



Select Committee on Pension Policy

Annuity Purchase

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What's The Issue?

- Legislation passed in 2014 Session granting LEOFF 2 members option to purchase expanded annuity
 - Optional, one-time, lump-sum, actuarially equivalent annuity purchase from LEOFF 2 trust fund
 - Minimum purchase amount of \$25,000 rolled over from qualified governmental plan
- [SCPP correspondence](#) from Washington State Patrol Troopers Association requesting consideration for WSPRS members



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1

Committee Activity

- Executive Committee expanded scope of review to include all plans early in interim
- Initial background and policy briefing of issue in September
 - Full Committee and Executive Committee requested follow-up information



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Today's Presentation

- Summary of how existing annuity purchase options are used
- Comparison of public vs. private annuity purchases
- Recap policy considerations and possible options
- Possible next steps
- No action required today



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Key Policy Question

- Are the existing annuity purchase options sufficient?

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4

There Are Existing Annuity Options Available

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	Availability	Utilization	Comments
Private Market Annuity Purchase	All retirement system members	N/A	More expensive than purchase through DRS
Five-Year Service Credit Purchase	All retirement system members	5% Last FY	Subject to return-to-work rules Limit of five years
Annuity Purchase From DC Account	All Plan 3 members	10% TAP Annuity	Limited by employee contributions in DC account
Expanded Annuity Purchase	All TRS and LEOFF 2 members	Less than 1%	TRS members can use any funds LEOFF 2 minimum purchase of \$25,000 from qualified gov. savings account



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5

Expanded Annuity Purchase Option

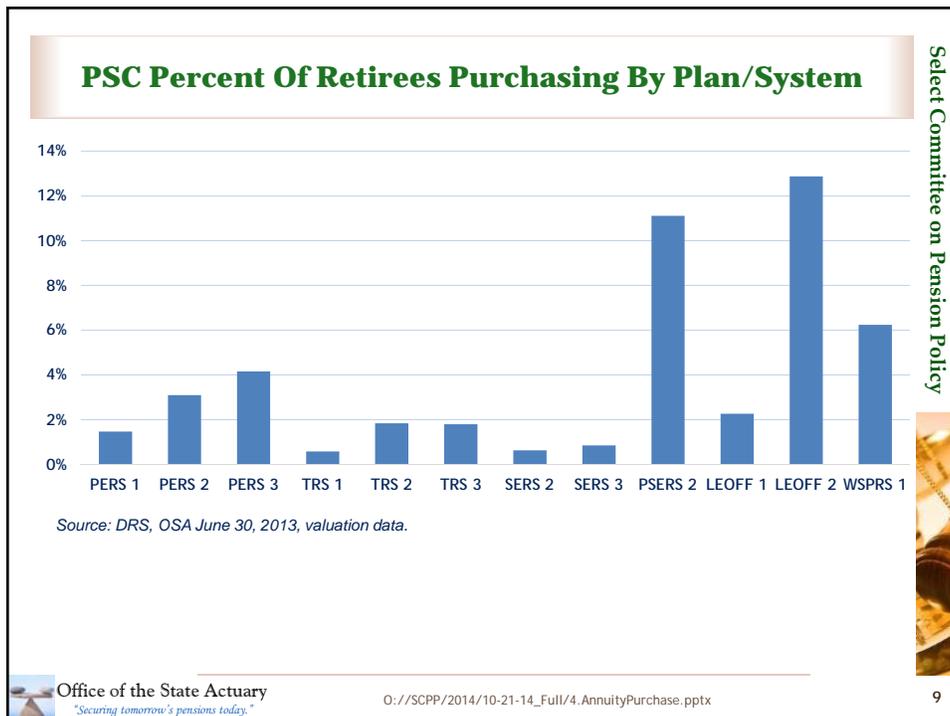
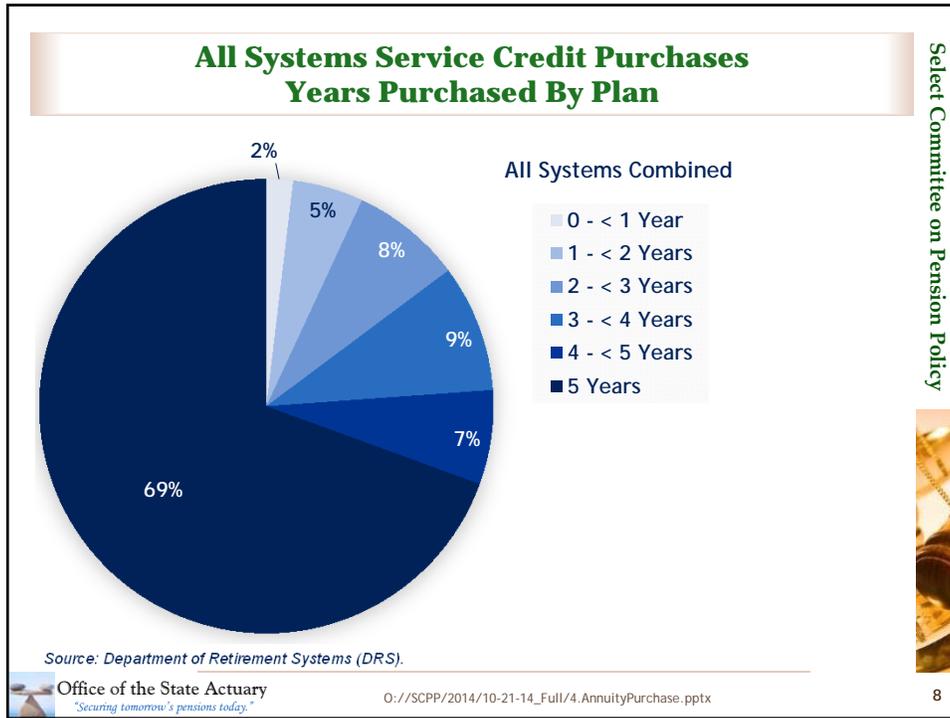
- Approximately less than 1 percent of LEOFF 2 and TRS retirees purchasing expanded annuity
- Average purchase price is slightly below \$150,000
- The average salaries of those purchasing an expanded annuity are around 22 percent higher than the general population



