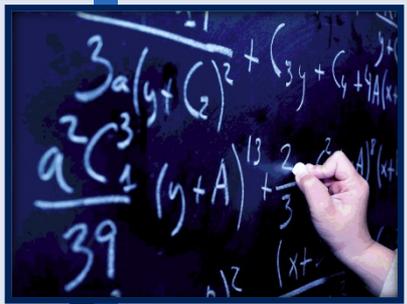




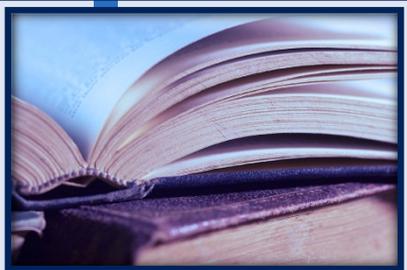
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Preliminary Results, Actuarial Valuation



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State Actuary



June 28, 2012

Today's Presentation

- Brief "Actuarial 101" to start
- Preliminary 2011 Actuarial Valuation results
- Projected budget impacts
- Other considerations
- No action required today



Purpose Of Actuarial Valuation

- Determine contribution requirements for 2013-15
- Based on results of June 30, 2011, valuation date
- Consistent with prescribed funding policy
- Provide information on funding progress and developments over the past valuation year
- Certify the data, assumptions, and methods are reasonable and conform with current actuarial standards of practice



Systematic Actuarial Funding

- Prescribed funding policy
- Regular contributions over time
- Investment returns earned systematically over time
 - WSIB mandate: maximize returns at a prudent level of risk
- Investment risk is spread over time
- Supports intergenerational equity
 - Contributions made over members' careers
 - Today's generation pays for today's generation



How Does It Work?

- Estimate future pension benefits
 - What will future benefits be?
 - When will they be paid and for how long?
- Estimate returns on future invested contributions?
 - What will future investment returns look like?
- Select an actuarial cost method
 - What are the regular contributions required over time?



Actuarial Cost Method

- Allocates a pension plan's cost over a member's working career
- Determines annual and on-going cost while member works
 - "Normal cost"
 - The regular contributions over time under systematic actuarial funding
- If everything happens as planned, normal cost will accumulate with investment earnings and completely fund a member's pension at the time of his/her retirement



Measuring Plan Health

- Has everything happened as planned?
- Are we on track with our systematic actuarial funding plan?
- Two key measurements
 - Funded status
 - Unfunded Actuarial Accrued Liability (the "UAAL")



Funded Status

- Comparison of plan assets to today's value of earned pensions
 - Point-in-time measurement
- A funded status of at least 100 percent means a plan has at least \$1 in actuarial assets for each \$1 of earned pension liability
 - On track with systematic actuarial funding plan



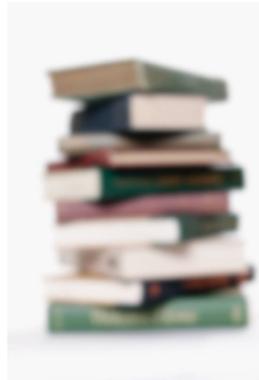
Unfunded Actuarial Accrued Liability

- Occurs when a plan does not have sufficient assets to cover earned pension liabilities
 - Funded status less than 100 percent
- Off track with systematic actuarial funding plan
- Requires additional contributions to get back on track
 - Normal cost plus UAAL contributions
 - Intergenerational equity is weakened
- If you don't get back on track, funding plan will ultimately become pay-as-you-go



2011 Actuarial Valuation Results Are Preliminary

- Concurrent outside actuarial audit underway
- 2011 actuarial valuation finalized following completion of audit and PFC rate adoption in July



Comments On 2011 Results

- PERS 2/3, TRS 2/3, SERS, PSERS, LEOFF, and WSPRS on track with systematic actuarial funding plan
- PERS 1 and TRS 1 remain off track with systematic funding plan
 - Phasing-in larger Plan 1 UAAL contributions to get back on track
 - Full requirements begin in 2015
 - See Appendix for further details



Recent Efforts To Reduce Pension Costs

- Repeal of future gain-sharing benefits
- Repeal of Plan 1 Uniform COLA
- Adoption of new economic assumptions
 - Reduces long-term costs
 - Increases short-term costs
- Reduced early retirement benefits for new hires in PERS, TRS, and SERS
 - Lowers long-term costs as new hires replace current members

