

Preliminary Contribution Rates 2011-13 Biennium

The tables below provide preliminary Plan 2 member and employer contribution rates for the 2011-13 Biennium. These rates were determined in the 2009 actuarial valuation performed by the Office of the State Actuary. Contribution rates are preliminary until adopted by the Pension Funding Council following the completion of an outside actuarial audit.

Rates for the Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2 are adopted by the LEOFF Plan 2 Retirement Board and are not included in the tables.

Preliminary Plan 2 Member Contribution Rates ¹		
2011-13 Biennium		
	Current	2011-13 ²
PERS	3.90%	4.59%
TRS	3.36%	4.68%
SERS	3.14%	4.08%
PSERS	6.55%	6.36%
WSPRS ³	5.09%	6.59%

¹ Plan 1 members' contribution rate is statutorily set at 6.0%. Members in Plan 3 do not make contributions to their defined benefit. Plan 2 members do not contribute toward the Plan 1 UAAL.

² Rates for TRS and SERS effective 9/1-8/31. Rates for other systems effective 7/1-6/30.

³ Rate applies to Plan 1 and Plan 2 members.

Source: Office of the State Actuary, from the 2009 actuarial valuation.

The following table shows employer rates by system for the current biennium and each year of the 2011-13 Biennium. Rates are broken into two component costs: normal cost and Unfunded Accrued Actuarial Liability (UAAL). The normal cost represents the ongoing costs of the open plans while the UAAL represents the unfunded past cost of the closed plans. The total rate collected from employers is the sum of the normal cost and UAAL rates.

Preliminary Employer Contribution Rates¹				
2011-13 Biennium				
System	Rate Component	Current	2011-12²	2012-13²
PERS	Normal Cost	4.01%	4.70%	4.70%
	UAAL ³	1.14%	3.75%	4.44%
	Total	5.15%	8.45%	9.14%
TRS	Normal Cost	4.13%	5.45%	5.45%
	UAAL ³	1.85%	6.50%	6.85%
	Total	5.98%	11.95%	12.30%
SERS	Normal Cost	4.14%	5.08%	5.08%
	UAAL ³	1.14%	3.75%	4.44%
	Total	5.28%	8.83%	9.52%
PSERS	Normal Cost	6.55%	6.36%	6.36%
	UAAL ³	1.14%	3.75%	4.44%
	Total	7.69%	10.11%	10.80%
LEOFF 1 ⁴	Normal Cost	0.00%	0.00%	0.00%
	UAAL ³	0.00%	0.00%	0.00%
	Total	0.00%	0.00%	0.00%
WSPRS	Normal Cost	6.41%	7.91%	7.91%
	UAAL ³	0.00%	0.00%	0.00%
	Total	6.41%	7.91%	7.91%

¹ Excludes administrative expense rate of 0.16%.

² Rates for TRS and SERS effective 9/1-8/31. Rates for other systems effective 7/1-6/30.

³ UAAL rates change each fiscal year until 2015. All PERS, SERS, and PSERS employers pay for the PERS 1 UAAL. All TRS employers pay for the TRS 1 UAAL.

⁴ LEOFF 1 is closed to new members and currently has no unfunded past liability. Contributions are not required under current law when the plan is fully funded.

Source: Office of the State Actuary, from the 2009 actuarial valuation.

Select Committee on Pension Policy

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July 20, 2010

TO: PENSION FUNDING COUNCIL MEMBERS

Mr. Steve Hill, Chair,
Pension Funding Council
Senator Margarita Prentice, Chair,
Senate Ways and Means Committee
Senator Joseph Zarelli, Ranking Minority Member,
Senate Ways and Means Committee
Representative Kelli Linville, Chair,
House Ways and Means Committee
Representative Gary Alexander, Ranking Minority Member,
House Ways and Means Committee
Mr. Marty Brown, Director,
Office of Financial Management

FROM: Senator Mark Schoesler, Chair
Select Committee on Pension Policy
Representative Steve Conway, Vice-Chair
Select Committee on Pension Policy

**SUBJECT: SELECT COMMITTEE ON PENSION POLICY
RECOMMENDATION ON 2011-13 PENSION CONTRIBUTION
RATES**

The Select Committee on Pension Policy (SCPP) recommends that the Pension Funding Council (PFC) adopt the state actuary's recommended contribution rates for the 2011-13 Biennium. These rates, in preliminary form, were provided at the June 15, 2010, SCPP meeting and the June 25, 2010, PFC meeting.

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Representative Barbara Bailey

Marty Brown, Director
Office of Financial Management

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TRS Retirees

***Representative Steve Conway**,
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TRS and SERS Employers

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TRS Actives

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Department of Retirement Systems

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PERS Actives

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Contribution Rate Recommendation to PFC



*Matt Smith, FCA, EA, MAAA
State Actuary*

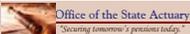
*Lisa Won, ASA, MAAA
Actuary*



June 25, 2010

Today's Briefing

- Prepare committee for today's recommendation on contribution rates
- Follow-up on questions from last month's presentation



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Contribution Rate Setting Year

