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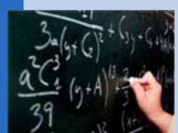


State of the State's Pensions

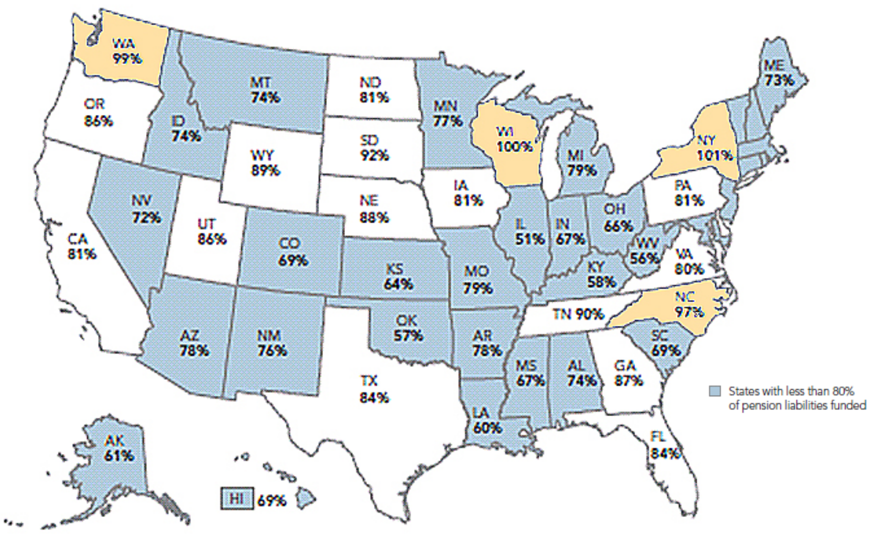
Matt Smith, FCA, EA, MAAA
State Actuary

October 18, 2011

State Of The State's Pensions

- A national leader in pensions
- Certain risks and challenges ahead
- Opportunities to plan for the future and remain a national leader

Top Three Funded Status Nationally



Source: The PEW Center on the States April 25, 2011, report, "*The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs*."

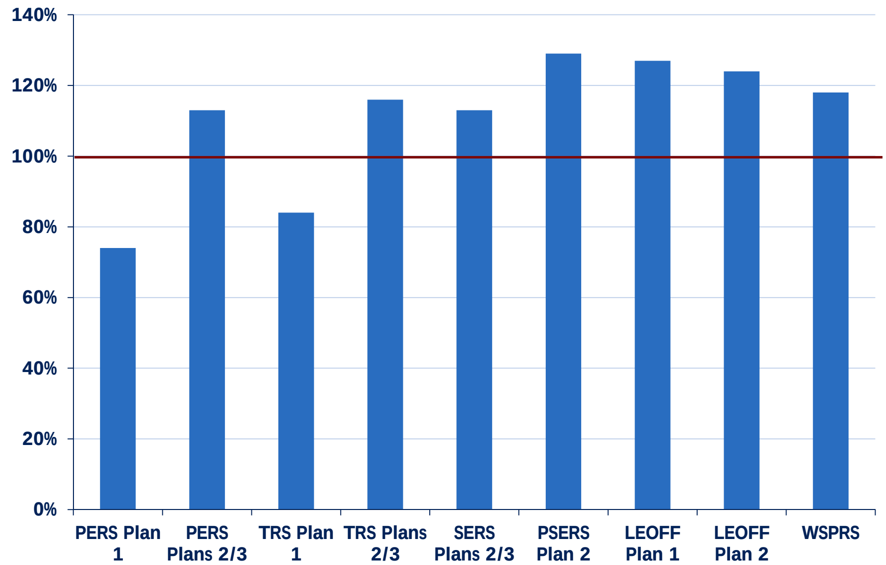
Latest Funded Status For Washington

Funded Status on an Actuarial Value Basis*										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plans 2/3	Plan 1	Plans 2/3	Plans 2/3	Plan 2	Plan 1	Plan 2		
Accrued Liability	$12,531	$17,272	$9,231	$5,708	$2,368	$80	$4,381	$4,863	$782	$57,216
Valuation Assets	$9,293	$19,474	$7,791	$6,593	$2,664	$103	$5,561	$6,043	$920	$58,442
Unfunded Liability	$3,238	($2,202)	$1,439	($886)	($296)	($23)	($1,180)	($1,179)	($137)	($1,226)
Funded Ratio										
2010	**74%**	**113%**	**84%**	**116%**	**113%**	**129%**	**127%**	**124%**	**118%**	**102%**

Note: Totals may not agree due to rounding. June 30, 2010, valuation date.

