LEOFF Plan 2 Retirement Board

December 15, 2021

Tiered Multiplier Benefit Improvement

FINAL PROPOSAL

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ISSUE STATEMENT

A benefit improvement purchased using the Benefit Improvement Account should meet the policy goals of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Board while also adhering to the legislative intent of the Benefit Improvement Account.

OVERVIEW

This report will provide background on the history and purpose of the LEOFF Plan 2 Benefit Improvement Account (BIA). It will also identify policy options for the Board to consider with purchasing a benefit improvement using the BIA.

BACKGROUND AND POLICY ISSUES

History of the Benefit Improvement Account

In 2008, the legislature created the Benefit Improvement Account (BIA). The BIA was initially to be funded through periodic appropriations from the State's General Fund when certain revenue criteria were met. Despite those criteria being met, the appropriations were never made and instead, the BIA has been funded through transfers from the LEOFF Plan 2 Trust Fund into the BIA.

In creating the BIA the legislature recognized that:

> the current benefit formula and contributions for [LEOFF] 2 are inadequate to modify that formula in recognition of the shorter working careers for firefighters and police officers. […] In recognition of the physical demands of the professions and the inherent risks faced by law enforcement officers and firefighters, eligibility for retirement in [LEOFF] 2 system has been set at age fifty-three. However, the benefit formula is designed for careers of thirty-five to forty years, making retirement at age fifty-three an unrealistic option for many.[1]

[1] https://lawfilesext.leg.wa.gov/biennium/2007-08/Pdf/Bills/Session%20Laws/Senate/6573-S.SL.pdf?cite=2008%20c%2099%20%C2%A7%203

The minimum amount of income often cited as necessary for income replacement at retirement is 60%. The benefit formula for the Department of Retirement Systems (DRS) administered pension systems, including LEOFF Plan 2, is: 2% x Years of Service x Final Average Salary. To reach 60% replacement income using this formula a member must have a 30-year career.

In the state pension systems for general public employees, teachers, school employees, and most other public employees in Washington State, the normal retirement age is 65 years old. However, for LEOFF Plan 2 normal retirement age is 53 years old.[2] The earlier normal retirement age is due to the physical demands and risks inherent in LEOFF covered positions. This, coupled with a benefit formula designed for 30-year careers, results in the average LEOFF Plan 2 member replacing only approximately 47% of their pre-retirement income through their LEOFF Plan 2 benefit. The 2020 projected average salary of a LEOFF 2 member is $10,390 per month. The average LEOFF Plan 2 member retires at age 56 with 23.5 years of service. These averages would result in a benefit of $4,883 per month.

Policy Goals of the Board

One policy goal frequently discussed by the Board is that this benefit improvement should apply as broadly as possible. The Board has discussed providing a benefit to as many members as possible while also recognizing the limitations of the cost of the benefit. The Board recognized that the BIA was funded by transfers from the LEOFF Plan 2 trust fund, which contains contributions made by active and retired LEOFF Plan 2 members. Therefore, the Board reasoned that current members and retirees should receive a benefit since they have already helped pay for it through past contributions. Furthermore, the Board discussed prioritizing a larger benefit for members who spend a career in LEOFF Plan 2, since the longer someone worked in a LEOFF 2 covered position the larger their contribution to the funds in the BIA.

The Board has also discussed a policy goal to improve retention with the benefit improvement. One of the primary goals of any pension plan is to recruit and retain employees. Employers may be particularly interested in improving recruitment and retention through the benefit improvement.

Lump Sum Benefit

The Board has identified a lump sum benefit as a benefit improvement option for LEOFF Plan 2 retirees. A lump sum benefit is a one-time payment made to retirees from the BIA. The issue the Board has identified with a lump-sum benefit is how to design that benefit in a way that best meets the Board’s policy goal of equity.

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[2] Normal Retirement age for Public Safety Employees’ Retirement System (PSERS) Plan 2 is 62, and LEOFF 1 is 50

The options identified by the Board are:

1. $20,000 lump sum for retirees; or
2. $100 per month of service credit for retirees.

Option 1 would be less complex to administer. It provides the same benefit to all vested members, which may be viewed as the most straightforward way to distribute a benefit. However, from an accumulated contributions standpoint, it may be considered unfair for a member with 5 years of service credit to receive the same benefit as a member with 20 or more years.

Option 2 addresses this issue of proportionality by providing a lump sum benefit based on the amount of service credit a retiree has earned. For example, a retiree with 5 years of service credit (60 months of service credit) would receive a lump sum payment of $6,000; a retiree with 10 years of service credit (120 months of service credit) would receive a lump sum payment of $12,000; a retiree with 20 years of service (240 months of service credit) would receive a lump sum payment of $24,000; and, a retiree with 25 years of service (300 months of service credit) would receive a lump sum payment of $30,000.

This option would also provide a minimum benefit of $20,000 to catastrophic or duty disability retirees, as well as duty death beneficiaries. While Option 2 would be more complex to administer, it provides a benefit that meets the Board's goal of providing more benefit to career employees.

The Board has also discussed providing retirees who receive a lump sum benefit the option of purchasing an actuarially equivalent annuity with those funds. This is a benefit that can be provided at no-cost to the plan. However, there is some risk in allowing members to purchase an annuity, as the experience of the plan could result in not aligning with the assumptions used by the Office of the State Actuary (OSA) in pricing the annuity factors for purchasing an annuity. Although, there is the possibility that the experience of the plan could result in a savings. This is a risk that the plan already takes on with the Purchase of Additional Annuity and Purchase of Service Credit benefits.

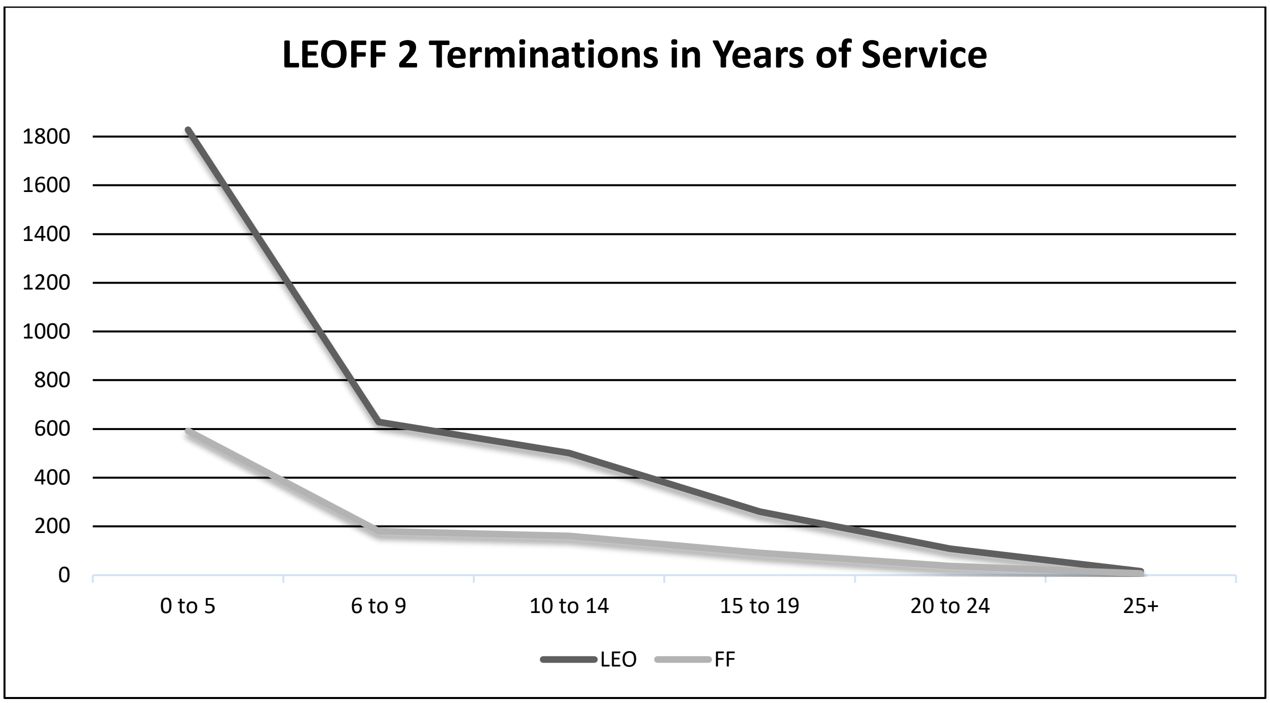
Tiered Multiplier Benefit

The Board has identified a tiered multiplier as a benefit improvement for active members that meets its policy goals of equity and retention. The tiered multiplier benefit would increase the plan benefit multiplier from 2% to 2.5% for the years of service between 15 and up to 26.

