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Law Enforcement Officers' and Firefighters' Plan 2

Comparisons to National Public Plans





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The LEOFF Plan 2 has been consistently one of the best funded public pension plans in the country. Click the teal arrow below to see how the LEOFF Plan 2's funded ratio (blue dot) has compared to the other plans in the Public Plans Database (gray dots).

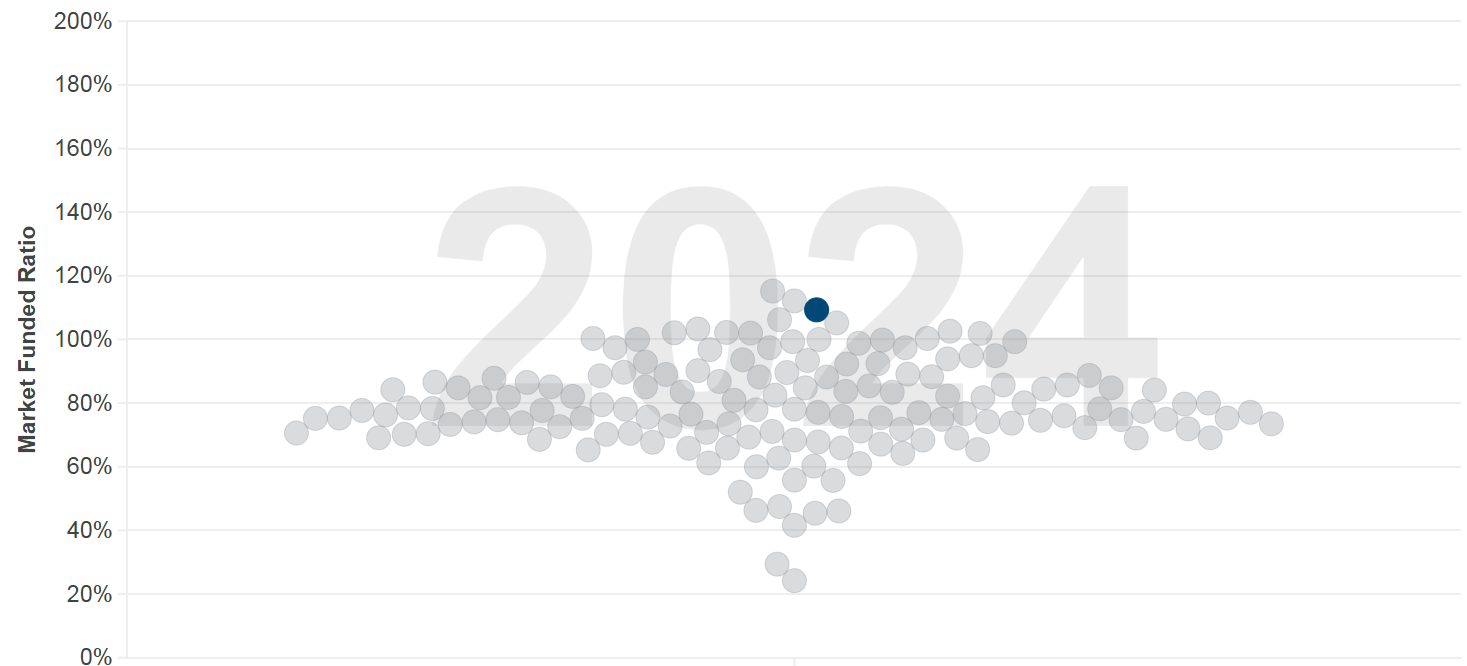
Q Search to highlight a plan

Public Plan Market Funded Ratios

Blue Dot = Washington LEOFF Plan 2

Market Funded Ratio = Market Value of Assets / Actuarial Liability

Click arrow or drag slider to scroll through years   2024



Hover over a dot to see that plan's data, and click to see the history. Close the tab in the browser to return to the menu.