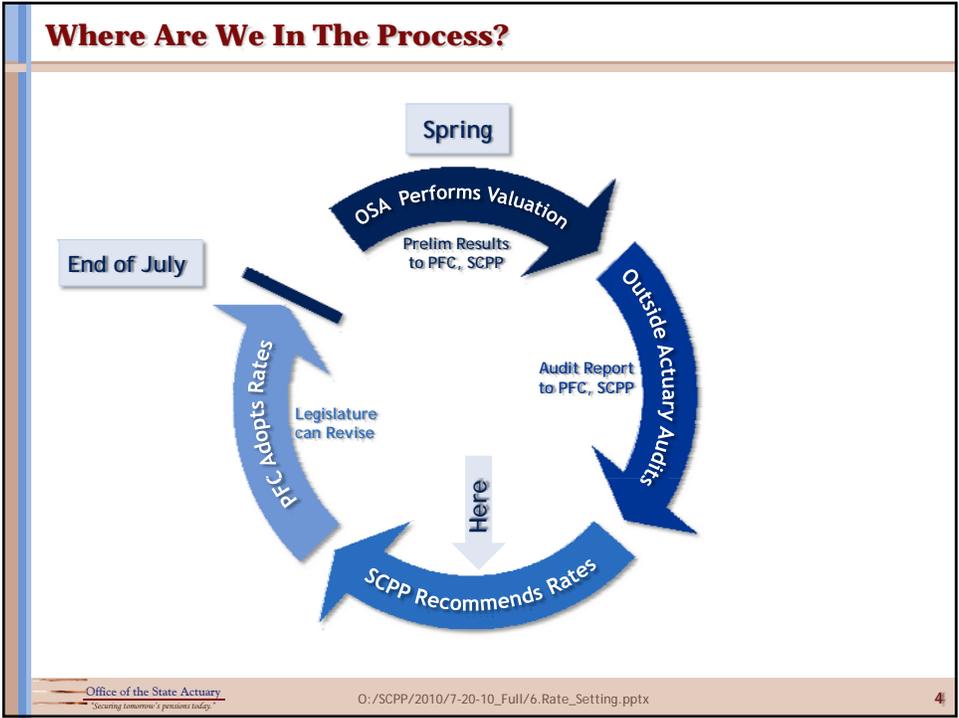
- Contribution rates for the state's retirement systems are set every two years
- This year the PFC will adopt rates for the 2011-13 Biennium

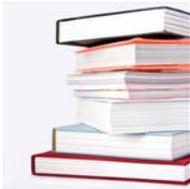


SCPP Has Statutory Role In Setting Rates

- Receive results of actuarial valuation and audit
- Recommend rates to the PFC





- ### SCPP Has Taken Steps To Prepare
- June briefings
 - Rate setting process
 - Preliminary results from the 2009 actuarial valuation
 - Received information on actuarial audit
- 
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Contribution Rates Are Increasing Significantly

- Required employer rates and general fund state (GF-S) contributions nearly doubling for 2011-13
- Much of the rate increase is driven by Plan 1 legacy costs
- Pension costs growing faster than revenues for 2011-13
- All plans currently healthy except PERS 1 and TRS 1
 - Future declines in funded status projected
- Contribution increases recommended to maintain plan health and manage “pay-go” risk for PERS 1 and TRS 1

Members Asked For More Information At June Meeting

- Unfunded Actuarial Accrued Liability (UAAL) broken out from total employer rates
- Details on funded status
- History of contribution rates
- Factors driving rate increases



Follow-Up Question 1: Break-Out UAAL Rates

- Total employer rates provided in June
- New slides break out rates by
 - Current plan costs
 - Unfunded past plan 1 costs (UAAL)
- Takeaway
 - Payments to UAAL large source of employer rate increases

Employer Contribution Rates - Current Plan Costs*

	Current	2011-12	2012-13
PERS 2/3	4.01%	4.70%	4.70%
TRS 2/3	4.13%	5.45%	5.45%
SERS 2/3	4.14%	5.08%	5.08%
PSERS 2	6.55%	6.36%	6.36%
LEOFF 1	0.00%	0.00%	0.00%
WSPRS	6.41%	7.91%	7.91%

- No unfunded past liability in open plans and LEOFF 1
- LEOFF Plan 2 Retirement Board adopts rates for LEOFF 2

*Preliminary. Excludes administrative expense rate of 0.16%.

Employer Contribution Rates – Unfunded Plan 1 Costs*

	Current	2011-12	2012-13
PERS	1.14%	3.75%	4.44%
TRS	1.85%	6.50%	6.85%
SERS	1.14%	3.75%	4.44%
PSERS	1.14%	3.75%	4.44%
LEOFF 1	0.00%	0.00%	0.00%
WSPRS	0.00%	0.00%	0.00%

- All PERS, SERS, and PSERS employers pay for the PERS 1 unfunded past cost (UAAL)
- All TRS employers pay for the TRS 1 UAAL
- UAAL contribution rates change each fiscal year until 2015
- No unfunded Plan 1 costs in LEOFF 1 and WSPRS

