Retirement Security Act

SB 141

Discussion Topic

Contribution Rates for New Defined Contribution (DC) Plan

April 1st, 2005
Discussion

Contribution Rates for New Defined Contribution (DC) Plan
Defined Benefit Plan

- Benefit level is fixed
- Benefit is based on a formula involving salary, years of service, age, etc.
- Benefit is paid for life and to qualified survivors
- Future benefit payments are NOT driven by investment performance

Examples: PERS & TRS

Defined Contribution Plan

- Contribution level is fixed
- Benefit is based on the amount of money invested and earned in employee’s account
- Benefit is paid until account runs out
- Future benefit payments are driven by investment performance

Examples: SBS & Deferred Compensation

Defined Benefit (DB) vs Defined Contribution (DC)
Defined Benefit System

- **Active Member**: Pooled Investment Account
- **Employer**: Pooled Investment Account
  - Money available for retirement is directly dependant on the amount put into the employee's account during his working years and the cumulative investment earnings.
  - When the account is depleted, there is no further benefit.

Defined Contribution System

- **Active Member**: Employee’s Individual Account
- **Employer**: Employee’s Individual Account

**Discussion: Contribution Rate for Defined Contribution (DC) Plan**

- **Pension is paid out base on a set formula.**
- **Cumulative benefit payout over members retired life time is not necessarily representative of what they deposited during their active career.**
### FY 06 Normal Cost Rates

<table>
<thead>
<tr>
<th></th>
<th>TRS II</th>
<th>PERS III</th>
<th>DC Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical normal cost rate</td>
<td>7.93%</td>
<td>7.23%</td>
<td>3.75%</td>
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<tr>
<td>Defined contribution rate</td>
<td>12.43%</td>
<td>10.32%</td>
<td>11.50%</td>
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<td>HRA contribution rate</td>
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<td>0.0%</td>
<td>1.00%</td>
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<tr>
<td>Gross normal cost rate</td>
<td>20.36%</td>
<td>17.55%</td>
<td>16.25%</td>
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<td>Member contribution rate</td>
<td>(8.65)%</td>
<td>(6.81)%</td>
<td>(8.00)%</td>
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<tr>
<td>Employer normal cost rate</td>
<td>12.71%</td>
<td>10.74%</td>
<td>8.25%</td>
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Factors that drive the contribution rate discussion

• Investment Return Assumptions
• Cost/Benefit Balance for the Employer
• Total Acceptable Normal Cost
• Keeping Competitive in Northwest Region
Normal Cost Comparisons – Proposed DC Plan vs. Existing TRS/PERS (all Tiers)

<table>
<thead>
<tr>
<th>FY 06 Normal Cost Rates</th>
<th>TRS</th>
<th>PERS</th>
<th>DC Plan</th>
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</thead>
<tbody>
<tr>
<td>Medical normal cost rate</td>
<td>9.07%</td>
<td>8.68%</td>
<td>3.75%</td>
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<tr>
<td>Defined contribution rate</td>
<td>13.90%</td>
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<td>HRA contribution rate</td>
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<td>Gross normal cost rate</td>
<td>22.97%</td>
<td>20.05%</td>
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<tr>
<td>Member contribution rate</td>
<td>(8.69)%</td>
<td>(6.81)%</td>
<td>(8.00)%</td>
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<tr>
<td>Employer normal cost rate</td>
<td>14.28%</td>
<td>13.24%</td>
<td>8.25%</td>
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