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Preliminary Results, Actuarial Valuation



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Today's Presentation

- Review of relevant history
- Preliminary 2009 actuarial valuation results
- Future rates/budget impacts
- Next steps
- No action required today



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Last Contribution Rate-Setting Cycle

- Summer of 2008
- Based on results of June 30, 2007, valuation
- Included results of latest experience study
 - Full review and update of all demographic assumptions
- SCPP made recommendations to PFC



2008 SCPP Recommendations To PFC

- Adopt rates recommended by state actuary
 - Include recognition of future mortality improvements
 - Lower general salary increase assumption by 0.25 percent
- PFC adopted SCPP recommendations

Enter The “Great Recession”

- Significant decline in investment markets
 - Assets dropped 24 percent from June 30, 2007, to June 30, 2009
 - Asset loss for all plans in that same period was \$16 billion
- Corresponding fall in state and local government revenues
- Legislature responded



Legislature Enacts Pension Funding Changes In 2009

- Revised the contribution rates adopted by PFC (SSB 6161)
- Enacted new Plan 1 funding method to
 - Provide short-term budget relief
 - Avoid spiking Plan 1 contributions
 - Pay off unfunded past cost (UAAL) near previous 2024 target
- Additional budget relief
 - Suspended funding for projected mortality improvements
 - Lowered general salary increase assumption additional 0.25 percent
 - Delayed effective date of Plan 2/3 minimum rates (except WSPRS)

State Actuary Reports Declining Health Of Pension Systems

- Fall of 2009
- Decline in health over the last decade attributed to
 - Funding shortfalls
 - Benefit improvements
 - Investment losses
- State actuary recommended new economic assumptions and risk assessment
- Preliminary 2009 valuation results now available
- Risk assessment underway



June 30, 2009, Actuarial Valuation

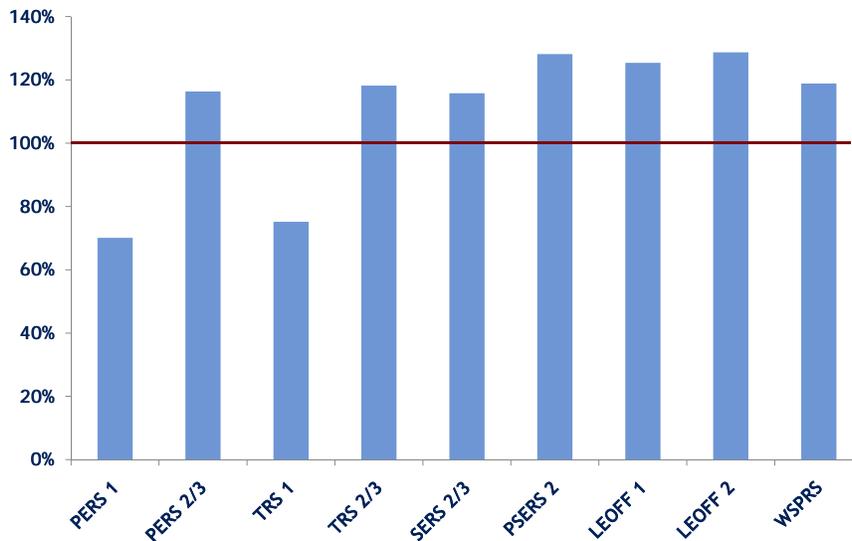
- Contribution rate setting valuation
 - PFC uses it to adopt rates for 2011-13
- Contribution requirements under current funding policy
 - Updated data, assets, and liabilities
 - Includes 2010 legislation
- Check funding progress
- A "single point-in-time" or snapshot

2009 Actuarial Valuation Results Are Preliminary

- Concurrent outside actuarial audit underway
- 2009 actuarial valuation finalized following PFC adoption in July



2009 Funded Status By Plan



Employer Contribution Rates*

| | Current | 2011-12 | 2012-13 |
|---------|---------|---------|---------|
| PERS | 5.15% | 8.45% | 9.14% |
| TRS | 5.98% | 11.95% | 12.30% |
| SERS | 5.28% | 8.83% | 9.52% |
| PSERS | 7.69% | 10.11% | 10.80% |
| LEOFF 1 | 0.00% | 0.00% | 0.00% |
| WSPRS | 6.41% | 7.91% | 7.91% |

- PERS, SERS, and PSERS employers pay for the PERS 1 unfunded past cost (UAAL) and current plan costs
- TRS Employers pay for the TRS 1 UAAL and current plan costs
- UAAL contribution rates change each fiscal year until 2015-17

*Excludes administrative expense rate of 0.16%.