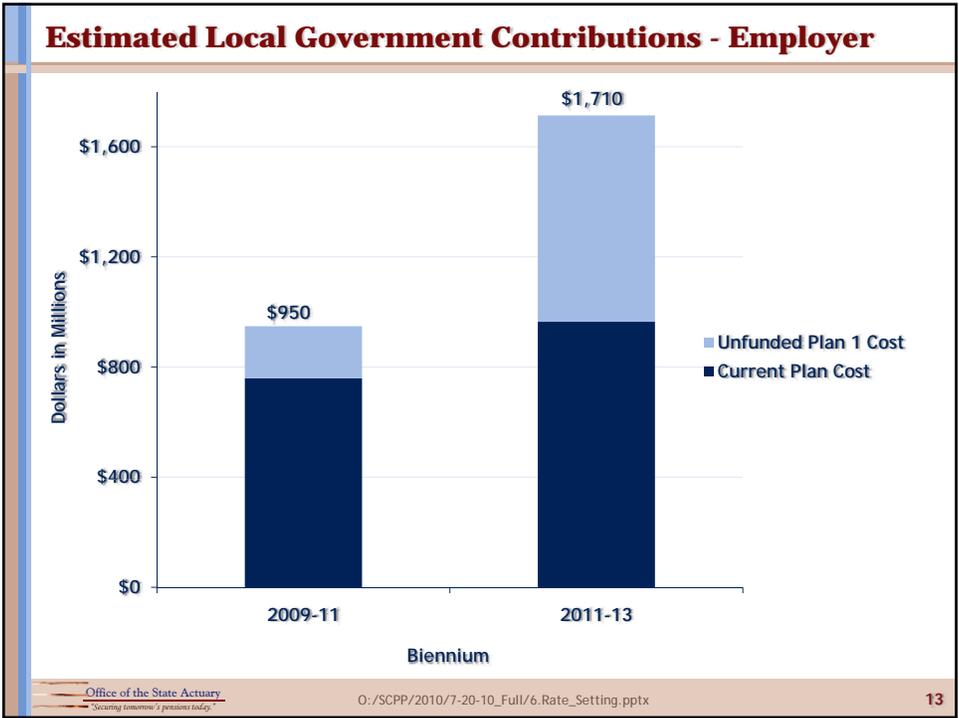
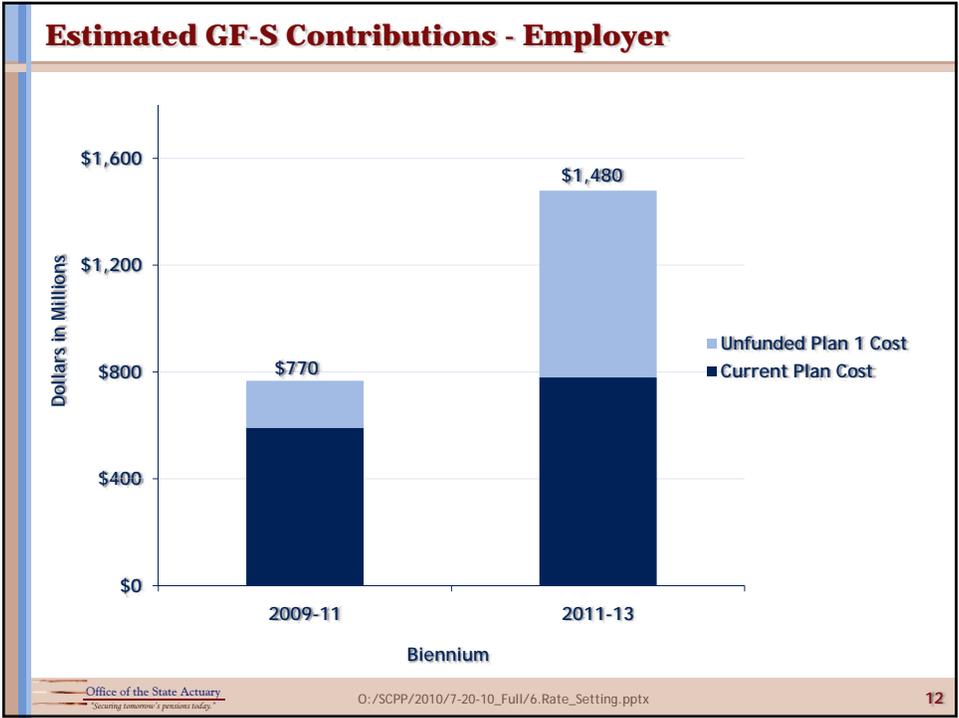
**Preliminary. Excludes administrative expense rate of 0.16 percent.*

