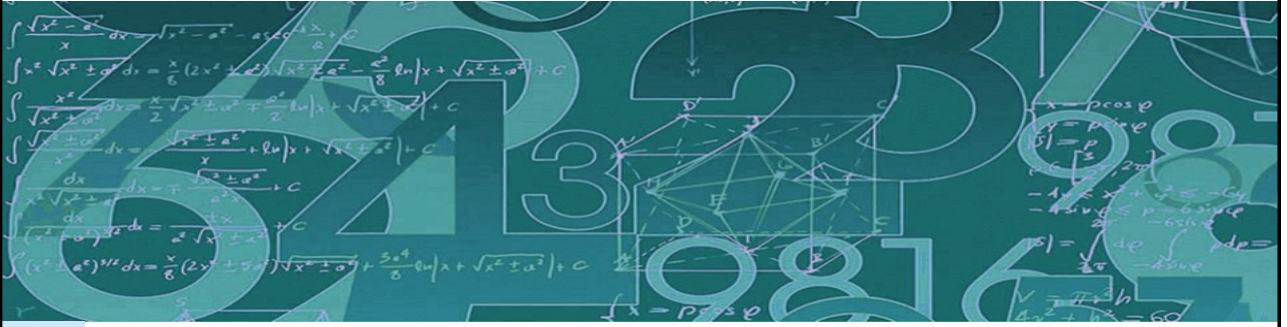


2023 Preliminary LEOFF 2 Actuarial Valuation Results

Presentation to: LEOFF Plan 2 Retirement Board

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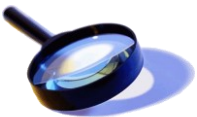
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Today's Presentation

- Background on the actuarial valuation cycle
- 2023 Preliminary Actuarial Valuation Report results
 - Data, Assets, Asset Smoothing, Funded Status, Contribution Rates
- Informational – No Board action needed today



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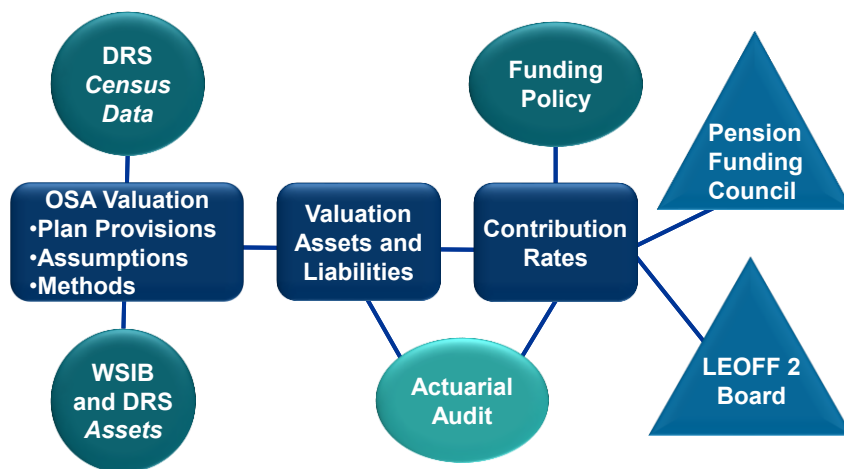
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Purpose of 2023 Valuation

- Estimate future benefits to be paid from the plan
- Calculate contribution rates that fund expected future benefits
 - Rate-setting valuation
- Check funding progress
- Certify the underlying data, assumptions, and methods are reasonable and conform with current actuarial standards of practice

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The Actuarial Valuation Process: How We Get from Participant Data to Contribution Rates



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Valuation Results – Changes in Assets

LEOFF 2	
<i>(Dollars in Millions)</i>	
2021 Market Value*	\$19,187
Contributions	415
Disbursements	(499)
Investment Earnings	37
Other Revenue	22
2022 Market Value*	\$19,162
Contributions	452
Disbursements	(818)
Investment Earnings	1,327
BIA Transfer	476
Other Revenue	18
2023 Market Value	\$20,617

*Market values do not include adjustments for the anticipated future transfer of the BIA.