**Accrued liabilities represent the present value of future benefits for current members earned at the valuation date assuming an expected rate of return on assets of 8% per year. All assets have been valued under the actuarial asset method (the "smoothing" method).*

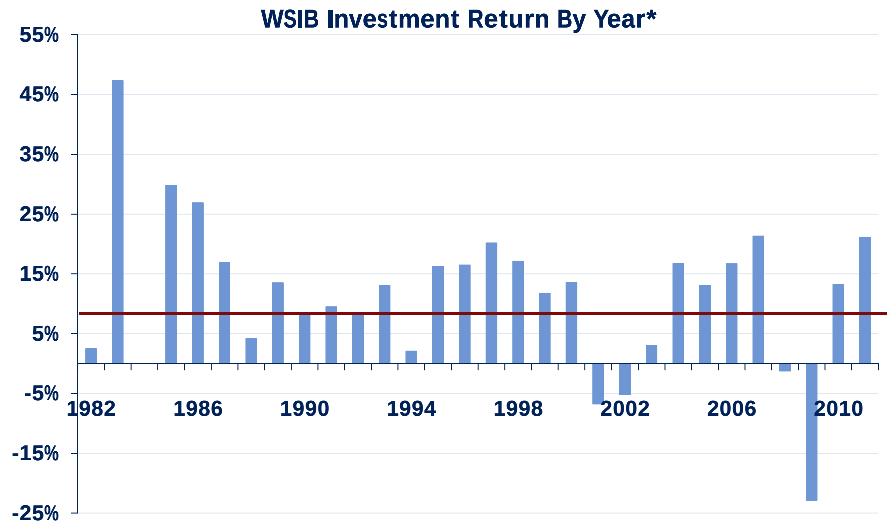
Latest Funded Status For Washington



Top Investment Performance

- WSIB's ten-year returns through June 30, 2010, after fees, best for public funds
- Based on Bloomberg survey of public pension funds with more than $20 billion in assets
- According to Bloomberg, WSIB's ten-year returns benefitted from investments in
  - Private equity
  - Real estate

Historical Investment Returns



Fiscal year ending June 30.

Complex Plans With Cost Effective Administration

- Third most complex public pension plan/system
- DRS' cost per active member and annuitant well below peer average
  - $59 for DRS
  - $82 for peer average
- According to CEM Benchmarking analysis

Litigation Risks Remain

- Potential reinstatement of recently repealed benefits would weaken affected plans' financial health
  - Gain-sharing benefits in PERS 1, TRS 1, and Plan 3
  - PERS 1 and TRS 1 Uniform Cost-of-Living-Adjustment (UCOLA)
- Full analysis included in recent Report on Financial Condition
- Potential funded status and budget impacts

Funded Status Impacts

Funded Status on an Actuarial Value Basis				
	2010 Funded Status[1]	Funded Status After Restoration of Gain-Sharing[2]	Funded Status After Restoration of UCOLA[3]	Funded Status After Restoration of Gain-Sharing and UCOLA[4]
PERS 1	74%	72%	66%	63%
PERS 2/3	113%	112%	N/A	112%
TRS 1	84%	82%	72%	70%
TRS 2/3	116%	109%	N/A	109%
SERS 2/3	113%	105%	N/A	105%
PSERS 2	129%	N/A	N/A	N/A
LEOFF 1	127%	N/A	N/A	N/A
WSPRS	118%	N/A	N/A	N/A

[1]Based on preliminary 2010 Actuarial Valuation results (preliminary AVR).
[2]Based on preliminary AVR results after restoration of gain-sharing and continuation of replacement benefits.
[3]Based on preliminary AVR results after restoration of UCOLA.
[4]Based on preliminary AVR results after restoration of gain-sharing and UCOLA.

2013-15 GF-S Budget Impacts

2013-15 Employer Contributions from the State General Fund				
(Dollars in Millions)	Expected Contributions[1]	Increase in Contributions After Restoration of Gain-Sharing[2]	Increase in Contributions After Restoration of UCOLA[3]	Increase in Contributions After Restoration of Gain-Sharing and UCOLA[4]
PERS	$296.7	$26.1	$73.7	$104.1
TRS	583.3	142.1	300.8	459.4
SERS	122.9	36.5	28.5	66.7
PSERS	36.2	1.8	7.4	9.6
Total	$1,039.2	$206.5	$410.5	$639.7

Note: Totals may not agree due to rounding.
[1]Based on preliminary 2010 Actuarial Valuation results (preliminary AVR).
[2]Based on preliminary AVR results after restoration of gain-sharing and continuation of replacement benefits.
[3]Based on preliminary AVR results after restoration of UCOLA.
[4]Based on preliminary AVR results after restoration of gain-sharing and UCOLA.

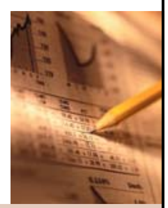
2013-15 Total Employer Budget Impacts

2013-15 Total Employer Contributions				
(Dollars in Millions)	Expected Contributions[1]	Increase in Contributions After Restoration of Gain-Sharing[2]	Increase in Contributions After Restoration of UCOLA[3]	Increase in Contributions After Restoration of Gain-Sharing and UCOLA[4]
PERS	$1,489.5	$131.1	$370.1	$522.4
TRS	879.8	214.3	453.6	692.9
SERS	275.8	81.8	64.0	149.5
PSERS	51.0	2.5	10.5	13.6
Total	$2,696.1	$429.8	$898.2	$1,378.4

Note: Totals may not agree due to rounding.
[1]Based on preliminary 2010 Actuarial Valuation results (preliminary AVR).
[2]Based on preliminary AVR results after restoration of gain-sharing and continuation of replacement benefits.
[3]Based on preliminary AVR results after restoration of UCOLA.
[4]Based on preliminary AVR results after restoration of gain-sharing and UCOLA.