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Plan 2 Member Contribution Rates

| | Current | 2011-13 |
|---------|---------|---------|
| PERS | 3.90% | 4.59% |
| TRS | 3.36% | 4.68% |
| SERS | 3.14% | 4.08% |
| PSERS | 6.55% | 6.36% |
| LEOFF 1 | 0.00% | 0.00% |
| WSPRS* | 5.09% | 6.59% |

* Rate applies to Plan 1 and Plan 2 members.

- Plan 2 members do not pay for the Plan 1 UAAL



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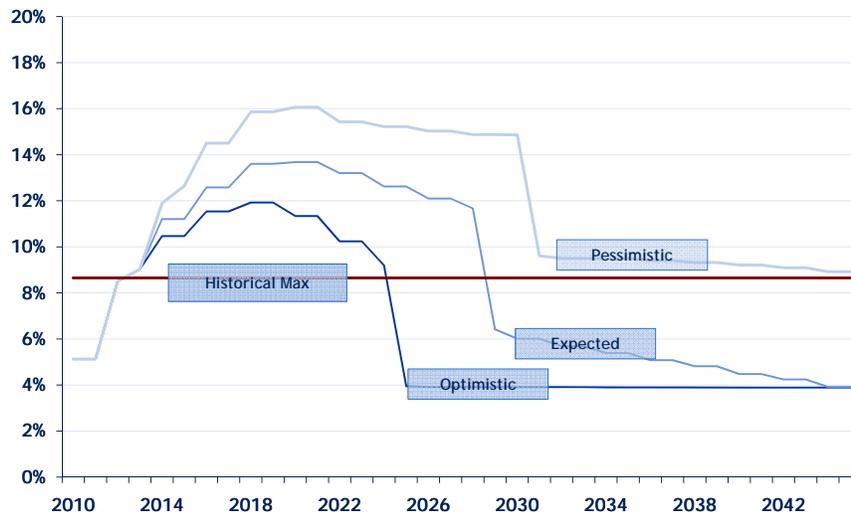
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Limitations Of Actuarial Valuation Results

- Measurement based on a “single point-in-time”
- Things will change in the future
- Full effects of Great Recession will emerge over time
 - 2009 valuation recognizes one-eighth of asset loss
- Complement “snapshot” results with projections of where rates are headed
 - PERS, TRS, and SERS only
 - All systems found in 2009 Report on Financial Condition

