

Pension Funding



Senate Ways & Means Committee
February 1, 2005

<http://www1.leg.wa.gov/Senate/Committees/WM/>

Pension Funding: the Ideal

Beneficiary enters pension system



Benefit levels are established
(Legislature, SCPP)

Cost and rates determined
(State Actuary)

Contributions are collected from employer & employees
(Dept. of Retirement Systems)

Money is paid out from fund as benefits
(Dept. of Retirement Systems)

Funds are invested to leverage contributions
(State Investment Board)

Pension Funding: the Reality

- Base benefits are fixed for members' lives, while other factors are not
 - Investment returns fluctuate
 - Demographic trends change
 - Funding methods and fiscal discipline vary
- As a result, rates fluctuate over time and actuarial adjustments are needed

Funding Status – PERS & TRS 1

- Both plans have closed to new entrants since 1977
- Almost 75% of members are retired
- Unfunded liabilities exist in both plans – assets are not adequate to cover benefit obligations
- Governor Locke has proposed suspending contributions towards the unfunded liability for the 05-07 biennium

	Est. OSA Recommended 05-07 UAAL Payments (GF-S)	Est. Gov. Locke's Proposed 05-07 UAAL Payments (GF-S)
PERS 1	\$74 million	\$0
TRS 1	\$102 million	\$0

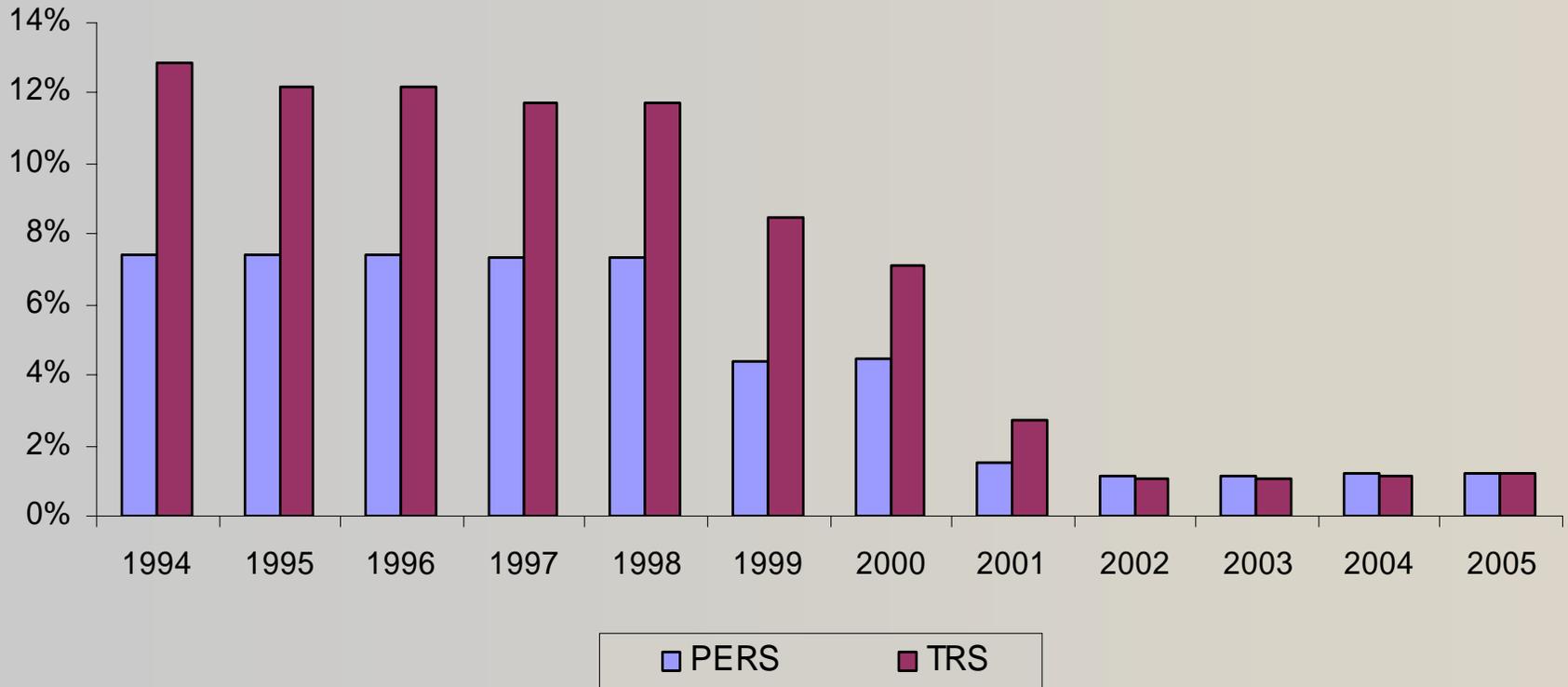
Funding Status – Plans 2 & 3

- Created after the closure of the Plans 1
- Benefits are generally less rich
- Liabilities are adequately funded...for now
- Contributions rates must increase to long-term levels
- Governor Locke has proposed delaying much of the contribution increase scheduled for 05-07

