

Actuary Report

Presentation to: Washington State LEOFF Education Association

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Office of the State Actuary
"Supporting financial security for generations."

May 12, 2022

Questions We'll Be Discussing Today

- What does the LEOFF 1 population look like?
- How well funded is LEOFF 1?
 - How does the funded ratio compare to other plans?
- How was the LEOFF 1 COLA calculated?
- What are the current and projected contribution rates for the DRS-administered plans?
- What are the impacts of recent economic and legislative changes?
- Have any additional questions?

A Lot Has Happened since We Last Met

- COVID-19 pandemic
- Very strong investment returns
 - 28.7% for the fiscal year ending June 30, 2021
- Currently experiencing high inflation
- New economic assumptions with a lower assumed rate of investment return
 - Assumed rate of return lowered from 7.5% to 7% for most plans
- Legislative changes for LEOFF 1 and LEOFF 2
 - The June 30, 2020, figures in this presentation exclude these changes
 - Will be included in next valuation report

LEOFF 1 Plan Participants as of June 30, 2020

	Count	Average Age	Average Service	Average Annual Salary/Benefits
Actives	15	68	43	\$124,700
Annuitants				
Service Retirees	2,246	76	30	69,000
Retirees with Disabilities	2,781	76	21	48,300
Survivors	1,697	79	23	\$49,100

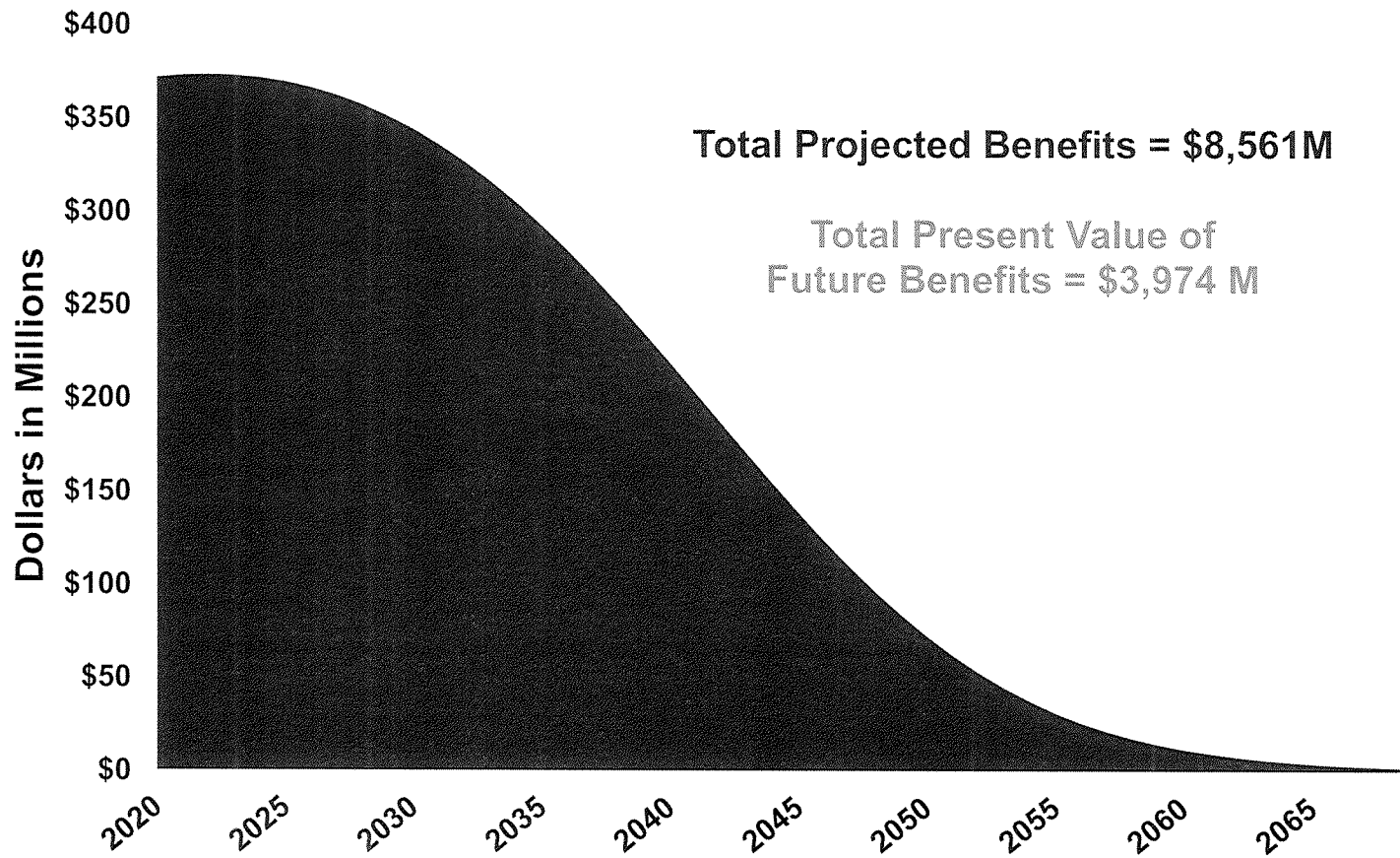
LEOFF 1 Plan Participants as of June 30, 2021*

