

# 2012 ACTUARIAL VALUATION

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund



WASHINGTON STATE

OCTOBER 2013





## Board for Volunteer Fire Fighters and Reserve Officers

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## Office of the State Actuary

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# TABLE OF CONTENTS

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## Letter of Introduction **V**

### Section 1 - Summary of Key Results **1-6**

- Intended Use **3**
- Funding Policy **3**
- Contribution Rates **3**
- Actuarial Liabilities **4**
- Assets **4**
- Funded Status **4**
- Participant Data **5**
- Actuarial Gain/Loss **5**
- Significant Changes **6**

### Section 2 - Actuarial Exhibits **7-24**

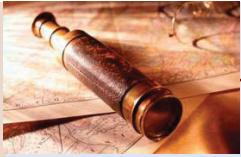
- Actuarial Certification Letter **9**
- Contribution Rates **11**
- Actuarial Liabilities **12**
- Assets **16**
- Funded Status **18**
- Economic Experience **20**
- Demographic Experience **21**
- Actuarial Gain/Loss **21**
- Effect of Plan, Assumption, and Method Changes **24**

### Section 3 - Participant Data **25-30**

### Section 4 - Appendices **31-46**

- Actuarial Assumptions **33**
- Actuarial Methods **39**
- Summary of Plan Provisions **41**
- Glossary **45**





# Office of the State Actuary

*“Securing tomorrow’s pensions today.”*

## **Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund Actuarial Valuation Report As of June 30, 2012**

Released October 2013

As required under RCW 41.24.320, this report documents the results of the actuarial valuation the Office of the State Actuary (we) performed on the Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund of Washington.

Our primary purpose for performing this valuation is to determine the pension and relief contribution requirements for the plan as of June 30, 2012, under the funding policy established by the Board for Volunteer Fire Fighters and Reserve Officers. This valuation also provides information on the funding progress and developments in the plan over the past year. We organized this report into the following four sections:

- ❖ Summary of Key Results.
- ❖ Actuarial Exhibits.
- ❖ Participant Data.
- ❖ Appendices.

The **Summary of Key Results** provides a high-level summary of the valuation results. The next two sections of the report provide detailed actuarial asset and liability information and membership data. The **Appendices** summarize the actuarial assumptions and methods, major plan provisions, and supporting information used to perform this valuation.



We encourage you to submit any questions concerning this report to our regular address or our e-mail address at [state.actuary@leg.wa.gov](mailto:state.actuary@leg.wa.gov). We also invite you to [visit our website](#) for further information regarding the actuarial funding of the Washington State retirement systems.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA  
State Actuary

Lisa A. Won, ASA, FCA, MAAA  
Senior Actuary



# SECTION ONE

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## SUMMARY OF KEY RESULTS





## Intended Use

The purpose for performing the Volunteer Fire Fighters' and Reserve Officers' (VFF) Relief and Pension Fund Actuarial Valuation is to:

- Develop contribution rates to pre-fund the pension and relief benefits under the funding policy established by the Board for Volunteer Fire Fighters and Reserve Officers (the Board).
- Measure the pension system's funding progress.
- Compare actual experience with assumptions used.
- Detect significant demographic changes.
- Highlight significant plan, assumption, and method changes.

We do not intend this report to satisfy the accounting requirements under the Governmental Accounting Standards Board (GASB) rules.

## Funding Policy

The Board relies on systematic actuarial funding to finance the ongoing cost of the pension and relief plans. Under this financing approach, we reduce the cost of future pension and relief payments by the expected long-term return on invested contributions. The plan's assets are first allocated to pre-fund the pension benefits. Any assets above the pension plan's accrued liability are allocated to the relief plan. This is a cost-sharing plan that relies on contributions from employees and employers, while the state contributes 40 percent of the annual Fire Insurance Premium Tax collected. Please refer to the **Appendices** for additional details on the actuarial funding methods.

## Contribution Rates

We determine the pension and relief contribution rates by performing an actuarial valuation. Consistent with current Board funding policy, we determine the per-person level dollar contribution rate required to pre-fund pension benefits using the Entry Age Normal (EAN) Funding Method. This rate includes the Normal Cost (NC) rate, plus a rate to amortize the Unfunded Actuarial Accrued Liability (UAAL). We determine the per-person level dollar contribution rate required to pre-fund relief benefits using the Aggregate Funding Method.

Per Person Annual Contributions		
Valuation Year	2011	2012
<b>Pension Rate</b>		
Employee	\$30	\$30
Employer	30	30
State	59	57
<b>Normal Cost Rate</b>	<b>\$119</b>	<b>\$117</b>
State UAAL Rate	0	0
<b>Total Pension Rate</b>	<b>\$119</b>	<b>\$117</b>
<b>Relief Rate</b>		
Employer	\$30	\$30
State	245	243
<b>Total Relief Rate</b>	<b>\$275</b>	<b>\$273</b>
<b>Operating Expenses</b>		
Administration and Expenses	\$33	\$40

Only members of the pension plan and their employers are charged a set pension rate. Only employers of members are charged a set rate for relief costs. Emergency medical service districts and reserve law enforcement officers employers pay the full cost of their benefits. Under current funding policy, the state covers all remaining plan costs through the collection of taxes on fire insurance premiums.

The operating expense rate is not actually collected and is provided for informational purposes only. We determined this rate based on actual annual costs from the prior year.

## Actuarial Liabilities

Actuarial Liabilities		
(Dollars in Millions)	2011	2012
<b>Present Value of Future Benefits</b>		
Pension Benefits	\$173.3	\$175.6
Relief Benefits	\$24.2	\$24.7
<b>Pension Plan*</b>		
Entry Age Normal Accrued Liability	\$167.8	\$170.3
Unfunded Actuarial Accrued Liability	\$0.0	\$0.0
Valuation Interest Rate	7.00%	7.00%

\* We do not calculate an actuarial accrued liability for the relief plan since the relief benefits are paid as they are incurred. Relief benefits are not earned or accrued as a member's service increases.

## Assets

Consistent with the Board's adopted funding policy, assets are first allocated to the pension benefits. Any assets above the pension's Actuarial Accrued Liability (AAL) are allocated to the relief benefits.

Assets		
(Dollars in Millions)	2011	2012
Market Value of Assets	\$166.3	\$163.8
Actuarial Value of Assets	173.6	177.6
Contributions*	1.1	1.0
Disbursements	11.0	11.2
Investment Return	26.0	2.7
Other**	\$5.8	\$5.1
Rate of Return on Assets***	19.2%	1.6%

\*Includes Employee, Employer, and Relief contributions.

\*\*Includes the Fire Insurance Premium Tax and Administrative Expenses.

\*\*\*This is the dollar-weighted rate of return on the Market Value of Assets.

## Funded Status

The funded status of the pension plan compares the plan's assets to the earned pension liabilities of its members. We determined this by comparing the Actuarial Value of Assets (AVA) to the EAN accrued pension liabilities calculated using the long-term interest rate assumption.

Based on the current funding policy, any assets above the pension plan AAL are allocated to fund the relief benefits. As a result, the pension plan will remain 100 percent funded provided total assets exceed the pension AAL. We do not calculate an AAL for the relief plan since the relief benefits are paid as they are incurred. Relief benefits are not earned or accrued as a member's service increases. As such, a relief funded status is not calculated.

Pension Funded Status		
(Dollars in Millions)	2011	2012
a. Entry Age Normal Accrued Liability	\$167.8	\$170.3
b. Actuarial Value of Assets Allocated to Pensions	167.8	170.3
c. Unfunded Liability (a-b)	\$0.0	\$0.0
d. Funded Ratio (b/a)	100%	100%

Note: Totals may not agree due to rounding.

## Participant Data

Changes in the size and composition of plan membership play a major role in the results of the valuation. We observed the changes to the right in plan membership since last year's valuation.

Changes in Participant Data			
	2011	2012	Increase
<b>Actives</b>			
Number of Active Members in Relief Plan	12,982	12,631	(3%)
Number of Active Members in Pension Plan	10,562	10,432	(1%)
Percent of Volunteers Covered by Pension Plan	81%	83%	2%
Average Age	41.5	41.5	(0%)
Average Years of Service	9.9	9.9	(0%)
<b>Inactives</b>			
Number of Retirees/Beneficiaries	3,836	3,971	4%
Number of Terminated Vested Members	6,142	6,174	1%
Number of Survivors (Line of Duty)	14	14	0%
Number of Members with Permanent Disabilities	13	13	0%

## Actuarial Gain/Loss

The table to the right describes the various sources that contribute to the change in contribution rates from one year to the next. For each source, we compare the actual amount experienced by the plan to the amount we assumed. Any difference will increase or decrease the contribution requirements accordingly. The changes in contribution rates shown in the following table represent a summary of the Pension and Relief contribution rates. The Actuarial Gain/Loss tables in the **Actuarial Exhibits** section of the report provide further detail.

Change in Contribution Rates by Source	Pension NC*	Pension UAAL	Relief NC
<b>2011 Contribution Rate</b>	<b>\$118.78</b>	<b>\$0.00</b>	<b>\$275.35</b>
Liability (Gains) / Losses	15.07	(4.83)	14.85
Asset (Gains) / Losses	0.00	4.83	(1.01)
PV of Future Service (Gains) / Losses	(15.98)	0.00	(25.11)
Incremental Changes (Gains) / Losses	(0.97)	0.00	2.13
Other (Gains) / Losses	(0.01)	0.00	(0.86)
<b>Total Change</b>	<b>(\$1.89)</b>	<b>\$0.00</b>	<b>(\$10.00)</b>
<b>2012 Preliminary Contribution Rate</b>	<b>\$116.90</b>	<b>\$0.00</b>	<b>\$265.35</b>
<b>Laws of 2013</b>	<b>0.00</b>	<b>0.00</b>	<b>7.22</b>
<b>2012 Contribution Rate</b>	<b>\$116.90</b>	<b>\$0.00</b>	<b>\$272.56</b>

*\*Please see the Methods section of the Appendix for details on the modified version of the EAN cost method used. Non-standard sources of annual gain/loss are produced as a result.*

## Significant Changes Since the Prior Valuation

The following comments summarize the highlights of changes from the last valuation. Please see the **Actuarial Certification Letter** for additional comments on the 2012 valuation results.