Most Purchasers Are Purchasing The Maximum Amount Of Optional Service Credit

- Approximately 5 percent of all members chose to Purchase Service Credit (PSC) in the last fiscal year
- Of those that do PSC, approximately 70 percent purchase the maximum five years
- Average purchase price in last fiscal year was just short of \$80,000
- The average salaries of those maxing out are around 25 percent higher than the general population
- See Appendix for more detail





Deferred Compensation Program (DCP)

- DCP is a supplemental retirement savings program available to many public employees
- Just under 30,000 DCP participants currently have an account balance large enough (\$25,000) to purchase an expanded annuity.
- Average DCP account balance across all ages is \$112,000
- Based on data, it is likely some members would benefit from an unlimited annuity option



Committee Requested Additional Information On Comparison Of Annuities

	Private	TIAA-CREF	DRS
Types of annuities	Immediate Deferred Fixed Variable	Immediate Deferred Fixed Variable	Immediate Fixed
Administrative fee	1.35% Average	Maximum charge 1.20%	N/A

Source: TIAA-CREF. TIAA-CREF Life's Single Premium Immediate Annuities total contract separate account charge is 0.60% with a guaranteed maximum charge of 1.20%. According to Morningstar, the average annual annuity expense charge is 1.35% for all non-group variable annuity policies in Morningstar Direct as of 3/5/2014.



Purchasing An Annuity Through DRS Is More Cost Effective

	Interest Rate	Cost of Annuity
Private Insurer	4.0%	\$185,000 - \$205,000
DRS	7.8%	\$135,000

*Based on a PERS Plan 2 member age 65 buying a \$10,000 life annuity (including 3% COLA).
For illustrative purposes only.*

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12

What Does This Data Mean?