	Count	Average Age	Average Service	Average Annual Salary/Benefits
Actives	13	68	43	\$126,500
Annuitants				
Service Retirees	2,172	77	30	70,700
Retirees with Disabilities	2,658	76	21	49,300
Survivors	1,686	79	23	\$50,100

*Based on preliminary data.

- Less than 1% of population is active; all are now retirement eligible
- Overall population declined by 3% from prior year
- Average annual salary/benefits grew by \$1,000-2,000 from prior year

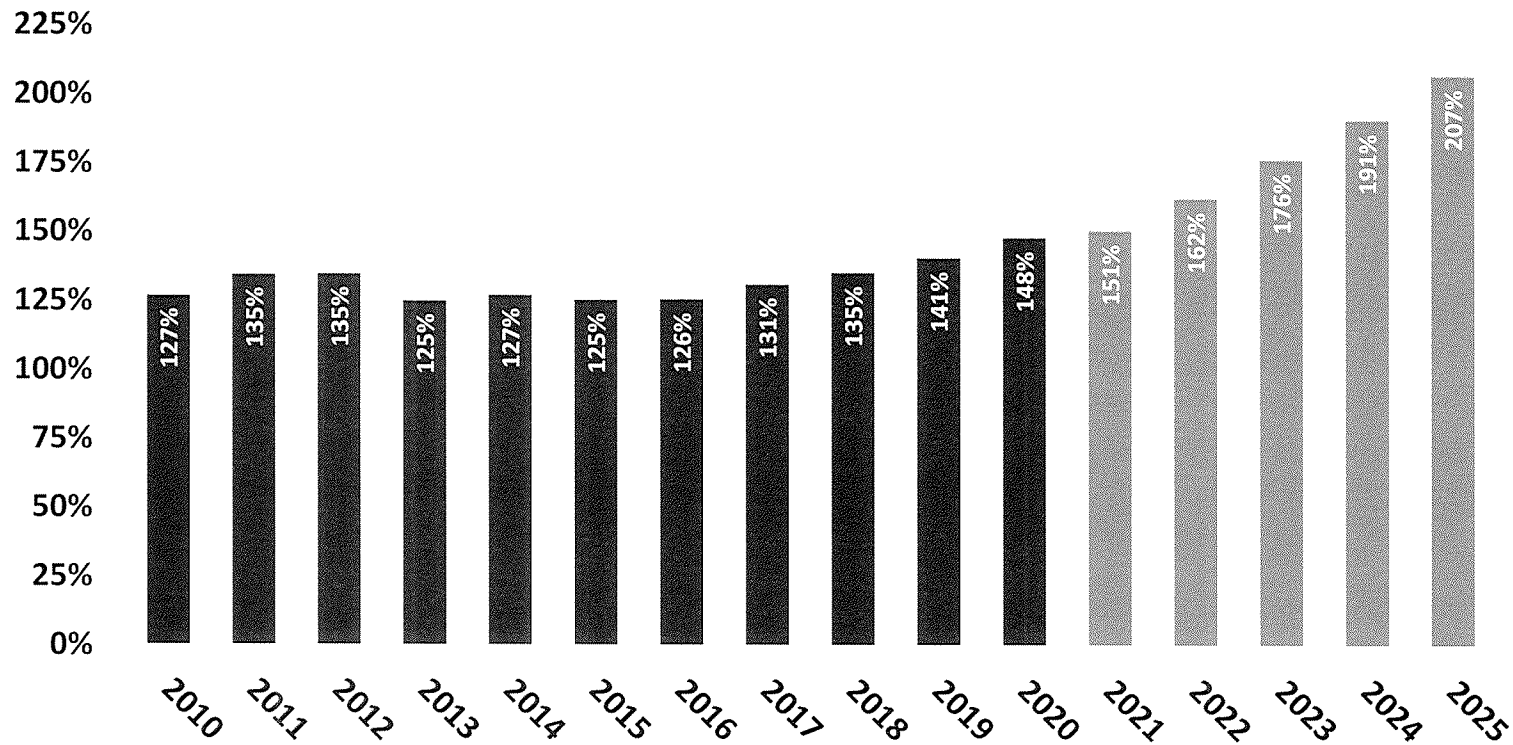
LEOFF 1 Projected Benefits as of June 30, 2020