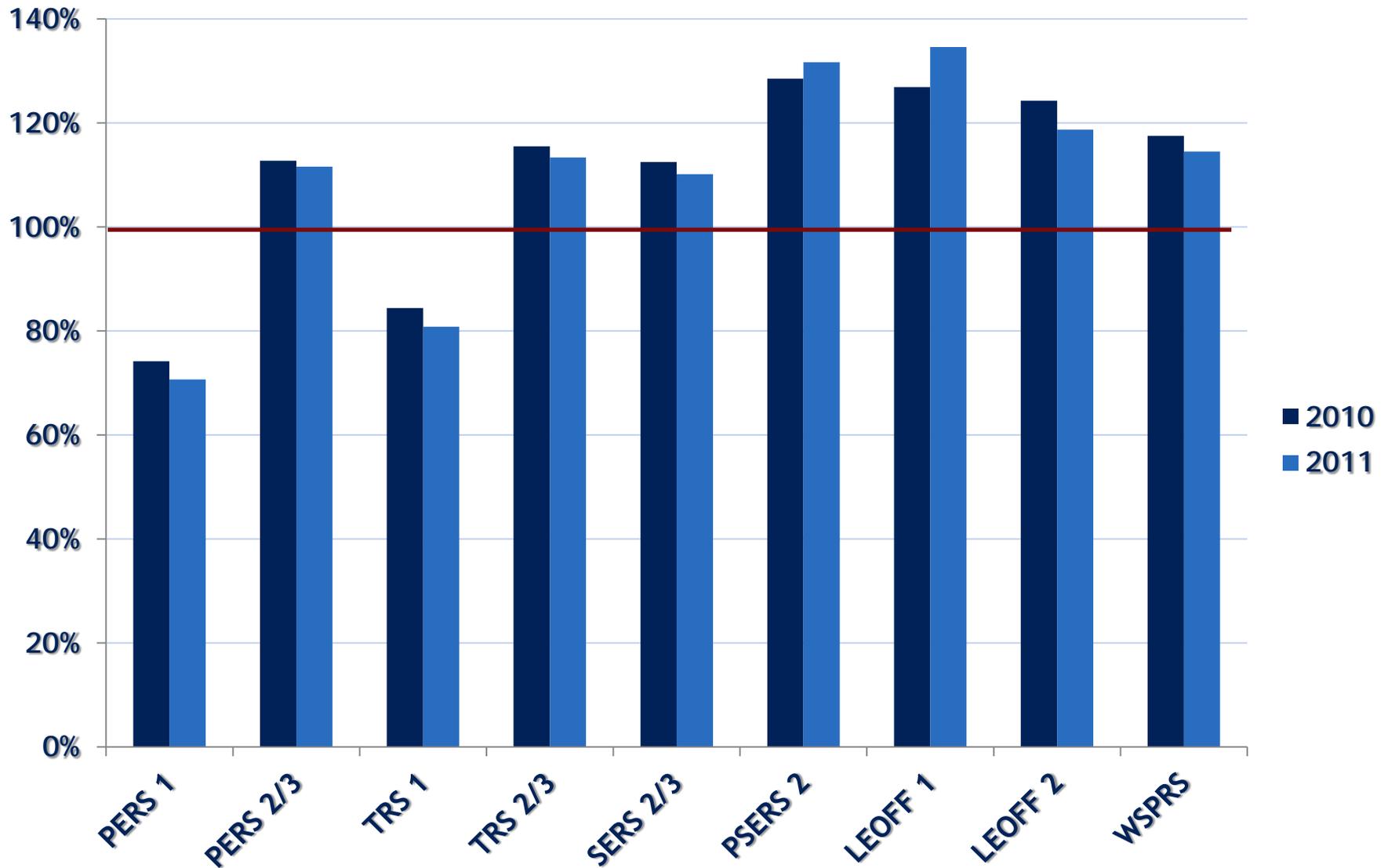


Short-Term Cost Increases Remain

- Continue to recognize asset losses from the Great Recession under asset smoothing method
 - See Appendix for further details
- Phasing in larger Plan 1 UAAL requirements
- Adopted new economic assumptions
 - With phase-in of lower investment return assumption
 - See Appendix for further details
- In general, all put downward pressure on funded status and upward pressure on contribution rates in the short-term
 - Especially the Plan 1 UAAL rates



Funded Status By Plan – 2010/2011



Funded Status And Unfunded Liability At June 30, 2011

Funded Status on an Actuarial Value Basis*

(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plans		Plans		Plans		Plan 1	Plan 2		
	Plan 1	2/3	Plan 1	2/3	2/3	Plan 2	Plan 1	Plan 2		
Accrued Liability	\$12,567	\$18,815	\$9,258	\$6,299	\$2,607	\$107	\$4,135	\$5,576	\$829	\$60,193
Valuation Assets	\$8,883	\$20,997	\$7,485	\$7,141	\$2,872	\$141	\$5,565	\$6,621	\$949	\$60,654
Unfunded Liability	\$3,684	(\$2,182)	\$1,773	(\$842)	(\$265)	(\$34)	(\$1,430)	(\$1,044)	(\$120)	(\$461)
Funded Ratio										
2011	71%	112%	81%	113%	110%	132%	135%	119%	115%	101%

Note: Totals may not agree due to rounding.

*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 7.9% per year (7.5% for LEOFF 2). All assets have been valued under the actuarial asset method (the "smoothing" method).



Employer Contribution Rates*

	Current	2013-15
PERS	6.92%	9.03%
TRS	7.88%	10.21%
SERS	7.42%	9.64%
PSERS	8.58%	10.22%
LEOFF 1	0.00%	0.00%
WSPRS	7.91%	7.63%

- PERS, SERS, and PSERS employers pay for the PERS 1 UAAL and employer normal cost
- TRS employers pay for the TRS 1 UAAL and employer normal cost