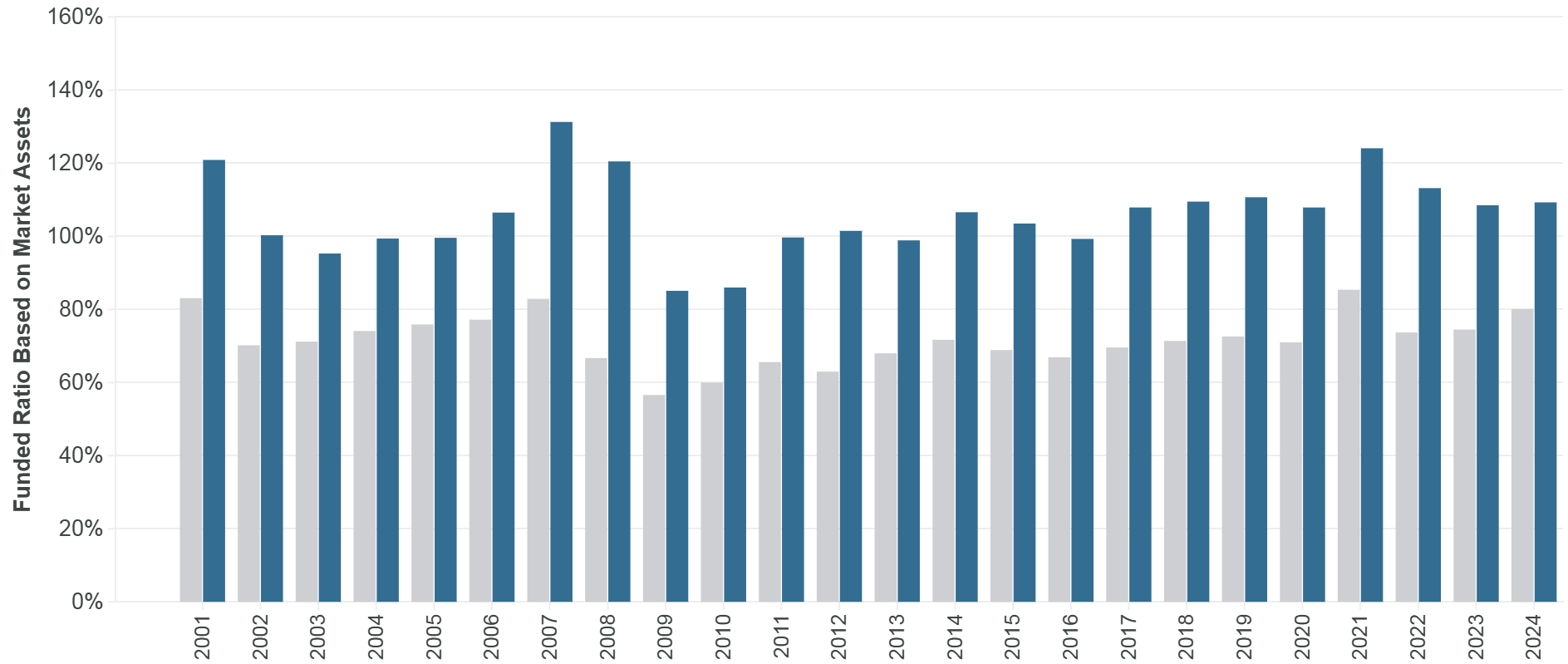


Plans have reported their funded ratios based on different discount rates, but even if we normalize the discount rates to 7.0% for all years, LEOFF Plan 2 remains significantly better funded than the median public pension plan. The question is why?

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Discount Rates and Funded Ratios

■ National Median Funded Ratio ■ LEOFF Plan 2 Funded Ratio





While investment returns for LEOFF Plan 2 have been very good compared to other plans, the difference does not, by itself, explain LEOFF Plan 2's better funded ratios.

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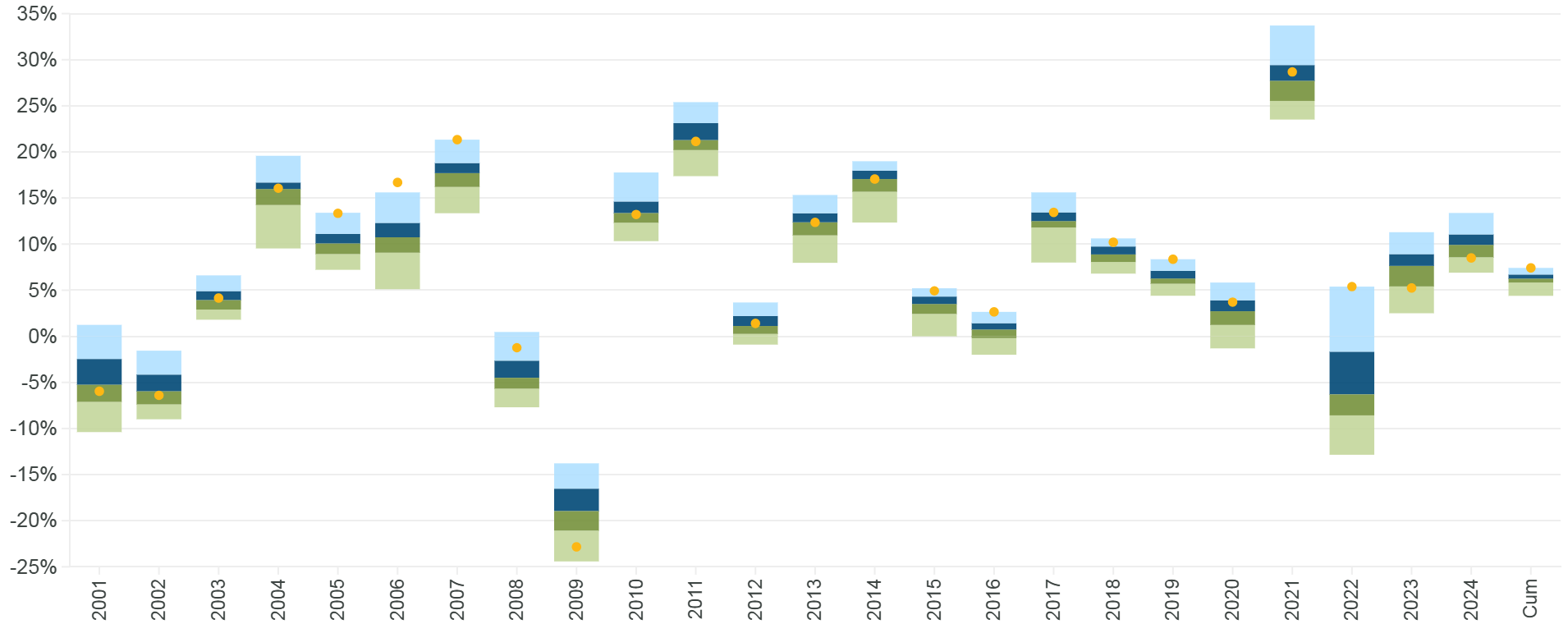
Distribution of 1-Year Investment Returns