LEOFF 1 Funded Ratio as of June 30, 2020 At Different Assumed Rates of Return

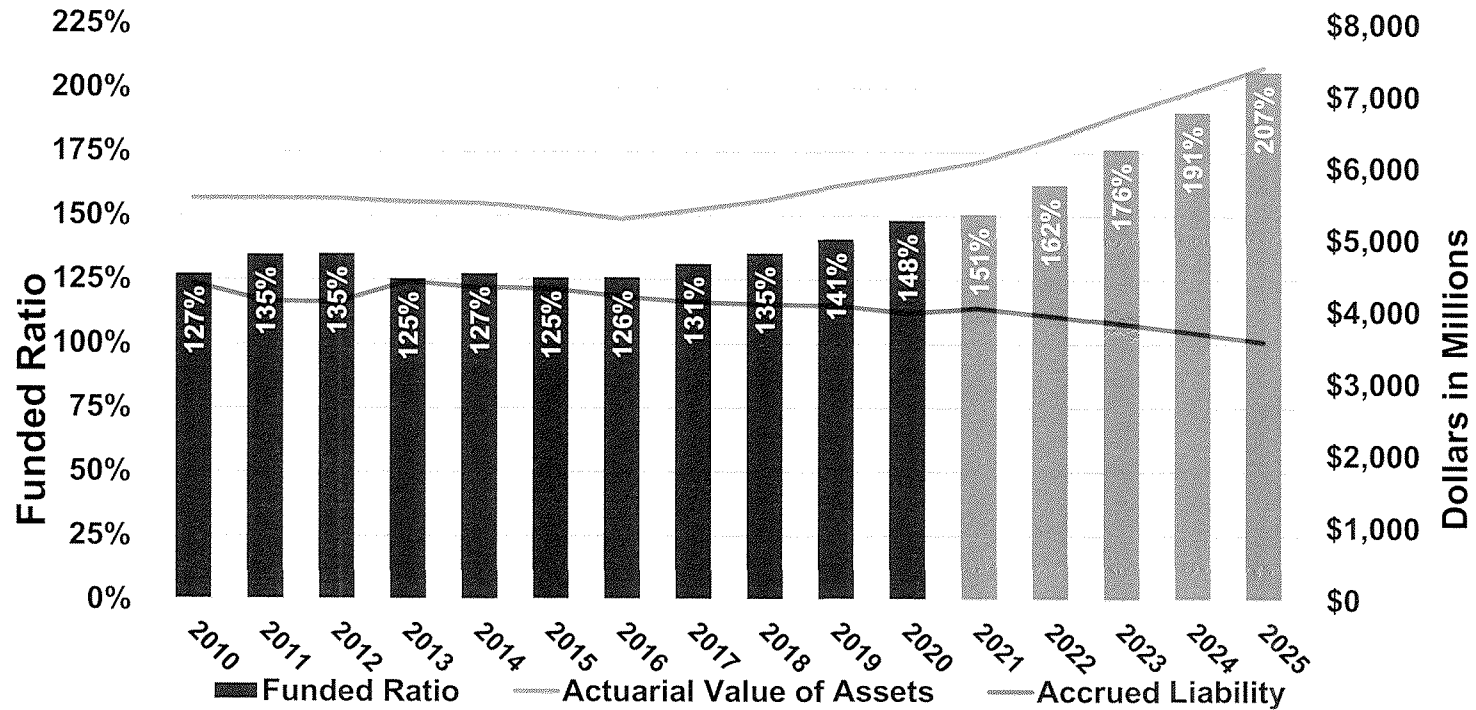
<i>(Dollars in Millions)</i>	7.5% Return	8.0% Return	7.0% Return	3.18% Return
Liabilities				
a. Present Value of Future Benefits	\$3,974	\$3,822	\$4,136	\$5,895
b. Present Value of Accrued Benefits	\$3,973	\$3,822	\$4,136	\$5,893
Assets				
c. Market Value of Assets	\$5,919	\$5,919	\$5,919	\$5,919
d. Deferred Asset Gains/(Losses)	\$26	\$26	\$26	\$26
e. Actuarial Value of Assets (c – d)	\$5,893	\$5,893	\$5,893	\$5,893
Funded Status				
f. Unfunded Liability (b – e)	(\$1,920)	(\$2,071)	(\$1,757)	\$0
g. Funded Ratio (e ÷ b)	148%	154%	142%	100%