■ Investment Returns

- FY 2022 investment return of 0.21%
- FY 2023 investment return of 6.90%
- Expected return was 7.00%

■ BIA Transfer was performed in two steps

- \$927 million transfer from L2 trust to BIA
- \$1.403 billion transfer from BIA to L2 trust

■ FY 2023 disbursements include roughly \$215 million for additional lump sum payments to retirees under SHB 1701

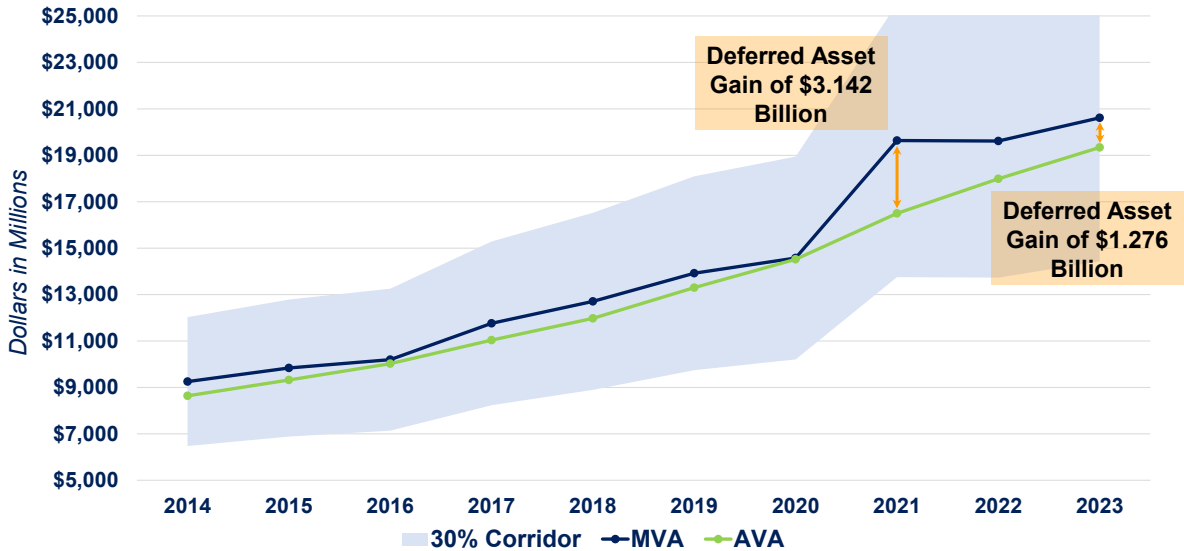
Calculating 2023 AVA

Calculation of Actuarial Value of Assets				
LEOFF 2				
<i>(Dollars in Millions)</i>				2023
Market Value of Assets (MVA)				\$20,617
Plan Year Ending	Return on Assets	Years Deferred	Years Remaining	Amount Deferred*
6/30/2023	6.90%	0	0	0
6/30/2022	0.21%	7	5	(927)
6/30/2021	31.65%	8	5	2,202
Total Deferral				1,276
Actuarial Value of Assets (AVA)**				\$19,342

Note: Totals may not agree due to rounding.

*Amount of asset gains and (losses) left to recognize, or apply, in future valuations. All asset gains/losses prior to 6/30/2021 have been fully recognized.
 **AVA can never be less than 70% (\$14,432) or greater than 130% (\$26,802) of the MVA.

Actuarial Value of Assets Less Volatile than Market Value



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Valuation Results – Participant Data

LEOFF 2			
	2021	2022	2023
Actives			
Headcount	18,683	18,625	19,311
Average Annual Salary	\$122,500	\$129,100	\$136,600
Average Age	42.3	41.7	41.1
Average Service	13.1	12.4	11.8
Annuitants			
Headcount	7,574	8,597	9,460
Average Annual Benefit	\$56,200	\$58,900	\$61,600
Actives to Annuitants	2.5	2.2	2.0

- Salary Increases were higher than expected in FY 2022 and 2023
 - Total average salary increased by approximately 6% annually
 - Members continuing active service experienced average salary increases of approximately 10% annually
- New retirements were higher than expected
 - The number of annuitants increased by 14% in FY 2022 and 10% in FY 2023

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OSA Methodology Change on Future COLAs