Same Fiscal Year as Selected Plan

Gold Dot = Washington LEOFF Plan 2

Percentiles of Distribution

5th to 25th 25th to 50th 50th to 75th 75th to 95th





Plans with higher discount rates report higher funding ratios, but LEOFF Plan 2 has used a discount rate near the median of all public plans.

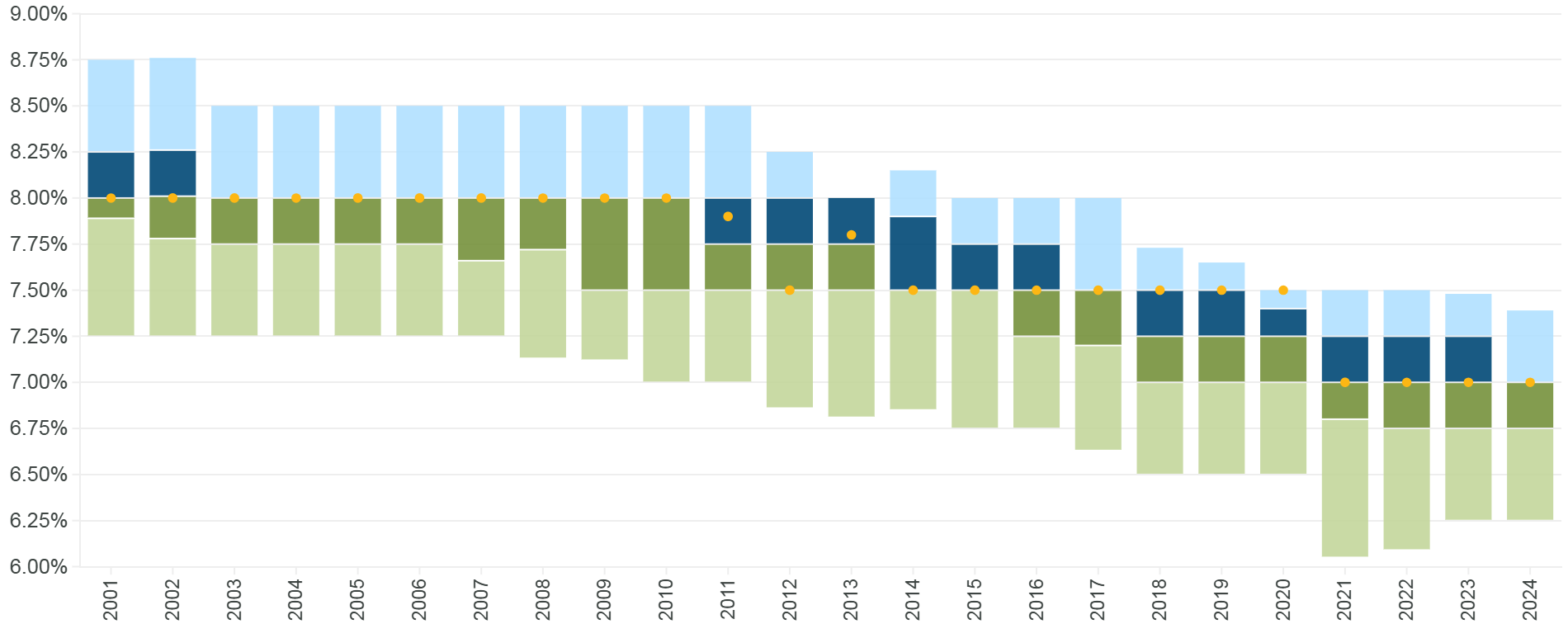
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Distribution of Discount Rates