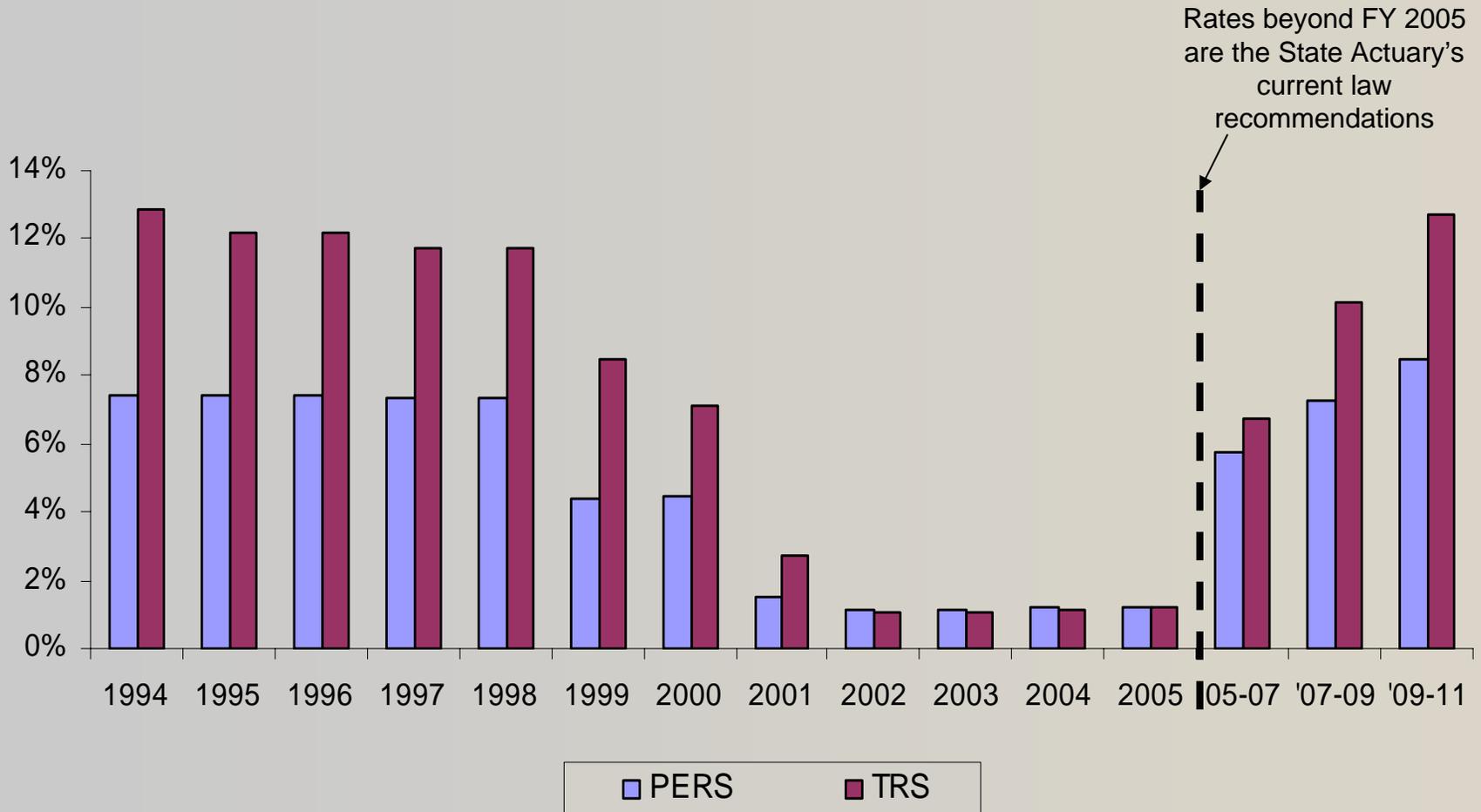
	Est. OSA Recommended 05-07 GF-S Contributions	Est. Gov. Locke's Proposed 05-07 GF-S Contributions
PERS 2/3*	\$115 million	\$77 million
TRS 2/3	\$238 million	\$79 million
SERS 2/3	\$109 million	\$36 million