Since the *2011 Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund Actuarial Valuation Report (VAVR)*, the plan experienced actuarial gains and losses as a result of economic and demographic experience that differed from our long-term assumptions. Actuarial gains will reduce contribution rates; actuarial losses will increase contribution rates. Under a reasonable set of actuarial assumptions and methods, actuarial gains and losses will offset over long-term experience periods.

The rate of investment return on the actuarial value of assets for the plan year was lower than the assumed rate of 7 percent, which increased contribution rates.

The plan experienced both liability gains and losses. Liabilities increased less than expected due to higher turnover and fewer active duty-related disablements and deaths, which decreased contribution rates. Liabilities increased more than expected due to new entrants and higher than expected medical costs, which increased contribution rates.

The Present Value of Future Service increased more than expected due to new entrants, so the number of years for collecting contributions is larger and this results in an actuarial gain to the system, thus lowering contribution rates.

Relief contribution rates increased due to an update in the medical trend assumption, plus additional duty-related death benefits provided by SHB 1180. Also, a change to the termination rate assumptions impacted pension and relief contribution rates.

Detailed gain and loss information by plan can be found in the **Actuarial Exhibits** section of this report.



# SECTION TWO

## ACTUARIAL EXHIBITS









## Office of the State Actuary

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**Actuarial Certification Letter**  
**Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund**  
**Actuarial Valuation Report**  
**As of June 30, 2012**  
Released October 2013

We prepared this report for the Board for Volunteer Fire Fighters and Reserve Officers (the Board). This report documents the results of the actuarial valuation we performed on the Volunteer Fire Fighters’ and Reserve Officers’ Pension and Relief Benefits as defined under Chapter 41.24 of the Revised Code of Washington. The primary purpose for performing this valuation is to determine the contribution requirements for the pension and relief plans as of the valuation date June 30, 2012, consistent with the Board’s adopted funding policy. This report should not be used for other purposes. Please replace this report when a more recent report becomes available.

To produce the valuation results summarized in this report, we performed calculations requiring assumptions about future economic and demographic events. As part of the [2009 Actuarial Valuation Report of the Relief Benefits](#), healthcare actuaries from Milliman reviewed the healthcare assumptions and methods we used for the relief plan for reasonableness. We relied on Milliman’s expertise for these assumptions and methods since we are not healthcare actuaries. With Milliman’s assistance, we updated the medical trend rates assumption as part of this report. We developed the demographic assumptions in the [2001-2006 Experience Study](#). We believe that the assumptions and methods used in the valuation are reasonable and appropriate for the primary purpose stated above. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results. Actual results may vary from our expectations.

The Board adopted the investment rate of return assumption used in this valuation, the amortization policy for the Unfunded Actuarial Accrued Liability, and the asset valuation method. We believe the asset valuation method will reduce the contribution rate volatility produced by the Entry Age Normal (EAN) Actuarial Funding Method when used in combination with the existing asset allocation policy of the Washington State Investment Board (WSIB). The combination of the current asset smoothing method with any other funding method or asset allocation policy may not be appropriate.

The Board established a fund to provide for both pension and relief benefits. The Board adopted the policy to pre-fund the pension benefits using the EAN Actuarial Funding Method. The Board also adopted the policy to pre-fund the relief

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benefits using the Aggregate Actuarial Funding Method. Unless noted otherwise, we selected all other assumptions and methods used in this valuation.

Under current funding policy, certain plan costs are paid by members, employers, and the state. The contribution rate charged to individual members or employers is not intended to cover the full actuarial costs of the plan. However, annual plan income (including state contributions from fire insurance premium taxes, but excluding investment income), continues to exceed the annual actuarial requirements for the plan.

The Board provided us with member, beneficiary, and relief benefit data. We checked the data for reasonableness as appropriate based on the purpose of the valuation. WSIB and the Office of the State Treasurer provided financial and asset information. An audit of the data and financial information was not performed. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for purposes of this valuation.

The Board and OSA are actively working together to further improve the quality of the data. We previously recommended the Board implement a new data collection process for the relief benefits. A more detailed reporting of medical expenditures on an individual member basis and collecting additional beneficiary data is important in preparing for future experience studies. We use experience studies to set the assumptions upon which the projected costs of the plan are based. In addition, continued improvement in the quality of the participant data will increase the reliability of future valuation results.

In our opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this publication.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this report is intended to be complete, we are available to offer extra advice and explanations as needed.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA  
State Actuary

Lisa A. Won, ASA, FCA, MAAA  
Senior Actuary

## Contribution Rates

We used the Entry Age Normal (EAN) Funding Method to determine the pension contribution rates as a level dollar amount. This method divides the contribution rate into two parts: a Normal Cost (NC) rate and a rate to amortize the Unfunded Actuarial Accrued Liability (UAAL). We used the Aggregate Funding Method to determine the relief contribution rates as a level dollar amount.

The total pension contribution rate, which is the sum of the NC and UAAL pension rates, and the relief contribution rate should be sufficient to fund all projected pension and relief benefits of today's members. However, this assumes:

- Member contributions, employer contributions, and premium taxes are collected regularly.
- The Legislature does not increase benefits.
- Assumptions prove reasonable.

We do not expect a smooth pattern of future contributions due to the variability of the premium tax on fire insurance policies. The plan receives a portion of the annual premium taxes, which serve as a main revenue source of the system. See the **Actuarial Methods** section of the Appendices for more detail. Additionally, the method for allocating assets between the pension and relief plans could amplify the annual volatility of the relief contribution rate.

Pension and Relief Plans Required Annual Contributions		
	Per Person*	Total
	(Dollars in Ones)	(Dollars in Thousands)
<b>Pension Benefits</b>		
Entry Age Normal Cost	\$116.90	\$1,219
Cost of UAAL	0.00	0
<b>Total Pension Rate</b>	<b>\$116.90</b>	<b>\$1,219</b>
<b>Relief Benefits</b>		
Aggregate Normal Cost	\$272.56	\$3,443
<b>Total Relief Rate</b>	<b>\$272.56</b>	<b>\$3,443</b>
<b>Operating Expenses</b>		
Administration and Expenses**	\$40.34	\$509
<b>Total for Pension, Relief, and Expenses</b>	<b>\$429.79</b>	<b>\$5,172</b>

\*The Per Person rate is based on the number of active members in the data.

\*\*Estimated using actual dollars.

Notes: Totals may not agree due to rounding.

Development of Pension Plan Normal Cost*	
(Dollars in Thousands)	Total
a. Present Value of Fully Projected Benefits (PVFB)	\$175,566
b. Entry Age Normal Actuarial Accrued Liability (AAL)	\$170,256
c. Present Value of Future Normal Costs (PVFNC) (a - b)	\$5,310
d. Present Value of Future Service (PVFS)**	45,421
<b>e. Per Person Entry Age Normal Cost (c / d in Dollars)</b>	<b>\$117</b>
f. Number of Active Members in Pension Plan	10,432
<b>g. Entry Age Normal Cost (e x f)</b>	<b>\$1,219</b>

\*Please see the Methods section of the Appendix for details on the modified version of the EAN cost method used.

\*\*We calculated the Pension PVFS over all active pension members.

Note: Totals may not agree due to rounding.

Development of Pension Plan UAAL	
(Dollars in Thousands)	Total
a. Present Value of Fully Projected Benefits (PVFB)	\$175,566
b. Actuarial Value of Assets (AVA) Allocated to Pensions	\$170,256
c. Unfunded PVFB (a - b)	\$5,310
d. Present Value of Future Normal Costs (PVFNC)	\$5,310
e. Unfunded Actuarial Accrued Liability (UAAL) (c - d)	\$0
f. Contribution to Amortize the UAAL (Rolling 15-Year)	\$0
g. Number of Active Members in Pension Plan	10,432
<b>h. Per Person UAAL Contribution (f / g in Dollars)</b>	<b>\$0</b>

Note: Totals may not agree due to rounding.

Development of Relief Plan Normal Cost	
(Dollars in Thousands)	Total
a. Present Value of Fully Projected Benefits (PVFB)	\$24,724
b. Actuarial Value of Assets (AVA)*	\$7,364
c. Unfunded PVFB (a - b)	\$17,361
d. Present Value of Future Service (PVFS)**	63,695
<b>e. Per Person Aggregate Normal Cost (c / d in Dollars)</b>	<b>\$273</b>
f. Number of Active Members in Relief Plan	12,631
g. Aggregate Normal Cost (e x f)	\$3,443

\*We use the excess assets above those allocated to the pension plan for purposes of calculating an aggregate normal cost rate.

\*\*We calculated the Relief PVFS over all active relief members.

Note: Totals may not agree due to rounding.

## Actuarial Liabilities

Present Value of Benefits - Pension Plan*		
(Dollars in Thousands)		
Liability Measures	EAN AAL**	Fully Projected
<b>Active Members</b>		
Retirement	\$39,204	\$41,979
Termination	12,384	14,392
Death Benefits	973	1,079
Withdrawal	1,593	2,013
<b>Total Actives</b>	<b>\$54,154</b>	<b>\$59,463</b>
<b>Inactive Members</b>		
Retirees	\$68,418	\$68,418
Terminated Vested	42,107	42,107
Survivor	5,578	5,578
<b>Total Inactives</b>	<b>\$116,102</b>	<b>\$116,102</b>
<b>2012 Total</b>	<b>\$170,256</b>	<b>\$175,566</b>
<b>2011 Total</b>	<b>\$167,762</b>	<b>\$173,273</b>

\*Includes pension benefits only.

\*\*Entry Age Normal Actuarial Accrued Liability.

Note: Totals may not agree due to rounding.

