Wallis, Keri

Subject: FW: SCPP meeting on 24th public statement
Attachments: THE PROBLEM IS.docx; Work sheet with removal of surplus funds in 2001.xls; 1may2012 SHORT FORM.xls; 2000-2011three_five_ten year returns LEOFF 1 and total CTF.xls; File LEOFF1 gain_loss per quarter 3 5 and 10 yr modified.xls

From: wp kantor [mailto:12kantor1@frontier.com]
Sent: Tuesday, July 17, 2012 3:05 PM
To: Gutierrez, Aaron
Subject: SCPP meeting on 24th public statement

Aaron I would like to make a statement about LEOFF 1 funding and the Merger of LEOFF1 and LEOFF2 at the SCPP on the 24th of July. What I would like to say is under the title "THE PROBLEM IS". In addition there are five attachments which helped to form my opinion. Would public testimony be appropriate/taken after agenda item 4?

I am sending this stuff to you to show what I would intend to say. I think this is a correct way to get the statement and attachments to the SCPP. Is this a correct format?

Thank you for your time and consideration.

THE PROBLEM IS

EVERYONE SEEMS TO WANT TO MESS WITH LEOFF PLAN ONE

EVERYONE SEEMS TO DISREGUARD GENERATIONAL EQUITY FOR LEOFF PLAN ONE

In 1997 LEOFF 1 was prematurely determined to be fully funded and the contributions by the employers and employees were stopped.

In the 2002 time frame there was a move to share a billion dollar "surplus" in LEOFF1. LEOFF1 employers, employees, and the state would have a piece. It did not happen.

In about 2005 there was a move to help the employers with LEOFF 1 medical expenses. This did not happen because of restrictions on using plan assets-not enough to share at that time.

In 2007 there was a medical study for LEOFF1 to help employers with the OPEB. This did not happen because market value on a specific date had to be used to determine assets above 120% for use with this problem.

Everyone seems to disregard the federal definition of "surplus" that is found in the pension protection act of 2006. Prior to 2006 it was 125% funding (100% funding plus a 25% reserve). The act reduced that to 120%

When the state actuary speaks about funding status he describes 100% funding as one dollar of assets for every dollar of plan liabilities. The office has used the word "surplus" to describe assets above 100% (no reserve).

There are individuals that think there is a "surplus" built into the actuary's assessment of risk. This is the justification used for using assets above 100% funding.

The problem with using the word surplus in this fashion is that the word depends on an assumption that the present assets plus a given rate of return fulfill the obligation now and in the future.

In 2012 using DRS figures it can be shown that if the "surplus" (estimated at a billion dollars) had been taken out of LEOFF 1 assets ***mentioned in paragraph about the year 2002*** the plan would be in as bad a shape as PERS 1 and TRS 1 are in now-"unhealthy".

The present problem really is that LEOFF2 wants to use the actuary's definitions about surplus. Then eliminate the 2024 date in present L1 law to show that a merger of L1 and L2 is a good idea. It is a very bad idea in my opinion.

All of the assets for the pension benefit plans are invested together in the Commingled Trust Fund (CTF). Kept separate, but share per portion of the total CTF. Since there are no contributions presently into LEOFF 1, it is completely dependent on asset investment returns to pay benefits to members and beneficiaries.

There is a difference in the year over year returns between the CTF and LEOFF1. An attachment to this paper shows the difference over the past ten years.

Various individuals have advertised that over the past 20 years the CTF has produced a rate of return slightly over 8%.

Going back over the last ten years there is a completely different picture. Returns of well over 8% are needed to meet the 2024 requirements.

The problem is that the CTF has to do at least double digit rates of returns over the next ten years to match the touted returns (mentioned for a 20 year period)

The actuary has made recommendations to lower the expected rate of return (Under 8%) and both the SCPP and Pension Funding Council have given lip service to the recommendations, and chose the least proactive adjustment.

The actuary has warned LEOFF2 about large increases in contributions in order to prevent Pay GO since the 2009 asset losses.