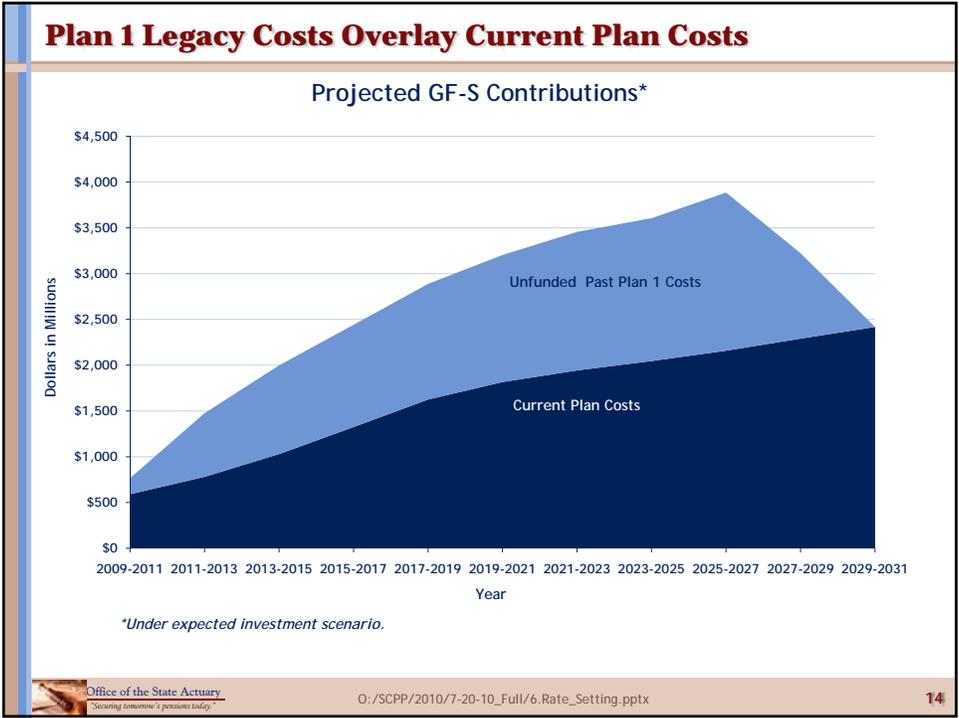
Total Employer Contribution Rates*

	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%

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

**Preliminary. Excludes administrative expense rate of 0.16 percent.*





- ### Follow-Up Question 2: Details On Funded Status
- Provided a chart showing funded status by plan in June
 - New slide provides details of the calculation
 - Assets
 - Liabilities
 - Takeaways
 - Liabilities in PERS 1 and TRS 1 combined represent about 43 percent of total liabilities for all systems
 - Funded status expected to decline over next eight years
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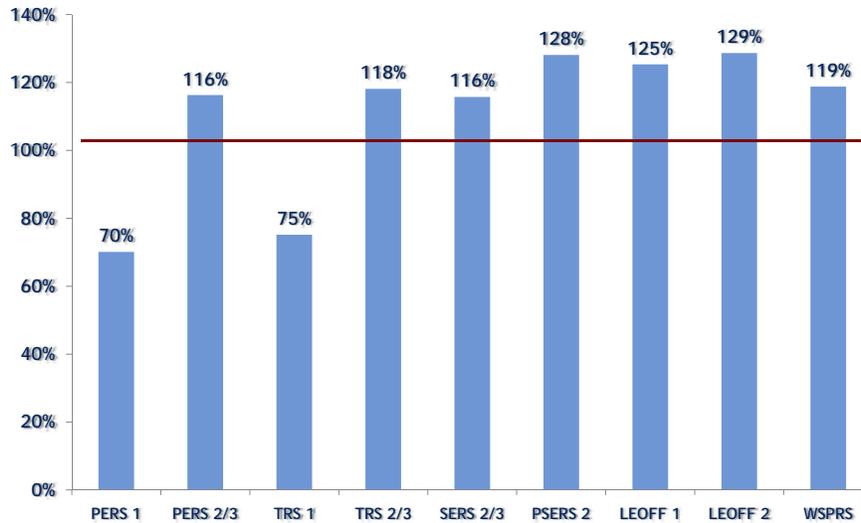
2009 Funded Status By Plan

(Dollars in millions)	PERS		TRS		SERS
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3
PUC Liability*	\$13,945	\$15,701	\$10,838	\$5,213	\$2,162
Valuation Assets	\$9,776	\$18,260	\$8,146	\$6,160	\$2,503
Unfunded Liability	\$4,169	(\$2,560)	\$2,692	(\$947)	(\$341)
Funded Ratio	70%	116%	75%	118%	116%

(Dollars in millions)	PSERS	LEOFF		WSPRS
	Plan 2	Plan 1	Plan 2	
PUC Liability*	\$54	\$4,477	\$4,325	\$758
Valuation Assets	\$69	\$5,612	\$5,564	\$900
Unfunded Liability	(\$15)	(\$1,135)	(\$1,239)	(\$143)
Funded Ratio	128%	125%	129%	119%

* Today's value of all future plan benefits that have been earned by current plan members.

All Plans Healthy Except PERS 1 And TRS 1*



* Funded status at June 30, 2009.

Funded Status Expected To Decline

- 2009 funded status
 - Measured at June 30, 2009
 - One-eighth of 2009 asset loss recognized (smoothing)
- Funded status expected to decline over next eight years
 - Twenty-five - thirty percent decline in Plans 2/3
 - Fifteen - twenty percent decline in Plans 1 and PSERS
 - Actual decline will depend on actual investment performance and future contribution levels



Follow-Up Question 3: History Of Contribution Rates

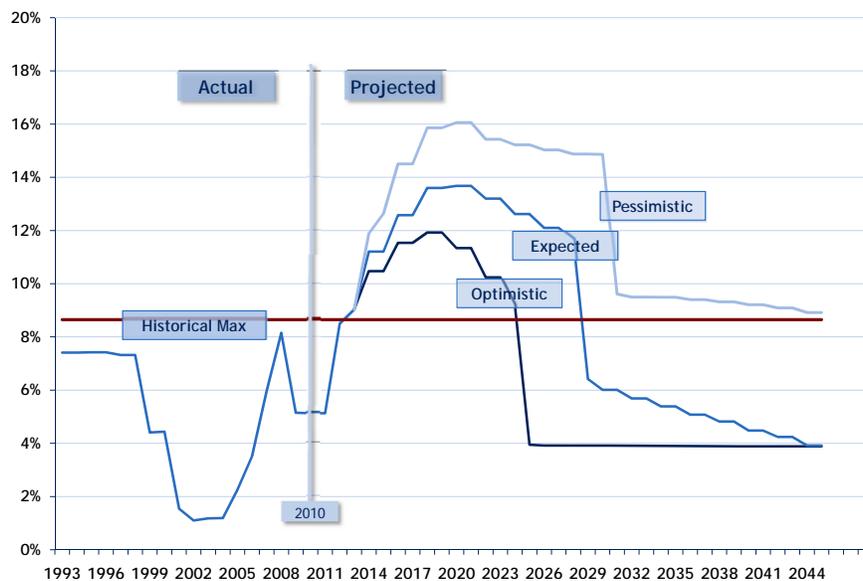
- Projected rates provided in June
- Added 20-year history of actual rates
- Takeaways
 - Contribution rates dropped to unsustainable levels
 - Past funding shortfalls large source of future rate increases
 - Graphs show "valleys" followed by "mountains"