**Excludes administrative expense rate of 0.16%. Current rates based on 2009 AVR plus subsequent legislative changes.*



Plan 2 Member Contribution Rates

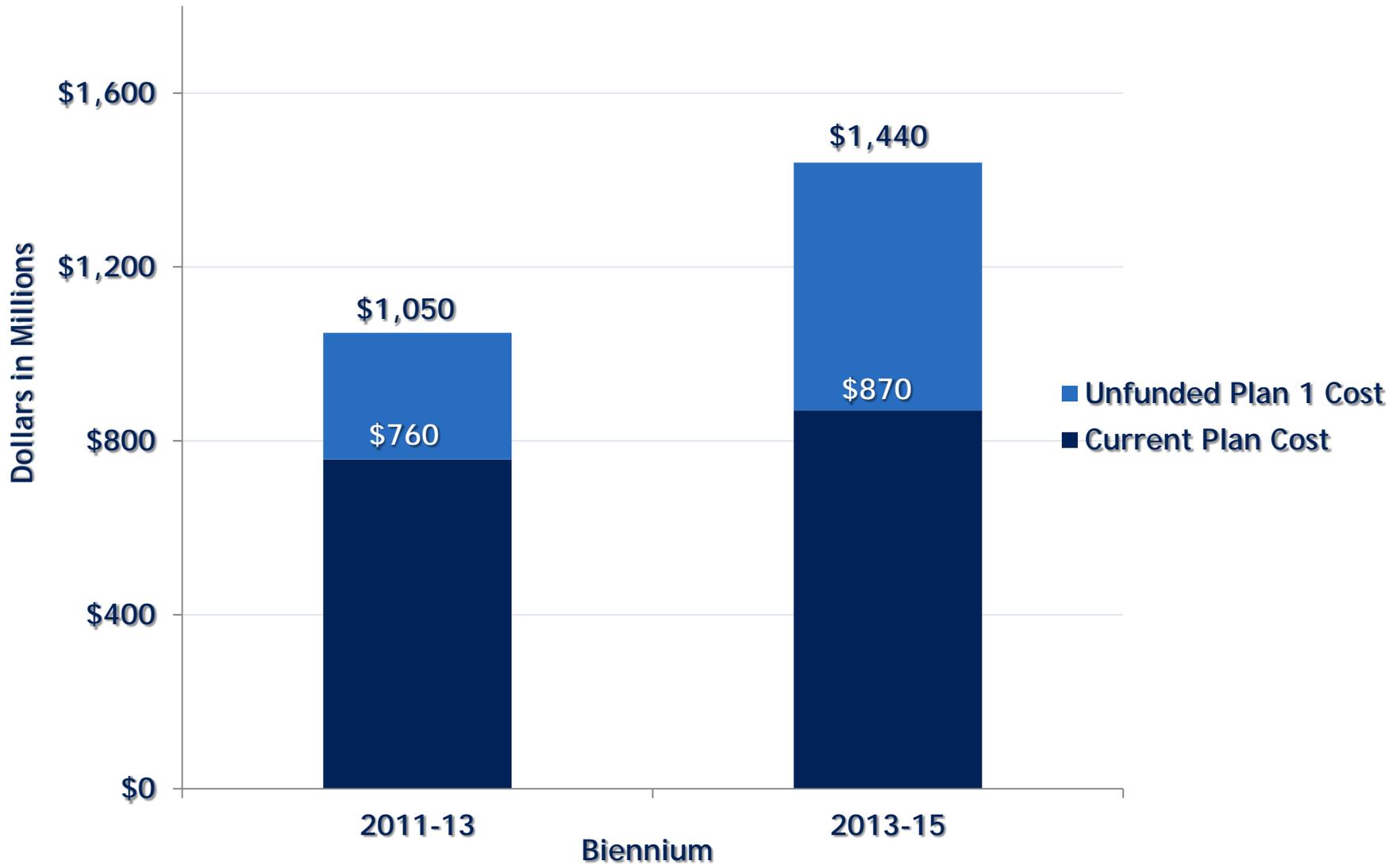
	Current	2013-15
PERS	4.64%	4.92%
TRS	4.69%	4.96%
SERS	4.09%	4.64%
PSERS	6.36%	6.22%
LEOFF 1	0.00%	0.00%
WSPRS*	6.59%	6.31%

** Rate applies to Plan 1 and Plan 2 members.*

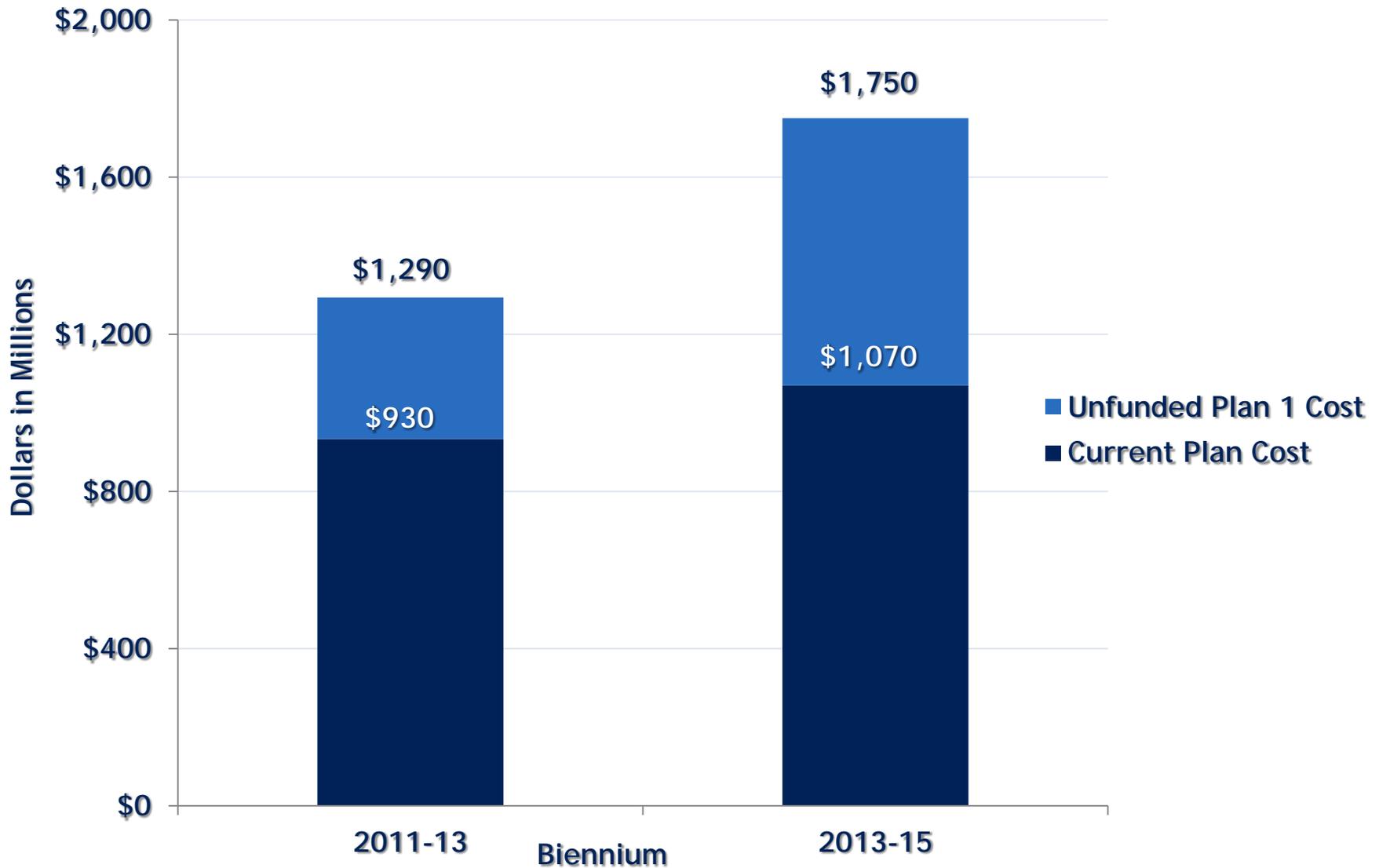
- Plan 2 members do not pay for the Plan 1 UAAL (employee normal cost only)