This benefit would improve retirement income so that retirees can be closer to the 60% income replacement goal, while also incentivizing members to remain in LEOFF Plan 2. OSA estimated that the average member's retirement benefit will increase by about 9 percent with a mid-career multiplier.[3]

The years of service between 15 and 26 were identified in part because, by this point, employers have significantly invested in their employees' training and employees have greater knowledge through their extensive work experience. However, a concern with this benefit improvement is that it does not provide a benefit to members who work less than 15 years. The Board has recognized that this concern could be addressed by providing the lump sum benefit to members who work less than 15 years.

Below is a chart of data from 1995-2015 that shows at what service credit range fire fighters and law enforcement officers terminated from LEOFF service:



Who qualifies for which benefit improvement?

Determining who qualifies for which benefit improvement is driven by the policy goals of the Board discussed above. In particular, the Board recognizes that the BIA was funded by transfers from the LEOFF Plan 2 trust fund, which contains contributions made by active and retired LEOFF Plan 2 members.

Also, since there are different benefits for retirees versus active members versus new hires, the Board has discussed the importance of identifying a date in the bill which determines the

[3] https://fnspublic.ofm.wa.gov/FNSPublicSearch/GetPDF?packageID=62887

benefit a person will qualify for. The Board has also discussed backdating that delineation date in the bill so that it does not cause unexpected issues for the plan, such as a surge in retirements or members delaying planned retirement. The date that has been identified for delineating these benefits is February 1, 2021.

Below is a table breaking down which groups of LEOFF Plan 2 members qualify for the lump sum benefit improvement, tiered multiplier benefit improvement, choice between lump sum benefit or tiered multiplier benefit, or no benefit improvement. This list does not specify all potential situations.

Retired as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Retired as of 2/1/21	Lump sum
Duty or catastrophic disability retired as of 2/1/21	Lump sum (minimum of $20k)
Beneficiary of line-of-duty death who died prior to 2/1/21	Lump sum (minimum of $20k)
Survivor beneficiary, member deceased as of 2/1/21	Lump sum
Member deceased as of 2/1/21 with no survivor beneficiary	No benefit
Withdrawn	No benefit

LEOFF 2 Member Active as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Still active	Choice of lump sum or tiered multiplier
Now retired	Choice of lump sum or tiered multiplier
Duty or catastrophic disability retirement	Choice of lump sum (minimum of $20k) or tiered multiplier
Beneficiary of line-of-duty death who was active as of 2/1/21	Choice of lump sum (minimum of $20k) or tiered multiplier
Survivor beneficiary, member deceased after 2/1/21	Choice between a lump sum or tiered multiplier benefit at retirement
Survivor beneficiary in service death not line-of-duty	Choice of lump sum or tiered multiplier
No survivor beneficiary, member deceased after 2/1/21 before effective date of the bill	Lump sum to beneficiary or estate
No survivor beneficiary in service death not line of duty	Lump sum to beneficiary or estate
Withdrawn	No benefit
Inactive as of 2/1/21 and vested	Choice of lump sum or tiered multiplier
Inactive and not vested	No benefit
Inactive and not vested as of 2/1/21, returns to LEOFF employment after 2/1/21 and becomes vested	Choice of lump sum or tiered multiplier

New Member after 2/1/21

LEOFF 2 Member Group	Benefit Improvement
New members after 2/1/21	Tiered multiplier
Withdrawn	No benefit

Members active as of February 1, 2021 would receive the option of choosing between the lump sum benefit or the tiered multiplier. Some of the policy reasons for this choice are that these members contributed to the funds used to purchase the benefit improvement and may be at a point of their career where the tiered multiplier could help their employer retain them. The following is an example of how this choice of benefit would work for this group of members:

> Member is currently 45 years old with 20 years of service credit. They work for an additional 10 years and retire at age 55 with an Average Final Compensation of $10,000. This member will have two benefit options at retirement:
>
> - Option 1: 2% x 30 yrs x $10k for a monthly benefit of $6000 plus a lump sum of $36,000
> - Option 2: (2% x 20 yrs + 2.5% x 10 yrs) x $10K for a monthly benefit of $6500

This option would also apply to members who are inactive as of February 1, 2021 but not retired. Some of the policy reasons behind offering these members the option between the benefits are that they also have contributed to the benefit improvement account and offering them the potential incentive of the tiered multiplier may bring them back to LEOFF service. The following is an example of how this choice of benefit would work for this group of members:

> Member is currently inactive with 17 years of service credit and an Average Final Compensation of $10,000. This member will have two benefit options at retirement:
>
> - Option 1: 2% x 17 yrs x $10k for a $3400 monthly benefit plus a lump sum of $20,400
> - Option 2: (2% x 15 years + 2.5% x 2 years) x $10K for a monthly benefit of $3500 per month

Implementation of a Benefit Improvement using the Benefit Improvement Account

Previous benefit improvements to LEOFF Plan 2 have been paid for through contribution rate increases. The BIA is a new method for funding a benefit improvement and it has never been used. The intent of the BIA was to prefund a benefit improvement so that there would be no impact on contributions. However, the current LEOFF Plan 2 funding policies would result in a contribution rate increase even with enough money in the BIA to fully purchase the benefit improvement.

The Board's strategic plan goals for the funding policy are stable rates and a fully funded plan. To achieve this goal, the Board sets the contribution rate at the greater of the Aggregate Funding Method or the Minimum Rate Funding Policy. Currently, the Minimum Rate Funding Policy is greater than the Aggregate Funding Method. The Minimum Rate Funding Policy is based on the Normal Cost of Entry Age Normal Cost Method (expected long-term cost of the plan excluding the current level of assets). The Minimum Rate Funding Policy contains a rate floor and a rate ceiling based on the funded status of the plan. The floor is set at 100% of the minimum rate if the funded status is equal to or less than 105%. The ceiling is set at 90% of the minimum rate if the funded status exceeds 105%.

Under current funding policies a benefit improvement would result in an increase to liabilities to the plan. There is no current policy for using assets in the BIA to offset that increase in liabilities. Therefore, the Board must determine a policy that allows the assets in the BIA to offset the increase in liabilities caused by a benefit improvement, so there is no increase in required contributions.

Two options for the Board to address this issue are:

1. Fix rates for the remainder of the current biennium and the next biennium according to the Board's current funding policy and develop a policy in consult with OSA that allows the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions; or,
2. Fix rates for the remainder of the current biennium and the next biennium according to the Board's current funding policy and then develop a policy in consult with OSA that would allow the assets in the BIA to offset the increase in liabilities from the benefit improvement such that there is no increase in required contributions.

Option 1 would allow the Board to immediately address the issue. It would also allow OSA to use the new funding policy in its 25-year cost impact for the fiscal note. This would give the legislature the opportunity to see the long-term cost impact of the benefit improvement. However, it does not give much time for the Board to work with OSA to identify and study options.

Option 2 gives the Board time to work with OSA to identify options and then study those options. However, without such a policy in the bill the long-term cost in the fiscal note would reflect current law and as noted above, current law would not reflect the intended rate reductions from the BIA. Therefore, the long-term costs of the bill would not be accurately reflected in the fiscal note for legislation.

November Board Meeting

At the November Board meeting the Board choose the following options for the purpose of pricing the benefit improvement for the December Board Meeting:

- $100 per month of service for retirees and a minimum of $20,000 for catastrophic and duty disability retirees, and duty death beneficiaries
- A tiered multiplier benefit that would increase the plan benefit multiplier from 2% to 2.5% for the years of service for active and new members from 15 through 25
- Develop a policy in consult with OSA that allows the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions

Actuarial Analysis

OSA completed a draft analysis of the costs of the benefit improvement the Board outlined in the November Board Meeting. OSA identified a total cost of $1.1 Billion. The costs were broken by OSA in the following chart:

Impacts at June 30, 2019	
(Dollars in Millions)	**Draft Bill**
Total Liability Change (A)	**$1,126**
Active Members*	985
Annuitant Lump Sum	141
BIA Assets (B)	**$393**
Total Cost to Plan (A) - (B)	**$733**
Total Employer Budget Impacts**	
2022-2023 Biennium	(0)
2023-2025 Biennium	(1)
25-Year Impact	$631

**Includes current and future terminated members with a vested benefit in LEOFF 2.*

***Estimated budget impacts under current funding policy for local employers and the state. Does not include potential funding policy adjustments.*

The BIA assets identified in the chart above do not include the transfer of funds into the BIA that would occur under the draft bill language.