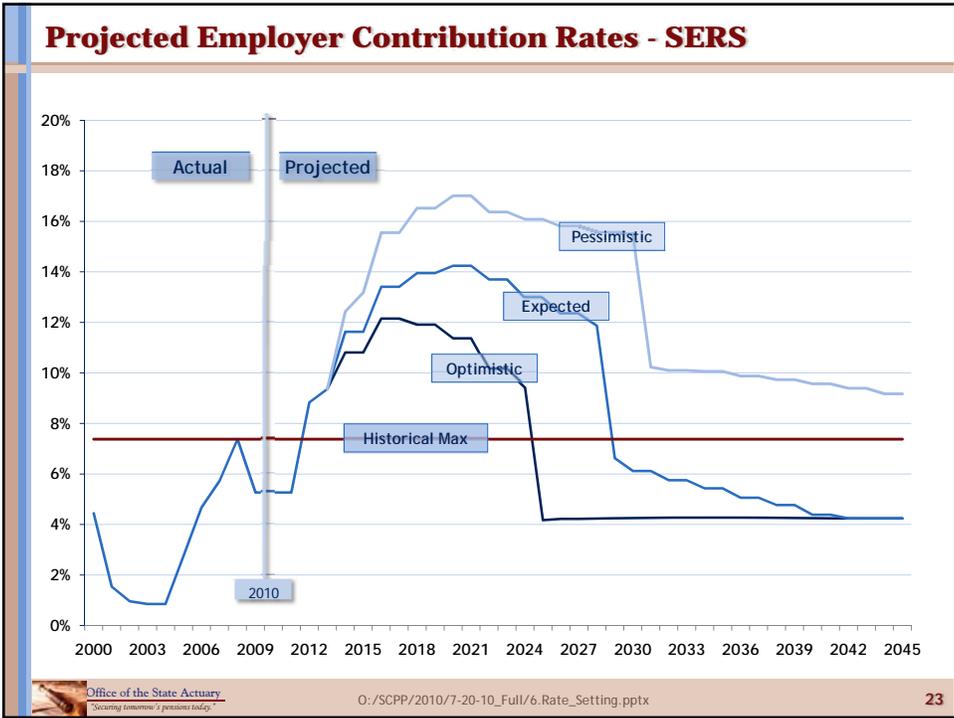
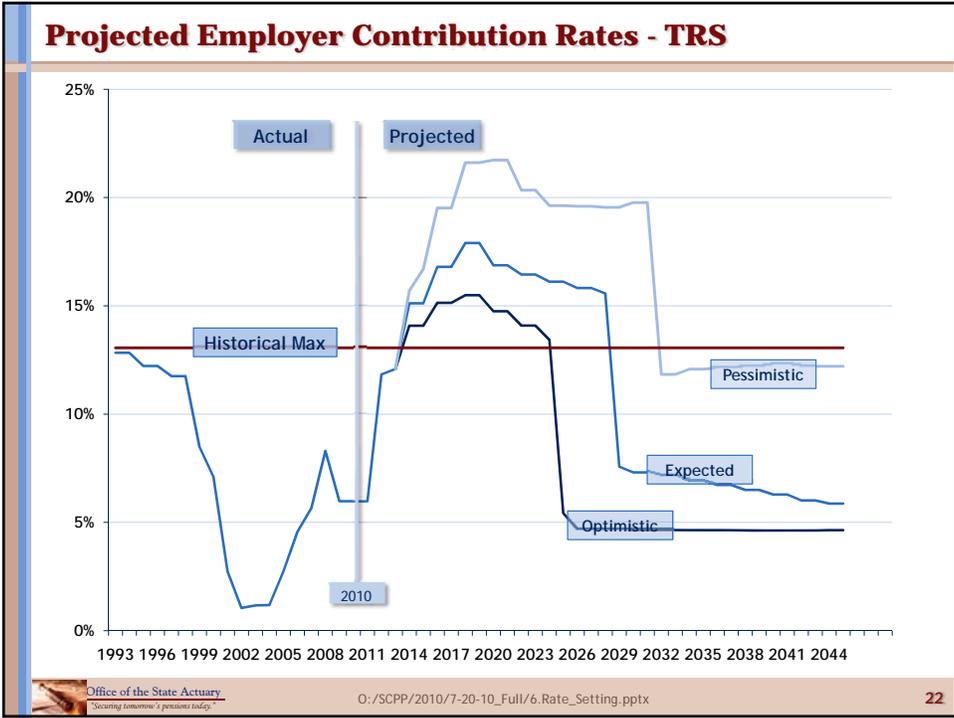


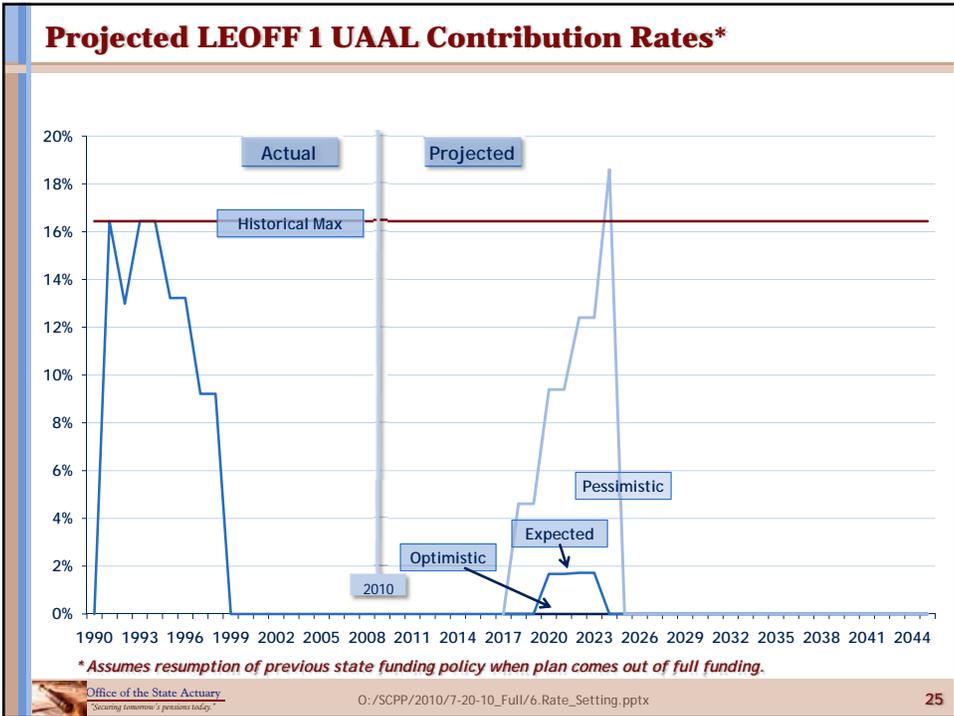
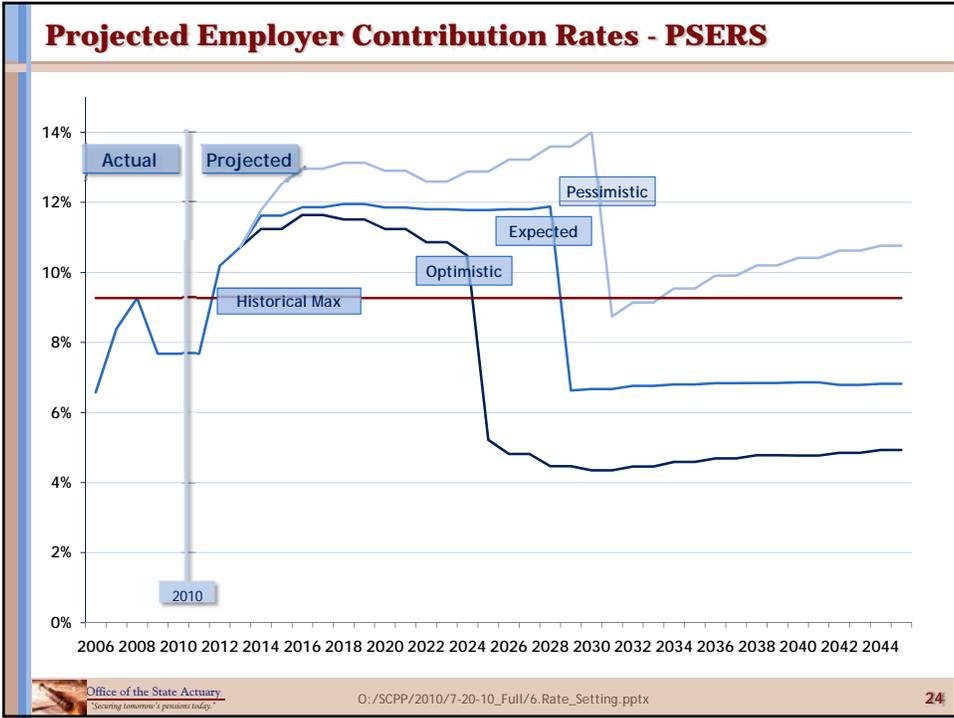
Understanding Projected Rates