Estimated General Fund State (GF-S) Contributions



Estimated Local Government Contributions



Actuarial Certification - Preliminary

- All data, assumptions, and methods are reasonable and conform with current actuarial standards of practice
- New Plan 1 funding method includes minimum contribution rates beginning 2015
- All contributions under this method are required to fully amortize Plan 1 UAAL near the previous target date of June 30, 2024
- Failure to make all future required contributions may result in premature pay-go funding in the future



Recap

- 2011 Actuarial Valuation results are preliminary
- All plans except PERS 1 and TRS 1 currently on track with systematic actuarial funding plan
- Phasing in higher Plan 1 UAAL contribution requirements to get back on track
- Recent efforts to reduce pension costs
- Short-term cost increases remain
- The choice: pay now or pay more later
- Full funding and adoption of new economic assumptions support the on-going soundness of the systems

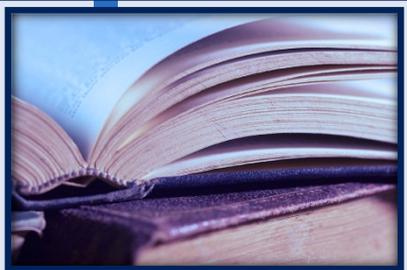
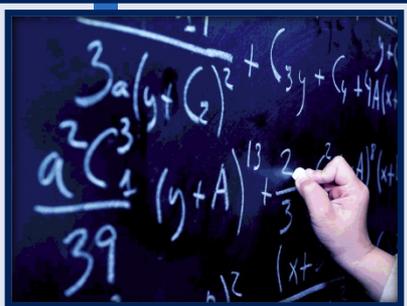


Questions?





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Appendix

Amortization of Plan 1 UAAL

- Phasing in higher Plan 1 UAAL contribution requirements under new method adopted in 2009
- Full requirements begin in 2015
 - Increase from 2.34 (current) to at least 3.50 percent (2015) in PERS
 - Increase from 2.42 (current) to at least 5.75 percent (2015) in TRS
- Paid by employers only
- Expected amortization dates
 - 2025 in PERS 1
 - 2022 in TRS 1
 - Will occur sooner/later under optimistic/pessimistic outcomes



Actuarial Value Of Assets At June 30, 2011

Calculation of Actuarial Value of Assets		
All Plans		
<i>(Dollars in Millions)</i>		Total
a.	Market Value of Assets	\$57,350
b.	Deferred Gains and (Losses)	
	Plan Year Ending	
	6/30/2011	5,547
	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	(\$3,304)
c.	Market Value less Deferral (a-b)	\$60,654
d.	70% of Market Value of Assets	\$40,145
e.	130% of Market Value of Assets	\$74,555
f.	Actuarial Value of Assets*	\$60,654

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.*



New Economic Assumptions Established In 2ESB 6378

	Prior	2ESB 6378
Investment Return	8.00%	7.90%
Inflation	3.50%	3.00%
General Salary Increase	4.00%	3.75%

- 2ESB 6378 assumption changes effective for contribution rate requirements beginning July 1, 2013
- Assumed ROR becomes 7.8 percent beginning July 1, 2015 and 7.7 percent beginning July 1, 2017
- 2ESB 6378 assumed to not revise the 2011 actions of the Pension Funding Council