As requested by the LEOFF 2 Board, OSA also developed two policy options for the Board that would allow the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions.

The first option is to lower the minimum contribution rate floor from 90% of the Entry Age Normal Cost (EANC) to 80% of the EANC. The second option is to utilize an offset for future contribution rates that recognizes the BIA transfer.

OSA identified the contribution rate impact, along with the funding status impact, that the draft bill, along with either of the two policy options would have.

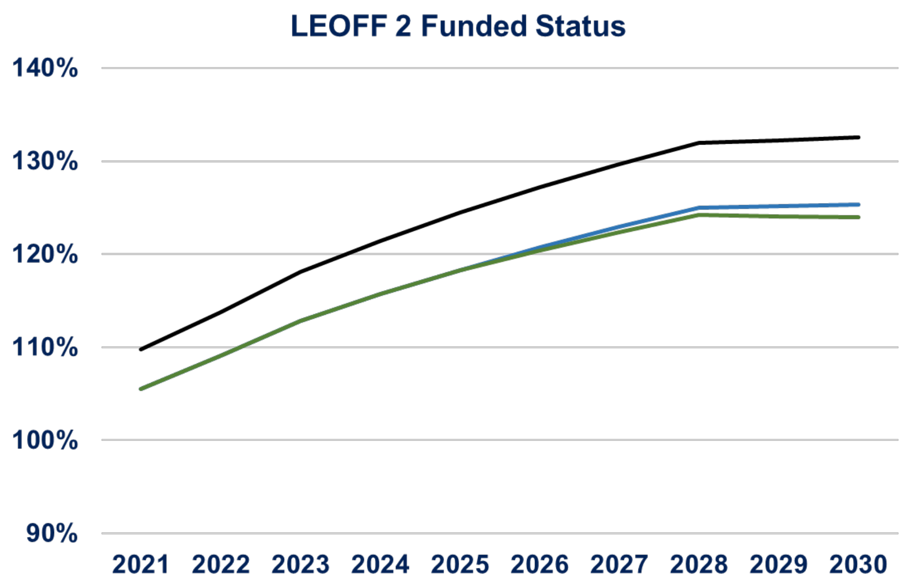
Option 1 would have the following contribution rate impact:

	Total Employer Contribution Rates		
Biennium	Current Law	Draft Bill	Lower Min
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.00%
2027-29	8.36%	9.04%	8.04%
2029-31	8.40%	9.08%	8.08%

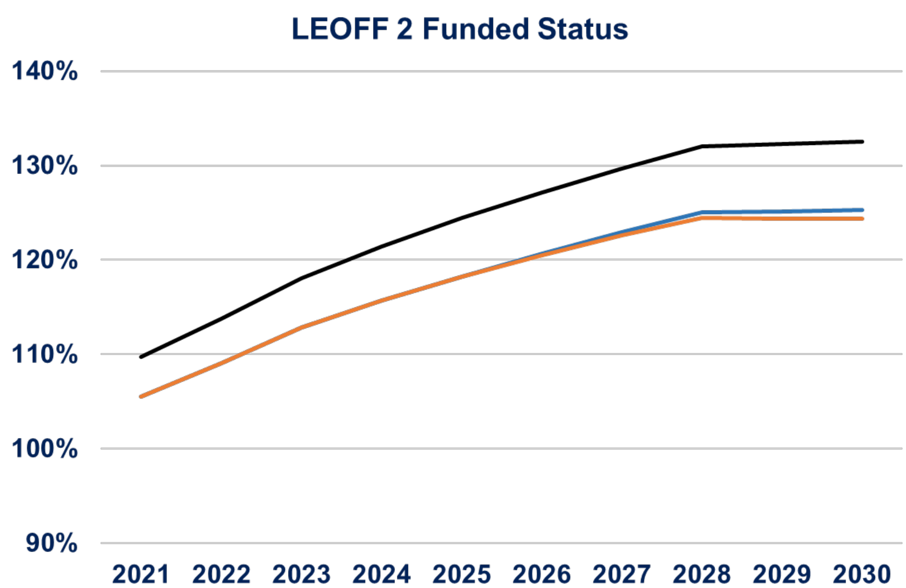
Option 2 would have the following contribution rate impact:

	Total Employer Contribution Rates		
Biennium	Current Law	Draft Bill	Offset
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.31%
2027-29	8.36%	9.04%	8.34%
2029-31	8.40%	9.08%	8.38%

Option 1 would have the following funded status impact:



Option 2 would have the following funded status impact:



Department of Retirement Systems Draft Fiscal Note

LEOFF 2 Board staff shared the draft bill with the Department of Retirement Systems to provide feedback on any potential administrative issues. DRS completed a draft fiscal note that identified a cost of $252,000 to implement the bill over the 2021-23 biennium. To implement this legislation DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct legal analysis, business analysis and business process design,
- Complete systems changes-which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes
- Identify impacted members,
- Update agency WACs,
- Update member handbooks and communicate to members by mail, and
- Update the DRS administrative manual and train team members.

To support this implementation, DRS will form a project team that will include a project manager, business analyst, web programmer, communication consultant, fiscal analyst, management analyst, rules coordinator, legal and compliance manager, and retirement specialist.

DRS will also hire a contractor to implement changes to Linux applications and seek legal advice from outside legal counsel to ensure IRS compliance.

POLICY OPTIONS

In the December meeting the Board may take action on which actuarial option to use to allow the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions.

Option 1: Lower the minimum contribution rate floor from 90% of the Entry Age Normal Cost (EANC) to 80% of the EANC.
Option 2: Utilize an offset for future contribution rates that recognizes the BIA transfer.

Next, the Board may take action on whether to endorse the bill draft with the option they supported above:

Option 1: Endorse Tiered Multiplier Benefit bill draft with option the Board supported above added
Option 2: No action

APPENDIX

Appendix A – Bill Draft
Appendix B – OSA Presentation
Appendix C – DRS Draft Fiscal Note

TIERED MULTIPLIER BENEFIT IMPROVEMENT

Sec. 1. Amend RCW 41.26.420

(1) Except as provided in RCW 41.26.530, a member of the retirement system shall receive a retirement allowance equal to two percent of such member's final average salary for each year of service.

(2) Beginning January 16, 2023, members new to the retirement system after February 1, 2021 who earn more than 15 years of service credit shall receive a tiered multiplier retirement allowance as follows: (a) Two percent of such member's final average salary for the first 15 years of service; (b) Two and one-half percent of such member's final average salary for the 10 years of service after 15 years and up to 25 years; and (c) Two percent of such member's final average salary for years of service above 25 years.

(3) Members active in the retirement system on or before February 1, 2021, at retirement must make an irrevocable choice between the lump sum defined benefit in section 2 of this act or a tiered multiplier retirement allowance as follows: (a) Two percent of such member's final average salary for the first 15 years of service; (b) Two and one-half percent of such member's final average salary for the 10 years of service after 15 years and up to 25 years; and (c) Two percent of such member's final average salary for years of service above 25 years.

(4) Any member who receives the tiered multiplier benefit in this section is not eligible for the lump sum defined benefit in section 2 of this act.

LUMP SUM BENEFIT IMPROVEMENT

Sec. 2. NEW SECTION. A new section is added to chapter 41.26 RCW under the subchapter heading "Plan 2" to read as follows:

(1) Members who are retired on or before February 1, 2021, will receive a one-time lump sum defined benefit of $100 per service credit month payable by January 31, 2023, this includes:

(a) Members who retired for an in-line of duty disability under RCW 41.26.470 shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000;

(b) A member's beneficiary eligible for an in-line of duty death benefit under RCW 41.26.048;

(i) If there is more than one eligible beneficiary the lump sum defined benefit will be distributed in accordance with RCW 41.26.048.

(c) If the member is deceased the member's survivor beneficiary under RCW 41.26.460 is eligible for this lump sum defined benefit.

(2) Members who are active in the plan on or before February 1, 2021, must make an irrevocable choice at retirement between the tiered multiplier benefit defined in section 1 of this act or a one-time lump sum defined benefit of $100 per service credit month to be paid at retirement. This includes:

(a) Members who retire for an in-line of duty disability under RCW 41.26.470 and who elect to receive this lump sum defined benefit shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000;

(b) A member's beneficiary eligible for an in-line of duty death benefit under RCW 41.26.048 and who elect to receive this lump sum defined benefit shall receive the greater of the lump sum defined benefit of $100 per service credit month or a lump sum defined benefit of $20,000;

(i) If there is more than one eligible beneficiary the lump sum defined benefit will be distributed in accordance with RCW 41.26.048.