LEOFF 1 Historical and Projected Funded Ratios



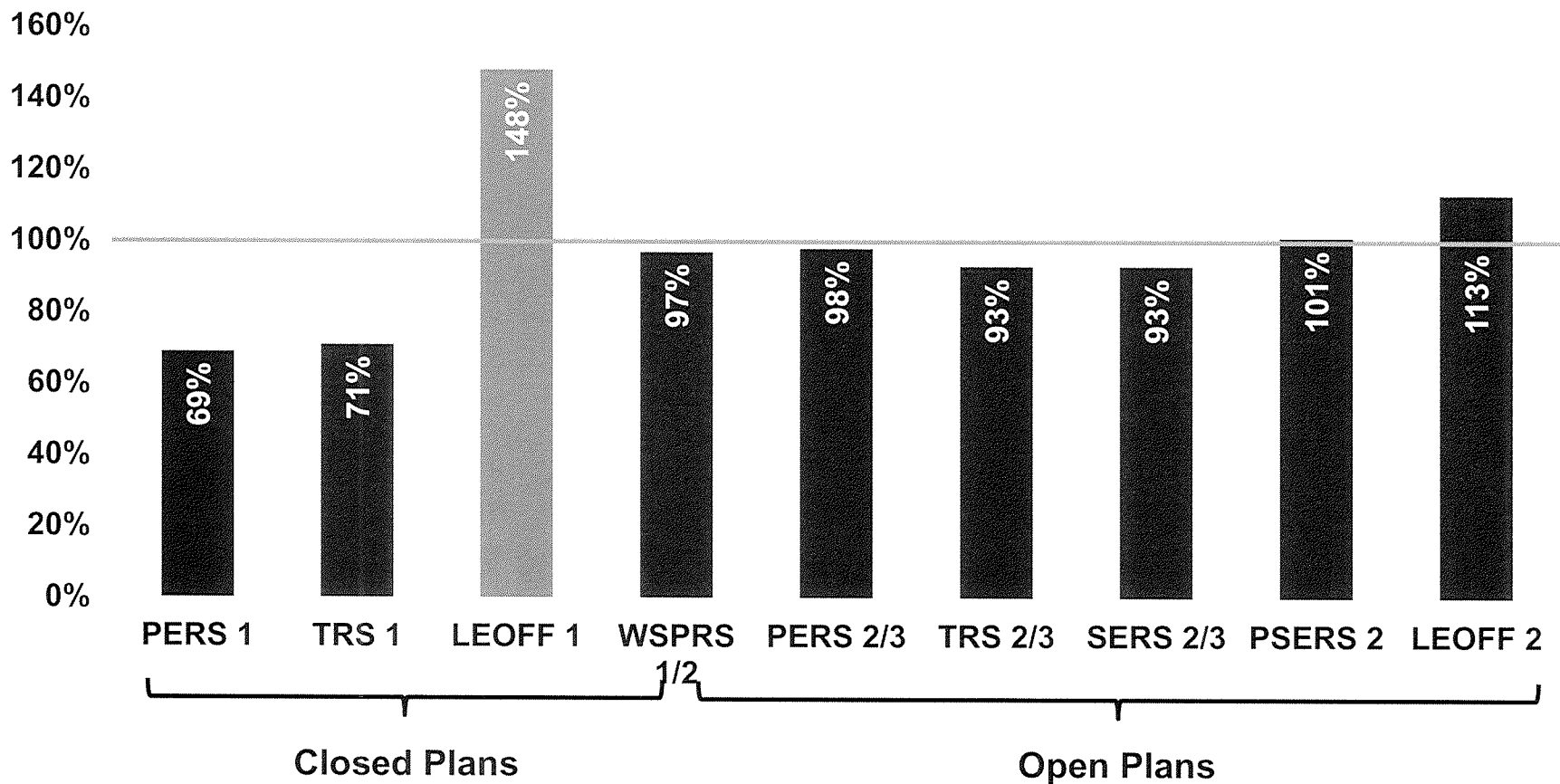
- Values after 2020 are projections using new economic assumptions, but exclude 2022 legislative changes
- Actual values will vary from these projections that assume all assumptions will be realized

LEOFF 1 Historical and Projected Funded Ratios



- Values after 2020 are projections using new economic assumptions, but exclude 2022 legislative changes
- Actual values will vary from these projections that assume all assumptions will be realized