<b>Present Value of Benefits - Relief Plan*</b>	
<i>(Dollars in Thousands)</i>	<b>Fully</b>
<b>Liability Measures</b>	<b>Projected</b>
<b>Active Members</b>	
Duty Disability	\$3,571
Duty-Related Death	3,108
Medical and Temporary Disability	12,040
<b>Total Actives</b>	<b>\$18,719</b>
<b>Inactive Members</b>	
Survivor	\$3,114
Disability	2,892
<b>Total Inactives</b>	<b>\$6,005</b>
<b>2012 Total</b>	<b>\$24,724</b>
<b>2011 Total</b>	<b>\$24,231</b>

*\*Includes relief benefits only.*

*Note: Totals may not agree due to rounding.*

Fully Projected Benefit Payments											
(Dollars in Thousands)	VFF - Pension Benefits										
	Future Value	Present Value	Year	Future Value	Present Value	Year	Future Value	Present Value	Year	Future Value	Present Value
2012	\$9,972	\$9,640	2037	\$12,854	\$2,290	2062	\$3,812	\$125	2087	\$105	\$1
2013	10,357	9,358	2038	12,442	2,071	2063	3,519	108	2088	81	0
2014	10,688	9,025	2039	12,027	1,871	2064	3,240	93	2089	62	0
2015	11,054	8,723	2040	11,620	1,690	2065	2,975	80	2090	47	0
2016	11,519	8,496	2041	11,209	1,523	2066	2,723	68	2091	36	0
2017	11,956	8,241	2042	10,786	1,370	2067	2,484	58	2092	27	0
2018	12,483	8,041	2043	10,363	1,230	2068	2,258	49	2093	20	0
2019	12,960	7,803	2044	9,924	1,101	2069	2,044	42	2094	15	0
2020	13,400	7,540	2045	9,501	985	2070	1,842	35	2095	11	0
2021	13,758	7,235	2046	9,074	879	2071	1,652	29	2096	8	0
2022	14,121	6,939	2047	8,710	789	2072	1,475	25	2097	5	0
2023	14,435	6,630	2048	8,331	705	2073	1,308	20	2098	4	0
2024	14,718	6,318	2049	7,976	631	2074	1,154	17	2099	3	0
2025	14,872	5,966	2050	7,621	563	2075	1,011	14	2100	2	0
2026	14,982	5,617	2051	7,269	502	2076	880	11	2101	1	0
2027	15,059	5,277	2052	6,951	449	2077	760	9	2102	1	0
2028	15,065	4,933	2053	6,641	401	2078	651	7	2103	0	0
2029	15,006	4,593	2054	6,339	357	2079	553	6	2104	0	0
2030	14,868	4,253	2055	6,037	318	2080	465	5	2105	0	0
2031	14,660	3,919	2056	5,739	283	2081	388	4	2106	0	0
2032	14,415	3,601	2057	5,430	250	2082	320	3	2107	0	0
2033	14,156	3,305	2058	5,106	220	2083	261	2	2108	0	0
2034	13,882	3,029	2059	4,774	192	2084	211	2	2109	0	0
2035	13,575	2,768	2060	4,444	167	2085	169	1	2110	0	0
2036	\$13,233	\$2,522	2061	\$4,120	\$145	2086	\$134	\$1	2111	\$0	\$0
									<b>Total</b>	<b>\$577,203</b>	<b>\$175,566</b>

Fully Projected Benefit Payments											
VFF - Relief Benefits											
(Dollars in Thousands)	Future Value	Present Value	Year	Future Value	Present Value	Year	Future Value	Present Value	Year	Future Value	Present Value
2012	\$2,178	\$2,105	2037	1,263	225	2062	\$566	\$19	2087	83	1
2013	2,140	1,934	2038	1,235	206	2063	541	17	2088	71	0
2014	2,103	1,776	2039	1,206	188	2064	515	15	2089	60	0
2015	2,063	1,628	2040	1,178	171	2065	490	13	2090	50	0
2016	2,023	1,492	2041	1,150	156	2066	465	12	2091	41	0
2017	1,983	1,367	2042	1,122	142	2067	439	10	2092	33	0
2018	1,946	1,253	2043	1,092	130	2068	415	9	2093	27	0
2019	1,909	1,149	2044	1,062	118	2069	392	8	2094	21	0
2020	1,874	1,054	2045	1,031	107	2070	371	7	2095	17	0
2021	1,839	967	2046	999	97	2071	350	6	2096	13	0
2022	1,801	885	2047	966	87	2072	330	5	2097	10	0
2023	1,764	810	2048	934	79	2073	310	5	2098	7	0
2024	1,727	741	2049	902	71	2074	292	4	2099	6	0
2025	1,690	678	2050	870	64	2075	274	4	2100	4	0
2026	1,653	620	2051	840	58	2076	256	3	2101	3	0
2027	1,614	566	2052	811	52	2077	239	3	2102	2	0
2028	1,576	516	2053	783	47	2078	222	2	2103	1	0
2029	1,538	471	2054	757	43	2079	205	2	2104	1	0
2030	1,500	429	2055	732	39	2080	188	2	2105	1	0
2031	1,462	391	2056	708	35	2081	172	2	2106	0	0
2032	1,426	356	2057	685	32	2082	155	1	2107	0	0
2033	1,390	325	2058	662	28	2083	139	1	2108	0	0
2034	1,356	296	2059	638	26	2084	124	1	2109	0	0
2035	1,324	270	2060	615	23	2085	110	1	2110	0	0
2036	1,293	246	2061	\$591	\$21	2086	96	1	2111	\$0	\$0
									<b>Total</b>	<b>\$74,109</b>	<b>\$24,724</b>

# Assets

Change in Market Value of Assets	
<i>(Dollars in Thousands)</i>	
Market Value as of June 30, 2011	\$166,272
<b>Revenue</b>	
Member Pension Contributions	\$88
Employer Pension Contributions	418
Relief Plan Contributions	464
Investment Earnings Net of Expenses	2,697
Net Fire Insurance Premium Tax*	5,077
<b>Total Revenue</b>	<b>\$8,744</b>
<b>Disbursements</b>	
Refunds	\$12
Expenses	40
Disability and Survivor Benefits	733
Miscellaneous	(17)
Medical Benefits	1,327
Retirement Pensions (monthly and lump sums)	9,079
<b>Total Disbursements</b>	<b>\$11,174</b>
<b>Market Value as of June 30, 2012</b>	<b>\$163,842</b>

\* VFF allocated \$525K to their admin account.

Actual admin costs for the prior year were approximately \$509K.

Note: Totals may not agree due to rounding.

Calculation of the Actuarial Value of Assets				
Assets as of June 30, 2011				
<i>(Dollars in Thousands)</i>				
a. Market Value of Assets				\$166,272
b. Deferred Investment Gains (Losses)				(7,326)
c. Actuarial Value of Assets (a-b)				\$173,598
d. Ratio of Actuarial Value to Market Value (c/a)				104%
Assets as of June 30, 2012				
<i>(Dollars in Thousands)</i>				
a. Market Value at 6/30/2012				\$163,842
b. Deferred Gains and (Losses)				
	Plan Year Ending	Years Deferred	Years Remaining	
	6/30/2012	6	5	(7,197)
	6/30/2011	8	6	12,743
	6/30/2010	4	1	1,097
	6/30/2009	8	4	(19,421)
	6/30/2008	8	3	(4,394)
	6/30/2007	8	2	2,081
	12/31/2006	8	1	1,313
	Total Deferral			(\$13,778)
c. Market Value less Deferral (a - b)				\$177,620
d. 70% of Market Value of Assets				\$114,689
e. 130% of Market Value of Assets				\$212,995
f. Actuarial Value of Assets*				\$177,620
g. Ratio of Actuarial Value to Market Value (f/a)				108%

\*The actuarial value of assets may not exceed 130% nor drop below 70% of the market value of assets.

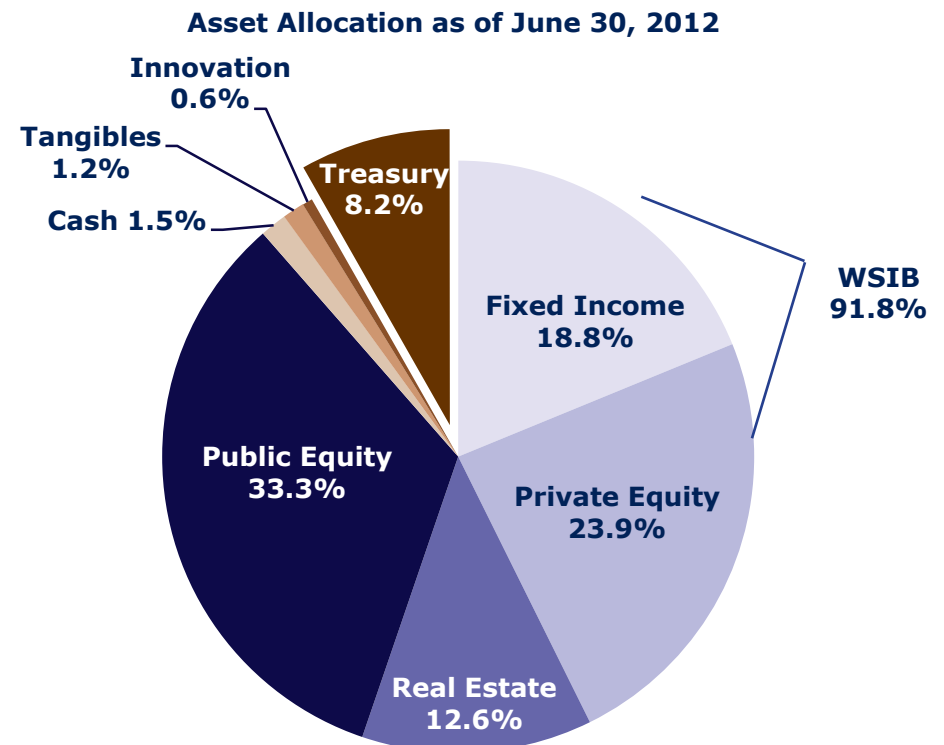
Note: Totals may not agree due to rounding.



The Board for Volunteer Fire Fighters and Reserve Officers (the Board) established the plan’s asset fund to pay for both pension and relief benefits. They chose to allocate the assets to pensions up to the Actuarial Accrued Liability (AAL) for the pension plan with any remaining assets allocated to relief benefits. The table below summarizes the allocation of the assets to the pension and relief plans. This allocation produces zero UAAL for the pension plan this reporting period.