Gold dot = **Washington LEOFF Plan 2**

Percentiles of Distribution

- 5th to 25th
- 25th to 50th
- 50th to 75th
- 75th to 95th





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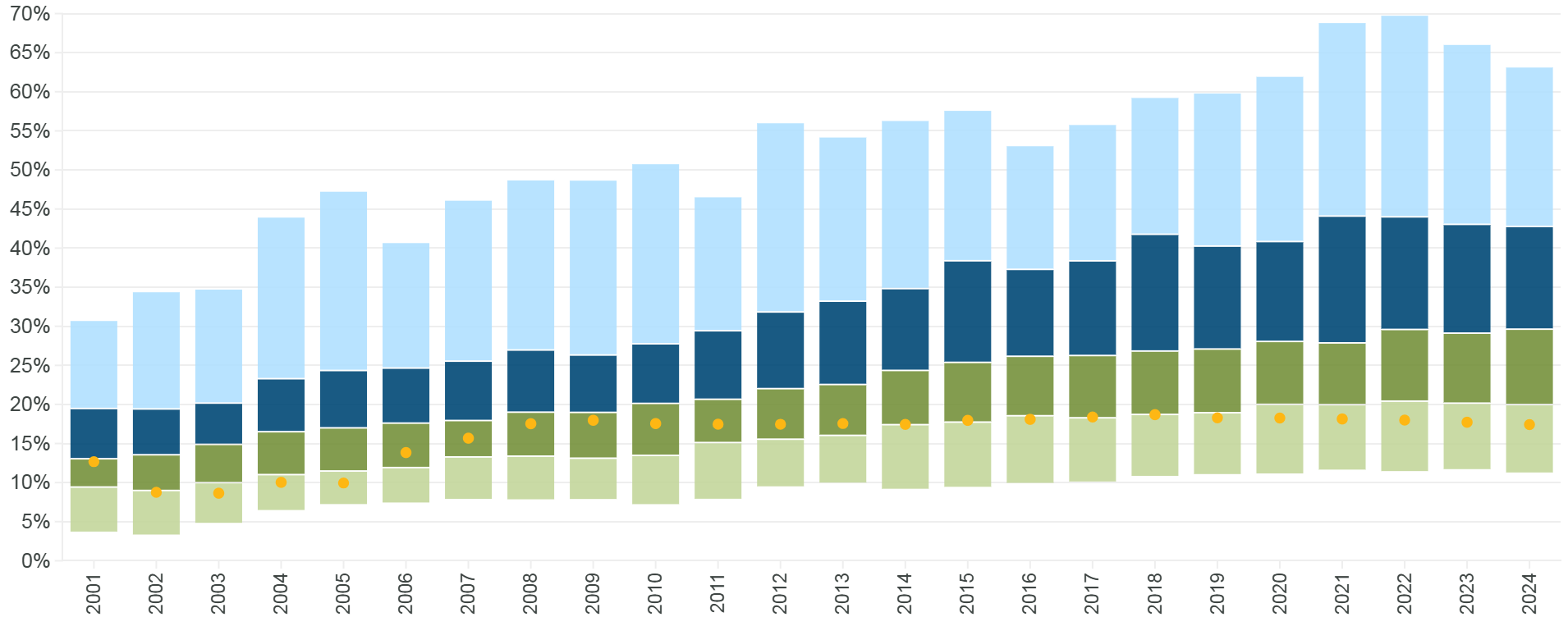
LEOFF Plan 2 has maintained its higher funded status while keeping contribution rates stable and below the median of all public plans. This is somewhat surprising for a safety plan that typically provides higher benefits than many of the non-safety plans included in the Public Plan Data. In this case, however, it is the higher funded status that enables the plan to maintain lower contribution rates.

Distribution of Total Contribution Rates

Actual Contributions from All Sources / Payroll

Gold dot = **Washington LEOFF Plan 2**

Percentiles of Distribution 5th to 25th 25th to 50th 50th to 75th 75th to 95th



One measure of benefit levels is the total normal cost rate, and LEOFF Plan 2's normal cost rate is higher than most public plans. Again, this difference is likely due to comparing a safety plan to a mix of safety and non-safety plans.

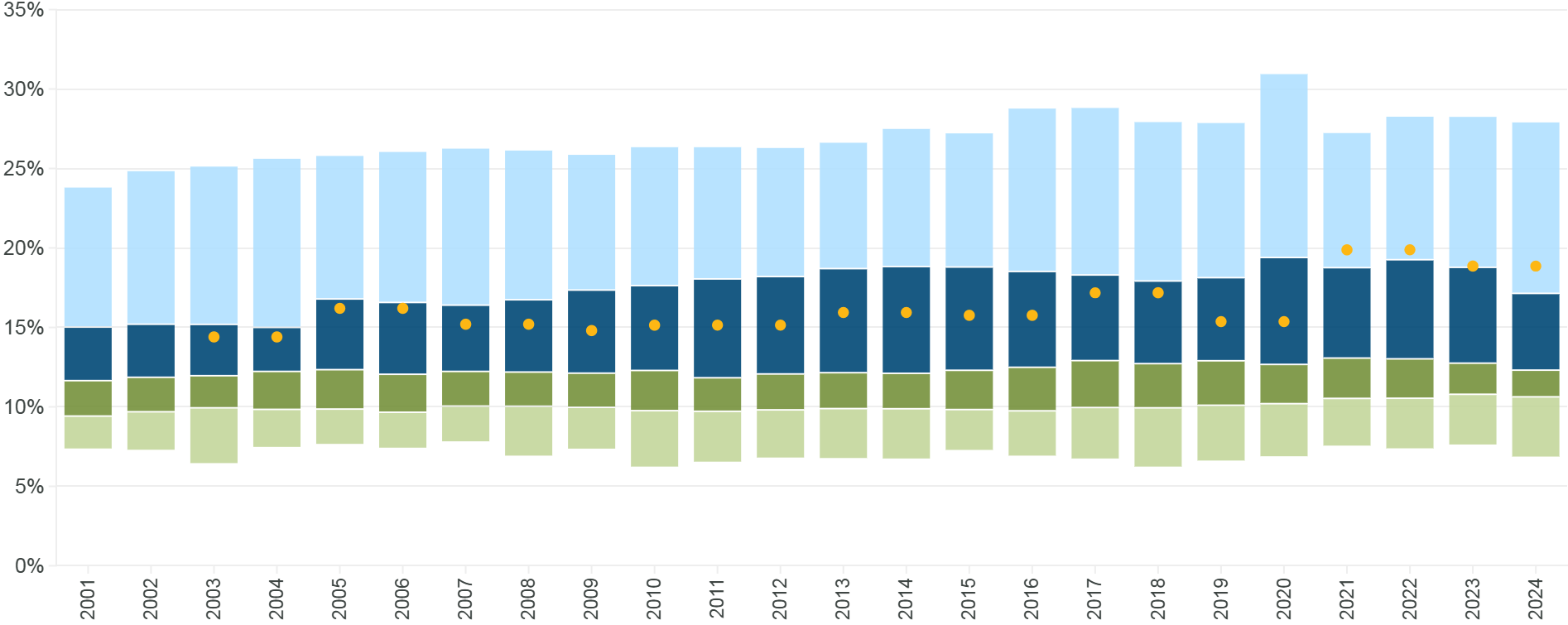
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Left Tab

