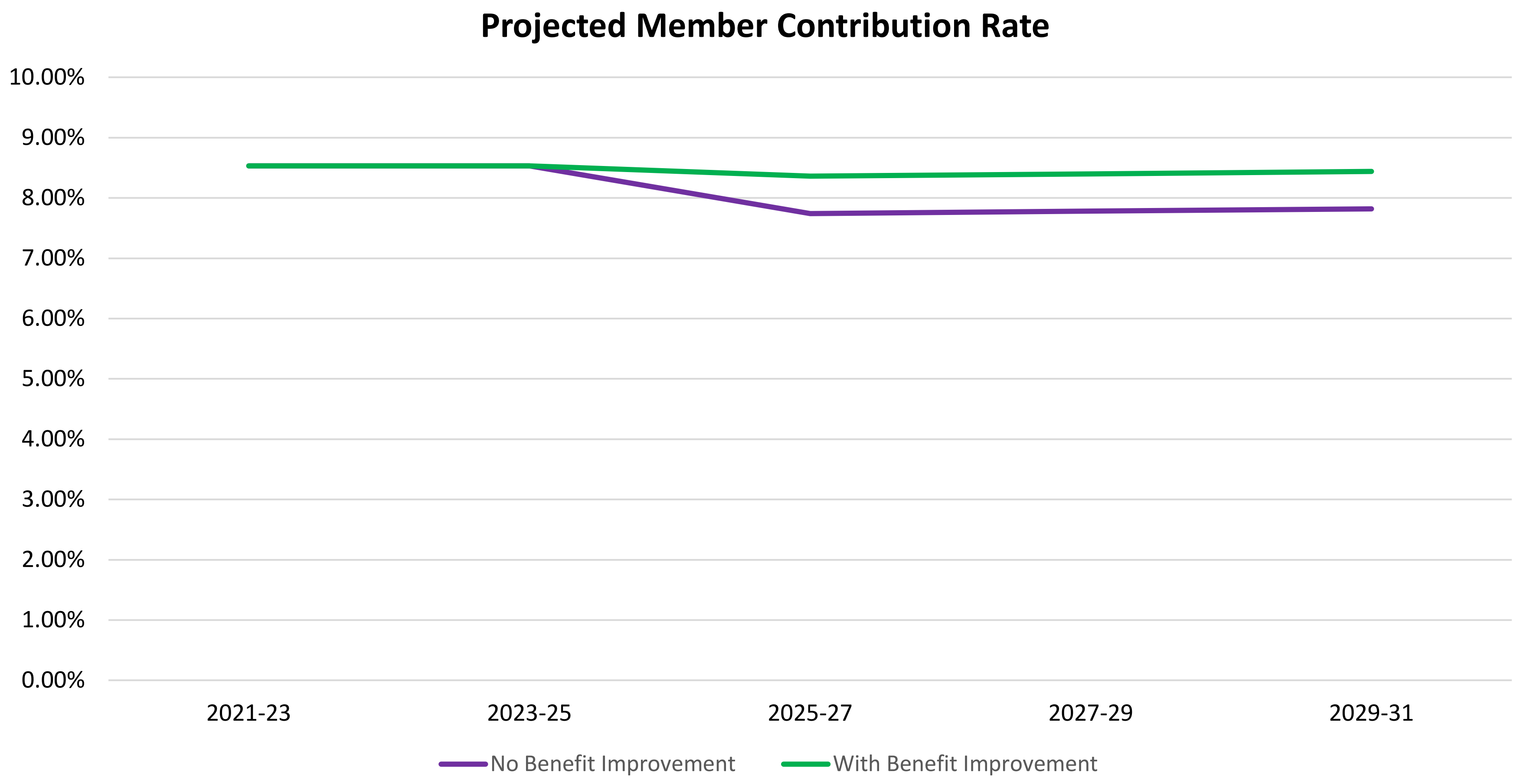
Funded status and contribution rate impacts of benefit improvement

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

- 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



LEOFF 2 Contribution Rate Impact

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 Board's current funding policy
2. The Board may need to take action to address the potential conflict between the intent of the BIA to prefund a benefit and the Board's current funding policy

Possible Solutions?

- Legislation adopting a benefit improvement using the BIA could fix rates for a period of time
  - Board will work with OSA to bring back long term options to accomplish the intent of the BIA

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Thank You

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