- Small percentage of retirees currently purchasing existing optional annuity benefits
- Expanding the unlimited annuity option would likely benefit some based on
 - Percentage maxing out PSC
 - Average DCP account balance
- Public safety retirees appear to purchase optional annuities at a higher rate
- Based on data received, likely higher earners will have greater ability to take advantage of an expanded annuity option



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13

Recap Of Policy Considerations

- Based on data, some members would likely benefit from an expanded annuity purchase option
 - Public safety members may use it more
- Expanding annuity purchase option to all members of the state's retirement systems
 - Creates greater benefit consistency
 - Allows all members to take advantage of state investment assumptions and no administrative costs
 - Less restrictive than current options



No Expected Costs If All Assumptions Are Realized

- Annuity purchase actuarially equivalent
- However, the system will experience gains/losses if experience differs from assumptions
 - Currently not enough data to determine experience gains/losses
 - There are likely ways to mitigate potential risks



Are The Existing Annuity Purchase Options Sufficient?

No ← → **Yes**

Who Else Should Receive An Expanded Annuity Option? Nothing Further At This Time

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What Should The Expanded Annuity Look Like?

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Should Potential Risks Be Mitigated?

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Possible Next Steps

- No further action at this time
- Further study
- Direct staff to prepare options

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Appendix



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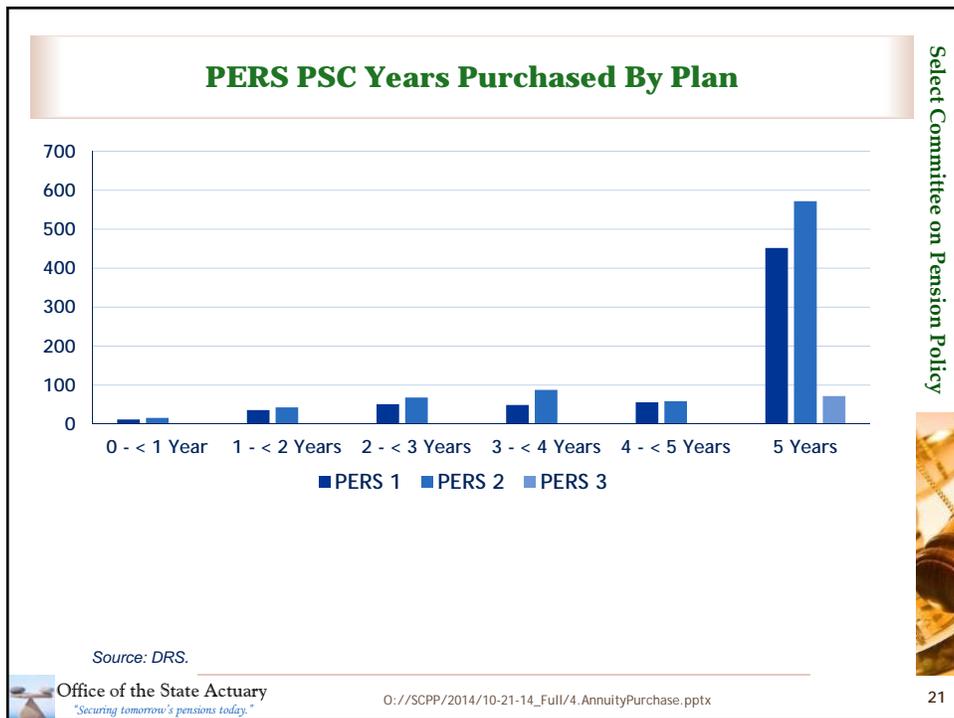
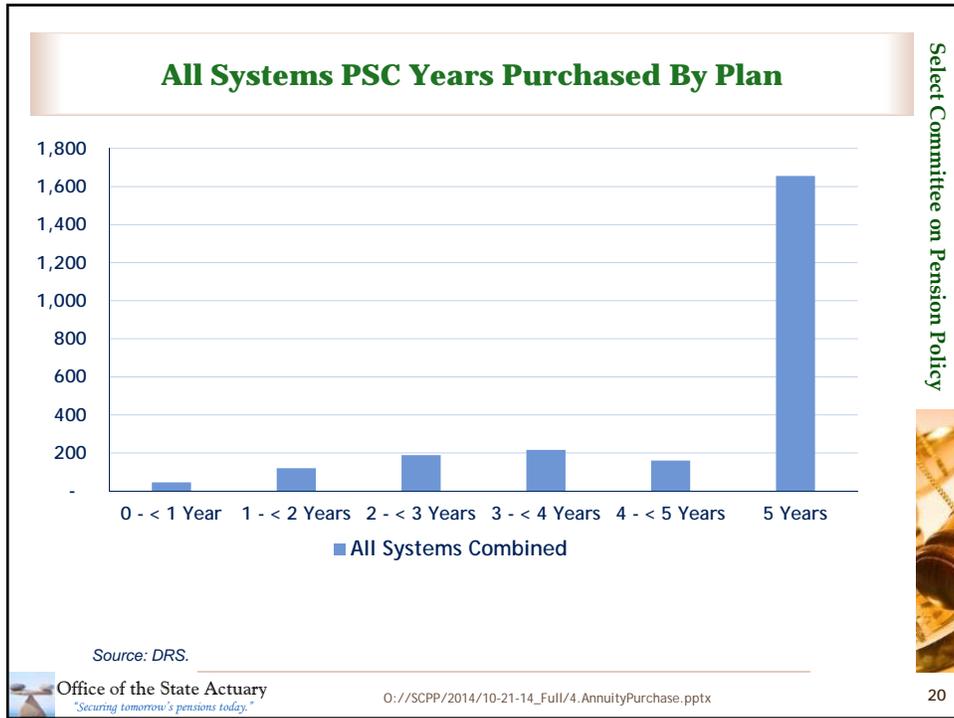
PSC At Retirement (Maximum Five Years)