Distribution of Total Normal Cost Rates

Same Social Security Coverage as Selected Plan

Gold dot = **Washington LEOFF Plan 2**

Percentiles of Distribution 5th to 25th 25th to 50th 50th to 75th 75th to 95th

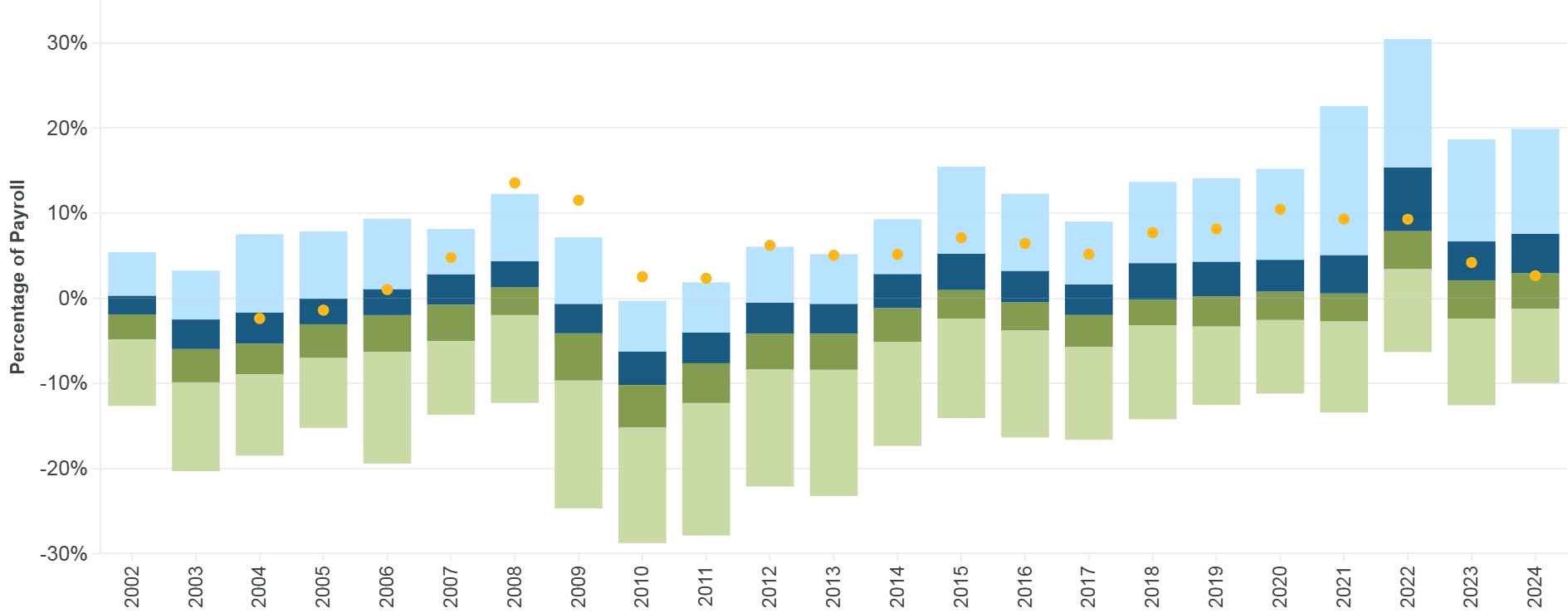


Distribution of Unfunded Paydown Rates

Unfunded Paydown Rate = Total Contribution Rate - Tread Water Rate

Gold dot = Washington LEOFF Plan 2

Percentiles of Distribution 5th to 25th 25th to 50th 50th to 75th 75th to 95th





LEOFF Plan 2 also pays higher average salaries than most public plans. This difference is likely a combination of LEOFF Plan 2 being a safety plan and being located in a relatively high cost of living state.