- LEOFF Plan 2 COLAs are based on inflation but capped at 3% with “banking” of any excess
- The currently adopted assumption for inflation is 2.75%
- To reflect large amounts of banking, we assume all annuitants, as of the June 30, 2023, measurement date, will receive 3% COLAs in the future
 - Future new annuitants are still expected to receive 2.75% COLAs given “banking” has not occurred

Recent Inflation Experience			
Calendar Year	Applicable CPI Change	COLA Received*	Approximate COLA Bank
2021	4.8%	3.0%	1.8%
2022	8.8%	3.0%	5.8%
2023	5.5%	3.0%	2.5%
Total			10.1%

*COLAs are applied July 1 and based on the prior calendar year CPI. For example, the CPI change in Calendar Year 2021 was used to inform COLAs applied on July 1, 2022.

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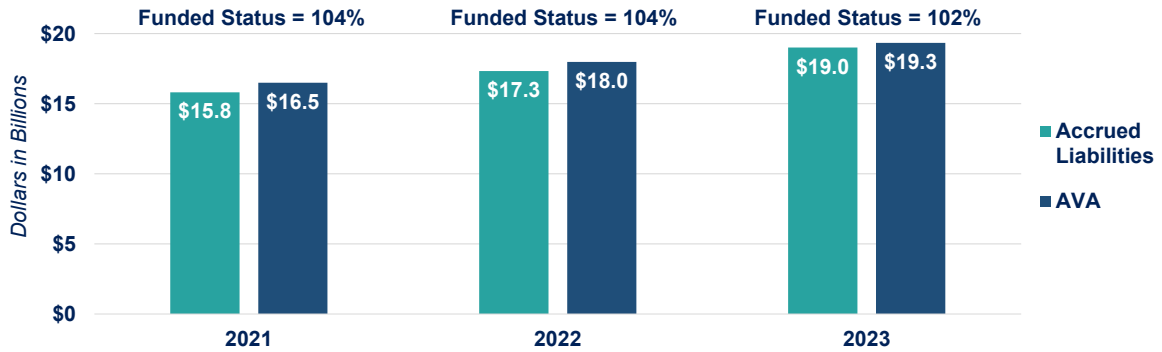
Valuation Results – Change in Liabilities

LEOFF 2			
(Dollars in Millions)	2021	2022	2023
Present Value of Future Benefits	\$21,075	\$23,018	\$25,412
Accrued Liability	\$15,819	\$17,336	\$19,011

- Present Value of Future Benefits
 - Today’s value of all future expected benefits for current members
- Accrued Liability
 - Today’s value of all future plan benefits that have been accrued or “earned” as of the valuation date by current plan members under the EAN cost method

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Funded Status Change from Last Rate-Setting Valuation



■ Funded Ratio = $\frac{\$ \text{ Actuarial Value of Assets}}{\$ \text{ Accrued Liabilities}}$

- If the funded ratio exceeds 100%, the plan has more than \$1 of assets for every \$1 of accrued benefits

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Gain/Loss Analysis – Funded Status

Changes to LEOFF 2 Funded Status	
Funded Status — 2021 Valuation	104.3%
Investment Returns/Recognizing Past Deferred Gains	↑ 2.4%
Plan Experience	↓ (2.9%)
Funded Status — 2022 Valuation	103.7%
Investment Returns/Recognizing Past Deferred Gains	↑ 2.5%
Plan Experience	↓ (3.0%)
COLA Banking Modeling Change	↓ (1.5%)
Funded Status — 2023 Valuation	101.7%

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Currently Adopted Contribution Rates

LEOFF 2 Contribution Rates	
	Adopted
Member	8.53%
Employer	5.12%
State	3.41%

- The Board adopted the current contribution rates for the 2023-25 and 2025-27 Biennia under the 4-Year Rate Adoption policy

- Rates match the contribution rate cap under SHB 1701

“Adopt the current contribution rate for the 2023-25 and 2025-27 biennia. Reassess the 2025-27 biennium contribution rates based on the 2023 Actuarial Valuation Report consistent with funding policy set in SHB 1701.” –July 2022 Rate Adoption Motion

- Possible contribution rate adoption part of the Board’s July meeting agenda

Two Sets of Contribution Rates

- Under plan funding policy, the final contribution rate is the greater of two sets of rates