Allocation of Assets by Plan			
<i>(Dollars in Millions)</i>	Pension	Relief	Total
Actuarial Value of Assets	\$170.3	\$7.4	\$177.6

The assumed 7.0 percent investment Rate of Return (ROR) for the plan assets is based upon a weighted average of the expected ROR for the assets in the Treasury and the Washington State Investment Board (WSIB) accounts. On a long-term basis, we expect the Treasury investments to earn 4.0 percent per year and the WSIB investments to earn 7.5 percent per year net of expenses. The distribution of total plan assets between each account fluctuates by year and is monitored by the Board to ensure adequate assets in the Treasury account to make benefit payments. The graph below shows details of the asset allocation for the plan as of June 30, 2012.



The WSIB asset allocation for the year ending June 30, 2012, includes assets in the CTF, which comprise 91.8% of the VFF assets. The remaining 8.2% of VFF assets are held in the Treasury and are invested in short-term bonds.

Annual Income vs. Costs	
<i>(Dollars in Thousands)</i>	
Pension and Relief Plans	Total
<b>Actuarial Costs</b>	
Entry Age Normal Cost	\$1,219
UAAL (Surplus)	0
Total Pension	1,219
Relief Aggregate Normal Cost	3,443
<b>Total Actuarial Costs</b>	<b>\$4,662</b>
<b>Income</b>	
Fire Insurance Premium Tax	\$5,602
Administration and Expenses	(509)
<b>Pension</b>	
Employee	\$306
Employer	306
Other Pension*	28
<b>Total Pension</b>	<b>\$640</b>
<b>Relief</b>	
Employer**	\$370
Other Relief*	80
<b>Total Relief</b>	<b>\$450</b>
<b>Total Income</b>	<b>\$6,183</b>
<b>Surplus (Deficit) Income</b>	<b>\$1,520</b>

\*Emergency Medical Services Districts and Reserve Law Enforcement Officers pay the full cost of their benefits.

\*\*Relief fees based on the rate of \$30.00 per member.

Note: Totals may not agree due to rounding.

## Funded Status

We report a plan's funded status by comparing the plan's current assets to today's value of the earned pensions of its members. For this valuation report, we present the funded status on an Actuarial Value Basis. This measure compares the Actuarial Value of Assets (AVA) to the pension plan's EAN liabilities calculated using a long-term interest rate assumption.

The funded status on an actuarial value basis assumes the plan is on-going and therefore uses the same long-term assumptions and methods to develop the assets and liabilities as used in determining the contribution requirements of the plan. We do not expect the assumptions to match actual experience over short-term periods. However, we do expect these assumptions to reasonably approximate average annual experience over long-term periods.

We use an asset valuation method to determine the AVA. This asset valuation method smooths the inherent volatility in the Market Value of Assets (MVA) by deferring a portion of annual investment gains or losses for a certain number of years.

Investment gains and losses occur when the annual return on investments varies from the long-term assumed rate of 7 percent. The AVA provides a more stable measure of the plan's assets on an on-going basis.

We use the EAN Actuarial Cost Method to determine the present value of earned pensions (or accrued liability). The accrued liability is based on the difference between the pension's Present Value of Future Benefits (PVFB) and the pension's Present Value of Future Normal Cost (PVFNC). In other words, the accrued liability is the difference between today's value of all projected pension benefits paid by the plan and today's value of the future normal costs required by the pension plan's actuarial funding method. The EAN cost method determines each year's normal cost as a level annual amount that, if collected from each member's entry age to their projected

retirement age, would completely fund their projected pension benefits. The EAN liabilities are discounted to the valuation date using the valuation interest rate to determine the present value (today's value). The valuation interest rate is consistent with the long-term expected return on invested contributions.

The funded status serves as an independent measure to assess the pension system's funding progress and is a consistent measure to compare to the funded statuses of other retirement systems.

Based on the funding policy adopted by the Board, any assets above the pension plan AAL are allocated to fund the relief benefits. As a result, the funded status of the pension plan will remain 100 percent provided total assets exceed the pension plan AAL.

We do not calculate an actuarial accrued liability for the relief plan since the relief benefits are paid as they are incurred. Relief benefits are not earned or accrued as a member's service increases. As such, a funded status is not calculated. Please see the **Development of Relief Plan Normal Cost** for a comparison of the present value of future relief benefits to the assets on hand for (allocated to) relief benefits.

Pension Funded Status on Actuarial Value Basis			
<i>(Dollars in Thousands)</i>			
Entry Age Normal Accrued Liability <sup>1</sup>	\$170,256		
Actuarial Value of Assets <sup>2</sup>	170,256		
Unfunded Liability	\$0		
Funded Ratio			
June 30, 2012 <sup>2</sup>	100%		
June 30, 2011 <sup>2</sup>	100%	December 31, 1997	144%
June 30, 2010 <sup>2</sup>	100%	December 31, 1996	129%
June 30, 2009 <sup>3</sup>	102%	December 31, 1995 <sup>4</sup>	118%
June 30, 2008	105%	December 31, 1994	112%
June 30, 2007 <sup>4</sup>	107%	December 31, 1993 <sup>4</sup>	114%
December 31, 2006	103%	December 31, 1992	108%
December 31, 2005 <sup>4</sup>	95%	December 31, 1991 <sup>3</sup>	103%
December 31, 2004	113%	December 31, 1990	111%
December 31, 2003	116%	December 31, 1989 <sup>4</sup>	112%
December 31, 2002 <sup>3</sup>	122%	December 31, 1988	98%
December 31, 2001 <sup>4</sup>	142%		
December 31, 2000 <sup>4</sup>	144%		
December 31, 1999	132%		
December 31, 1998 <sup>3</sup>	120%		

<sup>1</sup> Prior to 2007 we used the Projected Unit Credit Liability to calculate the funded status.

<sup>2</sup> Excess assets above Pension AAL are allocated to Relief Benefits.

<sup>3</sup> Benefits increased.

<sup>4</sup> Actuarial assumptions changed.

The present value of actuarial liabilities is sensitive to the interest rate assumption. The table below shows how the funded status changes when we use different interest rate assumptions. We calculated the liabilities using a 6.25 percent and 7.75 percent ROR to show this sensitivity.

Pension Funded Status at Variable Interest Rate Assumptions			
(Dollars in Thousands)	6.25% ROR	7.00% ROR	7.75% ROR
Entry Age Normal Accrued Liability	\$185,459	\$170,256	\$157,029
Actuarial Value of Assets <sup>1</sup>	177,620	170,256	157,029
Unfunded Liability	\$7,839	\$0	\$0
<b>Funded Ratio</b>			
June 30, 2012 <sup>1</sup>	96%	100%	100%
June 30, 2011 <sup>1</sup>	95%	100%	100%
June 30, 2010 <sup>1</sup>	93%	100%	100%
June 30, 2009 <sup>2</sup>	93%	102%	111%
June 30, 2008	96%	105%	115%
June 30, 2007 <sup>3</sup>	98%	107%	117%

<sup>1</sup> Excess assets above Pension AAL are allocated to Relief Benefits.

<sup>2</sup> Benefits increased.

<sup>3</sup> Actuarial assumptions changed.

## Economic Experience

The economic experience will reflect the current economic, financial, and inflationary environment. These factors can change more rapidly than the factors affecting our demographic assumptions.

- **Investment Returns** — We assume future investment returns at a rate of 7 percent per year, net of expenses. The investment return assumption represents the average annual rate of return we expect the assets of the plan to earn over the long-term. Actual annual investment performance over short-term periods will deviate from this long-term assumption. To reduce volatility on contribution rates and reported funded status, the Board adopted an asset smoothing method that limits short-term fluctuations in the AVA due to the underlying volatility in the MVA. The dollar-weighted annual rate of return was 1.6 percent on the MVA for the year ending June 30, 2012 (the valuation date). Comparatively, the plans annual return on the AVA was 5.3 percent for the year ending on the valuation date.
- **Premium Tax** — As the state’s contribution to the plan, the Office of the State Treasurer (OST) contributes 40 percent of the premium tax paid on fire insurance policies to fund the plan. The level of annual premium tax fluctuates because the amount of the contribution equals the total amount paid by insurers to guarantee associations, which varies from year to year.

Premium Taxes Contributed to Plan			
Year	(Dollars in Thousands)		
2012	\$5,602	2000	\$2,869
2011	\$5,815	1999	\$2,706
2010	\$5,685	1998	\$2,285
2009	\$5,794	1997	\$2,539
2008	\$5,853	1996	\$2,973
2007	\$5,689	1995	\$2,330
2006	\$5,186	1994	\$2,370
2005	\$4,808	1993	\$2,016
2004	\$4,726	1992	\$1,736
2003	\$4,112	1991	\$2,081
2002	\$3,605	1990	\$1,892
2001	\$3,320	1989	\$1,900

## Demographic Experience

Actual vs. Expected Demographic Counts			
Counts by Decrement Type	Actual	Expected	Act/Exp
New Entrants	1,589	N/A	0.00
Retirements	94	169	0.56
Terminations	1,353	1,169	1.16
Deaths - Actives	10	20	0.49
Active Disabilities	0	1	0.00
Deaths - Inactives*	153	223	0.69

\*Excludes terminated and vested records that cashout or become missing records.

## Actuarial Gain/Loss

Since the 2011 *Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund Actuarial Valuation Report (VAVR)*, the key gains and losses that impacted the results of this valuation include the following.

- The pension and relief normal cost rates experienced liability losses, which increased contribution rates. Primarily, these losses are attributable to new members joining the plan, thus increasing the total liabilities. Additionally, there were higher than expected medical expenses, which contributed to the liability loss for the relief normal cost rate.
- The pension UAAL rate experienced liability gains and losses. Primarily, the gains are attributable to the removal of liability for more active members terminating than expected and fewer terminated members commencing their pensions than expected. Comparatively, the losses are directly attributable to new members joining the pension plan or members returning to active volunteering.

- The annual investment rate of return on the MVA was 1.6 percent in 2011. After recognizing a percentage of the deferred losses from the great recession of 2008-2009, the AVA increased by 5.3 percent compared to the 7.0 percent we expected. Overall, this produced an asset loss for the plan. This asset loss increased the contribution rate for the pension UAAL.
- The liability gain for the pension UAAL more than offset the total asset loss. As a result, the assets allocated to relief benefits increased, which decreased the relief contribution rate.
- The actual 2012 Present Value of Future Service (PVFS) was higher than we expected. As a result, this gain caused the pension and relief normal cost rates to decrease. The gain in the PVFS is attributable to new members who joined the pension and relief benefit plans.