Recovery Underway, Not Complete

- Investment returns of 13.2 and 21.1 percent for last two fiscal years
- Recovered most, but not all of past investment losses from Great Recession
- Actuarial funding based on “smoothed” investment returns



Basics On Asset Smoothing

- Start with market value of assets each year
- Calculate expected return for given year
- Gain/loss is difference between actual and expected return
  - For example, 10 percent return is a 2 percent actuarial gain (2 = 10 – 8 percent)
- Annual gain/loss spread over set number of years
  - Larger the gain/loss ➡ longer the smoothing period
- Spread over no more than eight years

Actuarial Assets At June 30, 2010

Calculation of Actuarial Value of Assets All Plans		
(Dollars in Millions)		Total
a.	Market Value at 6/30/2010	$48,700
b.	Deferred Gains and (Losses)	
Plan Year Ending		
	6/30/2010	1,926
	6/30/2009	(13,308)
	6/30/2008	(3,405)
	6/30/2007	2,744
	9/30/2006	1,337
	9/30/2005	964
Total Deferral		($9,742)
c.	Market Value less Deferral (a-b)	$58,442
d.	70% of Market Value of Assets	$34,090
e.	130% of Market Value of Assets	$63,310
f.	Actuarial Value of Assets*	$58,442

Note: Totals may not agree due to rounding.

**Actuarial Value of Assets can never be less than 70% or greater than 130% of the market value of assets.*

Actuarial Assets At June 30, 2011 - Preliminary

Calculation of Actuarial Value of Assets All Plans		
(Dollars in Millions)		Total
a.	Market Value of Assets	$58,995
b.	Deferred Gains and (Losses)	
Plan Year Ending		
	6/30/2011	5,599
	6/30/2010	1,531
	6/30/2009	(11,090)
	6/30/2008	(2,724)
	6/30/2007	2,058
	9/30/2006	892
	9/30/2005	482
Total Deferral		($3,252)
c.	Market Value less Deferral (a-b)	$62,247
d.	70% of Market Value of Assets	$41,297
e.	130% of Market Value of Assets	$76,694
f.	Actuarial Value of Assets*	$62,247

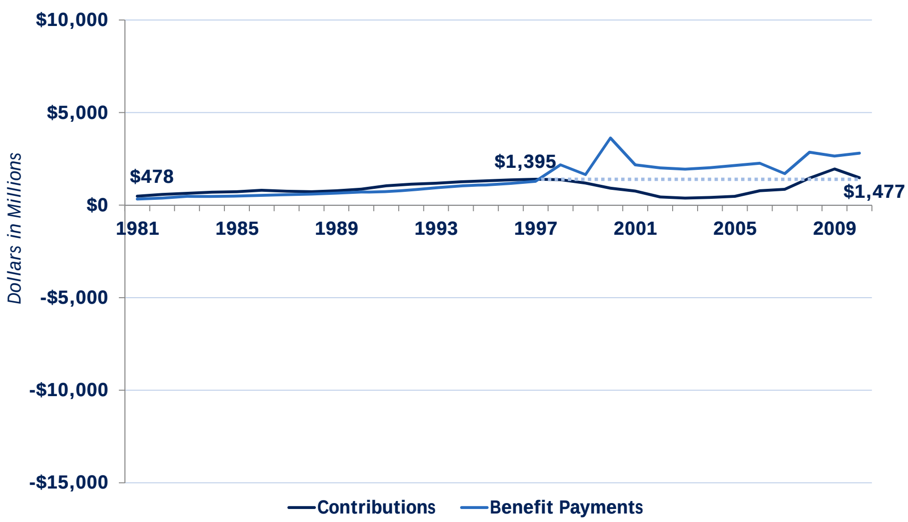
Note: Totals may not agree due to rounding.

