



Adoption of Administrative Factors

March 23, 2022

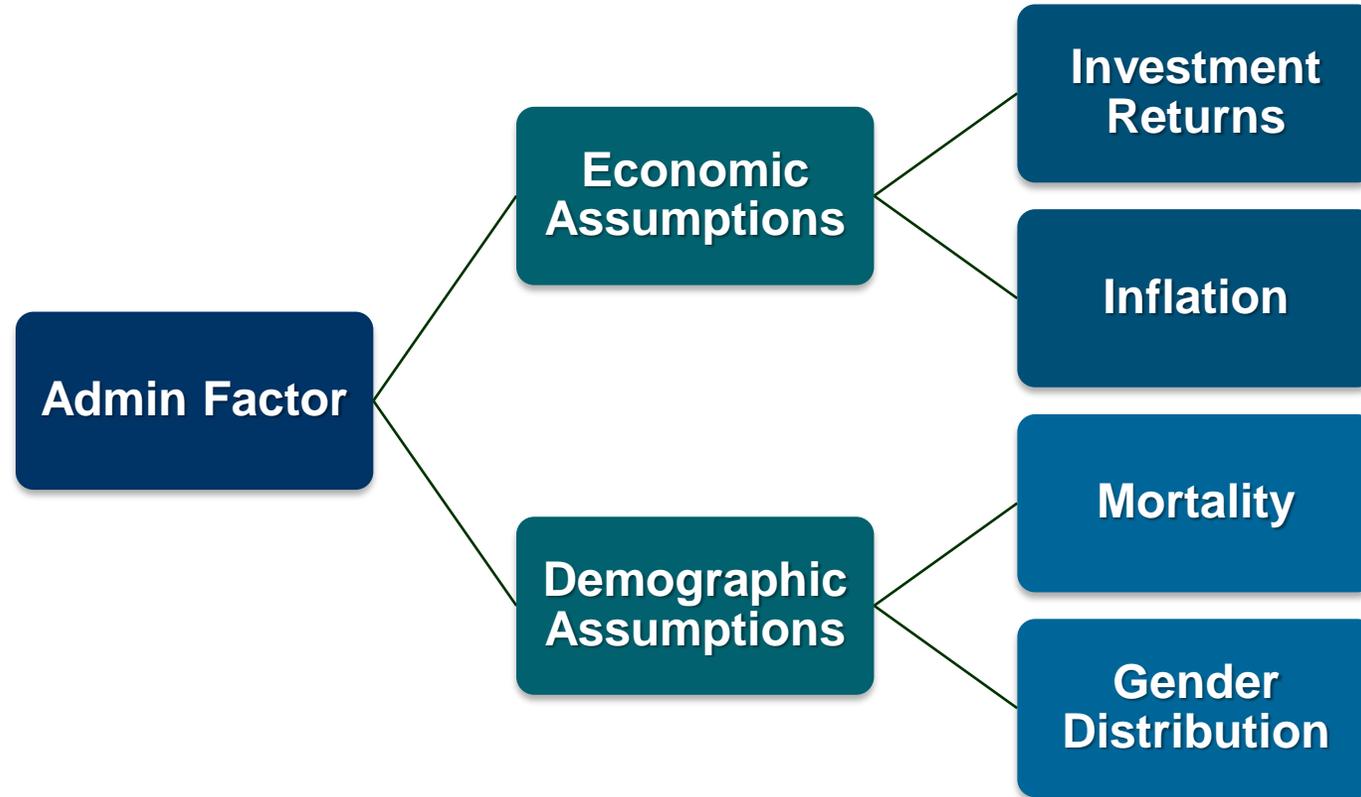
Issue

- **The Board has authority to adopt administrative factors**
 - **DRS adopts administrative factors for all other plans**
- **The Board will vote on the adoption of new factors next month**

What are administrative factors?

- **Administrative factors convert benefits to varying forms**
- **Applied to optional benefit calculations and purchases**
 - Provides more ways to provide the same amount of money
 - Give members flexibility without increasing plan costs

How are administrative factors developed?



Two Types

- **Reduction Factors**
 - Reduce monthly pensions to pay for optional benefits
 - Early Retirement
 - Joint and Survivor Benefits
- **Annuity Factors**
 - Convert between one-time and lifetime payments
 - Service Credit Restoration
 - Annuity Factors

Joint And Survivor Option Factors

- J&S factors reduce a member's benefit to provide an ongoing benefit for their survivor
- Three types of survivor benefits available under the plan
 - J&S 100%
 - J&S 66 2/3%
 - J&S 50%

Comparison of J&S Factors

Comparison of J&S Factors* Beneficiary Three Years Younger than Member			
	Current	Updated	Percent Change
J&S 50%	0.925	0.914	(1.19%)
J&S 67%	0.902	0.889	(1.44%)
J&S 100%	0.861	0.842	(2.21%)

**Maximum change of (5.05%) occurs for member 40 years older than beneficiary.*

J&S Benefit Examples

J&S 100% Benefit Comparison			
Beneficiary Three Years Younger than Member			
	Current	Updated	Change
J&S Factor	0.861	0.842	(2.21%)
Monthly Benefit*	\$4,305	\$4,210	(\$95)
<i>*Example member retiring with a \$5,000 single life monthly benefit who chooses a J&S 100% option with a beneficiary 3 years younger.</i>			
J&S 100% Benefit Comparison			
Beneficiary 20 Years Younger than Member			
	Current	Updated	Change
J&S Factor	0.783	0.755	(3.58%)
Monthly Benefit*	\$3,915	\$3,775	(\$140)
<i>*Example member retiring with a \$5,000 single life monthly benefit who chooses a J&S 100% option with a beneficiary 20 years younger.</i>			

Service Credit Restoration Factors

- Factors used to calculate the cost of the increase in a member's benefit if they restore prior service credit
- Dependent upon additional assumptions, because purchase is made before the member is at retirement
 - When will the member retire?
 - How much will their salary increase?

Annuity Factors

- **Annuity factors convert a lifetime monthly benefit to a lump sum**
- **Unlike Service Credit Restoration Factors, the purchase and calculation is made at retirement**

Comparison of Annuity Purchase Factors

Comparison of Annuity Purchase Factors Impact at Various Retirement Ages			
	Current	Updated	Percent Change
Age 50	0.0047458	0.0045108	(4.95%)
Age 53	0.0049118	0.0046799	(4.72%)
Age 57	0.0051942	0.0049650	(4.41%)
Age 60	0.0054417	0.0052342	(3.81%)

Annuity Purchase Examples

Comparison of Age 57 Annuity Purchases			
	Current	Updated	Change
Purchase Factors	0.0051942	0.0049650	(4.41%)
Monthly Benefit*	\$519	\$497	(\$23)
<i>*Example member retiring at age 57 making a \$100,000 annuity purchase. Change does not agree due to rounding.</i>			
Comparison of Age 53 Annuity Purchases			
	Current	Updated	Change
Purchase Factors	0.0049118	0.0046799	(4.72%)
Monthly Benefit*	\$491	\$468	(\$23)
<i>*Example member retiring at age 53 making a \$100,000 annuity purchase.</i>			

Actuarial Equivalence Depends On Assumptions

- Admin factors are intended to be actuarially equivalent
- However, experience can be different
- What happens if the factors aren't actuarially equivalent?

Anti-Selection May Lead To System Risk

- Admin factors are designed so that positive and negative experience will offset in the long run
- Anti-selection occurs when a higher-cost group makes more purchases than a lower-cost group but at the price for the average member

Next Steps

- **April 2022: The Board will vote on the adoption of new factors**



Thank You

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