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Status of Washington State Patrol Pension System



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of the Washington State Legislature

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Today's Presentation

- Overview of the Washington State Patrol Retirement System
- Pension funding basics
- Today's health of WSPRS
- What's the prognosis for the future?



Washington State Patrol Retirement System Has Two Plans

- Plan 1
 - Opened in 1947
 - Closed to new hires in 2002
- Plan 2
 - Opened in 2003
 - Different Provisions
 - Longer Average Final Salary period
 - Survivor benefits
 - Military service credit
- Same trust fund



Plans Have Same Underlying Structure

- Retirement eligibility
 - Age 55 or 25 years of service
 - Mandatory at age 65
- Benefit formula
 - $2\% \times \text{YOS} \times \text{AFS}$ (maximum 75 percent of AFS)
 - YOS = Years of Service
 - AFS = Average Final Salary
 - Plan 1: Calculated over two-year period
 - Plan 2: Calculated over five-year period
- Post-Retirement COLA
 - Adjusted every year by change in applicable CPI
 - Maximum 3 percent per year



Commissioned Officers Of The Washington State Patrol

	Plan 1	Plan 2
Active Members	830	264
Average Age	43	31
Average Service	16	4
Average Annual Salary	\$80,115	\$62,583
Retired Members	834	0
Average Annual Benefit	\$41,412	N/A

Preliminary June 30, 2009, valuation data.



Pension Promise Is A Contract

- Since 1956, pension promise has been deemed a contractual right (Bakenhus case)
- Money must be available when payment becomes due
- How do you secure a promise to pay for something that happens in the future?



Washington Uses A Financing Plan To Satisfy The Contract

- Systematic actuarial funding
 - Regular payments over time
- Uses the power of investing to help pay pension costs



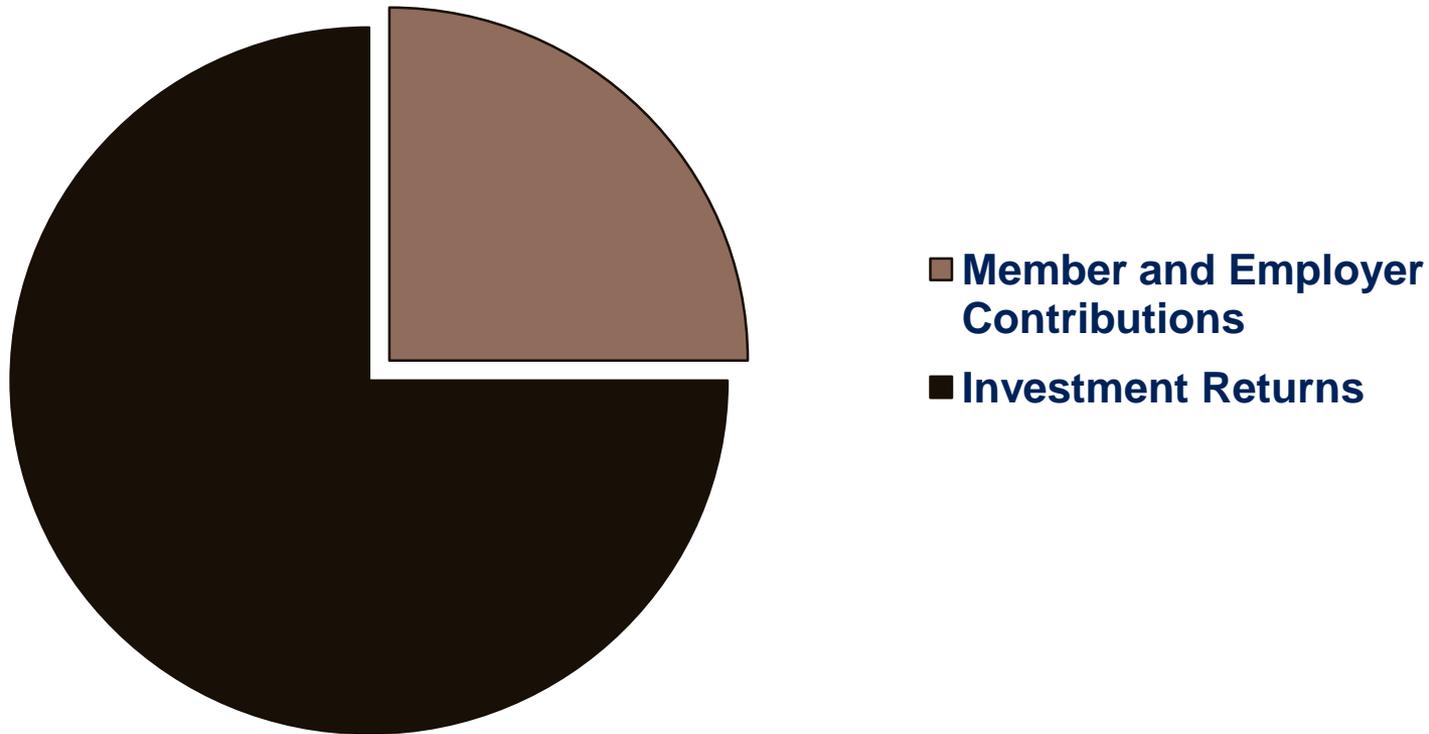
Where Does The Money Come From For The WSPRS?