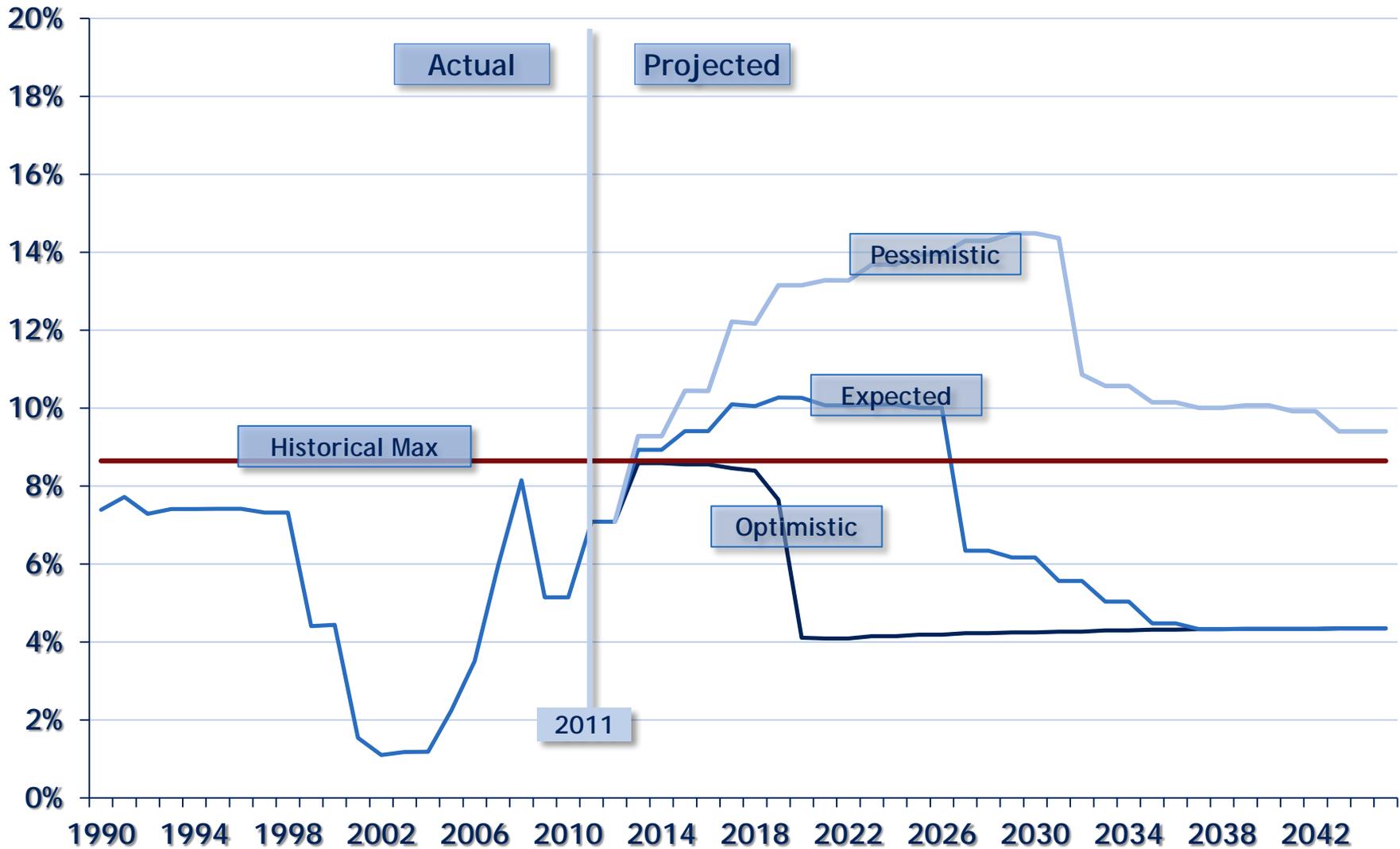


Projected Contribution Rates

- The next six slides reflect projected employer contribution rates based on
 - Asset returns through June 30, 2011
 - June 30, 2010, Actuarial Valuation Report
 - Legislative changes through the 2011 Legislative Session
- We plan to update these projections in the fall with our latest data
- Please replace these projections when more recent projections become available
- Please see the 2010 Risk Assessment for further information on projected contribution rates



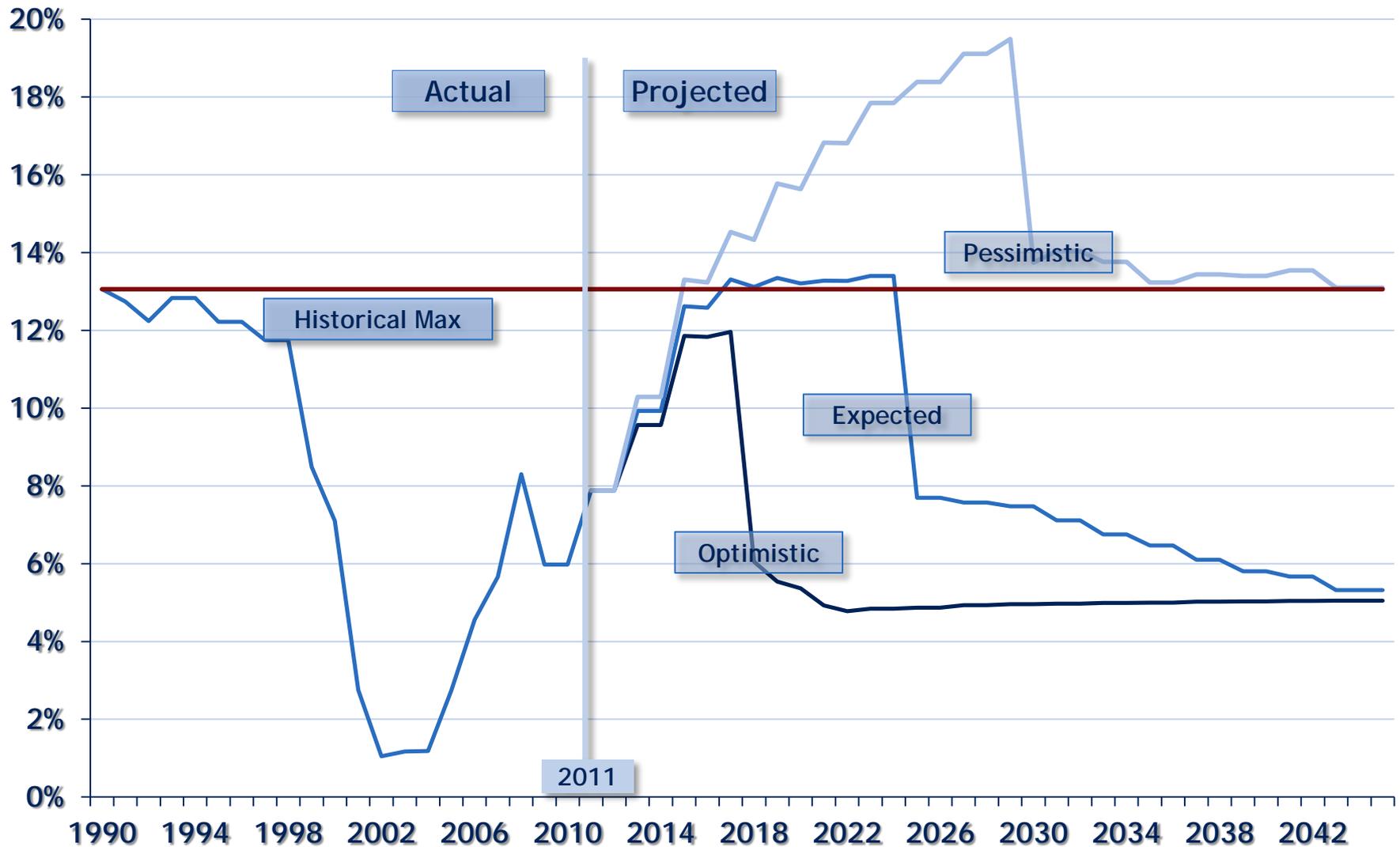
Projected Employer Contribution Rates – PERS*