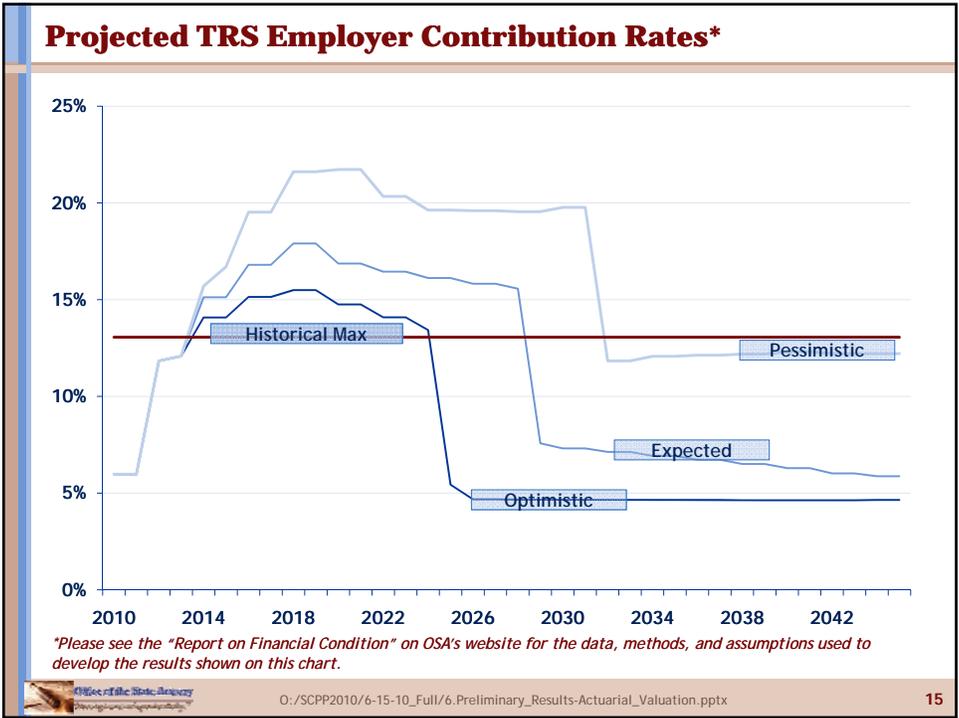
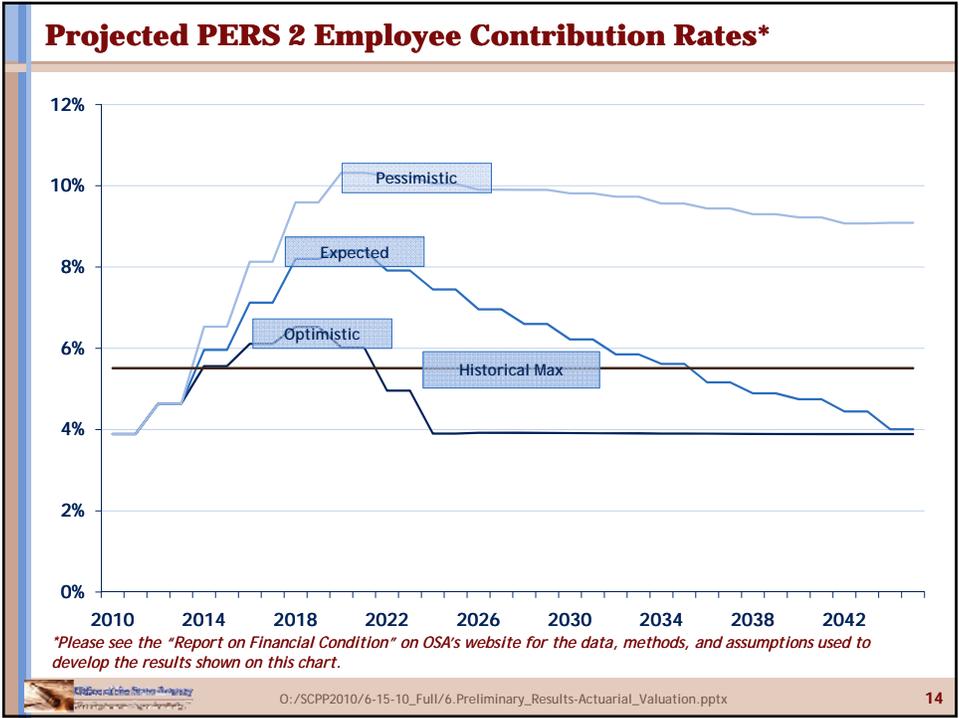