The actuary has given presentations (since 2007) about LEOFF1 funding status that indicate the resumption of contributions to avoid Pay Go are in the future as seen now. These words seem to have been lost in the merger hype and the elimination of the 2024 date in LEOFF1 governance if a merger were to occur according to the LEOFF2 plan.

In my opinion a merger of LEOFF 1 and LEOFF 2 could not pass federal muster in any form I have seen.

WPK 07/17/2012 Four Attachments

Schedule of Changes in Plan Net Assets: LEOFF Plan 1
Dollars in Thousands

Pg. 115 of DRS CAFR for June 30, 2010

Net asset value	6/30/2001	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007	6/30/2008	6/30/2009	6/30/2010
Yr. begins	$ 5,550,458	$ 4,987,226	$ 4,419,614	$ 4,317,134	$ 4,710,683	$ 5,034,702	$ 5,565,196	$ 6,418,194	$ 6,037,179	$ 4,355,913
Yr.end	$ 4,987,226	$ 4,419,614	$ 4,317,134	$ 4,710,683	$ 5,034,702	$ 5,565,196	$ 6,418,194	$ 6,037,179	$ 4,355,913	$ 4,586,365
gain/loss as a %	-10%	-11%	-2%	9%	7%	11%	15%	-6%	-28%	5%

Schedule of Changes in Plan Net Assets: LEOFF Plan 1
Dollars in Thousands

Showing Plan Net Asset Value if "surplus" funds (were removed) when the Plan was restated in 2001

Net asset value										
Yr. begins	$ 4,200,000	$ 3,780,000	$ 3,364,200	$ 3,296,916	$ 3,593,638	$ 3,845,193	$ 4,268,164	$ 4,908,389	$ 4,613,886	$ 3,321,998
Yr.end	$ 3,780,000	$ 3,364,200	$ 3,296,916	$ 3,593,638	$ 3,845,193	$ 4,268,164	$ 4,908,389	$ 4,613,886	$ 3,321,998	$ 3,488,098
gain/loss as a %	-10%	-11%	-2%	9%	7%	11%	15%	-6%	-28%	5%

CTF BALANCE as of
May 30, 2012
$ 60,319,241,395.00 *

LEOFF1 PORTION
of that CTF BALANCE
$ 4,813,177,905.00 *

Discount Rate	Market Value 100% Funding	Market Value 120% Funding	Excess Assets?? above 120% Funding	Actual % funded
10.00%	$ 3,747,174,169.90	$ 4,496,609,003.88	$ (4,496,609,003.88)	128.45%
9.50%	$ 3,881,240,564.71	$ 4,657,488,677.65	$ (4,657,488,677.65)	124.01%
9.00%	$ 4,024,488,235.17	$ 4,829,385,882.20	$ (4,829,385,882.20)	119.60%
8.50%	$ 4,177,743,726.52	$ 5,013,292,471.82	$ (5,013,292,471.82)	115.21%
0.00%	$ 4,341,921,838.70	$ 5,210,306,206.44	$ (5,210,306,206.44)	110.85%
7.50%	$ 4,518,036,254.48	$ 5,421,643,505.38	$ (5,421,643,505.38)	106.53%
7.00%	$ 4,707,211,571.03	$ 5,648,653,885.24	$ (5,648,653,885.24)	102.25%
6.50%	$ 4,910,696,934.46	$ 5,892,836,321.35	$ (5,892,836,321.35)	98.01%
6.00%	$ 5,129,881,507.47	$ 6,155,857,808.96	$ (6,155,857,808.96)	93.83%
5.50%	$ 5,366,312,035.11	$ 6,439,574,442.13	$ (6,439,574,442.13)	89.69%
5.00%	$ 5,621,712,814.54	$ 6,746,055,377.45	$ (6,746,055,377.45)	85.62%
4.50%	$ 5,898,008,422.19	$ 7,077,610,106.63	$ (7,077,610,106.63)	81.61%
4.00%	$ 6,197,349,606.77	$ 7,436,819,528.12	$ (7,436,819,528.12)	77.67%

* Washington State Investment Board figures of Market value by program type

NOTES:
1. Border highlights the concept of higher discount rate means less assets needed for funding.
2. The discount rate is *not* the rate of return on assets made by the Investment Board.
3. Red is used to indicate less than 120% funding at the given discount rates.