Washington State Funded Ratios as of June 30, 2020



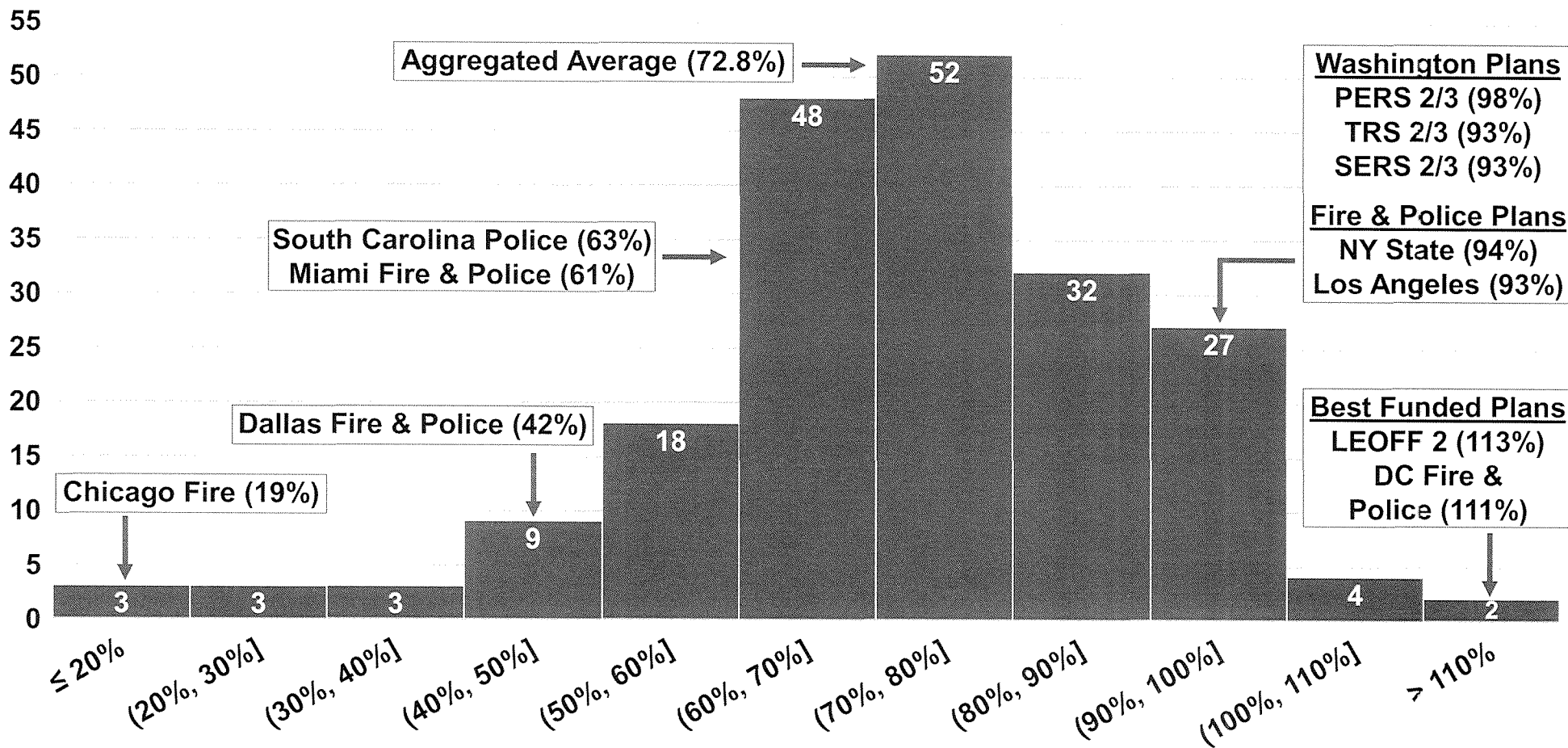
NASRA Public Fund Survey

- National Association of State Retirement Administrators (NASRA)
- According to NASRA, the Public Fund Survey is an “online compendium of key characteristics and trends affecting most of the nation’s largest public retirement systems”
- 85% of all state/local government retirement system data included
- Includes over 100 plans with over 20 million members combined

NASRA Summary of Findings

- Over the past 10 years, nearly every surveyed plan has reduced investment return assumption, and many increased longevity assumption, both of which increase plan costs in the short term
 - As of FY 2020, the median investment return assumption was 7.25%
- The aggregate actuarial funded ratio among plans in the survey rose from 72.2% in FY 2019 to 72.8% in FY 2020
 - Aggregate funded ratios have been between 71% and 74% for past 9 years

NASRA Survey 2020 Funded Ratios



Washington Plans

PERS 2/3 (98%)

TRS 2/3 (93%)

SERS 2/3 (93%)

Fire & Police Plans

NY State (94%)

Los Angeles (93%)

Best Funded Plans

LEOFF 2 (113%)

DC Fire &

Police (111%)