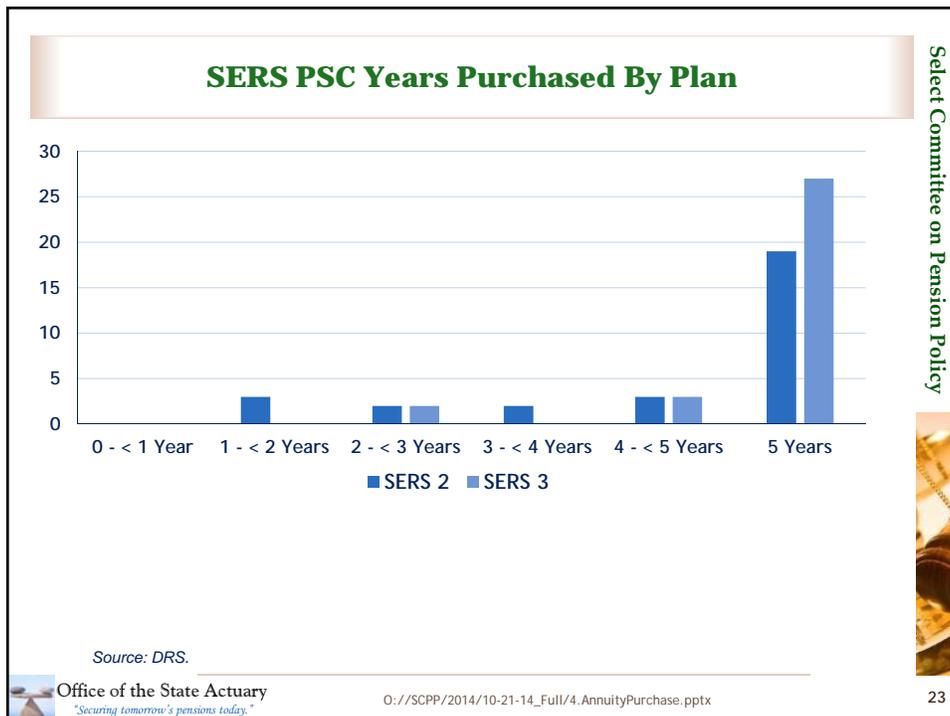
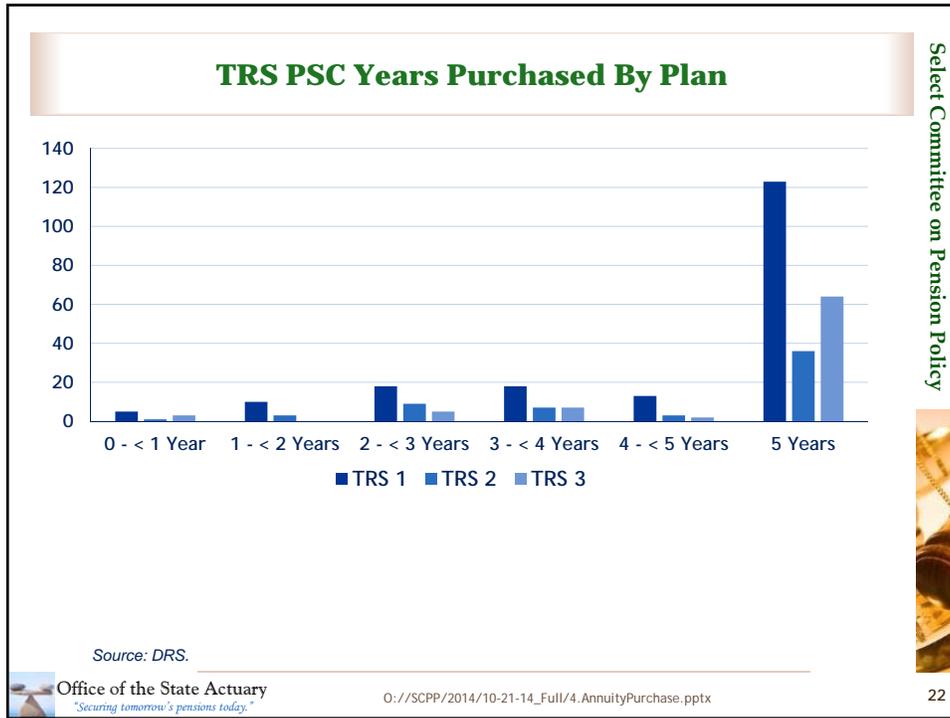
System/ Plan	Count of Purchasers	Count Purchasing 5 Years	Percent Purchasing 5 Years	Average Years Purchased	Average Salary/AFC Among All Purchasers	Average Salary/AFC Purchased 5 Years	Average AFC Among All Service Retirees	Average Purchase Price
PERS 1	656	452	69%	4.33	\$75,614	\$ 73,906	\$44,478	\$65,619
PERS 2	846	572	68%	4.30	69,040	69,808	45,959	69,168
PERS 3	80	72	90%	4.78	70,484	69,622	55,849	39,056
TRS 1	187	123	66%	4.23	69,872	67,695	52,284	58,391
TRS 2	59	36	61%	4.13	65,566	62,791	55,772	64,846
TRS 3	81	64	79%	4.51	69,279	68,696	63,746	37,528
SERS 2	29	19	66%	4.29	37,654	38,083	27,544	37,091
SERS 3	32	27	84%	4.75	40,430	39,797	29,608	22,224
PSERS 2	4	4	100%	5.00	57,190	57,190	58,458	73,878
LEOFF 1	60	47	78%	4.53	114,185	109,429	62,916	136,893
LEOFF 2	300	206	69%	4.27	103,948	103,195	82,486	124,905
WSPRS 1	50	34	67%	4.18	\$100,161	\$103,332	\$67,994	\$110,846

