LEOFF Plan 1 Medical Study Group
Actuarial Information - Revised

We have provided the latest available actuarial information to answer the questions asked by the study group in this document. The results of our annual actuarial valuations provide information as of "snap shot" in time - the so called "valuation date." As a result, the information provided in this document will change after we publish the next actuarial valuation report.

Other Post Employment Benefits (OPEB) Valuation

Latest published valuation date: September 30, 2006

Q1) What is the total liability for the employers?

The present value of all future medical and long-term care benefits paid on behalf of current LEOFF 1 employees (future retirees) and current LEOFF 1 retirees is $1.758 billion. Of this amount, $1.745 billion is considered accrued, or earned, for accounting purposes.

Q2) How was the liability arrived at?

We projected the estimated medical and long-term care benefits for every member of LEOFF 1 and "discounted" the amount to the valuation date to determine the present value of all future medical benefits. We used a "discount rate" or interest rate that was appropriate for the purpose of the measurement.

Q2A) Does the projected liability include the impact of Medicare?

Yes. We assumed that 100% of current and future LEOFF 1 retirees will join Medicare at age 65. Expected medical benefits were reduced at age 65 and beyond for interaction/coordination with Medicare. In other words, we have assumed that Medicare is the "first payer" for eligible medical benefits and we reduced the liability accordingly.

Q2B) [Does] insurance coverage by the cities impact the liability figure? If not, why not?

Yes. We included the impact of insurance coverage in our liability calculations.

Q2C) What about other sources of payments, such as revenue streams (taxing authority or a portion of insurance premiums)?

We assumed a pay-as-you-go funding policy for all employers for this state-wide study. Therefore, we did not include other sources of payments. Other sources of payments or funding (income) would reduce the medical expenses for an employer with such sources of revenue. Assets held in a dedicated OPEB trust would reduce an employer's unfunded liability.

Q2D) Did [the] projected liability account for the variance in allowable benefits provided by distinct disability boards?

Yes, to a degree. The projected medical costs were based on the results of a previous survey of disability boards. The projected costs reflect the average expected cost, per person and by age, for the group at large. Costs by individual employer and disability board will vary.

Pension Fund Valuation

Latest published valuation date: September 30, 2006

Q1) How does the Actuary value the LEOFF Plan 1 Fund?

Q1A) How do you determine liabilities?

We project the estimated pension payments for every member of LEOFF 1, and their survivors/beneficiaries, and "discount" the amount to the valuation date to determine the present value of all future payments. We use a "discount rate" or interest rate that is appropriate for the purpose of the measurement. Therefore, we provide more than one measurement in the actuarial valuation report.

Q1B) What are the different ways to value the assets (i.e., market value, actuarial value, "termination" value)?

Actuaries commonly value a pension plan's assets in one of two ways: (1) actuarial or smoothed value or (2) market value. Actuaries commonly use the actuarial value of assets in combination with the appropriate liability measurement to determine the contribution requirements and funded status for an on-going plan. Actuaries commonly use the market value of assets in combination with the appropriate liability measurement to determine the unfunded "termination" or "settlement" liability for a plan.

Q2) What does the current valuation of the fund show with regard to surplus or excess assets?

An actuary must first determine the purpose of the measurement to answer questions of this nature. Based on the purpose of this study group, I'm assuming that the level of surplus is necessary to determine if there are sufficient plan assets to fully offset the current pension liabilities of the plan. Furthermore, if the plan's assets exceed the plan's current pension liabilities, can or should the Legislature use these assets for other purposes.

Based on these assumptions, I recommend the use of a "market value" liability measure to answer this question. Such measurements are based on a "risk-free" interest rate and use the market value of assets. If you use a 5.5% interest rate for purposes of this measurement, LEOFF 1 is currently 102% funded (the percentage of earned pension liability covered by the market value of assets) and has a surplus of $112 million. These numbers will change if you use a different interest rate and change as the plan's market value of assets fluctuates on a daily basis.

Q2A) Can the assets currently be invested at a guaranteed rate of return that would offset all future [pension] liabilities, and if so, what would be the surplus/excess after this action?

I need additional information from staff at the Washington State Investment Board to answer this question. Theoretically speaking, this outcome is possible if appropriately timed and coordinated with a legislative change to the plan's investment policy.

Q2B) The [Pension Protection Act] PPA of 2006 changed the funding status level that a pension plan could be allowed to pay medical costs. Are there currently excess/surplus assets that could be accessed if the fund is measured according to those standards?

I am not an expert on the internal revenue code (IRS tax code) or the provisions of PPA in this area. I would need the guidance of special tax counsel to answer this question completely and accurately. That being said, my preliminary and informal response to this question is no based on the current funded status of the plan.

Q3) Since the proposal to close and reopen the [LEOFF 1] L1 fund, and distribute the surplus assets (SB 6166), what has taken affect that has changed the value of the fund?

Many factors have changed the value of LEOFF Plan 1's pension liabilities and assets since the proposal in question. The primary factor was a significant reduction in the market value of assets following the introduction of the proposal due to investment losses during valuation years 2001 and 2002. Other factors include, but are not limited to the following: changes in plan provisions, changes in assumptions, and actuarial gains/losses due experience that differed from assumed experience.