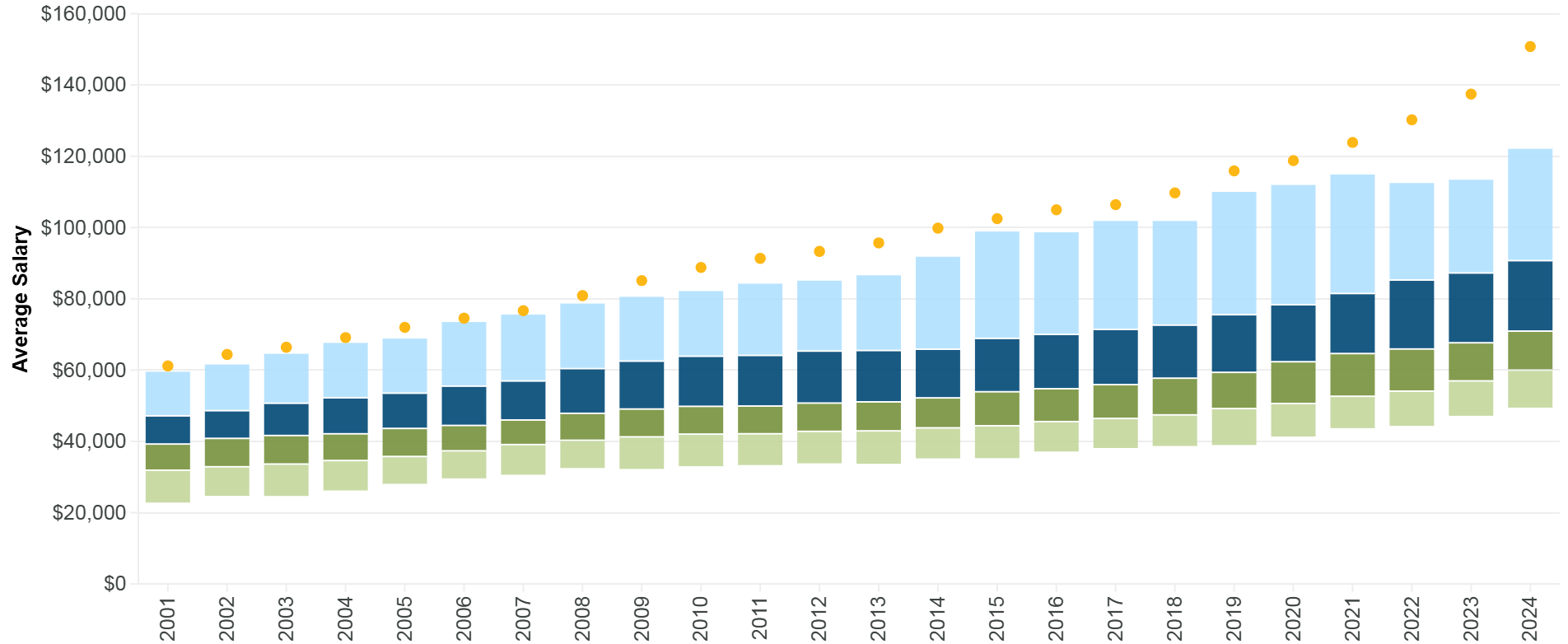
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Distribution of Average Salaries

Gold dot = **Washington LEOFF Plan 2**

Percentiles of Distribution

- 5th to 25th
- 25th to 50th
- 50th to 75th
- 75th to 95th





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LEOFF Plan 2 has been managed extremely well, but it has been a relatively young plan, which has made it much easier to recover from bad events like the Great Recession. As LEOFF Plan 2 becomes more mature, it will become more sensitive to risks.