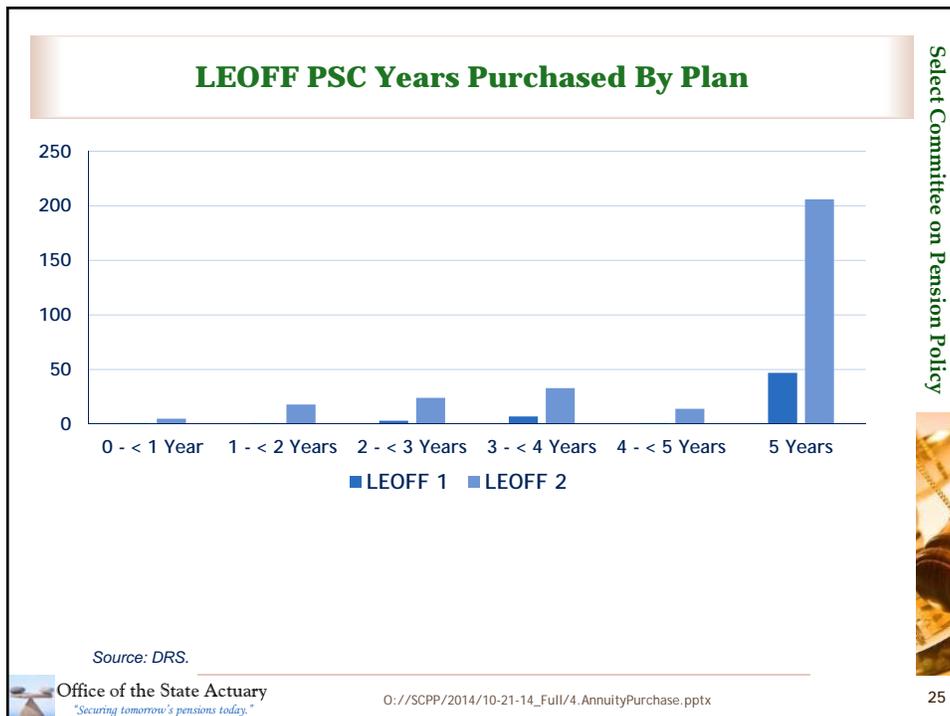
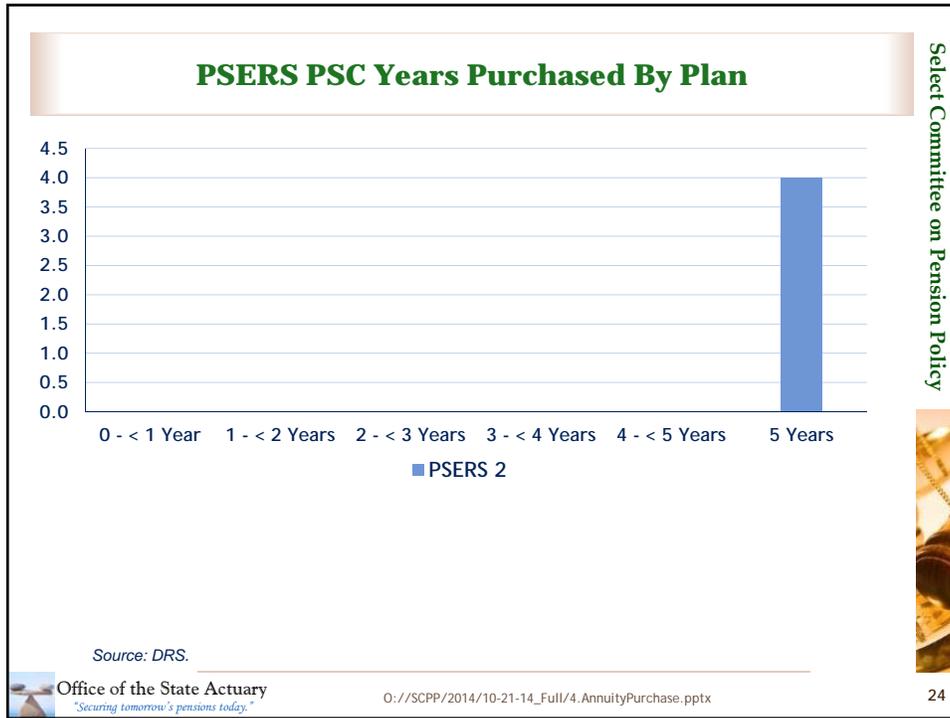
Source: DRS, OSA June 30, 2013, valuation data.