(c) A beneficiary of a member who dies in service but not in an in-line of duty death, the distribution shall be made according to the member's beneficiary designation under this chapter.

(3) Members who are inactive on or before February 1, 2021, but who later return to membership must make an irrevocable choice at retirement between the tiered multiplier benefit in section 1 of this act and this lump sum defined benefit.

(4) Members who receive a refund of contributions under RCW 41.26.540 are not eligible for this lump sum defined benefit.

(5) This lump sum defined benefit is exempt from judicial process and taxes under RCW 41.26.053.

(6) Any member who receives this lump sum defined benefit is not eligible for the tiered multiplier benefit in section 1 of this act.

ANNUITY OPTION

Sec. 3. Amend RCW 41.26.463

(1) At the time of retirement, plan 2 members may purchase an optional actuarially equivalent life annuity benefit from the [Washington] law enforcement officers' and firefighters' retirement system plan 2 retirement fund established in RCW 41.50.075. A minimum payment of twenty-five thousand dollars is required.

(2) Retirees, or their beneficiaries, who have received a one-time lump sum defined benefit under sec. 2 of this act may purchase an optional actuarially equivalent life annuity benefit from the law

enforcement officers' and firefighters' retirement system plan 2 retirement fund established in RCW 41.50.075, with the money received from the lump sum defined benefit. A minimum payment of twenty thousand dollars is required.

(3) Subject to rules adopted by the department, a member purchasing an annuity under this section must pay all of the cost with an eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan.

(a) The department shall adopt rules to ensure that all eligible rollovers and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(b) "Eligible retirement plan" means a tax qualified plan offered by a governmental employer.

MINIMUM CONTRIBUTION RATES

Sec 4. Amend RCW 41.45.155

(1) Beginning July 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the public employees' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(2) Beginning July 1, 2011, a minimum contribution rate is established for the plan 2 normal cost as part of the basic employer contribution rate for the public safety employees' retirement system. The minimum contribution rate for the plan 2 normal cost shall equal the total contribution rate required to fund eighty percent of the plan 2 normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(4) Beginning September 1, 2011, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic employer contribution rate for the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method. This minimum rate, when applicable, shall be collected in addition to any contribution rate required to amortize past gain-sharing distributions in plan 3.

(5) A minimum contribution rate is established for the plan 2 normal cost as part of the basic employer and state contribution rate for the law enforcement officers' and firefighters' retirement system. On June 30 of each year, if the funded status of the law enforcement officers' and firefighters' retirement system plan 2 as measured by the most recent completed actuarial valuation performed by the Office of the State Actuary is:

(a) Less than 105%, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 100 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method; or

(b) Greater than or equal to 105%, then the minimum contribution rate for the employer and state normal cost shall equal the total contribution rate required to fund 90 percent of the plan 2 employer normal cost as calculated under the entry age normal cost method.

(6~~5~~) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the council any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience. Any changes adopted by the council shall be subject to revision by the legislature.

Sec 5. Amend RCW 41.45.158

(1) Beginning July 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the public employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(2) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(4) A minimum contribution rate is established for the Plan 2 normal cost as part of the basic member contribution rate for the law enforcement officers' and firefighters' retirement system. On June 30 of each year, if the funded status of the law enforcement officers' and firefighters' retirement system plan 2 as measured by the most recent completed actuarial valuation performed by the Office of the State Actuary is:

(a) Less than 105%, then the minimum contribution rate for the member normal cost shall equal the total contribution rate required to fund 100 percent of the plan 2 member normal cost as calculated under the entry age normal cost method; or

(b) Greater than or equal to 105%, then the minimum contribution rate for the member normal cost shall equal the total contribution rate required to fund 90 percent of the plan 2 member normal cost as calculated under the entry age normal cost method.

(5~~4~~) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience.

FREEZE LEOFF 2 CONTRIBUTIONS RATE

Sec. 6 Amend RCW 41.45.0604

(1) (a) Not later than July 31, 2008, and every even-numbered year thereafter, the law enforcement officers' and firefighters' plan 2 retirement board shall adopt contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 as provided in RCW 41.26.720(1)(a).

(b) For 2022-2023 and 2023-2025 fiscal biennia, contribution rates for the law enforcement officers' and firefighters' retirement system plan 2 may not exceed the rates adopted by the law enforcement officers' and firefighters' plan 2 retirement board in 2021.

(2) The law enforcement officers' and firefighters' plan 2 retirement board shall immediately notify the directors of the office of financial management and department of retirement systems of the state, employer, and employee rates adopted. Thereafter, the director shall collect those rates adopted by the board. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

TRANSFER OF FUNDS

Sec. 7 Amend RCW 41.26.802

(1) Prior to May 13, 2019, this section required certain transfers to be made to the local public safety enhancement account. After May 13, 2019, except for the transfer in subsection (2) of this section, no further transfers will be made to the local public safety enhancement account pursuant to this section.

(2) On July 1, 2019, the state treasurer shall transfer the sum of three hundred million dollars from the law enforcement officers' and firefighters' plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

(3) By June 30, 2022, the Washington state investment board shall transfer the difference between the value of the benefit enhancements in this act as identified by the office of the state actuary and the value of the local law enforcement officers' and firefighters' retirement system benefits

improvement account, from the law enforcement officers' and firefighters' plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

(4) By July 31, 2022, the Washington state investment board shall transfer the total available balance of the local law enforcement officers' and firefighters' retirement system benefits improvement account to the law enforcement officers' and firefighters' plan 2 retirement fund. The amount transferred under this subsection goes toward the benefit enhancements in this act.

Offset Language

NEW SECTION. Sec. 8. A new section is added to chapter 41.26 RCW under the subchapter heading "Plan 2" to read as follows:

In recognition of the amount transferred from the benefit improvement account under section 7 of this bill and the assets in the law enforcement officers' and firefighters' plan 2 retirement fund the office of the state actuary will calculate an offset to the increase in liabilities from this bill such that there is no impact on contribution rates as a result of those increased liabilities.

Appendix B

Actuarial Assumptions and Disclosures

- The results presented here are an estimate to assist the Board in understanding the impacts of the benefit improvement discussed at the November meeting
- We relied on draft bill language to produce these pricing results. Any changes in bill language may produce materially different results
- We relied on simplified assumptions and methods to produce this estimate. Final assumptions and methods may change the results presented here
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Office of the State Actuary

1

1

Summary of Estimated Results

Impacts at June 30, 2019	
(Dollars in Millions)	**Draft Bill**
Total Liability Change (A)	**$1,126**
Active Members*	985
Annuitant Lump Sum	141
BIA Assets (B)	**$393**
Total Cost to Plan (A) - (B)	**$733**

**Includes current and future terminated members with a vested benefit in LEOFF 2.*

Office of the State Actuary

2

2

Summary of Estimated Results

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Total Employer Budget Impacts**	
2022-2023 Biennium	(0)
2023-2025 Biennium	(1)
25-Year Impact	$631

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***Estimated budget impacts under current funding policy for local employers and the state. Does not include potential funding policy adjustments.*

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3

3

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4

4

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5

5

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6

6

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  - 90% of Normal Cost under EANC method when Funded Status is 105% or more
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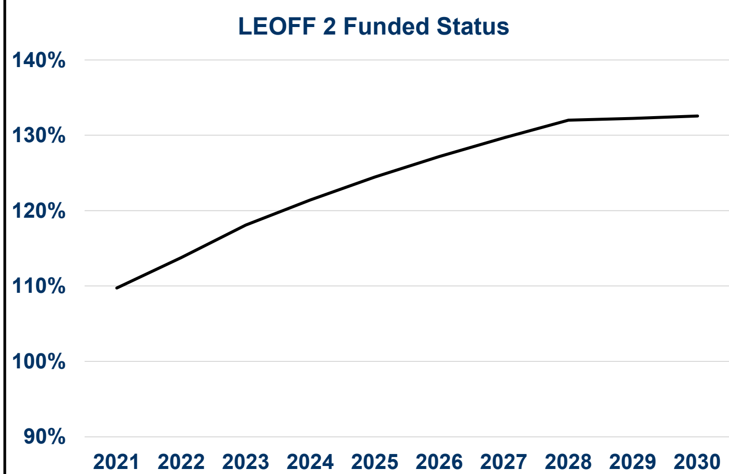
Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law		
2023-25	8.53%		
2025-27	8.32%		
2027-29	8.36%		
2029-31	8.40%		