**Actuarial Value of Assets can never be less than 70% or greater than 130% of the Market Value of Assets.*

Future Contribution Increases Expected

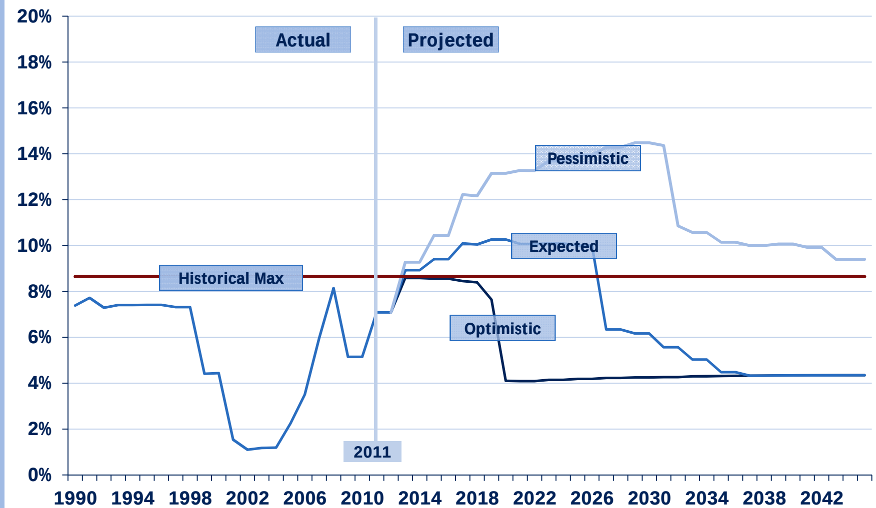
- With $3.3 billion in deferred investment losses at June 30, 2011, we expect contributions to increase above current levels
- Current contributions also below long-term levels
- Completing phase-in of new Plan 1 funding method
  - Phasing-in higher Plan 1 contribution requirements
  - Phase-in complete at beginning of 2015-17
- Important note: future contribution increases depend on actual investment performance plus actual funding and benefit levels

Current Contributions Below Long-Term Levels



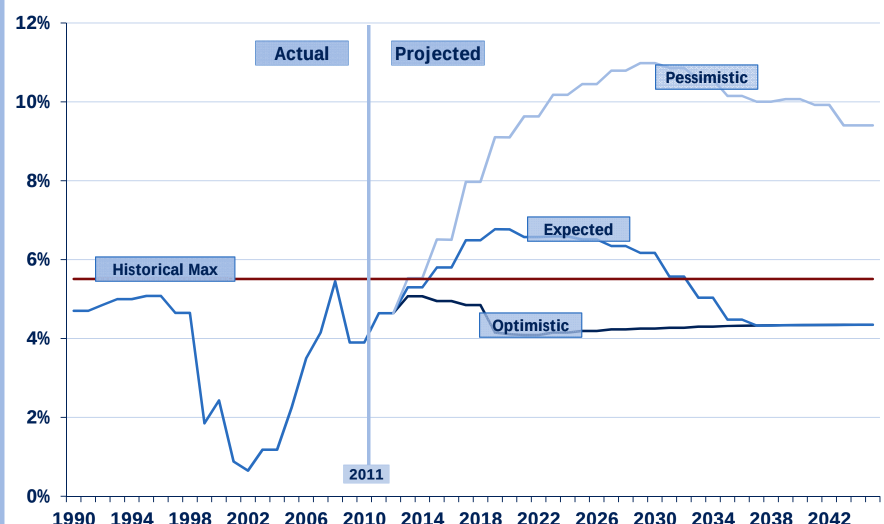
Note: The volatility of the Benefit Payments is attributable to gain-sharing payments, Plan 3 transfer payments, the creation of new retirement systems, and valuation date changes that occurred from 1997 – 2008.

Projected Employer Contribution Rates – PERS*



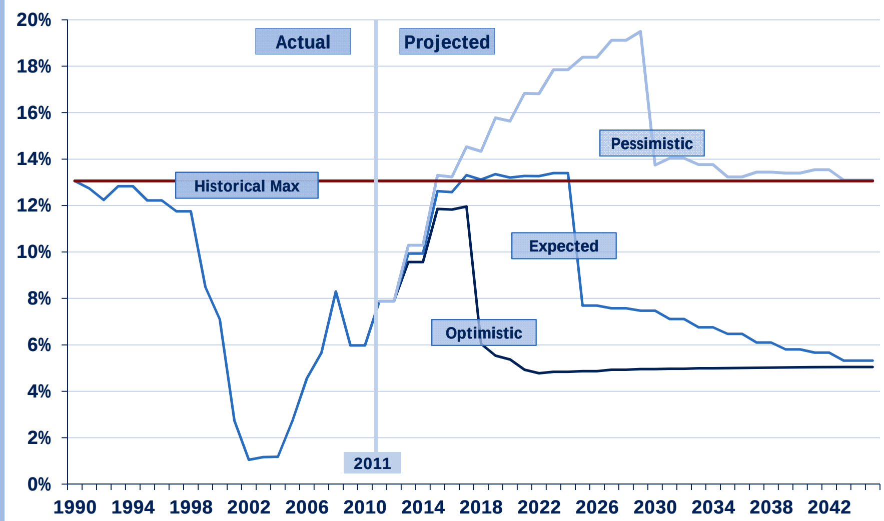
Assumes no future benefit improvements and full funding up to assumed system maximums.

Projected Plan 2 Member Contribution Rates – PERS*



Assumes no future benefit improvements and full funding up to assumed system maximums.

Projected Employer Contribution Rates – TRS*



Assumes no future benefit improvements and full funding up to assumed system maximums.