- Members and employers pay contributions
 - Employer is the state with approx 90 percent of contributions made from the WSP highway account
- Members and employers share the costs equally up to member maximum
 - If member maximum is reached, employer picks up remaining share
 - Member maximum is 7 percent, plus 50 percent of the contribution rate for benefit improvements
 - Member maximum adjusted accordingly
- Contributions are collected as a percent of each paycheck
 - Results in regular payments over time



Pension Trust Fund

- Contributions are pooled and held in a trust fund
- About 75 percent of pension costs are covered by investment returns in the long term



Today's Health Assessment For WSPRS

- Healthy plans have sufficient assets to pay for earned benefits
- Measured by the “funded status”
- Funded status equals assets divided by earned benefits
- If funded status equals 100 percent, there is \$1 of assets for every \$1 of earned benefits



WSPRS Is Healthy Today

- Based on preliminary June 30, 2009, Actuarial Valuation

<i>(Dollars in millions)</i>	WSPRS
Today's Value of Earned Benefits*	\$758
Valuation Assets	\$900
Unfunded Liability	(\$143)
Funded Status	119%

**Measured using the Projected Unit Credit Actuarial Cost Method.*



Today's Health Expected To Change

- Large 2009 asset loss (-22.8 percent ROR)
- Actuarial valuation results are point-in-time or “snap shot”
- Funded status and contribution rates based on valuation assets
 - “Asset smoothing method”



Asset Smoothing Method

- Current method adopted in 2003
- Reduces volatility in market value of assets
 - Reduces volatility in contribution rates and funded status
- How it works
 - When investment returns are different than the expected eight percent return, we have an investment gain or loss
 - Any gain over a certain threshold is set aside, to be phased in over a period up to eight years
 - Same for losses below a certain threshold
- Results in a smoothing of asset gains or losses
- Still recognizing gains from prior years
- 2009 valuation assets recognize one-eighth of 2009 asset loss



Where Are We Headed?

- Funded status expected to decline over next eight years
 - Twenty-five - thirty percent
 - Actual decline will depend on actual investment performance and future contribution levels
- Projected contribution rates expected to increase significantly from current level



Projected Contribution Rate Increases

WSPRS Contribution Rates		
	Current	2011-13
Employer	6.41%	7.91%
Member	5.09%	6.59%

2009-11 rates are those currently in effect.

2011-13 rates are based on preliminary 2009 valuation results.