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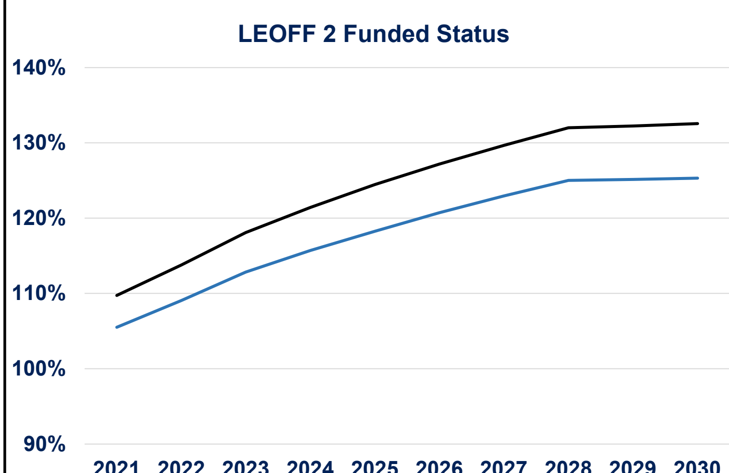
9

9

Draft Bill:
Funded Status and Contribution Rates



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Biennium	Current Law	Draft Bill	
2023-25	8.53%	8.53%	
2025-27	8.32%	9.01%	
2027-29	8.36%	9.04%	
2029-31	8.40%	9.08%	

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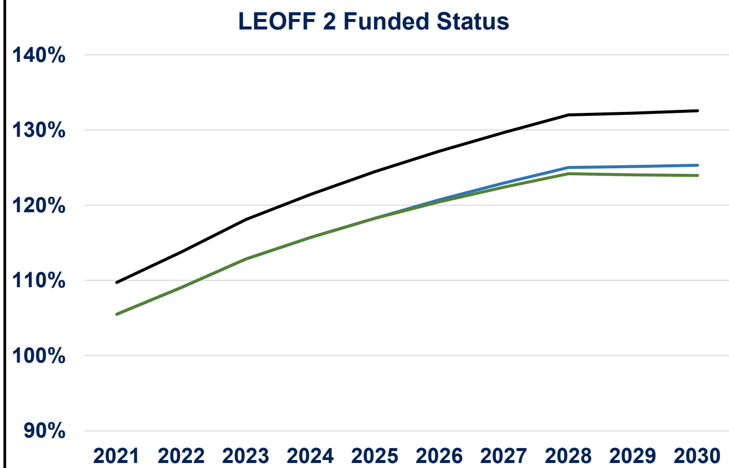
10

10

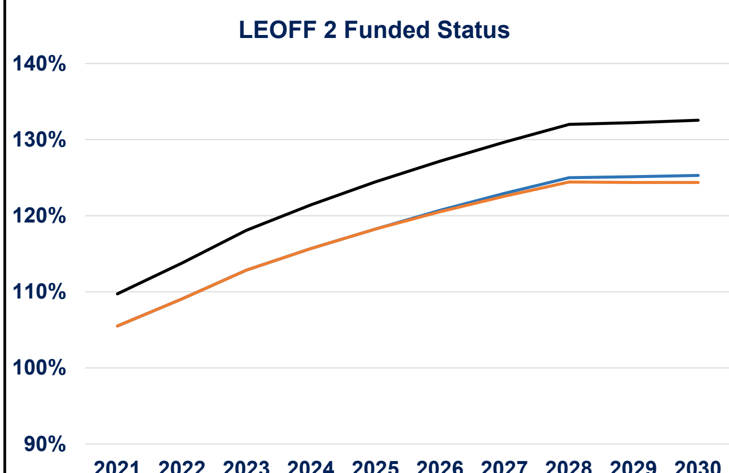
Draft Bill with 80% Minimum Rates: Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Lower Min
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.00%
2027-29	8.36%	9.04%	8.04%
2029-31	8.40%	9.08%	8.08%

Draft Bill with 0.70% Reduction to Rates: Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Offset
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.31%
2027-29	8.36%	9.04%	8.34%
2029-31	8.40%	9.08%	8.38%

**Selected flat 0.70% reduction to draft bill contribution rates for illustrative purposes only. Actual offset calculation may vary in magnitude, duration, and timing.*

Source Links – Hidden Slide

To add links:

1. Insert as **last slide** at the end of the PPT.
2. **Right click** on slide and select "**Hide Slide**."
3. In the text box, add the slide number as a bullet to indicate which slide the link belongs to.

   Example:
   - Slide 2: O:\Reports\RiskAssessmentStudy\Appendix Graphs and Tables.xlsx Tab A.1.19. Or table title.
   - Slide 5: O:\Reports\Valuations\2010\AVR\Val2010Report.xlsm Exh tab, tables 30, 31, 32. Or table title.
   - Add session year for fiscal notes info, link to FN Word doc on O: drive, add page number.
   - Staging folder info/documents need to have final documentation/home on permanent O drive.
4. Click on the "**Insert**" menu tab.
5. Select "**Hyperlink**" and browse to the desired document.
6. Repeat as needed.

When printing, ensure that the "Print hidden slides" option is **deselected**.

1. Go to the Print menu.
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3. Unclick the checkbox for "Print hidden slides."
4. The linked slides will not appear in the printed handouts or PDF.
5. These steps must be performed before printing, each time the PPT is opened unless the default action is set in the Options menu.

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13

13

DRS Fiscal Note – 2022 Legislative Session

Bill Number:	Title:	Agency:
TBA	L2 Benefit Improvement	124-Dept of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2022	FY 2023	2021-23	2023-25	2025-27
			0		
			0		
			0		
			0		
			0		
Total $	0	0	0	0	0

Estimated Expenditures from: *(7/1/21-6/30/22)* *(7/1/22-6/30/23)* *(7/1/23-6/30/25)* *(7/1/25-6/30/27)*

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.4	0.9	0.6		
Account					
DRS Admin Account (600-1)		252,000	252,000		
			0		
			0		
			0		
Total $	0	252,000	252,000	0	0

Check applicable boxes and follow corresponding instructions:

☑ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date:
Agency Preparation: Amy McMahan	Phone: 360-664-7307	Date:
Agency Approval:	Phone: 360-664-	Date:
OFM Review:	Phone:	Date:

Part II: Narrative Explanation

II. A - Brief Description of What the Measure Does That Has Fiscal Impact

This bill provides additional pension benefits in Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System.

Sec. 1(2), beginning January 2, 2023, adds a new formula for the calculation of a member's benefit for any members who are new to LEOFF 2 after February 1, 2021 and earn more than 15 years of service credit. Instead of the historical two (2) percent "multiplier" for all years of service, the retirement allowance will be calculated using 2.5 percent for years of service 16 through 25 but will continue to use 2 percent for years of service before 16 and after 25.

Sec. 1(3) and Sec. 2(1)(b) identify that members who are active in LEOFF 2 as of February 1, 2021 have an irrevocable choice between the new multiplier and a lump sum benefit improvement.

Sec. 1(4) and Sec. 2(4) identify that once members receive a benefit calculated using the new (higher) multiplier <u>or</u> the lump sum benefit improvement, they are not eligible for the other benefit.

Sec. 2(1) provides for a lump sum benefit of $100 per service credit month for members or their beneficiaries. Members who retire(d) as of February 1, 2021 for an in-line of duty disability shall receive the greater of this lump sum or $20,000. Additionally, the designated survivors of members who are deceased as of February 1, 2021 that are currently receiving a lifetime benefit are eligible for the lump sum benefit.

Sec. 2(1)(c) and Sec. 2(1)(d) identify that members who are inactive and vested as of February 1, 2021, as well as members who are inactive and not vested as of February 1, 2021 but later become vested, shall have an irrevocable choice between the new multiplier and a lump sum benefit improvement payable at the time of retirement.

Sec. 2(2) identifies that a member who has withdrawn from the plan is not eligible for the lump sum benefit.

Sec. 3(2) provides that the lump sum benefit from Sec. 2(1) may be used to purchase an annuity, with a required minimum payment of $20,000.

The remaining sections of the bill do not have a direct cost impact on DRS as they primarily impact contribution rate setting.