Change in Pension Normal Cost Rate by Source*	
<b>2011 Pension Normal Cost Rate</b>	<b>\$118.78</b>
<b>Liabilities</b>	
Termination	(\$4.36)
Retirement	0.27
Mortality	0.23
Growth / Return to Work	17.17
Other Liabilities	1.76
<b>Total Liabilities (Gains) / Losses</b>	<b>\$15.07</b>
<b>PV of Future Service (Gains) / Losses</b>	<b>(\$15.98)</b>
<b>Incremental Changes</b>	
Plan Changes	0.00
Method Changes	0.00
Assumption Changes	0.00
Correction Changes	(0.97)
<b>Total Incremental Changes (Gains) / Losses</b>	<b>(\$0.97)</b>
<b>Other (Gains) / Losses</b>	<b>(\$0.01)</b>
<b>Total Change</b>	<b>(\$1.89)</b>
<b>2012 Preliminary Pension Normal Cost Rate</b>	<b>\$116.90</b>
Laws of 2013	0.00
<b>2012 Pension Normal Cost Rate</b>	<b>\$116.90</b>

*\*Please see the Methods section of the Appendix for details on the modified version of the EAN cost method used. Non-standard sources of annual gain/loss are produced as a result.*

Change in Pension UAAL Rate by Source	
<b>2011 Pension UAAL Rate</b>	<b>\$0.00</b>
<b>Liabilities</b>	
Termination	(\$4.56)
Retirement	(0.62)
Mortality	(3.71)
Growth / Return to Work	5.06
Other Liabilities	(1.00)
<b>Total Liabilities (Gains) / Losses</b>	<b>(\$4.83)</b>
<b>Assets (Gains) / Losses</b>	<b>\$4.83</b>
<b>Incremental Changes</b>	
Plan Changes	\$0.00
Method Changes	0.00
Assumption Changes	0.00
Correction Changes	0.00
<b>Total Incremental Changes (Gains) / Losses</b>	<b>\$0.00</b>
<b>Other (Gains) / Losses</b>	<b>\$0.00</b>
<b>Total Change</b>	<b>\$0.00</b>
<b>2012 Preliminary Pension UAAL Rate</b>	<b>\$0.00</b>
Laws of 2013	0.00
<b>2012 Pension UAAL Rate</b>	<b>\$0.00</b>

Change in Relief Normal Cost Rate by Source	
<b>2011 Relief Normal Cost Rate</b>	<b>\$275.35</b>
<b>Liabilities</b>	
Termination	(\$6.71)
Retirement	(0.04)
Disability	(9.02)
Mortality	(3.81)
Growth / Return to Work	16.20
Other Non-Medical	(0.05)
Medical	18.00
Other Liabilities	0.26
<b>Total Liabilities (Gains) / Losses</b>	<b>\$14.85</b>
<b>Assets (Gains) / Losses</b>	<b>(\$1.01)</b>
<b>PV of Future Service (Gains) / Losses</b>	<b>(\$25.11)</b>
<b>Incremental Changes</b>	
Plan Changes	\$0.00
Method Changes	0.00
Assumption Changes	1.51
Correction Changes	0.62
<b>Total Incremental Changes (Gains) / Losses</b>	<b>\$2.13</b>
<b>Other (Gains) / Losses</b>	<b>(\$0.86)</b>
<b>Total Change</b>	<b>(\$10.00)</b>
<b>2012 Preliminary Relief Normal Cost Rate</b>	<b>\$265.35</b>
Laws of 2013	7.22
<b>2012 Relief Normal Cost Rate</b>	<b>\$272.56</b>



# Effect of Plan, Assumption, and Method Changes

## Plan Changes

- **SHB 1180 (2013 Legislative Session)** — This bill modifies duty-related death and survivor benefits by increasing the lump sum benefit from \$152,000 to \$214,000 and increasing the monthly annuity amount from \$110 to \$500 per surviving dependent child. This bill made further changes that did not impact this valuation.

- **Medical Trend Rates** — We updated the Uniform Medical Plan (UMP) Non-Medicare medical inflation rates based upon our 2013 OPEB Report. The impact of this change increased the relief contribution rate by less than one percent.

## Assumption Changes

- **Termination Rates** — We made a change to this assumption for members who volunteer beyond 35 years of service. Previously, we assumed members would not terminate once they reached 35 years of service and would continue volunteering until retirement eligibility. Now we continue applying the termination assumptions for service years 34 and beyond. We believe this change more accurately reflects how actual members would behave. We made a further correction to the termination rates for members with less than 0.5 years of service.

## Method Changes

- None.

Per Person Annual Contribution Rates				
Valuation Year	2011	Incremental	Data & Asset	2012
Pension Rate	Final	Changes*	Changes**	Final
Employee	\$30	\$0	\$0	\$30
Employer	30	0	0	30
State	59	(1)	(1)	57
<b>Normal Cost Rate</b>	<b>\$119</b>	<b>(\$1)</b>	<b>(\$1)</b>	<b>\$117</b>
State UAAL or (Surplus) Rate	0	0	0	0
<b>Total Pension Rate</b>	<b>\$119</b>	<b>(\$1)</b>	<b>(\$1)</b>	<b>\$117</b>
Relief Rate				
Employer	\$30	\$0	\$0	\$30
State	245	9	(12)	243
<b>Total Relief Rate</b>	<b>\$275</b>	<b>\$9</b>	<b>(\$12)</b>	<b>\$273</b>

\*This represents the impact on contribution rates attributable to plan, assumption, and method changes.

\*\*This represents the impact on contribution rates resulting from updated asset values and demographics of the VFF population from the previous valuation date.



# SECTION THREE

## PARTICIPANT DATA

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Membership Data						
Actives	2007*	2008**	2009	2010	2011	2012
Number of Members in Relief System	14,066	13,393	13,418	13,327	12,982	12,631
Average Age			40.0	39.9	40.1	40.2
Average Total Service			8.6	8.5	8.5	8.7
Number of Emergency Medical Technicians			58	66	67	57
Number of Reserve Law Enforcement Officer			277	274	257	238
Number of Members in Pension System	11,212	10,842	10,758	10,812	10,562	10,432
Percent of Volunteers Covered	80%	81%	80%	81%	81%	83%
Average Age	41.4	41.5	41.7	41.5	41.5	41.5
Average Total Service	9.5	10.2	10.2	9.9	9.9	9.9
Average Pension Benefit Service	9.1	9.1	9.2	8.9	8.9	8.9
Number of Emergency Medical Technicians	33	27	26	39	36	31
Number of Reserve Law Enforcement Officer	255	243	234	239	232	210
Retirees						
Number of Retirees/Beneficiaries	3,437	3,575	3,612	3,712	3,836	3,971
Average Age	73.5	73.4	74.0	74.0	74.2	74.3
Number of New Retirees	107	212	198	202	207	237
Average Annual Benefit	\$2,152	\$2,158	\$2,161	\$2,177	\$2,188	\$2,198
Total Annual Benefit Payments	\$7,396,862	\$7,715,572	\$7,803,870	\$8,081,282	\$8,392,458	\$8,729,864
Terminated Vested						
Number of Terminated Vested	5,211	5,866	6,059	6,119	6,142	6,174
Relief Annuities						
Number of Duty-Death Survivors	17	17	14	14	14	14
Average Age			71.2	72.2	73.1	74.1
Average Annual Benefit			\$19,073	\$19,853	\$19,853	\$20,264
Number of Duty-Related Disabled	14	13	13	13	13	13
Average Age			63.3	64.2	65.2	66.2
Average Annual Benefit			\$21,424	\$22,300	\$22,300	\$22,762

\*New Retirees count updated to reflect six-month valuation year.

\*\*Retired counts include members who retired after the valuation date.

Pension Active Members - Age and Membership Service Distribution										
Membership Service	Attained Age									Total
	< 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60+	
1	797	389	239	182	153	90	52	46	53	2,001
2	267	198	145	102	93	39	38	32	33	947
3-4	320	249	187	164	124	118	75	63	69	1,369
5-9	108	376	340	319	292	227	211	129	160	2,162
10-14	0	54	182	217	183	191	166	137	180	1,310
15-19	0	0	32	121	170	175	181	156	138	973
20-24	0	0	0	21	68	144	166	183	159	741
25 +	0	0	0	0	12	80	223	274	340	929
<b>Total</b>	1,492	1,266	1,125	1,126	1,095	1,064	1,112	1,020	1,132	10,432

Relief Active Members - Age and Membership Service Distribution										
Membership Service	Attained Age									Total
	< 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60+	
1	1,485	611	399	285	228	138	80	89	103	3,418
2	341	237	175	121	105	49	45	45	56	1,174
3-4	371	295	225	174	141	132	87	79	106	1,610
5-9	117	407	363	336	312	241	228	141	213	2,358
10-14	0	57	184	221	187	196	172	144	198	1,359
15-19	0	0	32	121	171	176	184	160	143	987
20-24	0	0	0	21	68	146	169	183	165	752
25 +	0	0	0	0	12	81	224	277	379	973
<b>Total</b>	2,314	1,607	1,378	1,279	1,224	1,159	1,189	1,118	1,363	12,631

Pension Retirees*		
Age	Number of Retirees	Average Annual Benefit
60	13	\$1,264
61	24	\$1,596
62	59	\$1,813
63	69	\$1,980
64	76	\$2,093
65	141	\$2,274
66	200	\$2,300
67	219	\$2,339
68	206	\$2,272
69	209	\$2,305
70	223	\$2,254
71	203	\$2,262
72	176	\$2,161
73	187	\$2,252
74	191	\$1,978
75	187	\$2,106
76	160	\$2,096
77	162	\$2,105
78	152	\$2,160
79	121	\$2,281
80	118	\$2,185
81	101	\$2,216
82	120	\$2,232
83	106	\$2,275
84	105	\$2,245
85	90	\$2,287
86	84	\$2,286
87	81	\$2,162
88	50	\$2,127
89	31	\$2,190
90 +	107	\$2,249
<b>Total</b>	<b>3,971</b>	<b>\$2,198</b>

Line-of-Duty Death Survivors		
Age	Number of Survivors	Average Annual Benefit
<60	4	\$20,264
60-74	2	20,264
75-89	5	20,264
90+	3	\$20,264
<b>Total</b>	<b>14</b>	<b>\$20,264</b>

Retirees with Disabilities		
Age	Number of Retirees	Average Annual Benefit
<60	5	\$21,887
60-74	4	23,308
75-89	4	23,308
90+	0	\$0
<b>Total</b>	<b>13</b>	<b>\$22,762</b>

\*Includes beneficiaries of service retirees.