Projected Budget Impacts

Fiscal Impact (\$ in Millions)*	Current	2011-13**
General Fund	\$0.9	\$1.2
Total Employer	\$11.0	\$15.4
Member	\$8.7	\$12.8

**Based on projected salaries from 2008 Actuarial Valuation Report and results disclosed in the 2009 Report on Financial Condition.*

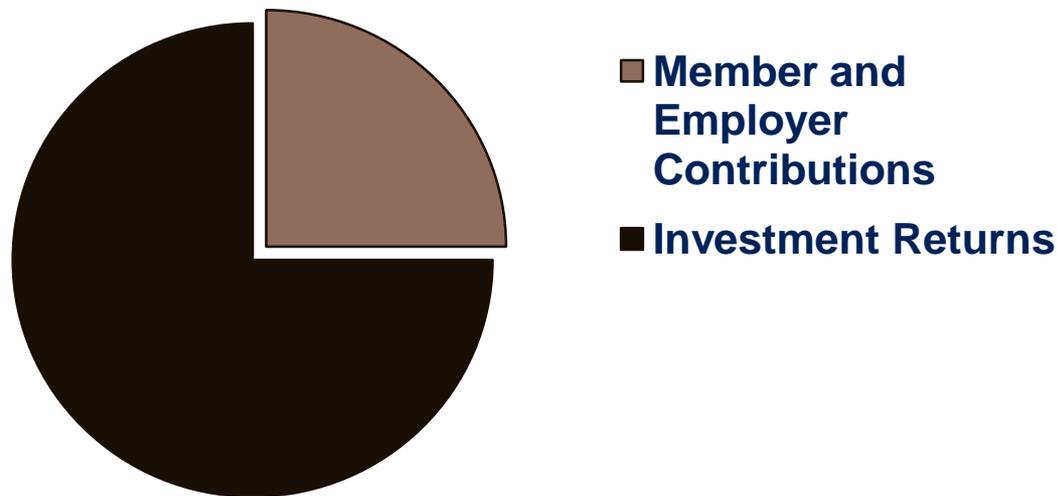