Viewing the sections above in the context of a recent member count identifies potential volumes for different transactions.

LEOFF 2 Members (6/30/2021 Summary)			
Actives	Annuitants	Inactives	Total
18,545	8,038	4,168	30,751

- Over 18,000 active members would have a choice on retirement (once they vest and have over 15 years of service) between the higher multiplier in Sec. 1(2) and the lump sum in Sec. 2(1).
- Over 8,000 annuitants will receive the lump sum in Sec. 2(1) and have the option to use it to purchase an annuity in Sec. 3(2).

- A portion of the annuitants with specific duty disability benefits would get a lump sum in Sec. 2(1) that's at least $20,000.
- Transactions for the 4,000 inactive members will depend on whether or not they are vested and the number of years of service they earn.
    - Inactive/vested members (with over 15 years of service) would eventually have a choice between the higher multiplier or the lump sum.
    - Inactive/non-vested members would have that same choice <u>if</u> they return to service and vest but if they don't vest, they can still request a refund of their member contributions.

II. B - Cash Receipts Impact

No impact.

II. C - Expenditures

<u>ADMINISTRATIVE ASSUMPTIONS</u>

- Related to Sections 7(3) and 7(4), DRS assumes that the Washington State Investment Board and the LEOFF 2 Board will identify an alternate timeline for fund transfer that allows for monthly pricing.
- Return to Membership re-retirements will use the multiplier rules in place at the time of the original retirement since these members were not active at the time the provisions of this bill would have been enacted.
- The LEOFF 2 service credit year requirement for the lump sum benefit includes any current LEOFF 2 service credit transferred from any previous system transfer windows, such as the EMT transfer window.
- The Purchase Service Credit (PSC) annuity will still utilize the 2% formula, even if a LEOFF 2 retiree elected for the tiered multiplier benefit at the time of retirement.
- Normal Duty Disabled LEOFF Catastrophic (DDLC) retirement offset provisions apply even if the tiered multiplier is applied to the retirement benefit. If the lump sum option is selected, no offset provisions would be applied to the lump sum.
- LEOFF 2 retirees who returned to membership and were active members on February 1, 2021 will have the choice between the new multiplier and lump sum benefit when they re-retire.
- LEOFF 2 retirees who return to active membership after February 1, 2021 were considered retired on February 1, 2021, and therefore are only eligible for the lump sum benefit. Upon re-retirement, the calculation multiplier at the time of their original retirement will be used.
- The withholding of the lump sum benefit will be treated as part of a pension payment, and will not be subject to the standard 20% withholding for lump sum payments.
- Legal Order Payees or Legal Order Split recipients are not eligible for the provisions of this bill.
- All LEOFF 2 service credit established through optional bills are counted towards the tiered multiplier benefit.
- Should a LEOFF 2 retiree who receives the lump sum benefit elect to annuitize the lump sum via the Purchase an Annuity (PAA) option and then return to LEOFF membership, DRS will continue to pay the PAA through their membership.
- DRS would begin implementation as soon as the bill is signed which is estimated to be April 2022.

To implement this legislation DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct legal analysis, business analysis and business process design,
- Complete systems changes-which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes
- Identify impacted members,

- Update agency WACs,
- Update member handbooks and communicate to members by mail, and
- Update the DRS administrative manual and train team members.

To support this implementation, DRS will form a project team that will include a project manager, business analyst, web programmer, communication consultant, fiscal analyst, management analyst, rules coordinator, legal and compliance manager, and retirement specialist.

DRS will also hire a contractor to implement changes to Linux applications and seek legal advice from outside legal counsel to ensure IRS compliance.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	2021-23 Biennium		2023-25 Biennium		2025-27 Biennium	
	FY 2022	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
FTE Staff Years						
A-Salaries and Wages	$36,000	$85,000	$0	$0	$0	$0
B-Employee Benefits	$11,000	$27,000	$0	$0	$0	$0
C-Personal Service Contracts	$26,000	$61,000	$0	$0	$0	$0
E-Goods and Services	$2,000	$4,000	$0	$0	$0	$0
G-Travel	$0	$0	$0	$0	$0	$0
J-Capital Outlays				$0	$0	$0
N-Grants, Benefits and Cl Svcs				$0	$0	$0
P-Debt Service				$0	$0	$0
S-Interagency Reimbursement				$0	$0	$0
Total:	$75,000	$177,000	$0	$0	$0	$0
	$252,000		**$0**		**$0**	

III. B - FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA.*

Job Classification	Annual Salary	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Retirement Spec 3	61,224.00	0.06	0.13	-	-	-	-
Mgmt Analyst 5	88,644.00	0.01	0.03	-	-	-	-
IT Bus Analyst-Journey	96,888.00	0.12	0.29	-	-	-	-
Applic Dev-Snr/Spc	112,176.00	0.04	0.11	-	-	-	-
IT Proj Mgr - Mgr	123,636.00	0.09	0.21	-	-	-	-
Contracts/Rules	86,940.00	0.00	0.01	-	-	-	-
Comm Consult 5	84,396.00	0.01	0.03	-	-	-	-
Fiscal Analyst 5	78,408.00	0.02	0.04	-	-	-	-
Legal Services Program Mgr	102,468.00	0.01	0.02	-	-	-	-
Total		**0.37**	**0.86**	**-**	**-**	**-**	**-**

III. C - Expenditures By Program (optional)

N/A.

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Relevant WACs must be revised as a result of this legislation.

Tiered Multiplier Benefit Improvement

Final Report
December 15, 2021

Issue

- A benefit improvement purchased using the Benefit Improvement Account should meet the policy goals of LEOFF Plan 2 Board while also adhering to the legislative intent of the Benefit Improvement Account

Benefit Improvement

- At the November meeting the Board voted to receive further analysis of the following benefit improvement:
  - $100 per month of service for retirees and a minimum of $20,000 for catastrophic and duty disability retirees, and duty death beneficiaries
  - A tiered multiplier benefit that would increase the plan benefit multiplier from 2% to 2.5% for the years of service for active and new members from 15 through 25
  - Develop a policy in consult with OSA that allows the assets in the BIA to offset the increase in liabilities from the benefit improvement so that there is no increase in required contributions

Who gets which benefit?

Retired as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Retired as of 2/1/21	Lump sum
Duty or catastrophic disability retired as of 2/1/21	Lump sum (minimum of $20k)
Beneficiary of line-of-duty death who died prior to 2/1/21	Lump sum (minimum of $20k)
Survivor beneficiary, member deceased as of 2/1/21	Lump sum
Member deceased as of 2/1/21 with no survivor beneficiary	No benefit
Withdrawn	No benefit

LEOFF 2 Member Active as of 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
Still active	Choice of lump sum or tiered multiplier
Now retired	Choice of lump sum or tiered multiplier
Duty or catastrophic disability retirement	Choice of lump sum (minimum of $20k) or tiered multiplier
Beneficiary of line-of-duty death who was active as of 2/1/21	Choice of lump sum (minimum of $20k) or tiered multiplier
Survivor beneficiary, member deceased after 2/1/21	Choice between a lump sum or tiered multiplier benefit at retirement
Survivor beneficiary in service death not line-of-duty	Choice of lump sum or tiered multiplier
No survivor beneficiary, member deceased after 2/1/21 before effective date of the bill	Lump sum to beneficiary or estate
No survivor beneficiary in service death not line of duty	Lump sum to beneficiary or estate
Withdrawn	No benefit
Inactive as of 2/1/21 and vested	Choice of lump sum or tiered multiplier
Inactive and not vested	No benefit
Inactive and not vested as of 2/1/21, returns to LEOFF employment after 2/1/21 and becomes vested	Choice of lump sum or tiered multiplier

New Member after 2/1/21	
LEOFF 2 Member Group	**Benefit Improvement**
New members after 2/1/21	Tiered multiplier
Withdrawn	No benefit

Bill Draft

- Section 1 – Tiered Multiplier Benefit Improvement
- Section 2 – Lump Sum Benefit Improvement
- Section 3 – Annuity Option
- Section 4/5 – Minimum Contribution Rates
- Section 6 – Freeze LEOFF 2 Contribution Rate
- Section 7 – Transfer of Funds

Important Dates in the Bill

- February 1, 2021 – Date to determine whether a member is considered retired, active, or new
- By June 30, 2022 – Transfer of funds from the LEOFF 2 Trust fund to the BIA
- By July 31, 2022 – Transfer of funds from BIA to the LEOFF 2 Trust Fund
- January 16, 2023 – Effective Date of tiered multiplier and lump sum benefits