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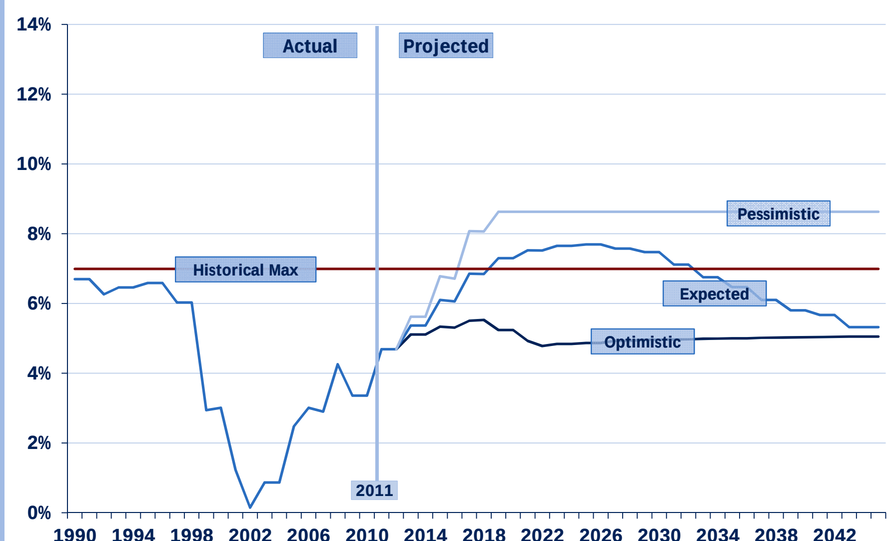
Projected Plan 2 Member Contribution Rates – TRS*



Assumes no future benefit improvements and full funding up to assumed system maximums.

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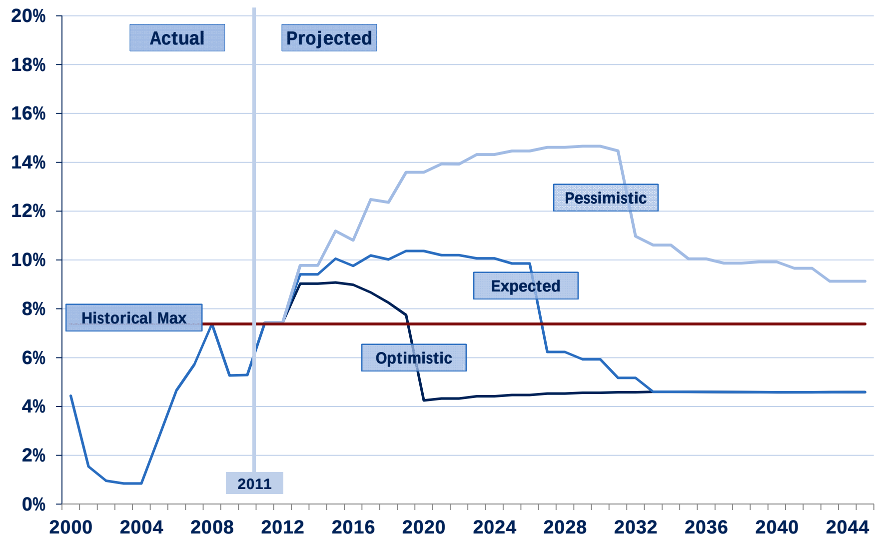
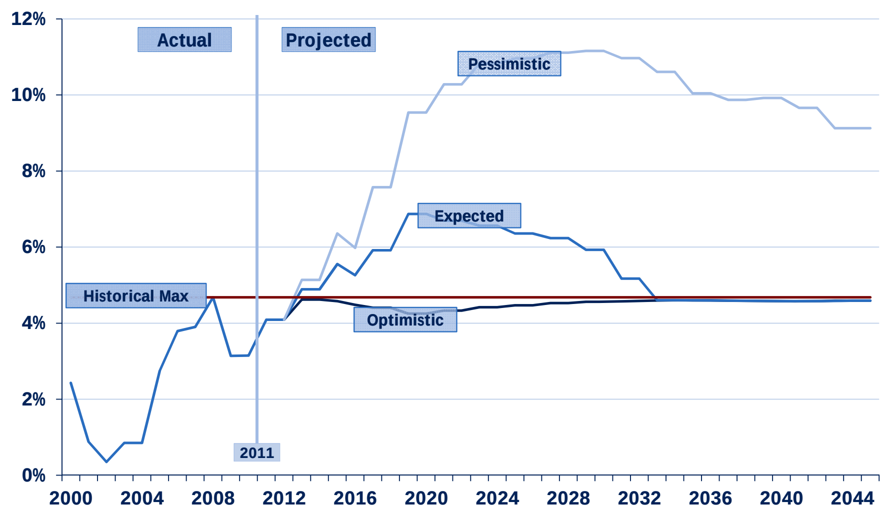
Projected Employer Contribution Rates – SERS*



*Assumes no future benefit improvements and full funding up to assumed system maximums.