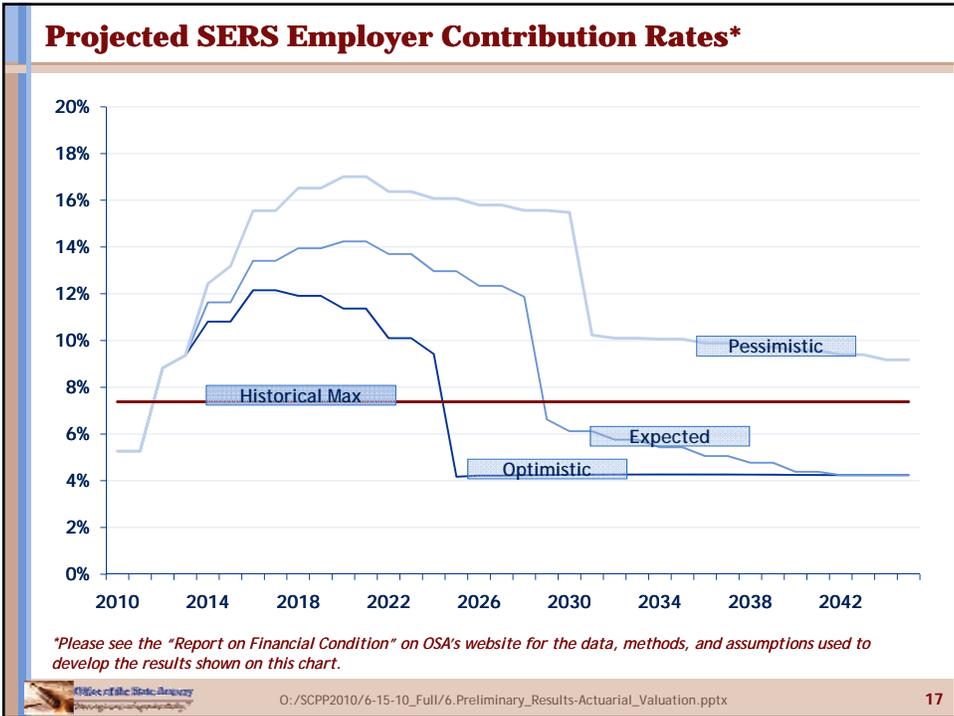
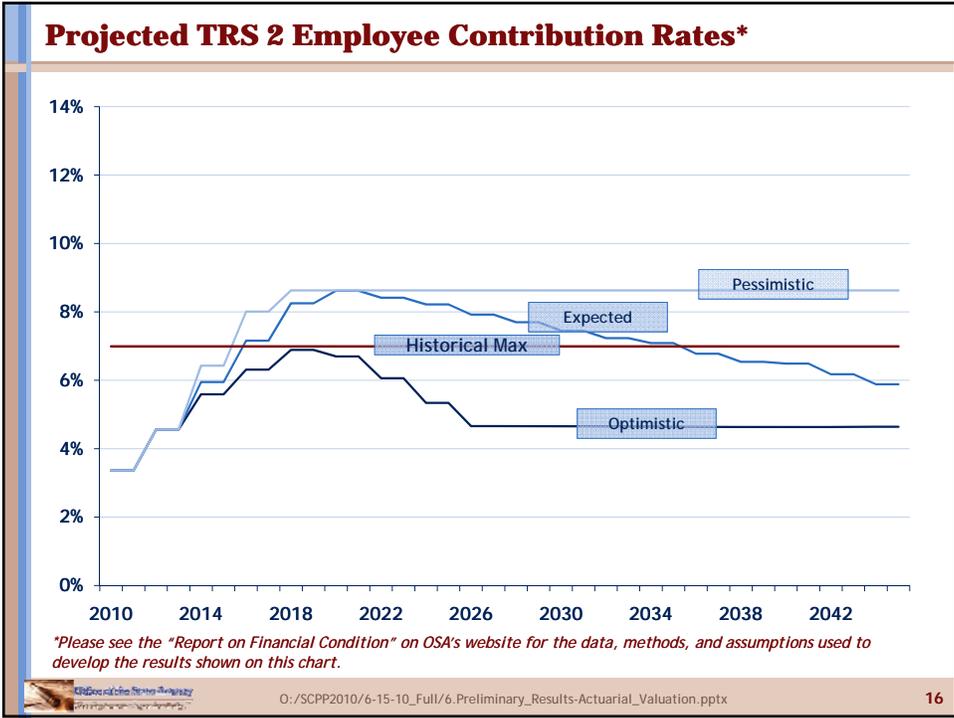
Projected PERS Employer Contribution Rates*