# SECTION FOUR

## APPENDICES







# Actuarial Assumptions

## Decrement Rates

- Disability Rates** — To value disability benefits under the relief plan, we used the duty disability rates developed for the 2009 relief valuation. We assume duty related disability rates increase with age. The older the Volunteer Fire Fighter (VFF) relief member is, the higher the probability of duty-related disability.

Probability of Disability*	
Age	Rate
19	0.000%
20	0.008%
25	0.009%
30	0.010%
35	0.011%
40	0.012%
45	0.013%
50	0.014%
55	0.015%
60	0.016%
65	0.017%
70	0.018%
75	0.019%
79	0.020%
80	0.000%

\*The rates are linearly interpolated between the ages.

- Termination Rates** — Termination rates are modeled as a function of Membership Service (MS). Rates increase at 25 years when members reach the maximum pension benefit level.

Probability of Termination*				
Service Years**	Ages 15-19	Age 20	Age 79	Age 80
0-4	18.000%	17.992%	17.980%	0.000%
5-9	12.000%	11.992%	11.980%	0.000%
10-14	9.000%	8.992%	8.980%	0.000%
15-24	5.000%	4.992%	4.980%	0.000%
25	13.000%	12.992%	12.980%	0.000%
26+	9.000%	8.992%	8.980%	0.000%

\*The rates are linearly interpolated between the ages of 20 and 79.

\*\*The service based reduction factors for pension benefits improve at 10, 15, 20, and 25 years of membership service. For calculating the Pension PVFS, we assume 100% termination at 25 years of service.

- Retirement Rates** — Retirement rates begin at age 60 for active members. We assume that terminated members with vested benefits will defer retirement to age 65.

Probability of Retirement*		
Age**	Rate	
	MS < 25	MS >= 25
59	0.000%	0.000%
60	3.984%	3.984%
61	1.984%	1.984%
62	10.984%	10.984%
63	6.983%	6.983%
64	4.983%	4.983%
65	41.983%	89.983%
66	19.983%	89.983%
79	19.980%	89.980%
80	100.000%	100.000%

\*For calculating the Pension PVFS, we assume 100% retirement at 25 years of service.

\*\*The rates are linearly interpolated between the ages of 66 and 79.

- Mortality Rates** — We use the Public Employees' Retirement System (PERS) Plans 2/3 mortality rates for the VFF plan. The PERS Plans 2/3 rates are based on the RP-2000 Combined Healthy Mortality Table with improvements projected to the year 2031 using 50 percent of Scale AA. The Society of Actuaries published both the RP-2000 and Scale-AA tables.

Please see [osa.leg.wa.gov](http://osa.leg.wa.gov) for the Actuarial Valuation Report (AVR) for more details on the development of these tables.

Base Mortality Rates and Projection Scale									
Age	RP-2000 Healthy		50% Scale AA*		Age	RP-2000 Healthy		50% Scale AA*	
	Male	Female	Male	Female		Male	Female	Male	Female
19	0.000000	0.000000	0.000000	0.000000	42	0.001215	0.000852	0.005000	0.007500
20	0.000345	0.000191	0.009500	0.008000	43	0.001299	0.000937	0.005500	0.007500
21	0.000357	0.000192	0.009000	0.008500	44	0.001397	0.001029	0.006000	0.007500
22	0.000366	0.000194	0.008500	0.008500	45	0.001508	0.001124	0.006500	0.008000
23	0.000373	0.000197	0.007500	0.008000	46	0.001616	0.001223	0.007000	0.008500
24	0.000376	0.000201	0.006500	0.007500	47	0.001734	0.001326	0.007500	0.009000
25	0.000376	0.000207	0.005000	0.007000	48	0.001860	0.001434	0.008000	0.009000
26	0.000378	0.000214	0.003000	0.006000	49	0.001995	0.001550	0.008500	0.009000
27	0.000382	0.000223	0.002500	0.006000	50	0.002138	0.001676	0.009000	0.008500
28	0.000393	0.000235	0.002500	0.006000	51	0.002449	0.001852	0.009500	0.008000
29	0.000412	0.000248	0.002500	0.006000	52	0.002667	0.002018	0.010000	0.007000
30	0.000444	0.000264	0.002500	0.005000	53	0.002916	0.002207	0.010000	0.006000
31	0.000499	0.000307	0.002500	0.004000	54	0.003196	0.002424	0.010000	0.005000
32	0.000562	0.000350	0.002500	0.004000	55	0.003624	0.002717	0.009500	0.004000
33	0.000631	0.000394	0.002500	0.004500	56	0.004200	0.003090	0.009000	0.003000
34	0.000702	0.000435	0.002500	0.005000	57	0.004693	0.003478	0.008500	0.002500
35	0.000773	0.000475	0.002500	0.005500	58	0.005273	0.003923	0.008000	0.002500
36	0.000841	0.000514	0.002500	0.006000	59	0.005945	0.004441	0.008000	0.002500
37	0.000904	0.000554	0.002500	0.006500	60	0.006747	0.005055	0.008000	0.002500
38	0.000964	0.000598	0.003000	0.007000	61	0.007676	0.005814	0.007500	0.002500
39	0.001021	0.000648	0.003500	0.007500	62	0.008757	0.006657	0.007500	0.002500
40	0.001079	0.000706	0.004000	0.007500	63	0.010012	0.007648	0.007000	0.002500
41	0.001142	0.000774	0.004500	0.007500	64	0.011280	0.008619	0.007000	0.002500

\*Scale AA represents annual improvements in mortality rates. We project these improvements in mortality to the specified year based on 50% of scale AA.

Base Mortality Rates and Projection Scale (continued)									
RP-2000 Healthy		50% Scale AA*		RP-2000 Healthy		50% Scale AA*			
Age	Male	Female	Male	Female	Age	Male	Female	Male	Female
65	0.012737	0.009706	0.007000	0.002500	88	0.150590	0.107303	0.002500	0.002000
66	0.014409	0.010954	0.006500	0.002500	89	0.166420	0.119154	0.002500	0.001500
67	0.016075	0.012163	0.006500	0.002500	90	0.183408	0.131682	0.002000	0.001500
68	0.017871	0.013445	0.007000	0.002500	91	0.199769	0.144604	0.002000	0.001500
69	0.019802	0.014860	0.007000	0.002500	92	0.216605	0.157618	0.001500	0.001500
70	0.022206	0.016742	0.007500	0.002500	93	0.233662	0.170433	0.001500	0.001000
71	0.024570	0.018579	0.007500	0.003000	94	0.250693	0.182799	0.001500	0.001000
72	0.027281	0.020665	0.007500	0.003000	95	0.267491	0.194509	0.001000	0.001000
73	0.030387	0.022970	0.007500	0.003500	96	0.283905	0.205379	0.001000	0.001000
74	0.033900	0.025458	0.007500	0.003500	97	0.299852	0.215240	0.001000	0.000500
75	0.037834	0.028106	0.007000	0.004000	98	0.315296	0.223947	0.000500	0.000500
76	0.042169	0.030966	0.007000	0.004000	99	0.330207	0.231387	0.000500	0.000500
77	0.046906	0.034105	0.006500	0.003500	100	0.344556	0.237467	0.000500	0.000500
78	0.052123	0.037595	0.006000	0.003500	101	0.358628	0.244834	0.000000	0.000000
79	0.057927	0.041506	0.005500	0.003500	102	0.371685	0.254498	0.000000	0.000000
80	0.064368	0.045879	0.005000	0.003500	103	0.383040	0.266044	0.000000	0.000000
81	0.072041	0.050780	0.004500	0.003500	104	0.392003	0.279055	0.000000	0.000000
82	0.080486	0.056294	0.004000	0.003500	105	0.397886	0.293116	0.000000	0.000000
83	0.089718	0.062506	0.004000	0.003500	106	0.400000	0.307811	0.000000	0.000000
84	0.099779	0.069517	0.003500	0.003500	107	0.400000	0.322725	0.000000	0.000000
85	0.110757	0.077446	0.003500	0.003000	108	0.400000	0.337441	0.000000	0.000000
86	0.122797	0.086376	0.003500	0.002500	109	0.400000	0.351544	0.000000	0.000000
87	0.136043	0.096337	0.003000	0.002000	110	0.400000	0.364617	0.000000	0.000000

\*Scale AA represents annual improvements in mortality rates. We project these improvements in mortality to the specified year based on 50% of scale AA.

We developed a unisex mortality table based upon the percent male assumption described later in this section and applied it to the active and retired member population. We use the opposite percent male assumption when applying the mortality table to surviving spouses.