DRS Draft Fiscal Note

- $252,000 to implement the bill over the 2021-23 biennium
  - Conduct legal analysis, business analysis and business process design
  - Complete systems changes-which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes
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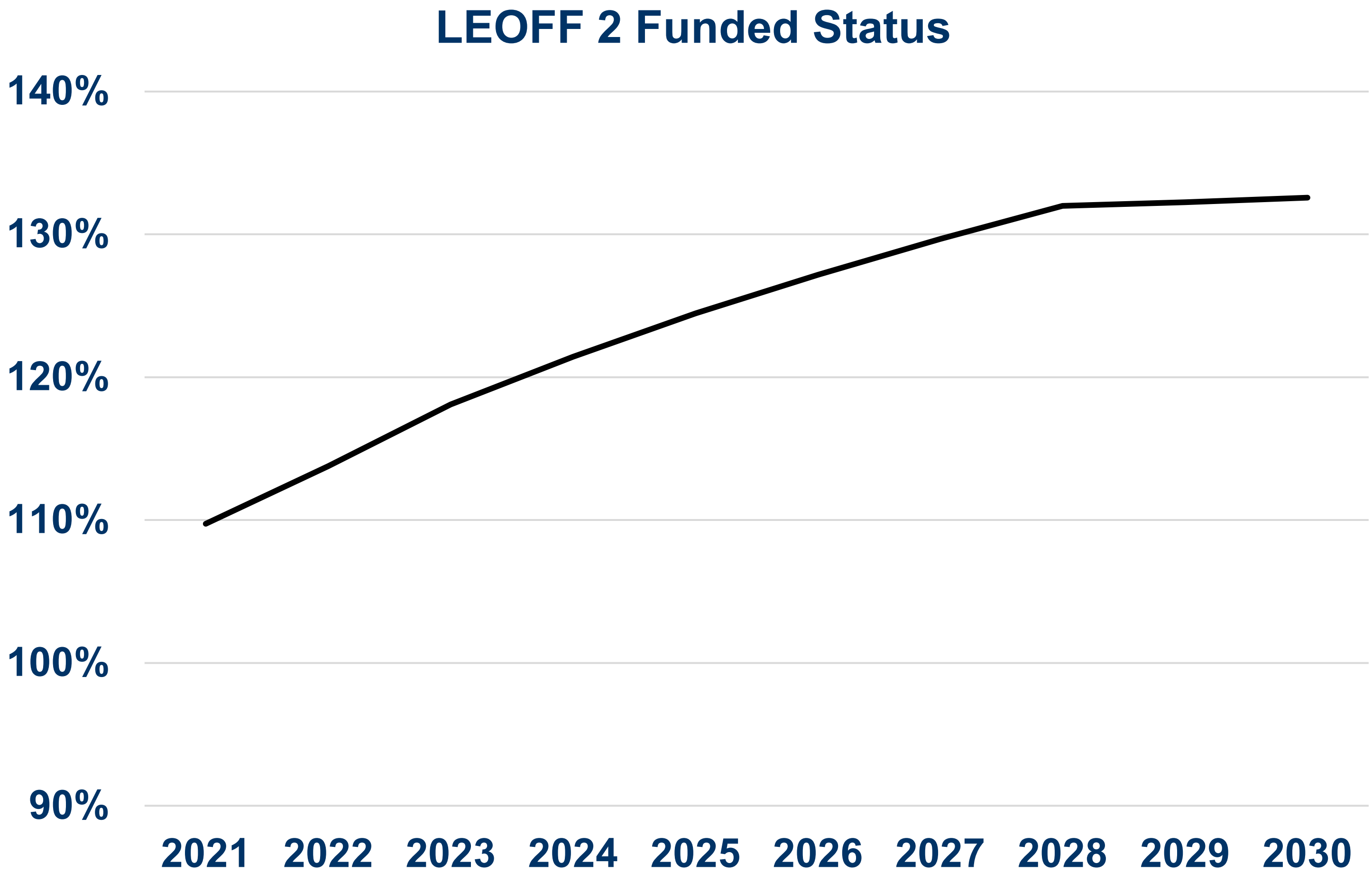

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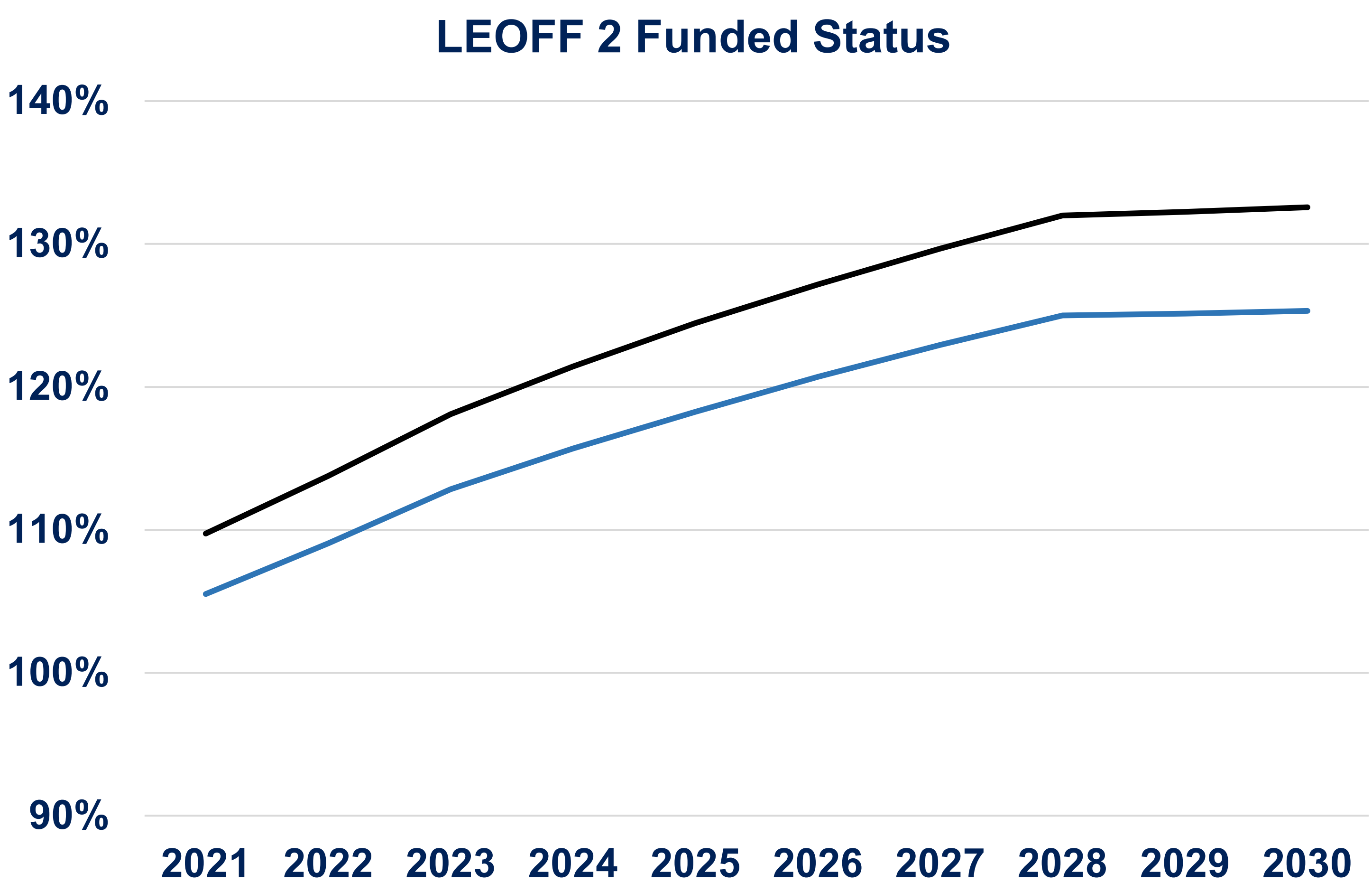
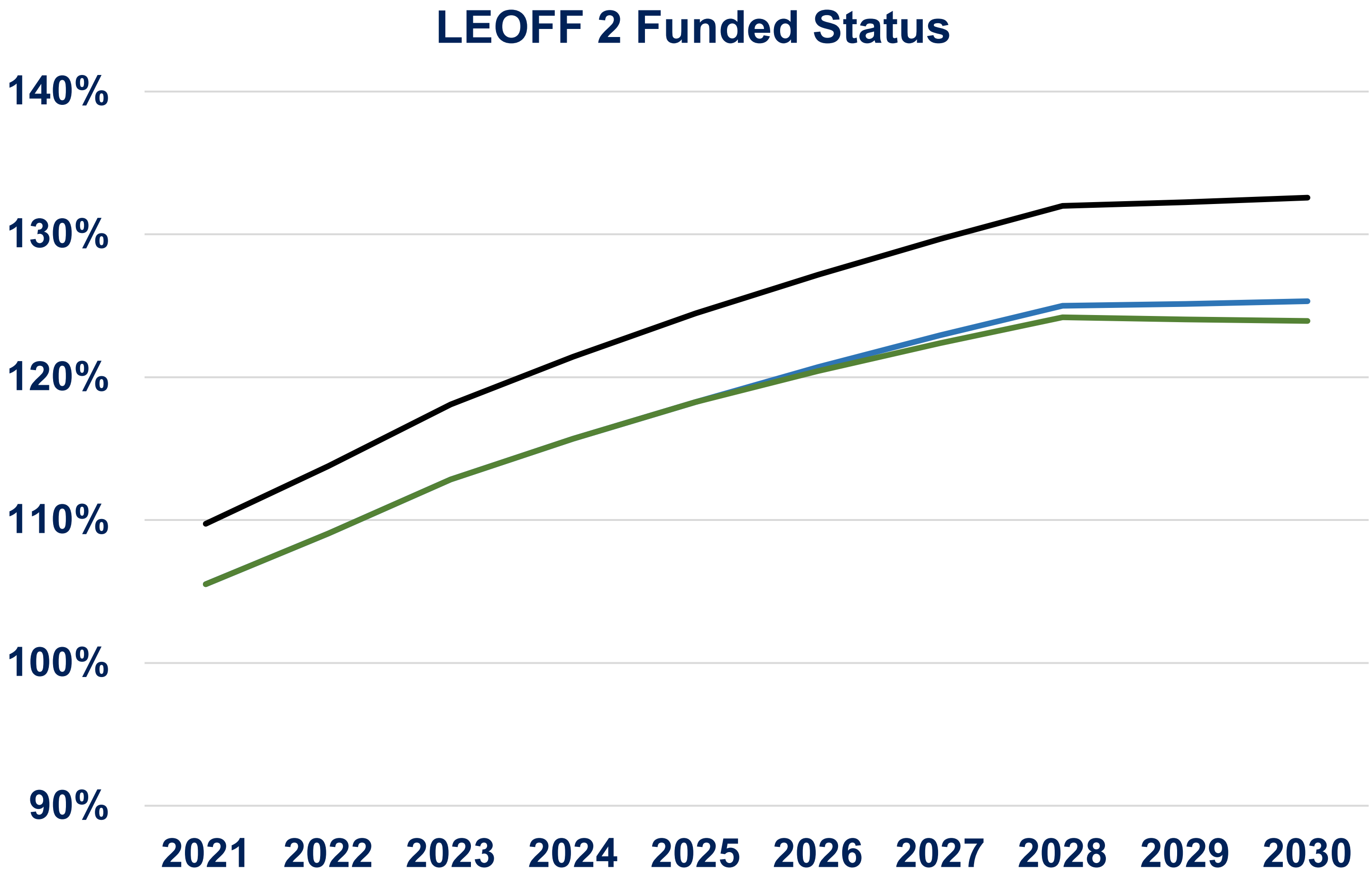