***Based on preliminary 2009 valuation results.*

- Pension fiscal costs expected to triple in six years
- Long term projected employer contribution rates on slide 20



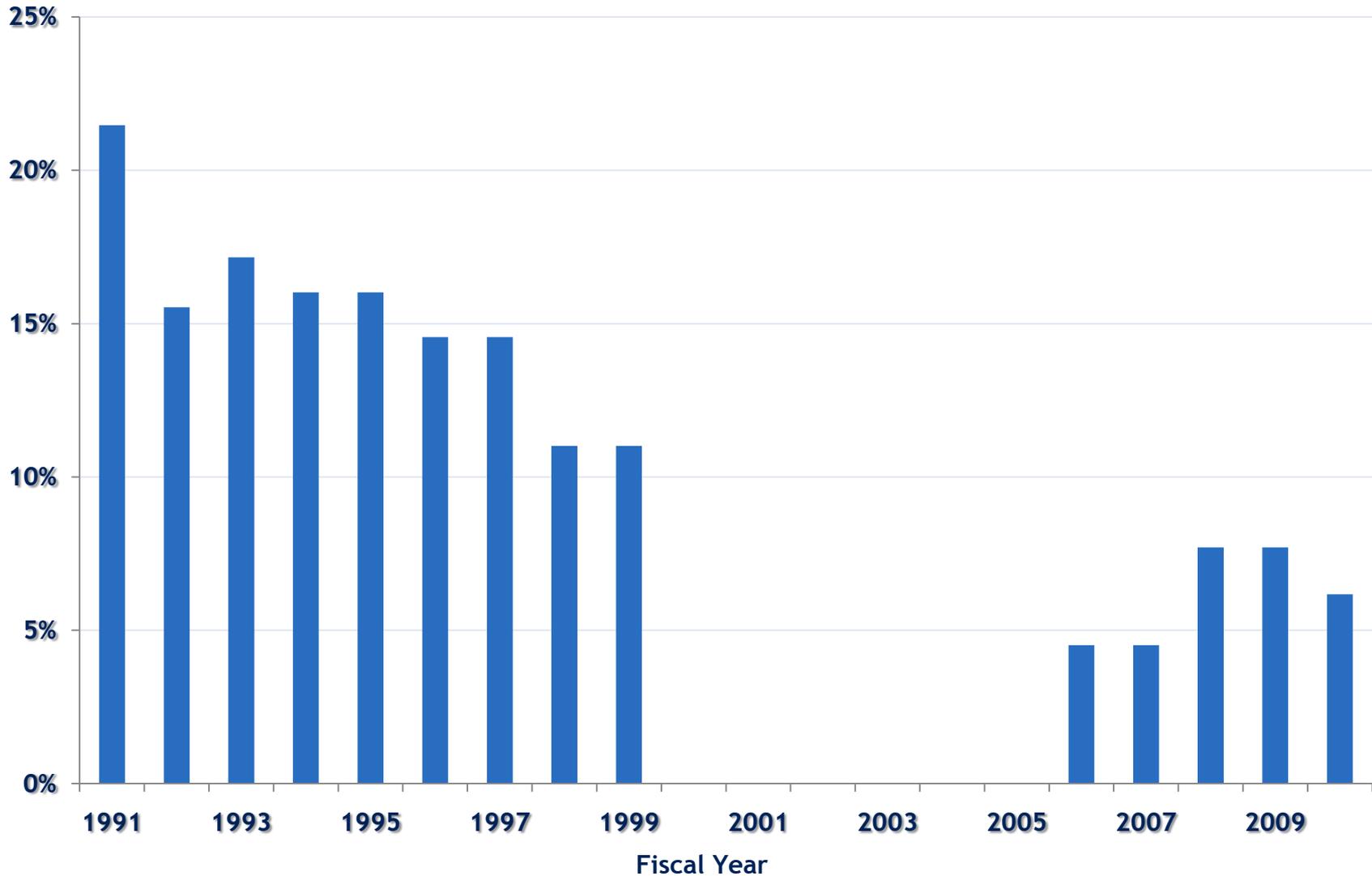
Funding Policies Play Key Role In Plan Health