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



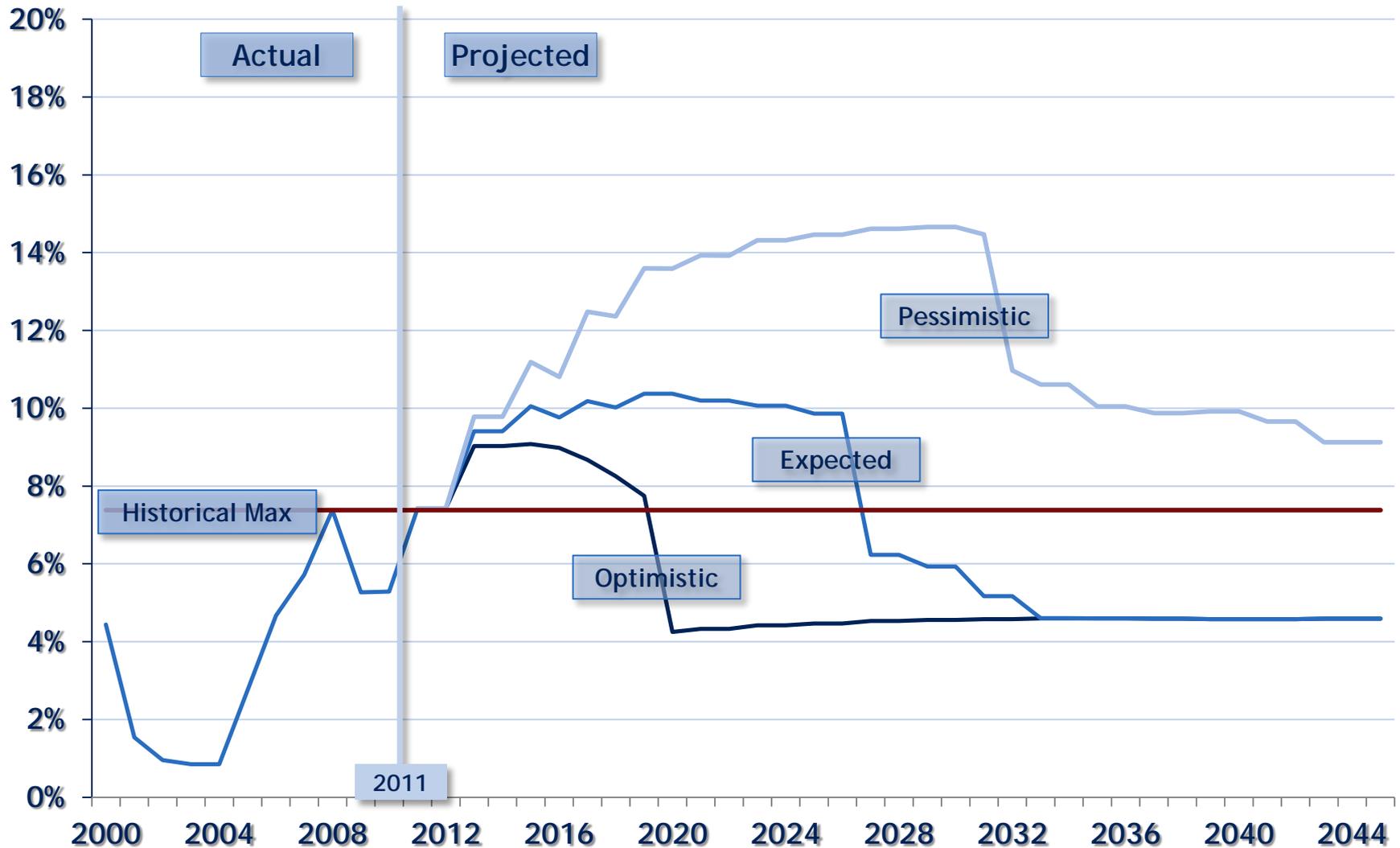
Projected Employer Contribution Rates – TRS*