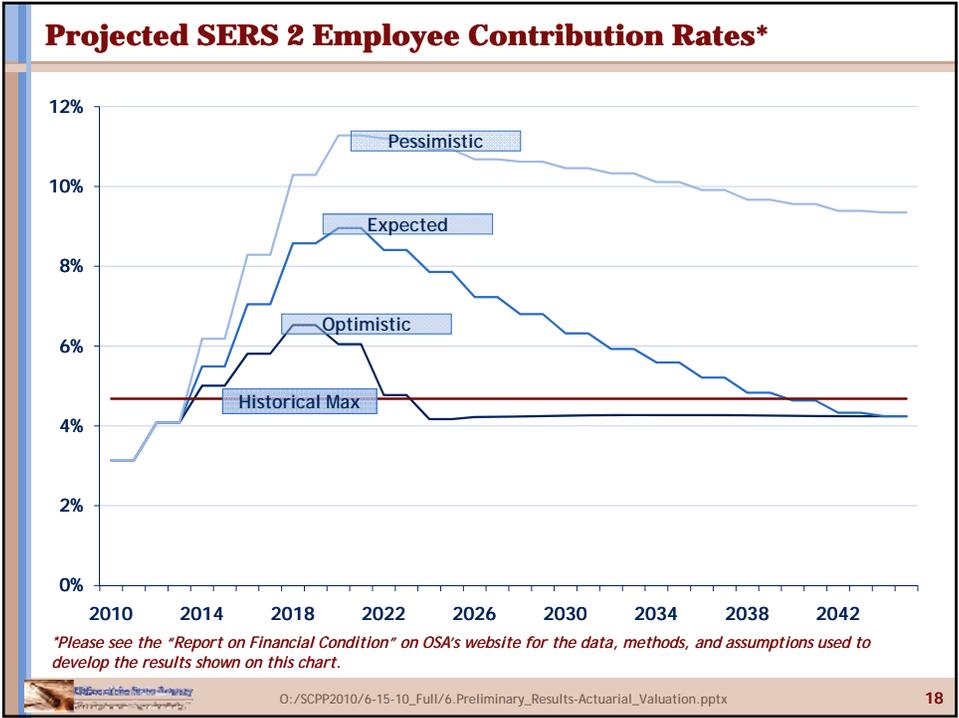


*Please see the “Report on Financial Condition” on OSA’s website for the data, methods, and assumptions used to develop the results shown on this chart.









