



Funding Policy

November 28, 2018

Funding Policy Review

- The Board has the responsibility and authority to adopt the actuarial cost method for funding LEOFF Plan 2 and all the associated funding policies.
- The Board's Strategic Plan includes the goal:
Maintain the Financial Integrity of the Plan
 1. Make sure that the liabilities of the plan are fully funded.
 2. Maintain stable contribution rates based on the expected long-term cost of the plan.

Current Funding Policy*

- The Board adopted the Aggregate Funding method with 100% floor in 2018. A funding method has two components:
 1. The normal cost or expected long-term cost of the plan.
 2. A method for managing the funded ratio.
- The Board is considering options for managing the current funded ratio of 109%.
- The Board has adopted contribution rates for both the 2019-21 and the 2021-23 biennia.

** This slide was corrected post Board meeting.*

Strategies for Managing a Positive Funding Ratio

- **Contribution Reductions**

- One way of managing the funding ratio in the Entry-Age Normal Cost method is by amortizing the plan's unfunded liability over the expected working life of the members.
- This helps keep the funded ratio around 100% but makes rates change frequently.

- **Benefit Improvements**

- The cost of benefit improvements reduces the funding ratio but can create ongoing liabilities.

- **Reduce Actuarial Risk**

- More conservative actuarial factors lower the funding ratio and reduce the likelihood of adverse actuarial experience.

Reducing Actuarial Risk

- **The Board has taken action in the past to adopt more conservative actuarial factors based on recommendations of the State Actuary:**
 - Lower investment return assumption.
 - Projected improvements in life expectancies.
- **The Society of Actuaries is working on a number of new risk measures for pension plans.**

Use of a funded ratio corridor

- One concept for managing the funded ratio is the use of a corridor with different levels of action or concern.
- For example, a funded ratio corridor of 95% - 110%
 - Less than 95% “Zone of Action” Increase contributions or reduce liabilities
 - 95 – 100% “Zone of Concern” Monitor trends, prepare response
 - 100 – 105% “Zone of Comfort” No concern or action necessary
 - 105 – 110% “Zone of Concern” Monitor trends, prepare response
 - Over 110% “Zone of Action” Decrease contributions or decrease liabilities

Tactics for Managing the Current Funded Ratio

- The investment return for the past year was above the expected rate of 7.4% and the most recent actuarial valuation identified more deferred gains than losses from past biennia so the funding ratio trend is positive.
 - Potential benefit improvements in 2019 legislative session.
 - Potential experience gains or losses in current Demographic Experience Study.
- Consult with OSA to identify proposals or options for Board action in 2019.

Questions?

- Possible Board action to the adopt funding ratio corridor as a method for managing the funded ratio.



Thank You

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