Mature pension plans are more sensitive to risk

Support Ratio = Retirees / Actives

Asset Leverage Ratio = Assets / Payroll



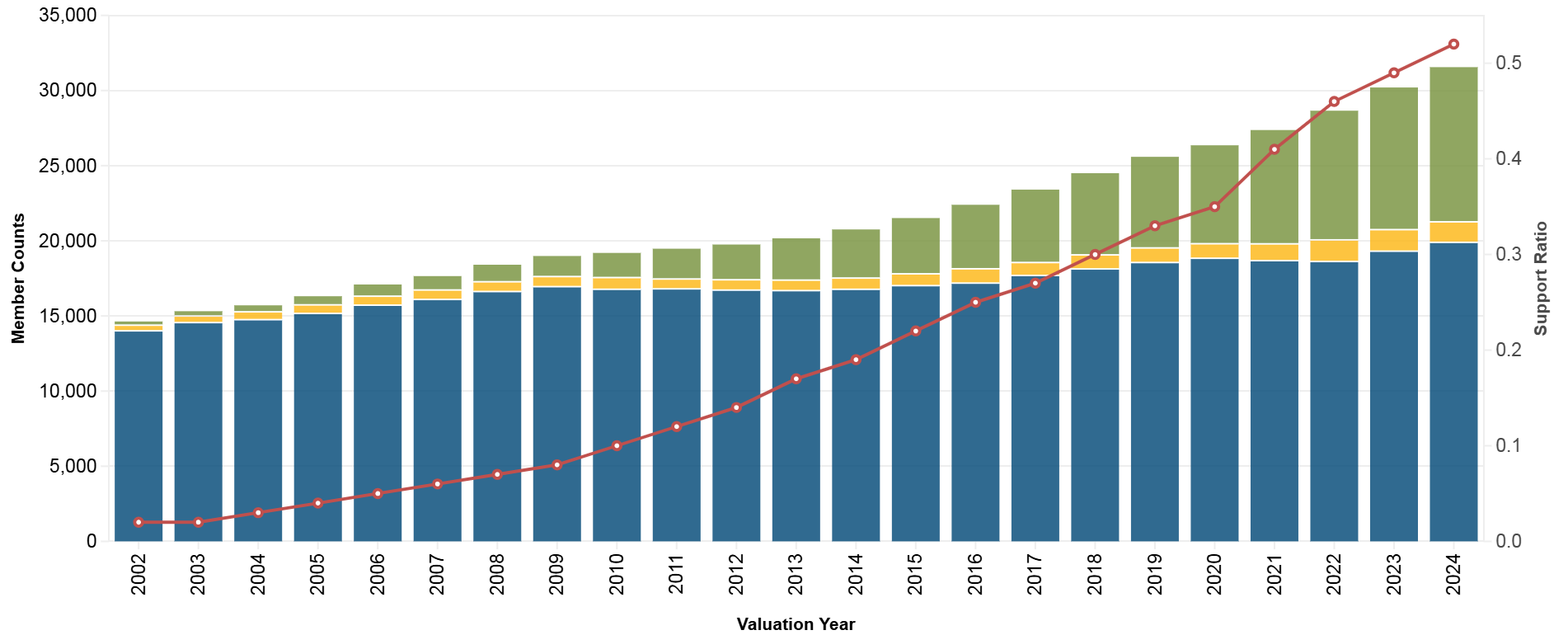
20 years ago, LEOFF Plan 2 had very few retirees to support. Now the retiree population is growing much faster than the active population and the ratio of retirees to active members is increasing rapidly.

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LEOFF Plan 2 Membership Trends

Support Ratio = Retirees and Beneficiaries / Actives

Support Ratio Active Vested Terminated Retirees + Beneficiaries





LEOFF Plan 2's Support Ratio remains one of the lowest in the nation, but you can expect it to continue to catch up with other plans as it matures.

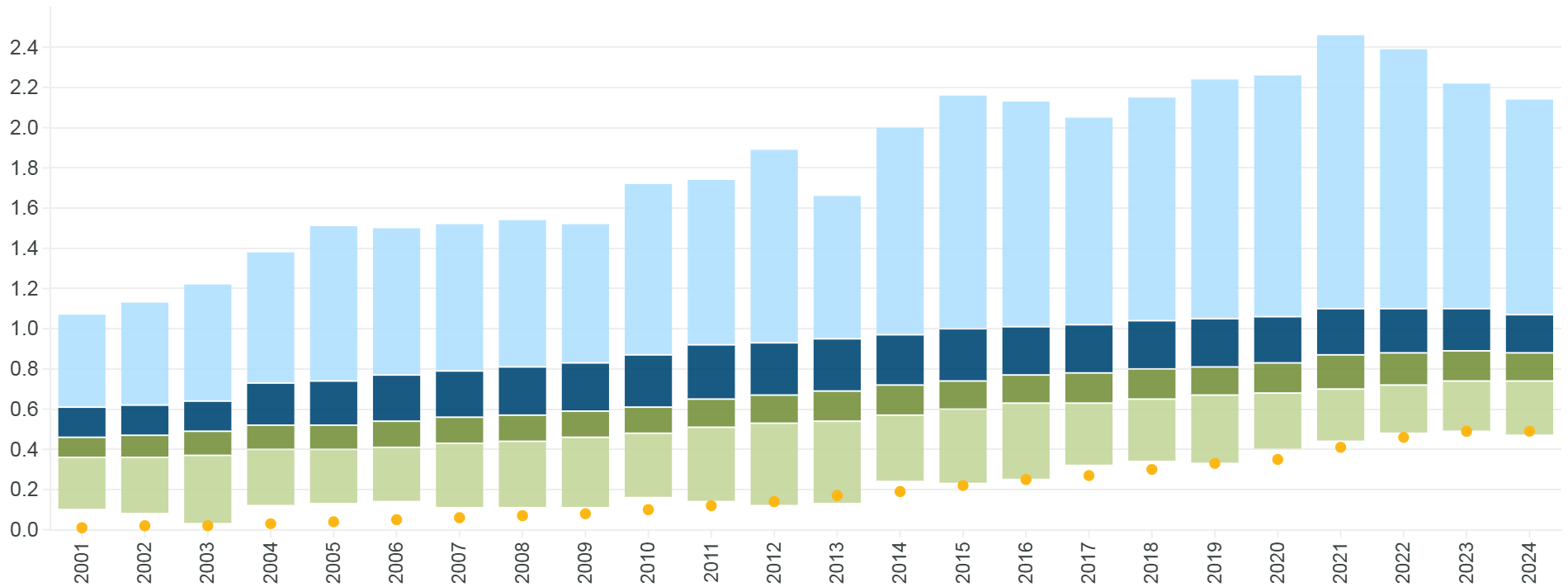
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Distribution of Support Ratios

Support Ratio = Retirees / Actives

Gold dot = **Washington LEOFF Plan 2**

Percentiles of Distribution 5th to 25th 25th to 50th 50th to 75th 75th to 95th





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Support ratios are an intuitive measure of maturity, but they don't help quantify a plan's sensitivity to risk. Asset leverage ratios quantify the plan's sensitivity to investment risk.