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



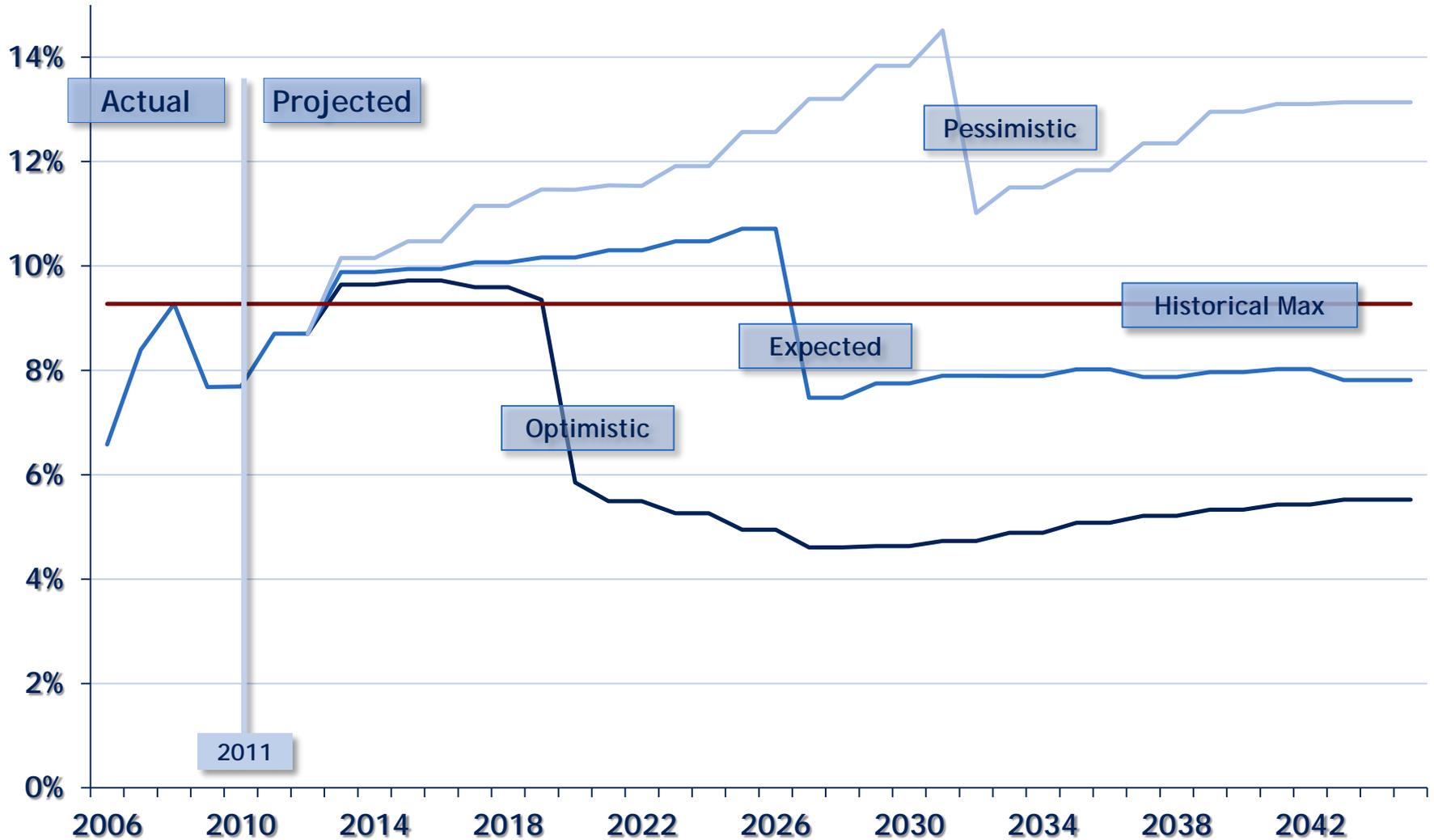
Projected Employer Contribution Rates – SERS*



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



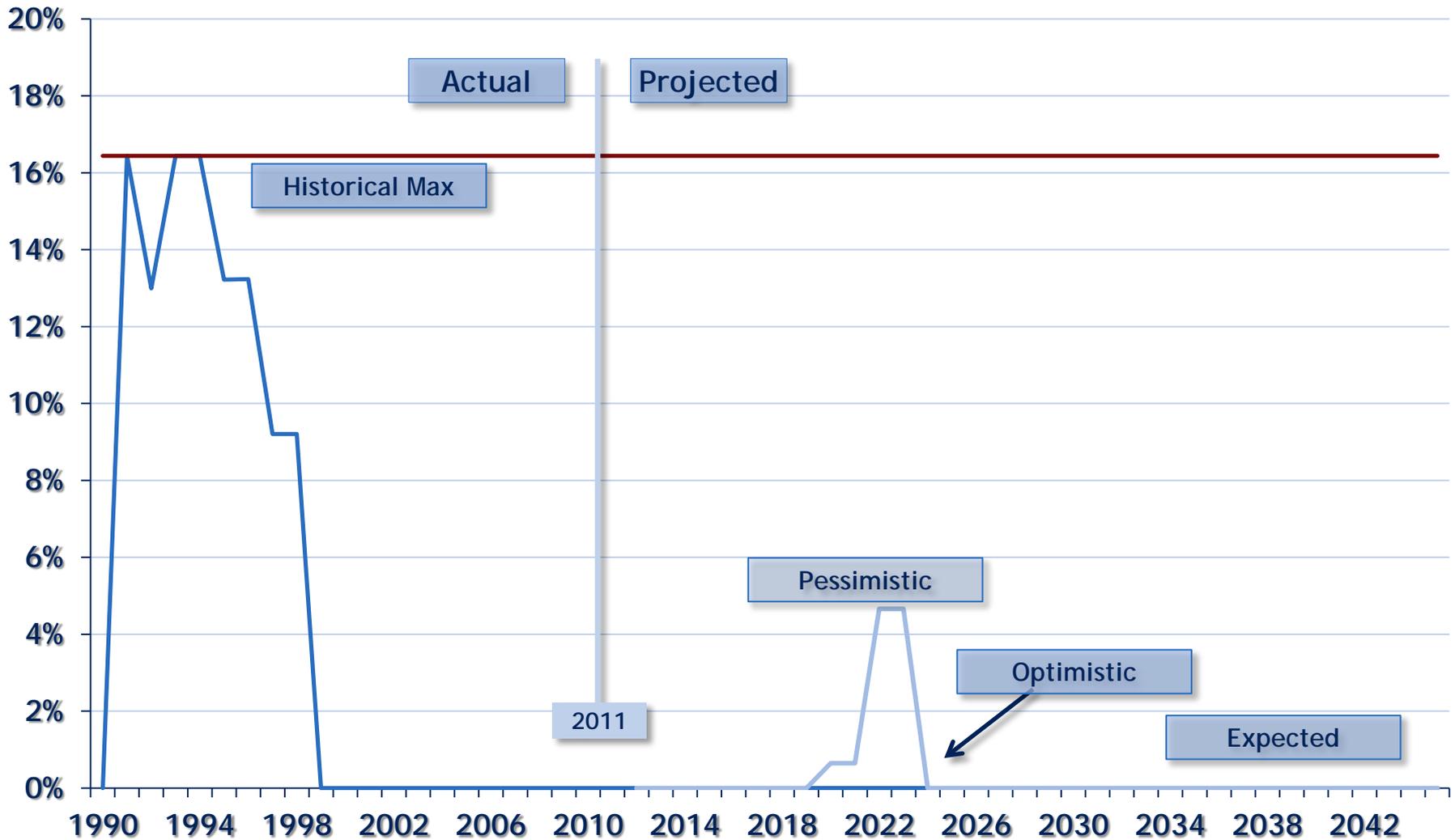
Projected Employer Contribution Rates – PSERS*