- Short-term funding policies recognize asset gains prematurely
 - Contribution rates decrease
 - Lost investment opportunities
- Rate relief provides short-term budget savings but costs more in the long term
- Again, about 75 percent of pension costs are covered by investment returns in long term



Examples Of Short-Term Funding Policies And Rate Relief

WSPRS Historical Employer Contribution Rates

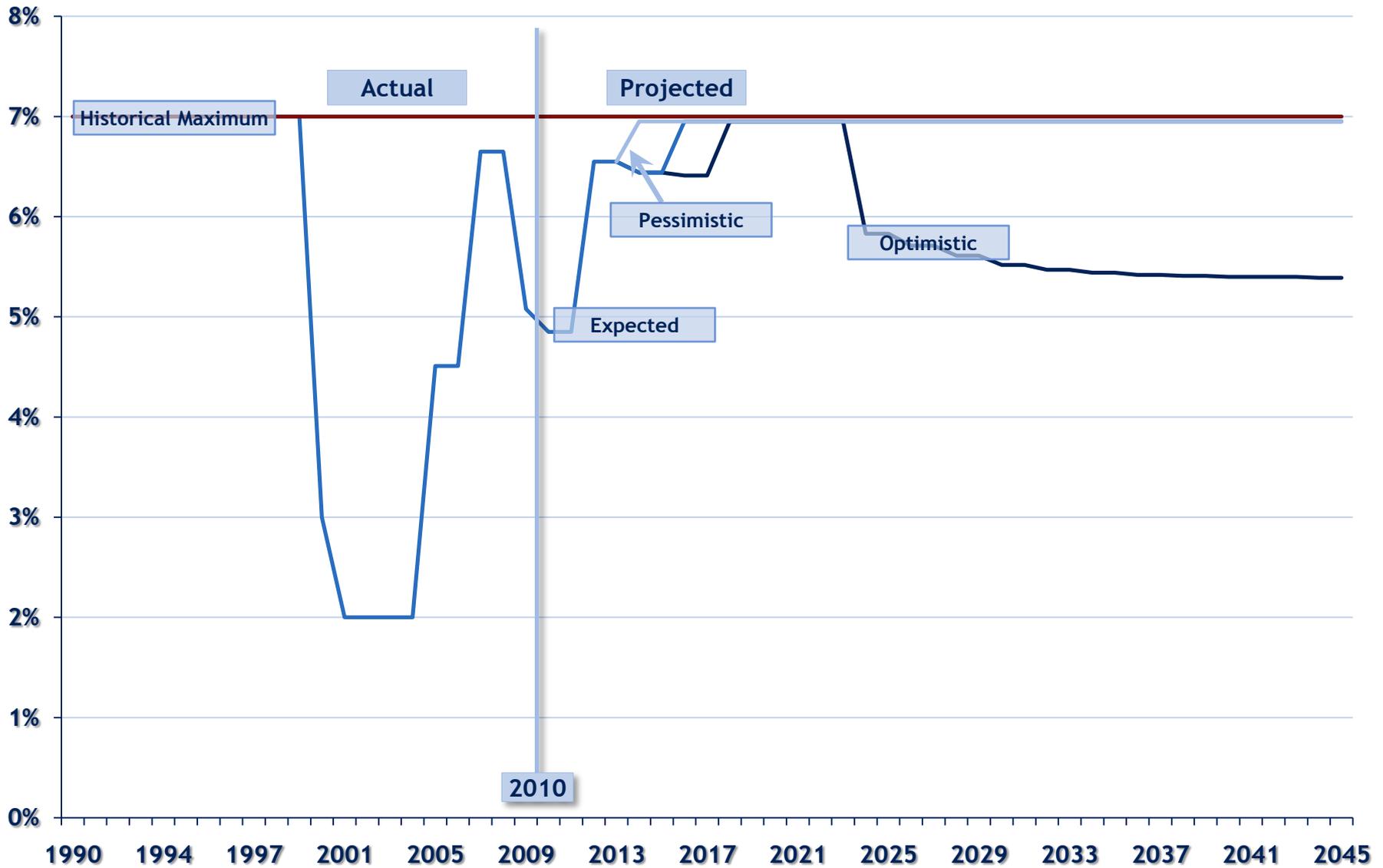


Projected Contribution Rates

- Projected rates under three investment outlooks
 - Based on a distribution of future returns
- Outlooks
 - Pessimistic is about 6 percent rate of return (ROR)
 - Expected (best-estimate) is about 8 percent ROR
 - Optimistic is about 9 percent ROR
- Half of our simulations fall between pessimistic and optimistic
 - Best-estimate range
 - Understanding range of outcomes just as important as best estimate