LEOFF Plan 1 and CTF
FISCAL YEAR GAINS/LOSSES

COMMINGLED TRUST FUND (CTF)			LEOFF PLAN 1			
FISCAL YEAR GAINS AND LOSSES						
3, 5, &10 year Averages ending in 2011						
2011	$ 62,268,677,460	18.28%	2011	$ 5,182,681,927	13.09%	2011
2010	$ 52,643,899,902	11.07%	2010	$ 4,582,803,118	5.32%	2010
2009	$ 47,397,181,591	-23.78%	2009	$ 4,351,288,738	-27.89%	2009
2008	$ 62,187,264,110	-2.74%	2008	$ 6,033,912,234	-5.96%	2008
2007	$ 63,936,720,338	16.64%	2007	$ 6,416,367,193	15.36%	2007
2006	$ 54,814,083,592	15.55%	2006	$ 5,561,851,508	10.51%	2006
2005	$ 47,435,668,254	9.25%	2005	$ 5,032,700,930	6.67%	2005
2004	$ 43,420,911,366	9.89%	2004	$ 4,718,024,443	9.89%	2004
2003	$ 39,513,278,223	1.38%	2003	$ 4,293,592,463	-2.79%	2003
2002	$ 38,977,066,010	-9.18%	2002	$ 4,416,737,961	-11.39%	2002
2001	$ 42,914,880,812	-15.59%	2001	$ 4,984,416,058	-10.20%	2001
2000	$ 50,843,027,000		2000	$ 5,550,458,000		2000
Three Year Average 2009-2011 1.86%			Three Year Average 2009-2011 -3.16%			
Five year Average 2007-2011 3.90%			Five year Average 2007-2011 -0.01%			
Ten Year Average 2002-2011 4.64%			Ten Year Average 2002-2011 1.28%			

Three, five, 10 year
AVERAGES listed
2002-2011

WPK 7/17/2012

2001-2012
LEOFF Gain/Loss
by Fiscal year
first half

	3 March	Mar. gain/loss		6 June	June gains/loss	
2012	$ 5,017,711,417	-2.31%	2012	$ 4,813,177,905 *	-7.13%	2012
2011	$ 5,136,127,182	6.01%	2011	$ 5,182,681,927	13.09%	2011
2010	$ 4,844,886,235	15.78%	2010	$ 4,582,803,118	5.32%	2010
2009	$ 4,184,645,742	-32.34%	2009	$ 4,351,288,738	-27.89%	2009
2008	$ 6,184,549,938	0.47%	2008	$ 6,033,912,234	-5.96%	2008
2007	$ 6,155,632,787	10.32%	2007	$ 6,416,367,193	15.36%	2007
2006	$ 5,579,658,673	12.81%	2006	$ 5,561,851,508	10.51%	2006
2005	$ 4,945,880,803	4.15%	2005	$ 5,032,700,930	6.67%	2005
2004	$ 4,748,949,570	18.82%	2004	$ 4,718,024,443	9.89%	2004
2003	$ 3,996,661,385	-15.00%	2003	$ 4,293,592,463	-2.79%	2003
2002	$ 4,702,052,628		2002	$ 4,416,737,961	-11.39%	2002
2001	Not Obtained		2001	$ 4,984,416,058	-10.20%	2001
2000	Not Obtained		2000	$ 5,550,458,000	8.54%	2000
1999	Not Obtained		1999	$ 5,113,605,000		1999

Three Year Average
2010-2012
6.49%

Five year Average
2008-20112
-2.48%

Ten Year Average
2003-2012
1.87%

May 2012 numbers
June not available for
last 3 yrs June less

* Three Year Average
2010-2012
3.76%

Five year Average
2008-20112
-4.51%

Ten Year Average
2003-2012
1.71%

File LEOFF1 gain_loss per
quarter 3,5, and 10 year
modified

WPK

07/12/2012