



Managing Contribution Rate Stability

October 27, 2021

Current Status

The Board's use of the expected long-term cost of the plan as the basis for setting rates has resulted in remarkable rate stability for members, employers and the State.

Rate in 2007 was 8.64% and the current rate is 8.53%.
Rates ranged from 8.41% to 8.83% during this period.

- Great Recession in 2008-09
- Historic sustained market increases from 2009-2020
- Increases in assumptions for future life expectancy
- Decreases in the earnings assumption from 8% to 7.5% to 7.4%
- COVID Recession in 2020

Factors Effecting Future Contributions

- Potential changes to economic assumptions
- Potential benefit improvement
- Investment returns – 2021 asset gains

Each of these factors are separate and independent

Potential Changes to Economic Assumptions

- OSA recommended the Board lower the following assumptions:
 - Investment rate of return - 7.4% to 7.0%
 - General salary growth - 3.50% to 3.25%
- Estimated Rate Change from Recommended Economic Assumptions
 - Projected 100% Minimum rate for 2023-23 biennium increases from 8.57% to 9.18%
 - Projected 90% Minimum rate for 2023-25 biennium increases from 7.71% to 8.27%
 - Projected funded ratio decreases from 113% to 107%

Impact is +0.61% or 61 bp increase to rates and (6-7%) decrease in funded ratio

Potential Benefit Improvement

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.*

Impact is +0.62% or 62 bp increase to rates and (5-6%) decrease in funded ratio

Impact of BIA transfer will require new policies to implement intent.

Investment Returns – Deferred Asset Gains

Development of Actuarial Value of Assets	
Prior Deferred Investment Gain/(Loss)	
Plan Year Ending 6/30/2019	\$0
Plan Year Ending 6/30/2018	0
Plan Year Ending 6/30/2017	291
Plan Year Ending 6/30/2016	(83)
Plan Year Ending 6/30/2015	0
Plan Year Ending 6/30/2014	110
Total Prior Deferred Investment Gain/(Loss) (B)	\$317
2020 Deferred Investment Gain/(Loss) (C)	(\$265)
Estimated 2020 Actuarial Value (A) - (B) - (C)	\$14,520

Approximately \$52M in deferred gains

Investment Returns – Estimated 2021 Gains

2021 Investment Returns - approximately \$3.1 billion over expectation

- \$400 million is recognized in FY2021
- \$2.7 billion of deferred asset gains will be recognized over 2022-2028 according to current asset smoothing policy
- Funded ratio will increase from 113% to 131% as deferred asset gains are recognized over 2022-2028

Impact is 0.00% to rates and 18% increase in funded ratio

Summary

What is the estimated combined effect of all three factors?

- **The 100% minimum rate will increase from 8.53% to 9.80%**
- **The plan's funded ratio will increase from 113% to 118-120%**
- **The 90% minimum rate will increase from 7.71% to 8.83%**

Next Steps

- The Board will vote on adoption of the recommended changes to economic assumptions in November.
- The Board will vote on recommending legislation for a benefit improvement in December. The Board will decide on whether to set contribution rates for the next 4-5 years as part of that legislative proposal.
- The Board will work with OSA to develop policies to promote rate stability while accomplishing the intent of the Benefit Improvement Account.



Thank You

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