Projected Plan 2 Member Contribution Rates – SERS*

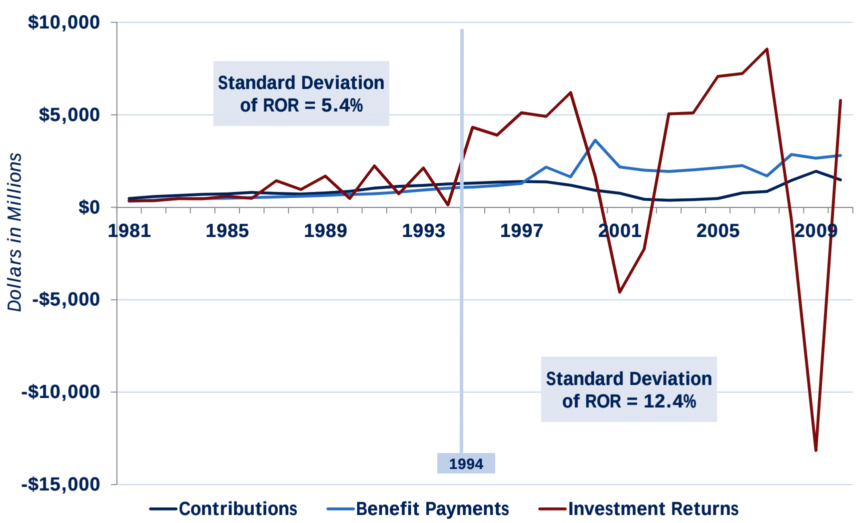


*Assumes no future benefit improvements and full funding up to assumed system maximums.

Planning For The Future

- Full and stable long-term funding required to maintain plan health and sustainable costs
- Expected returns around 8 (or 7.5) percent require investment risk
  - WSIB mandate: "maximize returns at a prudent level of risk"
- Premium returns come with expected, inevitable volatility
  - Positive and negative volatility
- Portfolio volatility has increased over time
- Full funding and maintenance of sustainable plan designs will help systems weather future volatility
  - Reap full rewards of investment policy
- Some funding policies already in place to manage volatility

Portfolio Volatility Increased Over Time



Note: The volatility of the Benefit Payments is attributable to gain-sharing payments, Plan 3 transfer payments, the creation of new retirement systems, and valuation date changes that occurred from 1997 – 2008.

Current Funding Policies To Manage Volatility

- Asset smoothing method
  - Defer annual asset gains/losses up to eight years
  - Unique method among public plans
  - Highly effective at managing volatility; requires long-term discipline
  - Treat gains and losses the same
- Minimum contribution rates
  - Asset smoothing alone is not enough
  - Minimum contribution rates provide additional layer to protect against prematurely lowering contribution requirements during upward volatility

Future Opportunities To Manage Volatility

- Ensure future benefit improvements are affordable and sustainable before adoption
- How should we measure the affordability of future benefit improvements?
  - At market highs and when government revenues peak?
  - At market lows and the lowest levels of revenue?
- Use new risk tools and analysis

State Of The State's Pensions

- Top three funded status nationally
- Best investment performance over past ten years
- Complex plans with cost effective administration
- Litigation risks remain
- Recovery underway, not complete
- Future contribution increases expected
- Full and stable long-term funding required to maintain plan health and sustainable costs
- Opportunities to plan for the future and remain a national leader

Questions?

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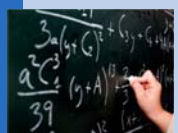
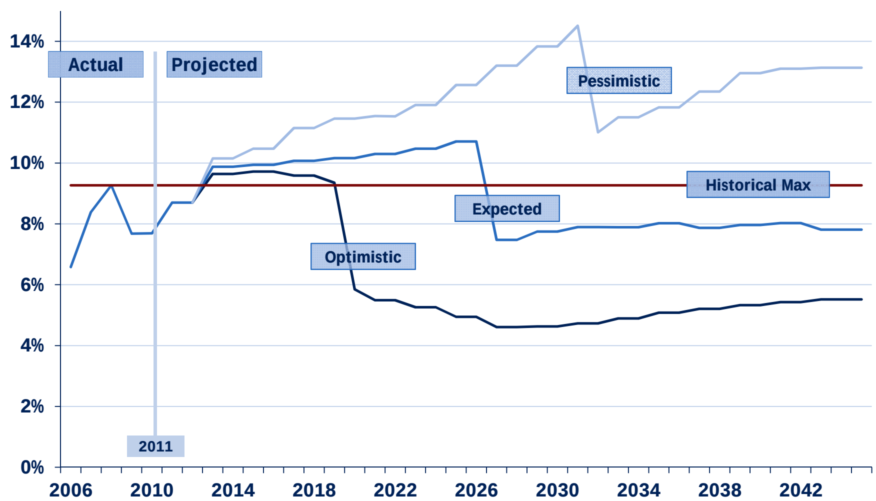


