WASHINGTON STATE LEGISLATURE

Office of the State Actuary

October 21, 2004

TO: Steve Nelsen, Executive Director
LEOFF 2 Retirement Board

FROM: Marty McCaulay, Associate Actuary
Office of the State Actuary

CC: Matt Smith, State Actuary
Office of the State Actuary

RE: PROPOSED POST LEOFF EMPLOYMENT POLICY OPTIONS

We reviewed the three policy options from the LEOFF Post Retirement Employment Preliminary Report dated August 25, 2004. We determined that Policy Option 2, the option to remove the restrictions, is the only one of the three that would have a cost that is sufficient to impact contribution rates. The cost of Policy Option 1, the option with the choice, and Policy Option 3, the option with the hours limit, would not be sufficient to impact rates.

Costs

The cost for Option 2 (removal of restrictions) is a total increase in the contribution rate of 0.08% (0.04% member, 0.04% employer), a total employer cost increase for the biennium of $0.9 million, and a 25-year total employer cost increase of $25.5 million.

Assumptions

The costs depend on our assumptions for how much these policies would influence retirement behavior in the long run. We believe that the ability to retire and receive a full public-sector salary and retirement benefit will promote earlier retirement among affected members. We assumed that Options 1 and 3 would not influence long-term retirement behavior. To estimate how many assumed future retirements would shift to earlier ages under Option 2, we looked at how many Washington State Patrol members retire and then work in PERS (about 34%, or 27%

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if you exclude the members who went to work for WSP under a PERS position). We compared the assumed retirement rates for LEOFF 2 to the retirement rates for WSP and added 27% of the difference in rates at the ages 53-57 in LEOFF 2 where WSP had higher rates.

Option 2 – Removal of Restrictions on Post Retirement Employment

The cost increase for Option 2 is summarized below:

Option 2 (Removal of reduction factor)	
Employee rate increase	0.04%
Employer rate increase	0.03%
State rate increase	0.01%
Total increase	0.08%

2005-2007 Biennium ($ in millions)	
State General Fund	$0.2
State Non-General Fund	$0.0
Total State	$0.2
Local Government	$0.7
Total Employer	$0.9
Employee	$0.9

2005-2030 25 Years ($ in millions)	
State General Fund	$6.4
State Non-General Fund	$0.0
Total State	$6.4
Local Government	$19.1
Total Employer	$25.5
Employee	$25.7

Change in Retirement Rates		
Age	**Current Rate**	**New Rate**
53	.16	.18
54	.19	.20
56	.25	.26
57	.25	.26