Asset Leverage Ratio = Market Value of Assets / Payroll

Higher asset leverage ratios indicate a plan is more sensitive to investment risk

High asset leverage ratios are caused by higher funded status, higher benefit levels, and more retirees compared to actives

Plan	Asset Leverage Ratio	Investment Loss (Compared to Assumed Return)	Investment Loss as a % of Payroll	Interest on Investment Loss as a % of Payroll
Plan A	5	10% Loss	50% (5 x 10%)	3.5% (50% x 7% Discount Rate)
Plan B	10	10% Loss	100% (10 x 10%)	7.0% (100% x 7% Discount Rate)

As a percentage of payroll, it will cost Plan B twice as much as Plan A to pay for the same investment loss.





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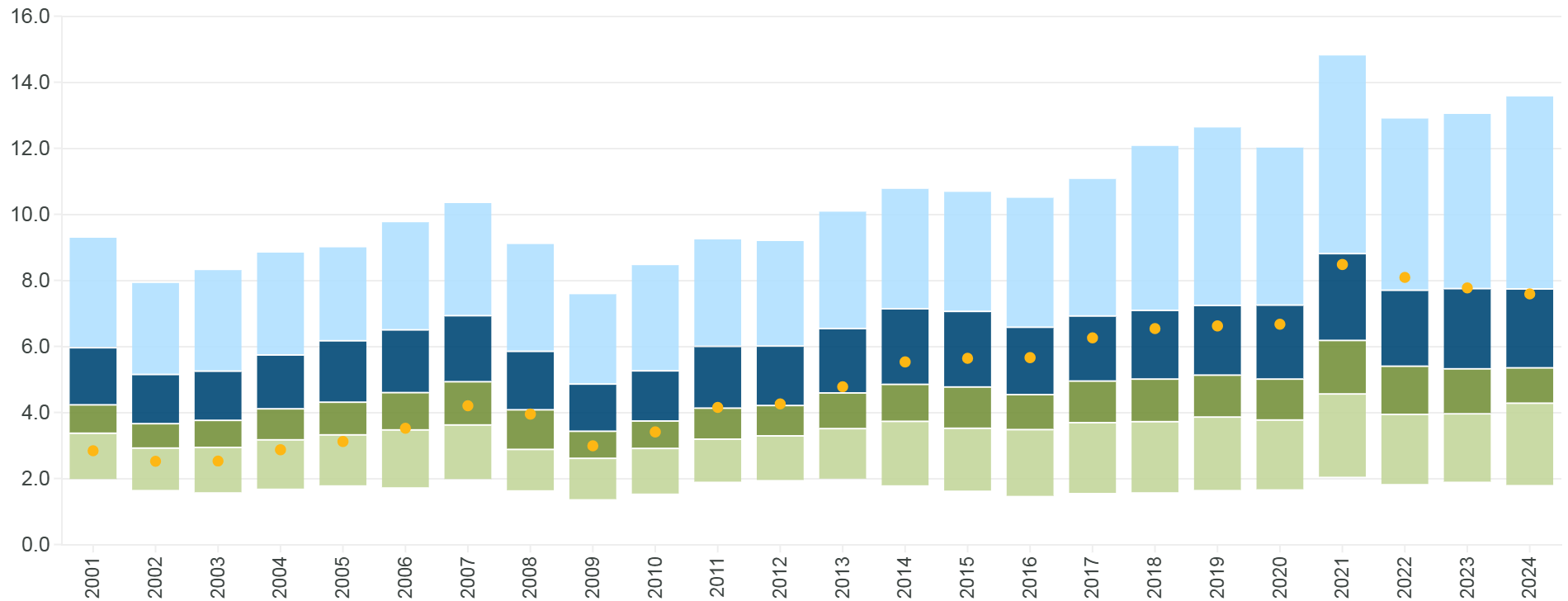
While LEOFF Plan 2 is still a relatively young plan, its asset leverage ratio has already grown to around the 75th percentile of all plans, and you can expect its asset leverage ratio to continue to increase. It is well-funded, has higher-than-average benefits, and its support ratio is continuing to grow.

Distribution of Asset Leverage Ratios (Open Plans)

Asset Leverage Ratio = Market Value of Assets / Payroll

Gold dot = **Washington LEOFF Plan 2**

Percentiles of Distribution 5th to 25th 25th to 50th 50th to 75th 75th to 95th





Conclusions

LEOFF Plan 2 has been managed well

Good investment returns

Stable and sufficient contributions

Reasonable assumptions

LEOFF Plan 2's immaturity has been a significant advantage

As LEOFF Plan 2 matures, the challenges will increase

Cheiron's Public Plan Tool

Select a Card to Explore the Public Plan Metrics

Assumptions



Funded Status



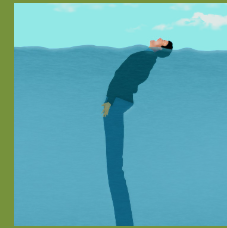
Maturity



Normal Cost



Tread Water



Investment Returns



Asset Allocation