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



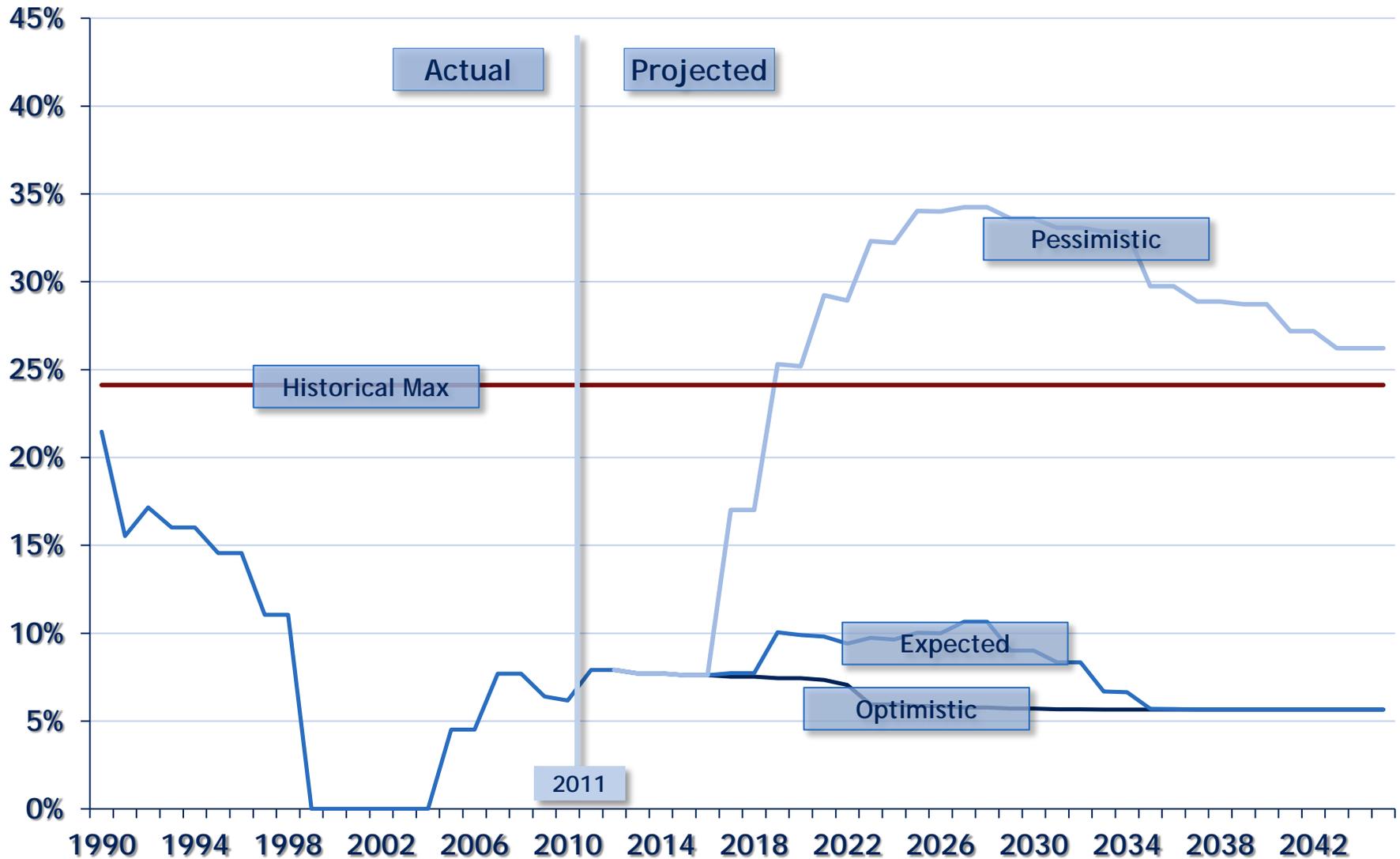
Projected UAAL Contribution Rates – LEOFF 1*



*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 – WSPRS*



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