**Includes new Public Safety Employees' Retirement System.*

Retirement System Employer Contribution Rates



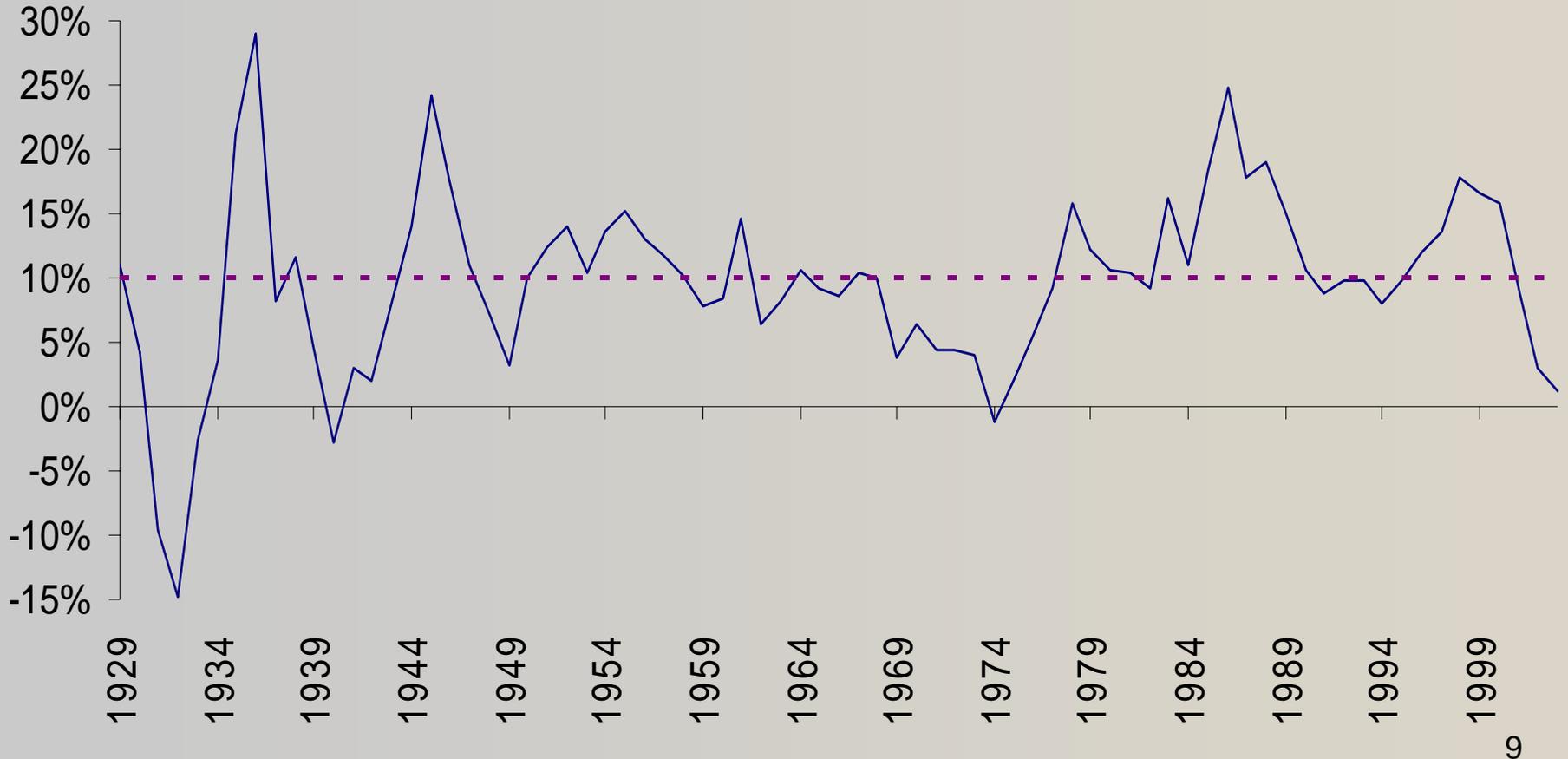
Retirement System Employer Contribution Rates



Gain Sharing

- Gain sharing is an additional benefit in Plan 1 & Plan 3 that was created in the 1998 session
- When four-year average returns exceed 10%, half of the “extraordinary” gains are used to supplement member benefits
- Since 1998, \$1.1 billion has been paid out through gain sharing
- Eliminating funding for gain sharing is one of the savings methods proposed by Governor Locke

Historical 4-year Average Rates of Return Compared to Gain Sharing Threshold



With Gain Sharing, Half of "Extraordinary" Returns are Spent on Additional Benefits