LEOFF 1 COLA – Defined

- Defined under RCW 41.26.240
- COLAs based on annual change in Consumer Price Index from 2020 to 2021
 - CPI-W = Urban Wage Earners and Clerical Workers (Current Series)
 - Area = Seattle-Tacoma-Bellevue
- COLAs payable as of April 1, 2022

Retirement Dates	Adjustment
April 2, 2021 – March 31, 2022	0.00%
January 1, 2021 – April 1, 2021	4.75%
April 2, 2020 – December 31, 2020	6.74%
Prior to April 2, 2020	4.75%

Why This COLA May Differ from Your Expectations

- It reflects the annual change in the plan's defined CPI (prior slide) from calendar year 2020 to 2021
 - This is not the inflation you are experiencing today
- It reflects the annual change noted above for the Seattle-Tacoma-Bellevue region
 - If you live/retired in a different region, the change in the CPI for your region could be different
- CPI measures the average change in prices on an assumed "basket of goods"
 - For example, a certain assumed percentage spent on health care, housing, transportation, food, entertainment, etc. for Urban Wage Earners and Clerical Workers
 - The basket of goods you buy could vary

How Does the Funded Ratio Change When We Assume Higher Inflation?

<i>(Dollars in Millions)</i>	2.75% Inflation	3.75% Inflation	4.75% Inflation
Liabilities			
a. Present Value of Future Benefits	\$3,974	\$4,313	\$4,701
b. Present Value of Accrued Benefits	\$3,973	\$4,313	\$4,701
Assets			
c. Market Value of Assets	\$5,919	\$5,919	\$5,919
d. Deferred Asset Gains/(Losses)	\$26	\$26	\$26
e. Actuarial Value of Assets (c – d)	\$5,893	\$5,893	\$5,893
Funded Status			
f. Unfunded Liability (b – e)	(\$1,920)	(\$1,580)	(\$1,192)
g. Funded Ratio (e ÷ b)	148%	137%	125%

Current Contribution Rates

Current Contribution Rates		
System	Members ¹	Employers ²
PERS	6.36%	10.07%
TRS	8.05%	14.24%
SERS	7.76%	11.47%
PSERS	6.50%	10.21%
LEOFF 2 ³	8.53%	8.53%
WSPRS	8.61%	17.66%

¹PERS 1 and TRS 1 member rates statutorily set at 6.0%.
Plan 3 members do not make defined benefit contributions.

²DRS's 0.18% employer administrative rate excluded.

³No LEOFF 1 contributions required when plan is fully funded. 40% of LEOFF 2 employer rate comes from state.

- PFC plans to phase-in the impacts of new economic assumptions by capping contribution rates in 2023-25 at their current levels
- 2022 legislation for LEOFF 2 includes lower minimum contribution rates under certain circumstances; 2023-25 contribution rates for LEOFF 2 could be lower than current levels

2022 Legislative Changes – LEOFF 1

- Two LEOFF bills passed during the 2022 Legislative Session
 - One bill impacting LEOFF 1 and another bill impacting LEOFF 2
- SSB 5791 provides LEOFF 1 members with a one-time, lump sum benefit equal to \$100 per month of service
 - Present value of total expected lump sum payments is \$155 million
 - No rate or budget impact since the plan remains fully funded after lump sum payments, on an expected basis

2022 Legislative Changes – LEOFF 2

- SHB 1701 provides LEOFF 2 members with a benefit enhancement and alters plan contribution rates
 - Members are eligible for either an increase in their benefit multiplier from 2.0% to 2.5% for service credit years 15-25 or a one-time, lump sum benefit equal to \$100 per month of service
 - Present value of total expected benefit enhancement is \$1 billion
 - Resulting increase in expected plan costs are offset by contribution rate policy changes (minimum rate change) and transfer from the Benefit Improvement Account

Questions? Please Contact: The Office of the State Actuary

<http://leg.wa.gov/OSA/>; state.actuary@leg.wa.gov

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Thank You