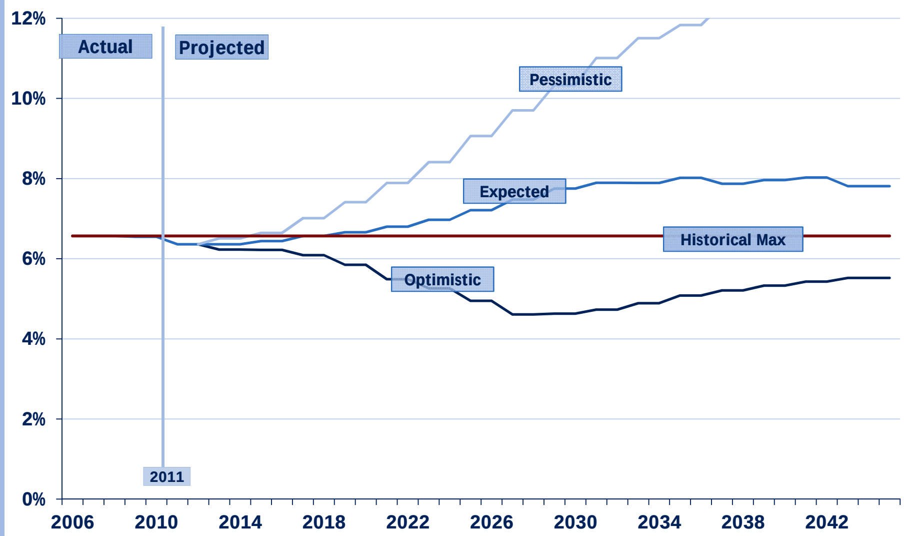
Appendix

Projected Employer Contribution Rates – PSERS*



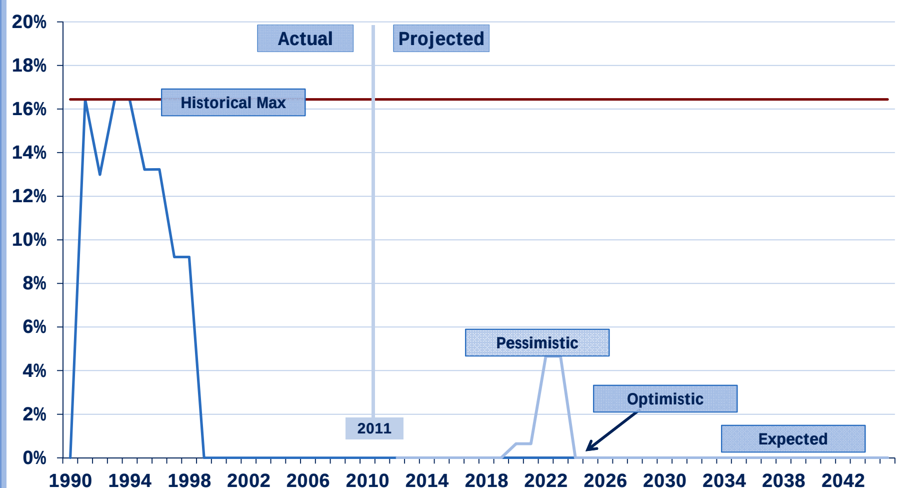
Assumes no future benefit improvements and full funding up to assumed system maximums.

Projected Member Contribution Rates – PSERS*



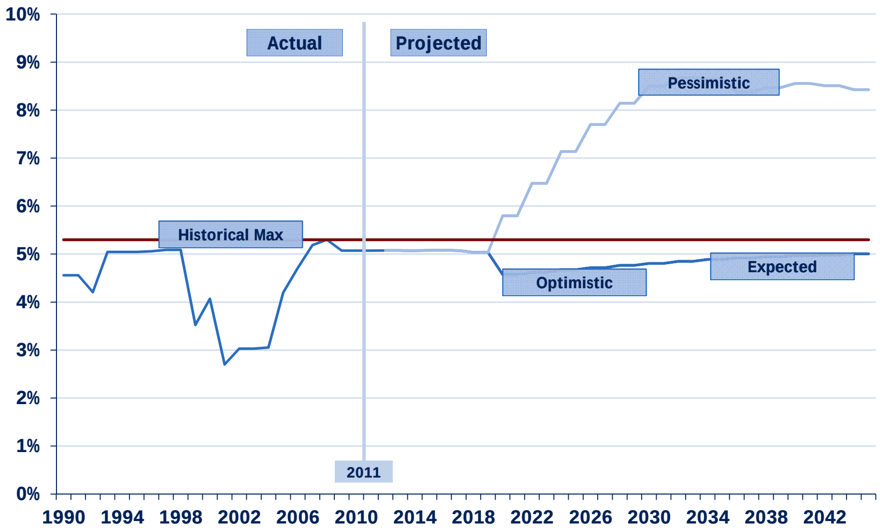
*Assumes no future benefit improvements and full funding up to assumed system maximums.

