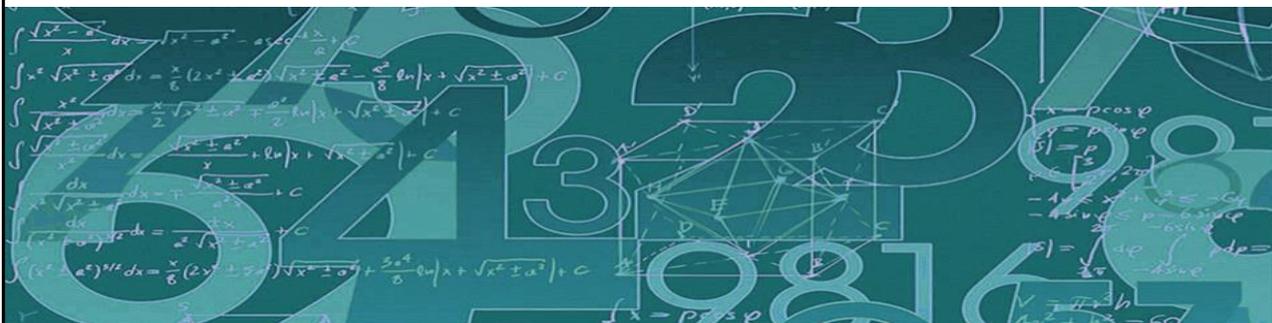


2021 LEOFF 2 Preliminary Actuarial Valuation Contribution Rates and Funding Policy

Presentation to:

LEOFF Plan 2 Retirement Board
Mitch DeCamp, Senior Actuarial Analyst
Michael T. Harbour, ASA, MAAA, Actuary



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Today's Presentation

- Rate-setting process review
- Funding policy review
- Preliminary calculated contribution rates
- Informational—No Board action required today



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Rate-Setting Process Review

Contribution Rate Collection Period		
	2021-23 Biennium	2023-25 Biennium
Actuarial Valuation Date	June 30, 2019	June 30, 2021
Asset Returns Included	Returns through June 30, 2019	Returns through June 30, 2021
Rates Adopted During	Summer of 2020	Summer of 2022

- OSA performs actuarial valuations based on measurement in odd-numbered years for rate-setting purposes (e.g., June 30, 2021)
 - Results inform contribution rates for upcoming biennia (e.g., 7/1/23 - 6/30/25)
 - See the [May 2022 presentation](#) by OSA for background on data, assets, and obligations used to develop preliminary contribution rates

Review of Key Board Funding Policies

- The Board sets policies to assist meeting funding goal of stable contribution rates
- **4-year Rate Adoption**—Adopt contribution rates for two biennia
 - Adopted rates may still be updated with each new rate-setting valuation
- **Minimum Contribution Rates**—Calculated from Normal Cost of Entry Age Normal cost method
 - Relatively stable rate that doesn't fluctuate with changes in asset returns
 - Original minimum rate policy (selected by the Board) is either 90% or 100% of Normal Cost, based on plan funded status
 - Policy was modified and set in statute under [SHB 1701](#)

Minimum Rate Policy Changed under SHB 1701

Minimum Rate Funding Policy	
Funded Ratio (FR)	Minimum Rate Percent*
1. FR less than 105%	100%
2. FR at least 105% but less than 110%	90%
3. FR at least 110%	80%

*Percent of Normal Cost under Entry Age Normal cost method.

- New minimum contribution structure adds 80% rate tier
- Additional reduction applies to (1) and (2) starting in the 2025-27 Biennium for the next 15 years
 - Intended to insulate current members from increased contribution requirements as a result of benefit improvement
 - Offset (or, negative) rate will be calculated by OSA

Minimum Rate Policy Illustration



Impact of SHB 1701 on 2023-25 Contribution Rates

- SHB 1701 capped contribution rates for the next biennium at the levels currently being collected in 2021-23
 - Member = 8.53%
 - Employer = 5.12%
 - State = 3.41%
- These rates were adopted by the Board based on the 2019 actuarial valuation for the 2021-23 and 2023-25 Biennia

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Preliminary Calculated Contribution Rates

LEOFF 2 Member Rate			
	2019	2021	Difference
Aggregate Rate	5.81%	8.65%	2.84%
Minimum Rate*	7.68%	9.94%	2.26%
Current Adopted 2023-25 Rate**	8.53%		

*2019 minimum rate equals 90% of EANC based on funded ratio of 111%.
 2021 minimum rate equals 100% of EANC based on funded ratio of 104%.
 **Contribution rates for the 2023-25 Biennium capped at the current adopted rates under SHB 1701.

- OSA calculates two sets of contribution rates consistent with current law funding policies
 - Aggregate Rates—Full actuarial cost method
 - Minimum Rates—Normal Cost of Entry Age Normal cost method (EANC)
- Both the 2021 rates exceed the contribution rate cap for the 2023-25 Biennium

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Where Are Contribution Rates Going?

- OSA's Projection model will be updated in Fall of 2022
 - Model provides estimates of future contribution rates and funded ratios
- Requires significant updates to incorporate recent changes
 - Update includes 2021 data update, benefit improvement, and 2022 investment earnings
- Planning a presentation to share new results in October or November

Next Steps

- Final and audited contribution rates available at July meeting
- The Board has the option to adopt contribution rates next month
 - Noting the requirements from SHB 1701 for the 2023-25 Biennium
- OSA available to provide additional analysis as needed



Questions? Please Contact: The Office of the State Actuary

leg.wa.gov/OSA; state.actuary@leg.wa.gov

360-786-6140, PO Box 40914, Olympia, WA 98504

Mitch DeCamp

Michael T. Harbour

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Thank You



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Disclosure

- This presentation is based on the [Preliminary 2021 Actuarial Valuation Report](#) currently under audit
 - Please see the preliminary posted sections for disclosure of assumptions, methods, and data used to produce the results contained in this presentation
- Michael T. Harbour, ASA, MAAA served as the reviewing and responsible actuary for this presentation

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Appendix – Preliminary Contribution Rates

2021 Valuation			
	Member	Employer	State
Aggregate Rates	8.65%	5.19%	3.46%
Minimum Rates	9.94%	5.96%	3.98%
Current Adopted Rates	8.53%	5.12%	3.41%