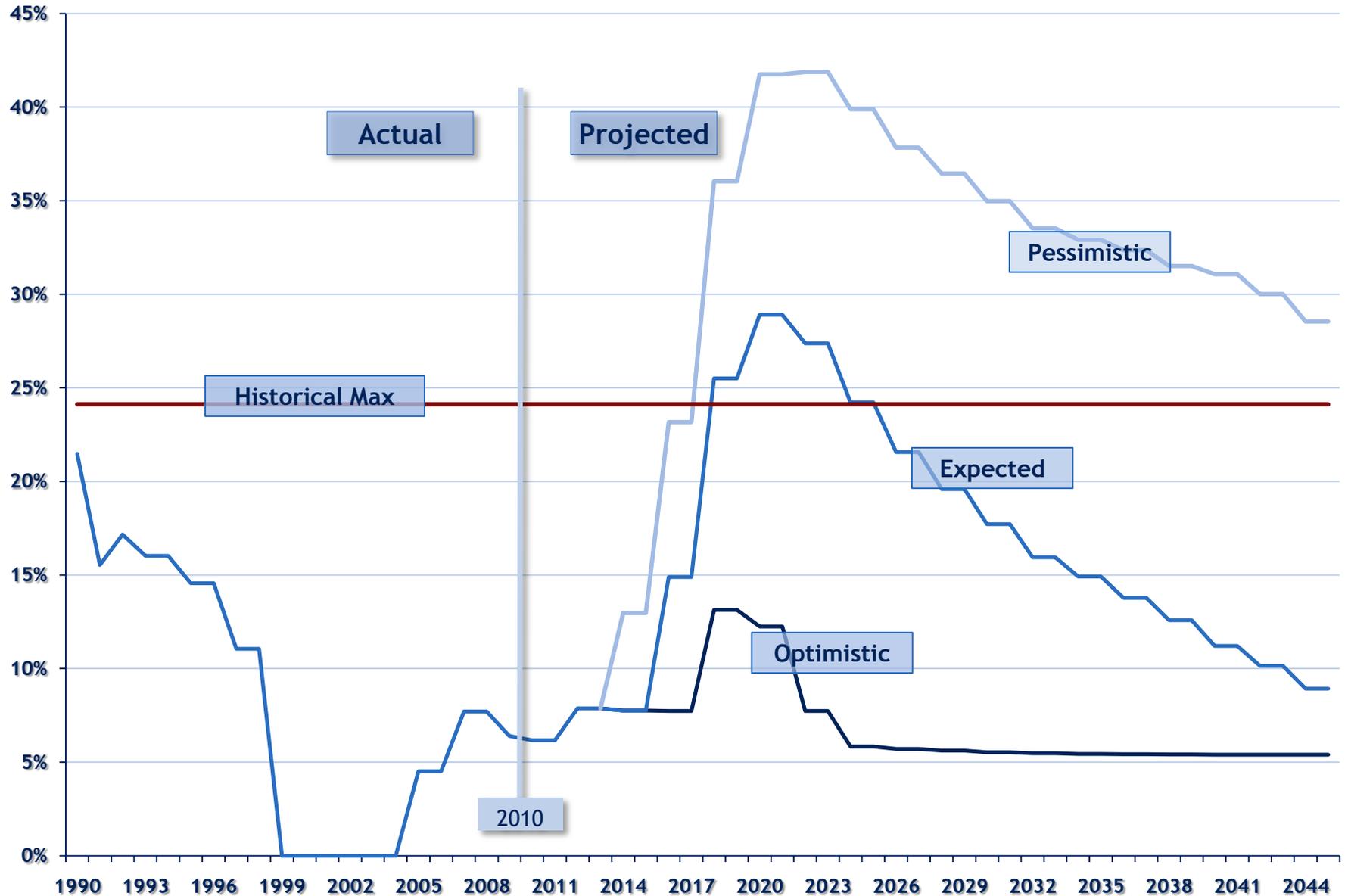
Projected Member Contribution Rates – WSPRS*



*Rates apply to Plan 1 and Plan 2 members.



Projected Employer Contribution Rates - WSPRS



Prognosis For Future Of WSPRS

- Healthy outlook but requires increased contributions
- Delicate balance
 - Managing plan health
 - State budgets
 - Employee take-home pay



Opportunities For The Future

- Identify lessons learned
- New tools: OSA's risk assessment model
 - Will help policymakers identify, quantify, and manage the financial risks facing the state retirement systems
 - “Laboratory” to evaluate proposed changes to funding and benefits policies
- Risk management
 - Balancing risk and affordability



Questions?



Contacting OSA

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Disclosures

- We prepared this presentation for the Joint Transportation Committee during the 2010 Interim.
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- Please use the entire presentation. Distribution of, or reliance on, only parts of the presentation could result in its misuse and may mislead others.
- Readers are advised to seek professional guidance as to the presentation's content and interpretation, and should not rely upon this presentation without such guidance.
- Unless indicated otherwise, all data, assumptions, and methods used in this presentation will be disclosed in the 2009 Actuarial Valuation Report.
- Projections reflect data, assumptions, methods, and assets as disclosed in the Report on Financial Condition.
- This presentation was prepared and recommendations provided in accordance with Washington State law and actuarial standards of practice as of the date on the title slide.