Projected UAAL Contribution Rates – LEOFF 1*



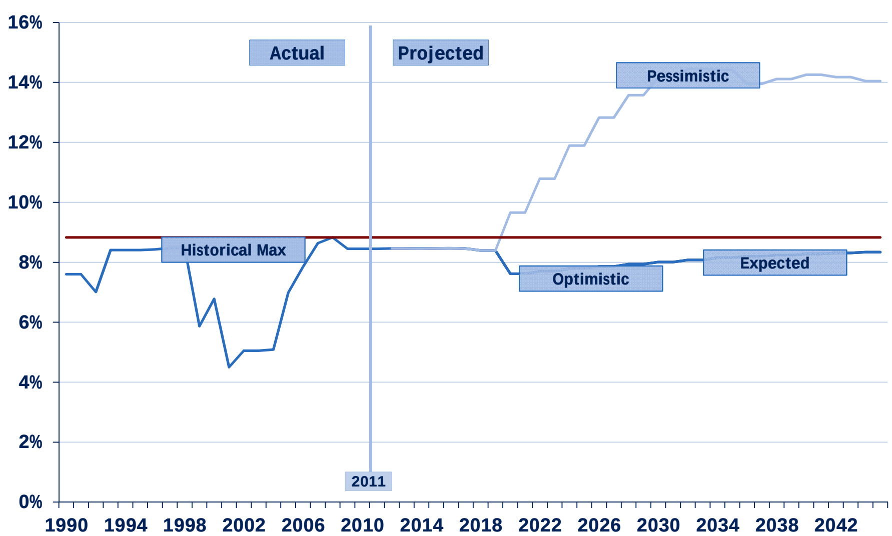
*Assumes no future benefit improvements and full funding up to assumed system maximums. Also assumes reinstatement of previous state funding policy should a UAAL re-emerge.

Projected Employer Contribution Rates – LEOFF 2*



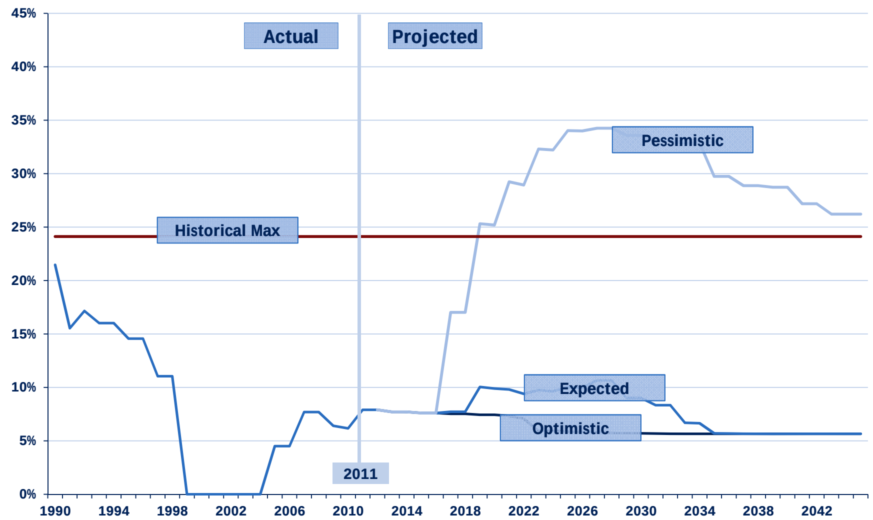
*Assumes no future benefit improvements and full funding up to assumed system maximums. Local employers fund 30 percent of total LEOFF 2 costs; state funds 20 percent.

Projected Member Contribution Rates – LEOFF 2*



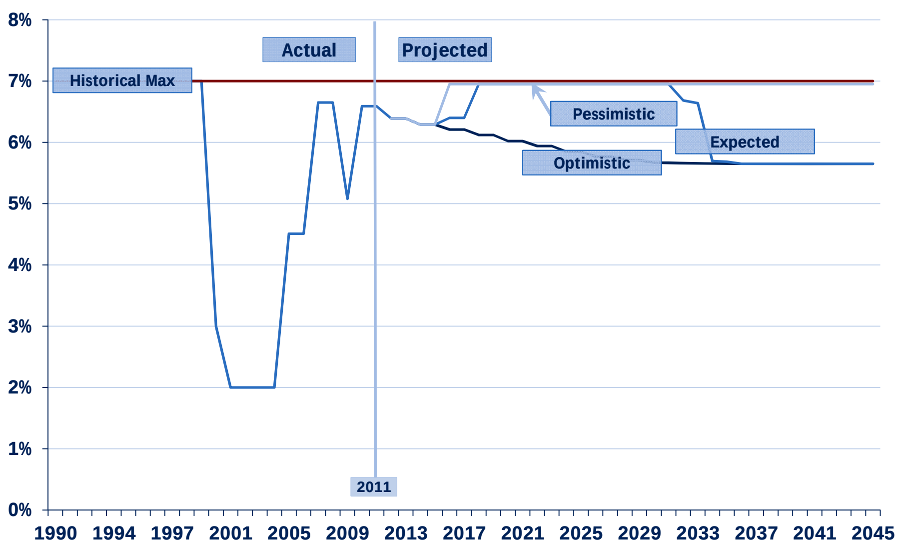
*Assumes no future benefit improvements and full funding up to assumed system maximums.

Projected Employer Contribution Rates – WSPRS*



*Assumes no future benefit improvements and full funding up to assumed system maximums.

Projected Member Contribution Rates - WSPRS*



*Assumes no future benefit improvements and full funding up to assumed system maximums.