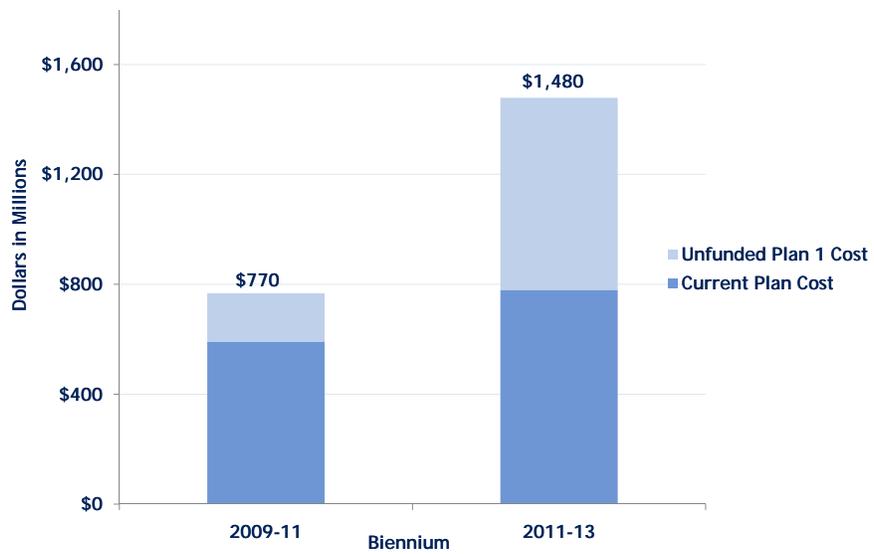
- ### Summary Of Projected Rates
- Rates projected under three different investment outlooks
 - Pessimistic
 - Expected
 - Optimistic
 - Employer rates exceed historical maximums under each outlook
 - Plan 2 rates projected to exceed historical maximums
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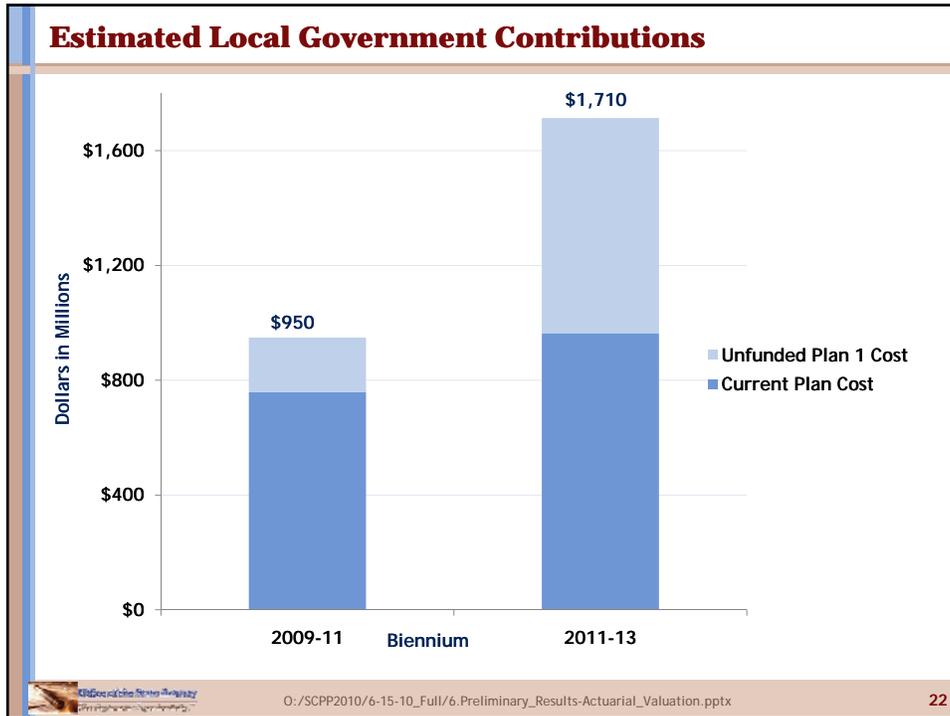
Projected Budget Impacts

- Pensions will consume larger share of future budgets
- Impacts state and local government budgets



Estimated General Fund State (GF-S) Contributions





- ### Unfunded Legacy Costs Comparable To Current Plan Costs
- Significant unfunded liabilities for PERS 1 and TRS 1 remain
 - Closed to new members since 1977
 - Unhealthy plans before the Great Recession
 - Now “at-risk” of running out of assets prematurely
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Additional Rate-Setting Considerations

- We haven't seen the full effects of the Great Recession
- Funded status expected to drop over the next eight years
 - 25 - 30 percent drop in Plans 2/3
 - 15 - 20 percent drop in Plans 1 and PSERS
- Some rate relief already in place
 - Plan 1 funding method changes - rate ceilings in effect
 - Asset smoothing method

Next Steps

- Receive audit report from PFC
- Recommend contribution rates to PFC in July
- OSA findings from Risk Assessment available in August
- OSA will update projections after final 2009 valuation
 - Using asset returns through June 30, 2010



Questions?



Disclosures

- We prepared this presentation for the Select Committee on Pension Policy.
- Please do not use the actuarial information beyond the 2010 Interim as it will become outdated.
- 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 actual asset returns through June 30, 2009, and data, assumptions, and methods as disclosed in the Financial Condition Report.
- 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.