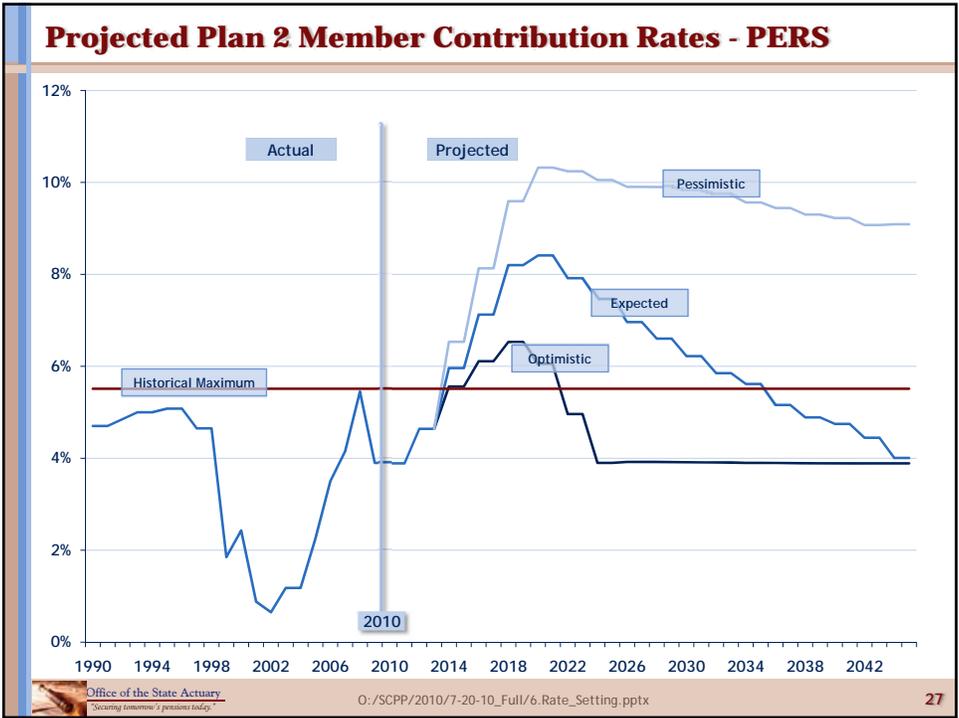
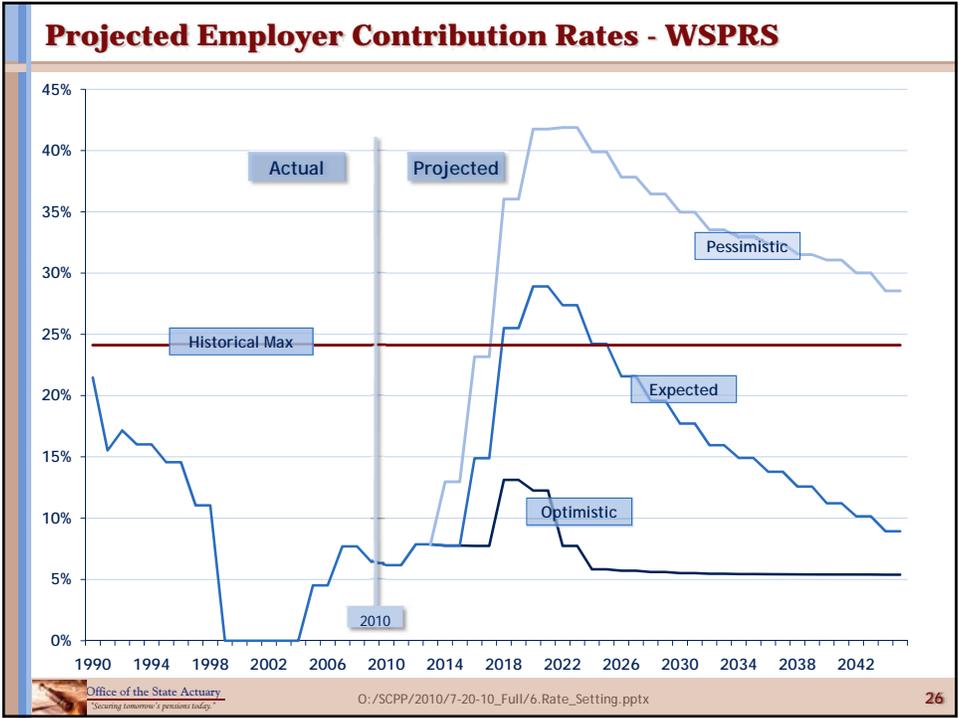
- Projected employer rates under three investment outlooks
 - Based on a distribution of simulated future returns
 - Equivalent long-term returns provided below (labeled "ROR")
- Pessimistic outlook (about 6 percent ROR)
- Expected outlook (about 8 percent ROR)
 - Best estimate
- Optimistic outlook (about 9 percent ROR)
- Half of our simulations fall between the pessimistic and optimistic outlooks
 - Best estimate range
 - Understanding range of outcomes just as important as best estimate