Total Employer Contribution Rates

Biennium	Current Law	Draft Bill
2023-25	8.53%	8.53%
2025-27	8.32%	9.01%
2027-29	8.36%	9.04%
2029-31	8.40%	9.08%

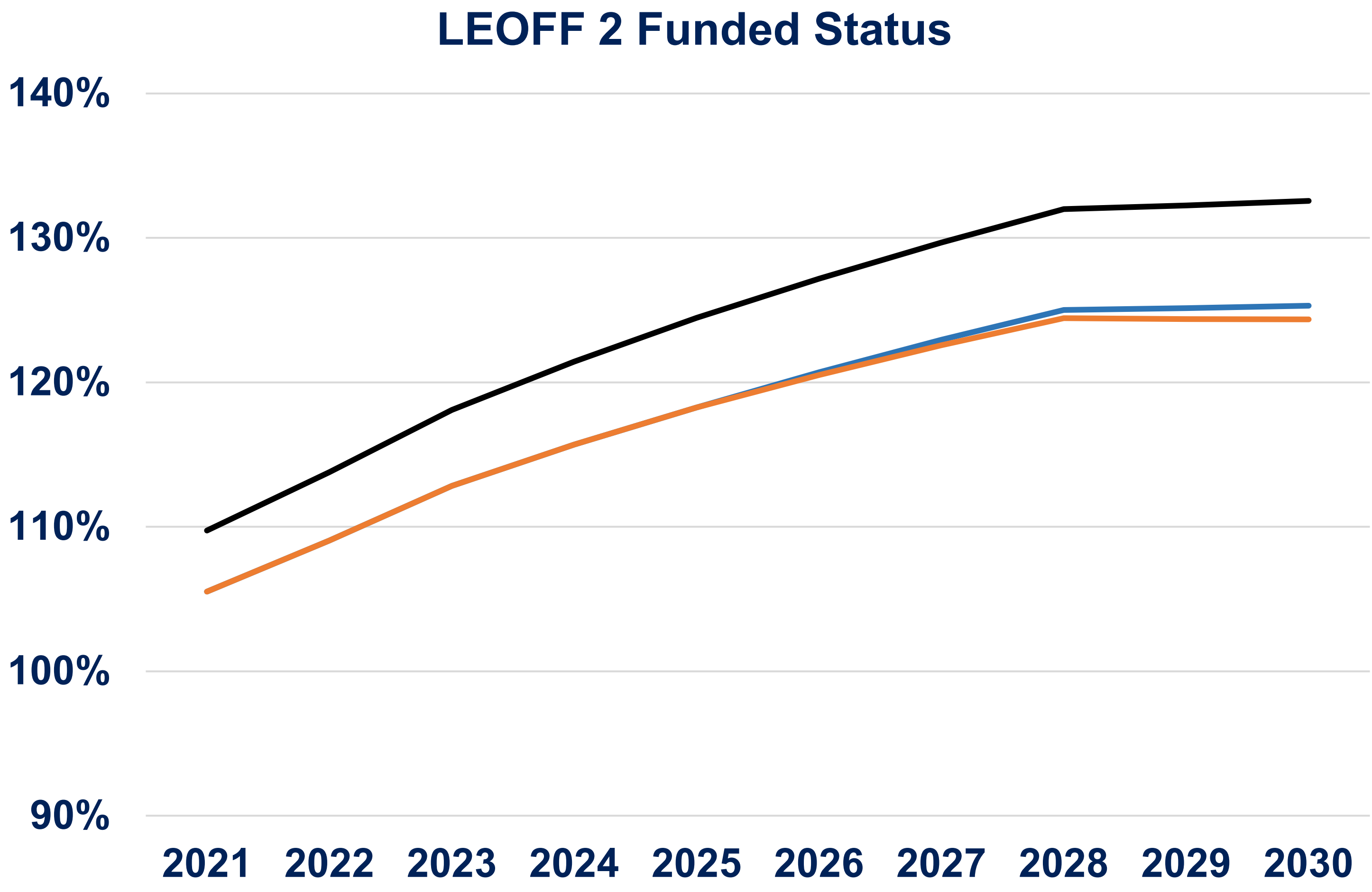
Draft Bill with 80% Minimum Rates: Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Lower Min
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.00%
2027-29	8.36%	9.04%	8.04%
2029-31	8.40%	9.08%	8.08%

Draft Bill with 0.70% Reduction to Rates: Funded Status and Contribution Rates



Total Employer Contribution Rates

Biennium	Current Law	Draft Bill	Offset
2023-25	8.53%	8.53%	8.53%
2025-27	8.32%	9.01%	8.31%
2027-29	8.36%	9.04%	8.34%
2029-31	8.40%	9.08%	8.38%

**Selected flat 0.70% reduction to draft bill contribution rates for illustrative purposes only. Actual offset calculation may vary in magnitude, duration, and timing.*

Board Action - Actuarial Options

1. Modify minimum contribution rate policy to 80% rate floor
2. Offset to future contribution rates that recognizes BIA transfer

Board Action

1. Endorse draft bill language
2. No action

Thank You

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