



# Funding Policy

December 19, 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.**

# 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

# Is this the best time to adopt a new policy?

- There is perceived political risk that the healthy status of LEOFF 2 could prompt legislative intervention. Having a policy in place before session could help manage that risk.
- The ranges in the draft policy were not developed with actuarial analysis. A policy based on actuarial analysis would be more effective.
- The Society of Actuaries is working on a number of new risk measures for pension plans. These new measures might provide options for approaches other than the plan's funding ratio.

# Questions?

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



**Thank You**

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