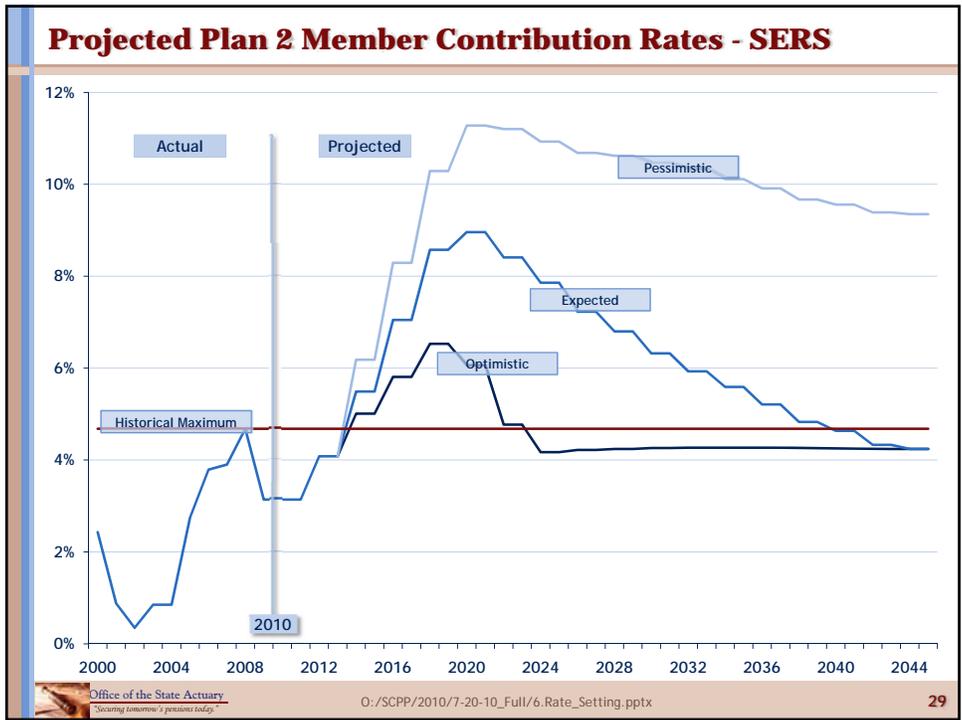
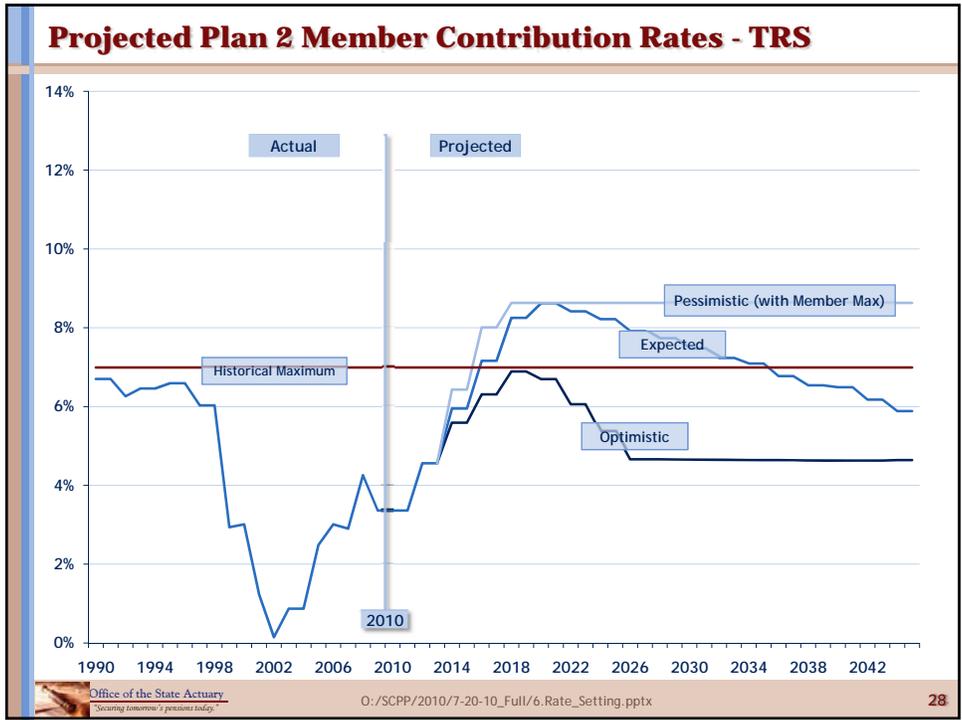
Projected Employer Contribution Rates - PERS