Aggregate Rates

- Full actuarial cost method for the plan set in statute
- Fully funds plan obligations over working careers of current members
- Rate fluctuates with plan experience and changes in assets

Minimum Rates

- Calculated from Normal Cost of Entry Age Normal Cost Method (EANC)
- Different “tiers” of rates based on funded status
- Rates can experience sharp changes when moving between tiers
- New Offset Rate first applied in 2023 Valuation based on requirements of [SHB 1701](#) (2021 Legislative Session)

Gain/Loss Analysis – Aggregate Rates

Changes to LEOFF 2 Member Aggregate Rates	
2021 Valuation	8.65%
(A) 2022/2023 Investment Returns/Past Deferred Gains	↓ (1.59%)
(B) 2022/2023 Plan Experience	↑ 1.90%
(C) COLA Banking Modeling Change	↑ 0.43%
2023 Valuation	9.39%

Note: This table contains the member contribution rate only. Employers and the state contribute 60% and 40% of the member rate, respectively.

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Minimum Rate Funding Policy

Minimum Rate Tiers	
Funded Status (FS)	Minimum Rate*
1. FS less than 105%	100% EANC - 100% Offset Rate
2. FS at least 105% but less than 110%	90% EANC - 90% Offset Rate
3. FS at least 110%	80% EANC

*EANC is the Normal Cost under the Entry Age Normal cost method.

EANC

- Generally stable rate between valuations that doesn't change with level of plan assets

Offset Rate

- Intended to reduce Minimum Rates so costs do not increase for current members due to SHB 1701 under the minimum rate policy
- Applies for 15 years, which is the expected working lifetime of current members
- OSA calculated the rate as 0.75% reduction

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Minimum Rate Calculation

Member Minimum Rate		
	2021	2023
	Valuation	Valuation
Funded Status	104%	102%
(A) 100% EANC	9.94%	9.97%
(B) 100% Offset Rate*	N/A	0.75%
Minimum Rate (A) - (B)	9.94%	9.22%

Note: Calculation shown for member contribution rate only. Employers and the state contribute 60% and 40% of the member rate, respectively.

*Minimum Rate calculated for the 2021 valuation did not include the Offset Rate.

Final Rate Calculation

Member Contribution Rate		
	2021	2023
	Valuation	Valuation
(A) Aggregate Rate	8.65%	9.39%
(B) Minimum Rate	9.94%	9.22%
Calculated Rate [Larger of (A) or (B)]	9.94%	9.39%
(C) Rate for Recent Legislation	0.00%	0.04%
Final Rate [Calculated Rate + (C)]	9.94%	9.43%

Note: Calculation shown for member contribution rate only. Employers and the state contribute 60% and 40% of this rate, respectively.

*Minimum Rate calculated for the 2021 valuation did not include the Offset Rate.

- The final valuation rate is the larger of the Aggregate and Minimum Rate plus an additional rate for recent legislation not yet included in our valuation software

Final Contribution Rates

Contribution Rate Summary			
	Member	Employer	State
Current Adopted Rates*	8.53%	5.12%	3.41%
2023 Valuation			
Funded Status = 102%			
Contribution Rate = Aggregate	9.43%	5.66%	3.77%

*Currently adopted rates for the 2025-27 Biennium.

- Recap of primary elements impacting contribution rates
 - Higher than expected salary growth for active members ↑
 - Increase in expected COLAs for current annuitants from recent high inflation growing COLA “bank” ↑
 - Recognition of deferred investment performance that exceeded assumed return ↓

Summary

- The plan is considered healthy
 - Funded status decreased but still exceeds 100%
 - AVA is deferring over \$1.27 billion
 - Expect funded status improvement as deferred assets are recognized if assumptions are realized
- Contribution rates are expected to decrease over the next few biennia as funded status rises
- OSA is available to consult or answer questions on contribution rate adoption at the July meeting

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

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Sarah Baker

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Thank You



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June 17, 2024

Disclosure

- This presentation is based on the Preliminary 2023 AVR. Please see [our website](#) at the end of June for the preliminary report containing assumptions, methods, and data used to produce the results in this presentation.
- All results are preliminary and currently under audit.
- Kyle Stineman, ASA, MAAA served as the reviewing and certifying actuary for the 2023 valuation report and meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions provided.