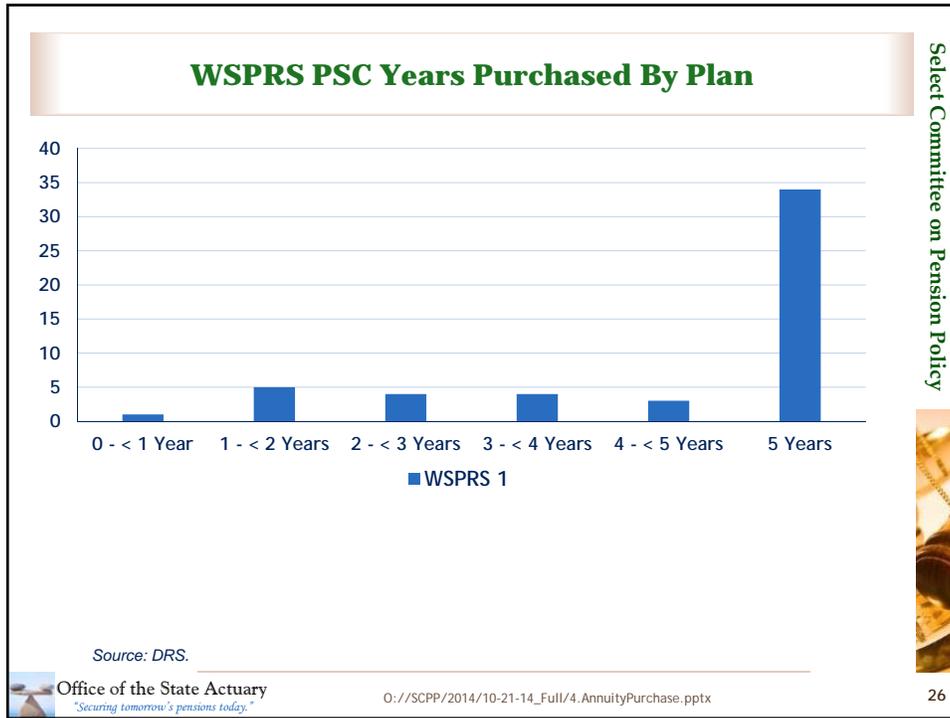
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Purchased Additional Annuity (TRS & LEOFF 2 Only)

System/Plan	Count of Purchasers	Average Age	Average Salary/AFC Among All Purchasers	Average Price Paid	Count of All Service Retirees	Average AFC Among All Service Retirees
LEOFF 2	9	54	\$106,353	\$197,732	2,331	\$82,486
TRS 1	331	65	69,819	87,137	32,547	52,284
TRS 2	5	63	78,654	220,600	3,219	55,772
TRS 3	14	62	\$ 70,175	\$90,765	4,528	\$63,746

Source: DRS, OSA June 30, 2013, valuation data.

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27

DCP Participants

Age Group	Participants with Balances over \$25,000.00	Total Balance	Average Balance
25 and under	0	0.00	
26-33	287	13,287,617.86	46,298.32
34-40	1,311	79,213,636.21	60,422.30
41-48	3,740	303,126,311.04	81,049.82
49-55	5,926	599,416,928.91	101,150.34
56-58	3,613	423,388,510.54	117,184.75
59-62	5,270	673,311,985.68	127,763.19
63-65	3,378	452,461,988.86	133,943.75
66 and older	5,772	736,367,480.96	127,575.79
Total	29,297	3,280,574,460.06	111,976.46

Source: DRS.

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