Mortality Rates															
Age	Member	Survivor	Disabled	Age	Member	Survivor	Disabled	Age	Member	Survivor	Disabled	Age	Member	Survivor	Disabled
19	0.000000	0.000000	0.000000	42	0.000942	0.000650	0.017981	65	0.008963	0.008085	0.038914	88	0.122180	0.094056	0.146579
20	0.000246	0.000160	0.015692	43	0.000991	0.000710	0.017712	66	0.010249	0.009122	0.041129	89	0.135639	0.105978	0.153440
21	0.000249	0.000158	0.015920	44	0.001046	0.000776	0.017447	67	0.011608	0.010300	0.042934	90	0.151928	0.117980	0.168502
22	0.000261	0.000160	0.016163	45	0.001109	0.000837	0.017177	68	0.012780	0.011424	0.044271	91	0.167703	0.130363	0.183262
23	0.000275	0.000165	0.016667	46	0.001180	0.000899	0.017891	69	0.014181	0.012634	0.046423	92	0.185162	0.143266	0.201346
24	0.000289	0.000171	0.017186	47	0.001246	0.000961	0.018582	70	0.015509	0.013946	0.048084	93	0.201338	0.157993	0.217257
25	0.000304	0.000177	0.017990	48	0.001319	0.001037	0.019264	71	0.017353	0.015507	0.050580	94	0.217257	0.171009	0.233086
26	0.000324	0.000188	0.019126	49	0.001395	0.001119	0.019929	72	0.019203	0.017180	0.053367	95	0.236126	0.183762	0.252247
27	0.000332	0.000195	0.019416	50	0.001478	0.001220	0.020589	73	0.021299	0.018869	0.056339	96	0.252247	0.195644	0.267622
28	0.000336	0.000202	0.019416	51	0.001564	0.001334	0.021236	74	0.023716	0.020950	0.059626	97	0.267903	0.209248	0.282818
29	0.000347	0.000212	0.019416	52	0.001765	0.001516	0.021885	75	0.026754	0.022988	0.064020	98	0.286509	0.220216	0.301451
30	0.000364	0.000229	0.019435	53	0.001925	0.001698	0.022857	76	0.029869	0.025383	0.067868	99	0.301451	0.229496	0.315397
31	0.000393	0.000250	0.019455	54	0.002110	0.001909	0.023836	77	0.033733	0.028401	0.073096	100	0.319845	0.240907	0.333847
32	0.000443	0.000290	0.019455	55	0.002350	0.002158	0.025189	78	0.038037	0.031419	0.078621	101	0.333847	0.248176	0.347249
33	0.000499	0.000327	0.019445	56	0.002707	0.002495	0.026582	79	0.042851	0.034737	0.084511	102	0.347249	0.256213	0.359966
34	0.000559	0.000363	0.019435	57	0.003183	0.002891	0.027993	80	0.048288	0.038460	0.090754	103	0.359966	0.266217	0.371340
35	0.000622	0.000395	0.019425	58	0.003610	0.003262	0.029421	81	0.054412	0.042627	0.097340	104	0.371340	0.277744	0.380708
36	0.000683	0.000427	0.019416	59	0.004063	0.003678	0.030455	82	0.061730	0.047348	0.104256	105	0.380708	0.290350	0.387409
37	0.000742	0.000457	0.019406	60	0.004582	0.004162	0.031518	83	0.069023	0.052555	0.109891	106	0.387409	0.303593	0.390781
38	0.000787	0.000484	0.019107	61	0.005269	0.004744	0.033105	84	0.077928	0.058497	0.117338	107	0.390781	0.317030	0.392273
39	0.000827	0.000513	0.018811	62	0.006008	0.005450	0.034284	85	0.086877	0.065865	0.123446	108	0.392273	0.330453	0.393744
40	0.000864	0.000552	0.018531	63	0.006946	0.006247	0.036062	86	0.096571	0.074335	0.129694	109	0.393744	0.343697	0.395154
41	0.000902	0.000597	0.018253	64	0.007955	0.007175	0.037430	87	0.108643	0.084121	0.138048	110	1.000000	1.000000	1.000000

## Pension Benefit Assumptions

- **Purchase of Membership Service Credit** — We assume all eligible members will purchase service credits for each year they did not make past pension contributions. As a result, we value all benefits, except for return of contributions, with eligibility and benefit amounts based on membership service instead of benefit service.
- **Ratio of Survivors Selecting Annuities** — Upon the death of a terminated vested member, we assume 35 percent of members will have a surviving spouse who elects to receive a pension annuity. This assumption includes both the probability that the member has a spouse and the probability that the spouse elects to receive an annuity, instead of a return of contributions. Upon the death of an active member, we assume this probability increases with age as shown in the table below. These assumptions are consistent with those selected for PERS Plan 2.

Ratio of Survivors Taking Annuities	
Age	Rate
39	0.000%
40	5.467%
45	9.813%
50	28.040%
55	41.919%
60	54.959%
62+	58.259%

- **Joint and Survivor Reduction Factor** — We assume a reduction factor of 0.821 will be applied to joint and survivor pension annuities. We base this assumption on the assumed age difference between male and female members and their spouses. We assume male members are three years older and female members are two years younger than their spouses, consistent with PERS.

## Relief Benefit Assumptions

The following assumptions were developed in the 2009 *Actuarial Valuation of the Relief Benefits*. We will analyze these assumptions as part of the next economic and demographic experience studies.

- **Annual Cost-of-Living Adjustment (COLA)** — We assume a 3.5 percent annual COLA for applicable annuity-based benefits since they are fully indexed benefits. COLAs provided for the relief benefits are based on the change in the Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers. COLAs are applied to temporary and permanent disability payments. Additionally, spouses and/or children of permanently disabled VFF relief members and spouses and/or children of VFF relief members killed in the line of duty will receive COLAs on their benefits.
- **Duty-Related Death Rate** — We assume the VFF duty-related death rate is  $1/12,000 = 0.0083$  percent. The duty-related death rate is a constant probability, regardless of age.
- **Member Duration on Temporary Disability** — We assume members who receive temporary disability benefits will return to active volunteering within six months. These benefits are included in the total relief costs.

- **Percent Married** — We assume that 60.7 percent of the active population is married. We apply this assumption to the duty-related death and disability annuities provided to the spouse of the member.
- **Duration of Spousal Long-Term Disability Annuity** — We assume a spouse receiving the Long-Term Disability (LTD) beneficiary annuity will be paid for the member’s lifetime. We do not make an assumption for divorce.
- **Duration of Spousal Duty-Related Death Annuity** — We assume a spouse receiving the duty-related death beneficiary annuity will be paid for the spouse’s lifetime. We do not make an assumption for remarriage.
- **Number of Dependent Children** — We assume 0.61 dependent children per member. This estimate is constant over all ages of VFF relief members.
- **Duration of Child Annuity** — We assume the average age of a child receiving a VFF relief annuity is eight years old. As a result, we assume that the child based annuities will be paid for ten years.
- **Annual Medical Inflation** — To estimate future medical costs, we chose to apply the medical inflation assumptions from our [2013 Other Post-Employment Benefits Actuarial Valuation Report](#). Based upon the self-insured nature of the VFF relief plan, we assumed the medical inflation trend is consistent with the 2013 Uniform Medical Plan (UMP) Non-Medicare rates excluding the provision for excise taxes since we assume they do not apply to this plan.

Medical Inflation	
Valuation Year	Rate
2012-2013	7.0%
2014	5.8%
2015-2016	6.1%
2017	6.4%
2018-2022	6.0%
2023-2032	5.9%
2033-2035	5.8%
2036	5.7%
2037-2038	5.6%
2039-2043	5.5%
2044-2052	5.4%
2053-2067	5.3%
2068-2074	5.2%
2075-2076	5.1%
2077-2078	5.0%
2079-2080	4.9%
2081-2082	4.8%
2083+	4.7%

### **Miscellaneous Assumptions**

- **Valuation Interest Rate** — We assumed an annual investment rate of return of 7 percent.
- **Percent Male** — Our current membership data does not include sufficient gender information. Thus, we assume 90 percent male for the entire population consistent with the Law Enforcement Officers’ and Fire Fighters’ (LEOFF) Plan 2. We expect future data to include gender-based information.



# Actuarial Methods

## Asset Valuation Method

An asset valuation method is generally used to adjust the market value of assets and smooth the effects of short-term volatility. The adjusted assets are called the actuarial value of assets or valuation assets. The asset valuation method adopted by the Board for Volunteer Fire Fighters, starting with the 2007 Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund Actuarial Valuation (VAVR) provides up to eight years of smoothing for asset returns and is used in combination with the funding method (Actuarial Cost Method) described below.

We determine the actuarial value of assets by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years or, if fewer, the completed years since adoption, at the following annual recognition rates per year.

Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition
14% and up	8 years	12.50%
13-14%	7 years	14.29%
12-13%	6 years	16.67%
11-12%	5 years	20.00%
10-11%	4 years	25.00%
9-10%	3 years	33.33%
8-9%	2 years	50.00%
6-8%	1 year	100.00%
5-6%	2 years	50.00%
4-5%	3 years	33.33%
3-4%	4 years	25.00%
2-3%	5 years	20.00%
1-2%	6 years	16.67%
0-1%	7 years	14.29%
0% and lower	8 years	12.50%

*Note: The actuarial value of assets may not exceed 130% nor drop below 70% of the market value of assets.*

Additionally, to ensure the Actuarial Value of Assets (AVA) maintains a reasonable relationship to the Market Value of Assets (MVA), a 30 percent corridor is in place.

This means the AVA may not exceed 130 percent nor drop below 70 percent of the MVA in any valuation.

## Actuarial Cost Method

The Entry Age Normal (EAN) Actuarial Cost Method is comprised of two components:

- Normal Cost.
- Unfunded Actuarial Accrued Liability.

We develop the pension contribution rate as the sum of the Normal Cost (NC) and an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL).

We use the EAN Actuarial Cost Method to develop the pension contribution rates. The Pension NC is the level dollar amount, calculated individually, that would fund each member's pension benefits from their date of entry in the plan to their assumed retirement.

The UAAL represents the excess of the Present Value of Future Benefits (PVFB) over the Present Value of Future Normal Costs (PVFNC) and the AVA. In other words, the amount of liabilities that are not covered by the sum of current assets and future contributions.

In equation form:  $UAAL = PVFB - PVFNC - AVA$ .

Such an excess can arise for numerous reasons. For example:

- Benefits granted for service prior to establishment of the plan.
- Retroactive benefit increases or benefit improvements.
- Changes to actuarial assumptions and methods.

- Actual experience under the plan that varies from the assumptions.

We developed the UAAL contribution rate in this valuation as a level dollar amount, amortized over a rolling 15-year period. That means we recalculate the UAAL contribution rate each year using a new 15-year period.

We use the Aggregate Funding Method to calculate the relief contribution rates. Compared to the EAN Funding Method, the Aggregate Funding Method does not separately amortize a UAAL. The Relief NC is the level dollar amount that would fund all projected future relief benefits of today's members. The relief plan's NC contribution rate is developed by amortizing the relief's Unfunded PVFB over the Present Value of Future Service (PVFS) of the active relief group. The Unfunded PVFB represents the excess of the PVFB over the AVA allocated to the relief plan.

### **Present Value of Future Service**

The actuarial cost methods utilize the PVFS for all applicable members to calculate the contribution rates. The expected total years of future service depends on when we assume members will leave active service. Our current termination, retirement, disability, and mortality rates reflect our best estimate of the future behavior of relief members.