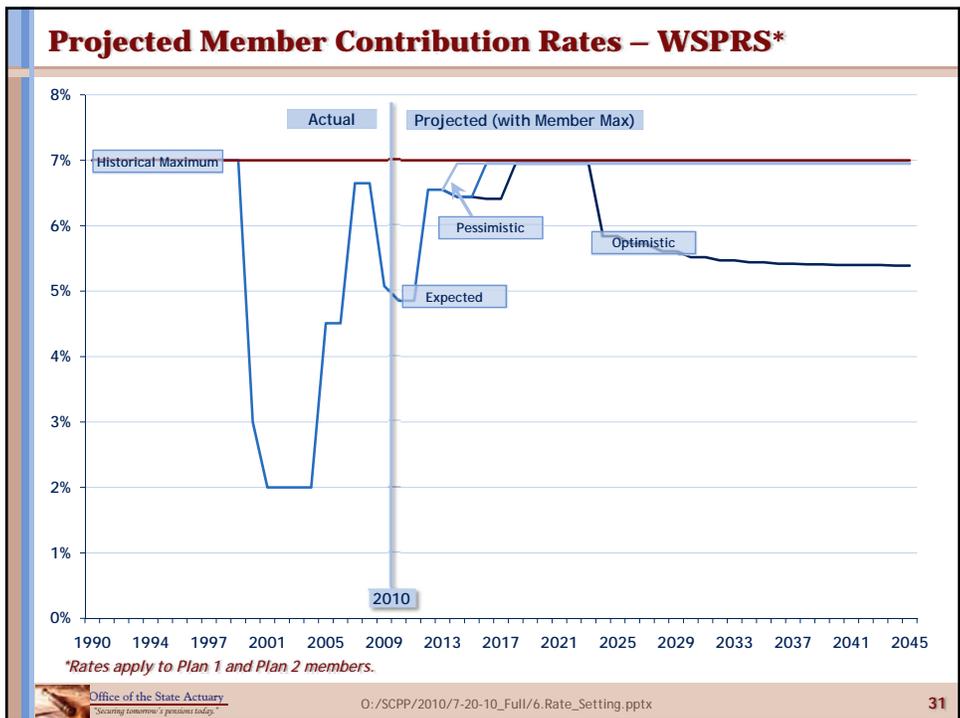
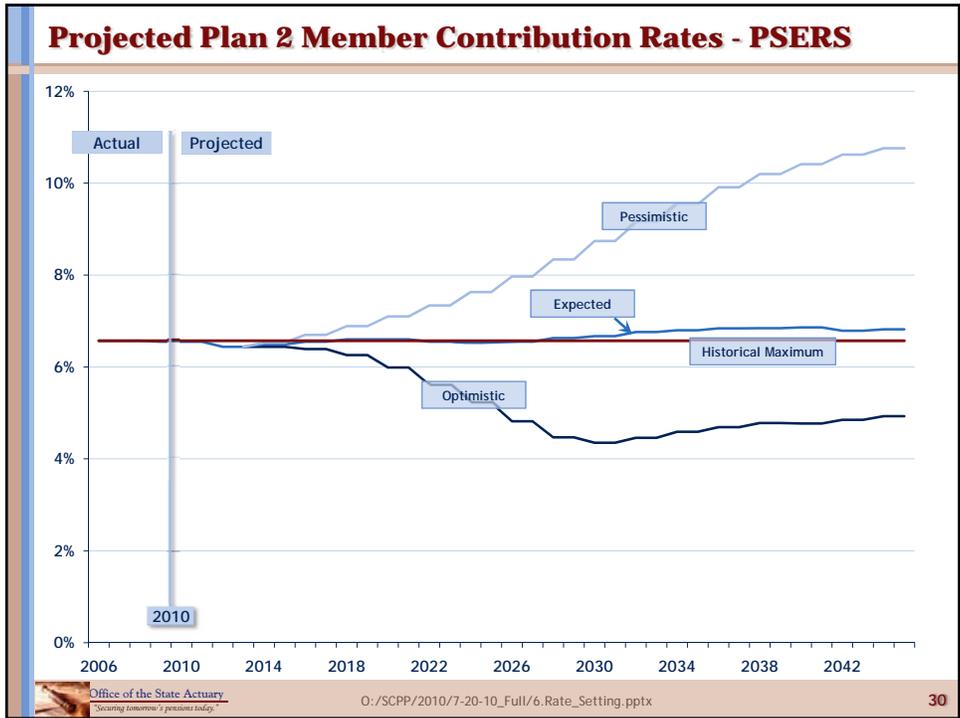












Follow-Up Question 4: Factors Driving Rate Increases

- Answered during risk assessment update
- Takeaways
 - Funding shortfalls
 - Benefit improvements
 - Plan 1 legacy costs



Context For Rate Recommendation

- Systems facing affordability challenges
 - Open plans still strong but require increased contributions to remain healthy
 - PERS 1 and TRS 1 unhealthy and have "pay-go" risk
 - LEOFF 1 may come out of surplus
- Delicate balance
 - Managing plan health and pay-go risks
 - State and local government budgets
 - Employee take-home pay (Plan 2)



State Actuary Recommendations

- PFC adopt audited contribution rates from 2009 actuarial valuation
 - Handout with preliminary rates included in meeting materials
 - No significant changes expected from audit
- These rates already include budget relief
 - Asset smoothing method
 - SSB 6161 (2009) provided rate relief through 2015
- If further budget relief necessary, use OSA's risk assessment model to evaluate the consequences



Options and Next Steps

- Options
 - Recommend rates from state actuary
 - Don't recommend rates from state actuary and explain why
 - Provide considerations to PFC
- Next steps
 - PFC meets on July 29 to adopt 2011-13 rates
 - Use findings from risk assessment to develop risk management strategies for upcoming session
 - Today is not the last opportunity for SCPP to act on rates

Disclosures

- We prepared this presentation to assist Select Committee on Pension Policy in making a recommendation to the Pension Funding Council on contribution rates for the 2011-13 Biennium. Please do not use this presentation for other purposes.
- Please do not use the actuarial information beyond the 2011 Legislative Session 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 to prepare the preliminary 2009 valuation results in this presentation will be disclosed in the final 2009 Actuarial Valuation Report after the completion of the audit.
- Projections reflect actual asset returns through June 30, 2009, and data, assumptions, and methods as disclosed in the *2009 Report on Financial Condition*. We plan to update the projections this Fall. Please see the Actuarial Certification in the *2009 Report on Financial Condition* for additional considerations on the intended use of this information.
- 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.