Currently, the decrement rates extend beyond 25 years of service, which is the maximum number of pension payments members may make. For the purposes of determining the PVFS for pensions, we assume all members leave active service once they reach 25 years of service.

### **Methods for Medical Benefits**

Duty-related medical benefits, temporary disability payments, and physical exams are valued using age-based premiums. The estimated "payments" for temporary disability and physical exams are assumed to increase by the 3.5 percent inflation assumption. The medical benefits are assumed to increase by medical inflation. The per-person cost, as of the valuation date, for each benefit is \$108.34 for medical, \$13.24 for temporary disability, and \$9.63 for physicals. These costs include an adjustment from a mid-year timing to a beginning of year timing to properly model the premium payment within the technical limitation of our valuation software.

### **Operating Expenses**

We used the actual administration and other miscellaneous expenses incurred last year to determine this year's operating expenses.



## Summary of Plan Provisions

The following pension and relief benefits are provided to volunteer fire fighters:

- Optional membership in the retirement plan.
- Duty-related medical benefits.
- Temporary duty-related disability benefits.
- Permanent disability benefits for duty-related injuries.
- Death benefits for duty-related injuries.

These benefits are part of two distinct plans authorized by different sections of statute. The following section summarizes the benefits and contributions established under Chapter 41.24 RCW. This section is for reference only and does not detail the rules and regulations upon which the actuarial calculations are made. The dollars represent 2012 payment amounts.

### Participation

RCW 41.24.010 (8)

- “Participant” means: (a) For purposes of relief, any reserve officer who is or may become eligible for relief under this chapter or any fire fighter or emergency worker; and (b) for purposes of retirement pension, any fire fighter, emergency worker, or reserve officer who is or may become eligible to receive a benefit of any type under the retirement provisions of this chapter, or whose beneficiary may be eligible to receive any such benefit.

### Contributions

- **Pension** — If a member chooses to enroll, he/she contributes \$30 annually and the municipality also contributes \$30. Municipalities may pay the entire contribution for the member. Reserve law enforcement officers and emergency medical technicians are required to pay the full amount adopted annually by the Board for Volunteer Fire Fighters and Reserve Officers. That amount for the 2012 calendar year was \$120.
- **Relief** — VFF members do not make contributions to the relief fund. Municipalities contribute \$30 annually on behalf of each member plus 1.5 percent of the annual salary of paid fire fighters not covered under LEOFF. Employers of reserve law enforcement officers and emergency medical technicians are required to pay the full amount adopted annually by the Board. That amount for the 2012 calendar year was \$170.
- **Fire Insurance Premium Tax** — 40 percent of the net premium taxes on fire insurance policies are paid into the plan.

### Pension Benefits

#### **Death Benefits**

RCW 41.24.180

- **Non-Duty Death** — If the member had less than ten years of service, the spouse will receive a refund of member contributions without interest. If the member had ten or more years of service, the spouse may elect an annuity or a refund of member and employer contributions without interest. The annuity

is the member's accrued benefit actuarially adjusted to reflect a 100 percent joint and survivor pension and further actuarially reduced to reflect the difference in the number of years between the fire fighter's age at death and age 65.

### Retirement Pensions

RCW 41.24.170

- Normal retirement is available at age 65 with at least ten years of membership service. Early retirement eligibility begins at age 60 with ten years of service, with the benefit amount reduced 8 percent per year when retirement occurs prior to age 65. In addition, under normal or early retirement, the pension is reduced for service less than 25 years as shown in the table below.
- The monthly pension benefit formula is:  
 $(\$50 + \$10 \times \text{Benefit Service}) \times (\text{Membership Service Factor}) \times (\text{Age Factor})$
- “Benefit Service” is the number of years the member made pension contributions. “Membership Service” is the number of years the member was a member of the relief plan. The maximum monthly pension benefit is \$300. There is no automatic post-retirement COLA applied to the benefit.

### Membership Service Factor for Retirement

Membership Service Factor				
Membership Service	10-14	15-19	20-24	25 +
Factor	20%	35%	75%	100%

### Age Factor for Retirement

Age Factor						
Age	60	61	62	63	64	65
Factor	60%	68%	76%	84%	92%	100%

### Actuarially Equivalent Early Retirement Reduction Factors

We apply these factors to calculate the annuity benefit paid to survivors of active members who die from a non-duty related cause.

Actuarially Equivalent ERFs			
Member's Age	Factor	Member's Age	Factor
< 35	10%	50	27%
35	10%	51	29%
36	10%	52	32%
37	10%	53	34%
38	11%	54	37%
39	12%	55	41%
40	13%	56	44%
41	14%	57	48%
42	15%	58	52%
43	16%	59	57%
44	17%	60	62%
45	18%	61	68%
46	20%	62	75%
47	21%	63	82%
48	23%	64	91%
49	25%	65	100%

## **Retirement Options**

RCW 41.24.172

- The normal payment form of the benefit is a single-life annuity.
- Retirees have the option of selecting a 100 percent joint and survivor pop-up pension. The pension amount is reduced from the amount of the normal payment form to provide an ongoing survivor benefit. If the member dies first, the reduced pension continues to the spouse for their lifetime. If the spouse dies first, the pension pops up to the amount the member would have received under the single-life payment form.

## **Emergency Medical Service Districts**

- Chapter 331, Laws of 1993 extended the membership provisions of the pension and relief plans to include Emergency Medical Service District (EMSD) Volunteers. The applicable RCW states the funding of the EMSD volunteers should be consistent with the most recent actuarial valuation.
- The funding of the system includes contributions from the members and their districts at a rate established in statute. The total of these is less than the normal cost. The balance of the normal cost comes from another revenue source, 40 percent of the state's premium tax on fire insurance policies. Since the premium tax is independent of the number of members, the addition of new members lowers the system's funding. To prevent this, the entire normal cost and administration

expenses are paid by the EMSDs and their volunteers. Volunteers pay the fixed dollar rate established in statute. The EMSDs pay the fixed dollar rate plus any excess cost.

## **Reserve Law Enforcement Officers**

- Chapter 11, Laws of 1995 extended the membership provisions of the pension plan to include Reserve Law Enforcement Officers. The pension provisions mirror those of the EMSDs.
- Chapter 148, Laws of 1999 extended the membership provisions of the relief plan to include Reserve Law Enforcement Officers. The relief provisions mirror those of the EMSDs.

## **Refund of Contributions**

Upon termination from the pension system, the member may elect to receive a refund of their contributions without interest. If the member chooses this option, he/she then forfeits any earned pension benefits.

## **Buying Back Past Service**

If a member misses a pension contribution payment in any year following enrollment in the plan, they may make the contribution at a later date. Interest is added at a rate of 1 percent per month.

## **Relief Benefits**

### ***Medical Benefits***

RCW 41.24.035, 41.24.155, and 41.24.220

The Board will reimburse all duty-related medical charges, including:

- Physician fees, paid according to Labor and Industries' (L&I) fee schedule.
- Hospital fees (room and care, x-rays, laboratory work, physical therapy).
- Screening physical exams for new entrants (up to \$100 per new member).
- Mileage for extended treatment not available locally to VFF members.
- Vocational rehabilitation and prescriptions.

### ***Disability Payments***

RCW 41.24.150

- **Duty Disability** — Members receive temporary duty disability payments of \$3,497.39 per month for up to six months. If the member is on disability for six consecutive months then the member is considered to be permanently disabled and they receive \$1,748.70 per month, their spouse receives \$350.26, and each dependent child receives \$150.86. Disability benefits are subject to a maximum of \$3,497.39 per month. Spouses will no longer be eligible to receive the beneficiary annuity if they get divorced from the VFF member.
- **Effective July 1, 2001** — Benefits are increased annually

in line with the CPI Urban Wage Earners and Clerical Workers (CPI-W – All Cities).

- **Non-Duty Disability** — None.

### ***Death Benefits***

RCW 41.24.160, 41.24.230

- **Survivors** — Surviving spouses of members who die while on active duty shall be paid \$1,748.70 monthly. An additional \$500.00 is paid monthly to each of the member's surviving children while they are under 18 years old.
- **Effective July 1, 2001** — Benefits are increased annually in line with the CPI-W – All Cities.
- **Duty Death** — A lump sum of \$214,000 will be paid to a member's survivor if the member was killed in the line of duty.
- **Funeral and Burial Expenses** — A lump sum of \$2,000 is paid for members who die while on active duty. A \$500 lump sum is paid at the time of death for members who receive disability benefits.

# Glossary

## Actuarial Accrued Liability

Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit earned (or accrued) as of the valuation date.

## Actuarial Gain or Loss

A pension plan incurs actuarial gains or losses when the actual experience of the pension plan does not exactly match assumptions. For example, an actuarial gain would occur if assets earned 10 percent for a given year since the assumed interest rate in the valuation is 7 percent.

## Actuarial Value of Assets (AVA)

The value of pension plan investments and other property used by the actuary for the purpose of an actuarial valuation (sometimes referred to as valuation assets). Actuaries often select an asset valuation method that smooths the effects of short-term volatility in the market value of assets.

## Dollar-Weighted Rate of Return

The internal rate of return. This signifies the rate of return during a period with respect to the beginning balance and cash flows that occur during the period. Dollar-Weighted returns measure the actual impact the pension plan experiences during the period, which includes returns based on the timing of the cash flows during the period.

## Entry Age Normal (EAN) Funding Method

The EAN Funding Method is a standard actuarial funding method. The annual cost of benefits under EAN is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded actuarial accrued liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level dollar amount throughout a member's career if all assumptions are realized and benefit provisions remain unchanged.

## Funded Status

The ratio of a plan's actuarial value of assets to the present value of earned pensions at the valuation date.

## Normal Cost

Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year. The employer normal cost is the total normal cost of the plan reduced by employee contributions.

## Present Value of Future Benefits (PVFB)

Computed by projecting the total future benefit cash flow from the plan, using actuarial assumptions (such as the probability of death or retirement), and then discounting the cash flow to the valuation date using the valuation interest rate.

## Time-Weighted Rate of Return

The geometric average rate of return. This signifies the rate of return during a period without respect to cash flows that occur during the period. Investment manager performance is typically based on time-weighted returns since they have no control over when the cash flows occur.

## Unfunded Actuarial Accrued Liability (UAAL)

The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date not covered by current plan assets.









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