Higher Education
Supplemental Retirement Plans

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Why The Update?

- RCW 28B.10.423 directs PFC to review the Supplemental Retirement Plans
  - Adopt and make changes to employer contribution rates
  - Recommendations on use of supplemental benefit fund
- OSA now responsible for providing actuarial analysis on these plans

Today's Briefing

- Overview of Higher Education Retirement Plans
- Projected supplemental benefit payments
- Supplemental benefit fund
- Next steps

Minimum DB Offered In Conjunction With DC Plan

- Retirement benefits in higher education vary from statewide PERS and TRS designs
  - Also cover different groups for different purposes
- Starts with a Defined Contribution (DC) plan as primary benefit
  - 401(k) type plan
  - Common in higher education given mobile workforce
  - Called the "Retirement Plan"
- Supplemented by a Defined Benefit (DB) plan when necessary
  - A benefit similar to PERS 1
  - Called the "Supplemental Retirement Plan"
  - Pays additional lifetime benefits if DC benefit falls short of a DB "goal income" at retirement
- Benefits administered by institutions of Higher Ed

Covered Population Now Closed

- Covers eligible faculty and professional staff
- Supplemental plan closed to all new entrants in 2011
- Membership as of July 1, 2015
  - 22,000 still working and could receive a future supplement
  - 1,100 retired and receiving an average annual supplement of $5,700
  - Annual supplemental benefit payments of $6 million in 2015 over all institutions (in addition to DC benefits)

Supplemental Benefit Determined By Comparing DC To DB

- Calculation performed for members who retire from Higher Ed institution after age 62 and ten years of service
- Supplemental Benefit = Goal Income – Assumed Income

Goal Income (DB)	Assumed Income (DC)
• Similar to PERS Plan 1 benefit • 2% multiplier • Highest two-year average comp • Max of 25 years (i.e., 50% of AFC)	• Represents lifetime benefit member could reasonably expect to earn from career contributions to Retirement Plan • Assumes only two investments

- If Goal Income is greater than Assumed Income, a lifetime supplemental benefit is paid
- If Assumed Income is greater than Goal Income, no supplemental benefit is paid
- Comparison made only once at time of retirement

Supplemental Benefits Not Prefunded Prior To 2012

- Multiple market falls during 2000s increased supplemental benefit payments
  - 80 percent of current annuitants retired since 2002
- Effective January 1, 2012, Legislature established initial employer contribution rates to newly created Supplemental Benefit Fund to begin partial prefunding of benefits
- OSA also tasked with performing ongoing actuarial valuations and experience studies for supplemental retirement plans
- OSA analysis will inform decisions on on-going funding and investment policy

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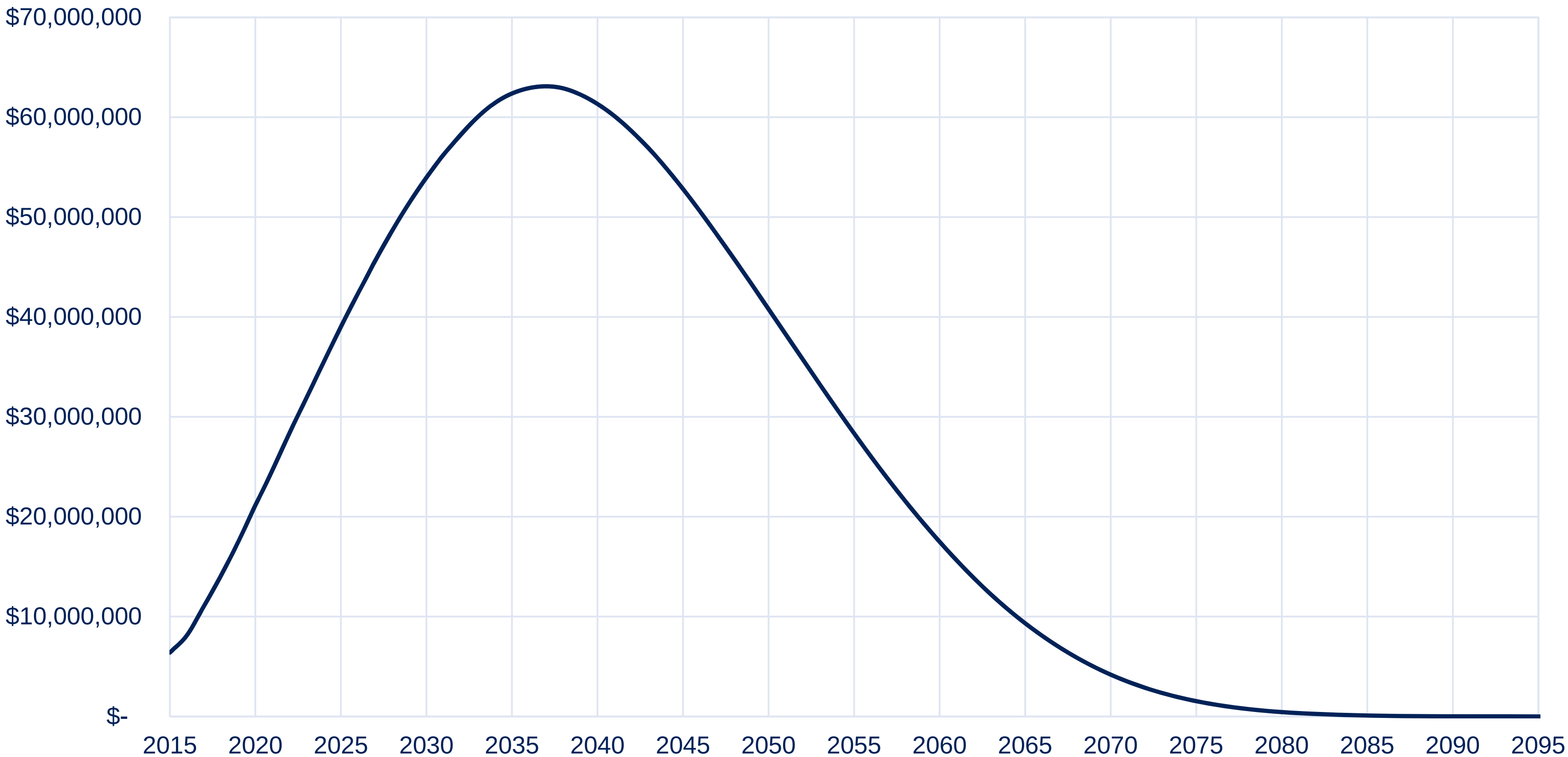
Key Funding Policy Decisions

- Are current contribution rates sufficient?
  - Should they vary by institution?
- When will the Supplemental Benefit Fund have sufficient assets to pay all future benefits?
- We'll review projected supplemental benefit payments and expected accumulation of assets under the Supplemental Benefit Fund at today's presentation

Projected Supplemental Benefit Payments – Key Assumptions

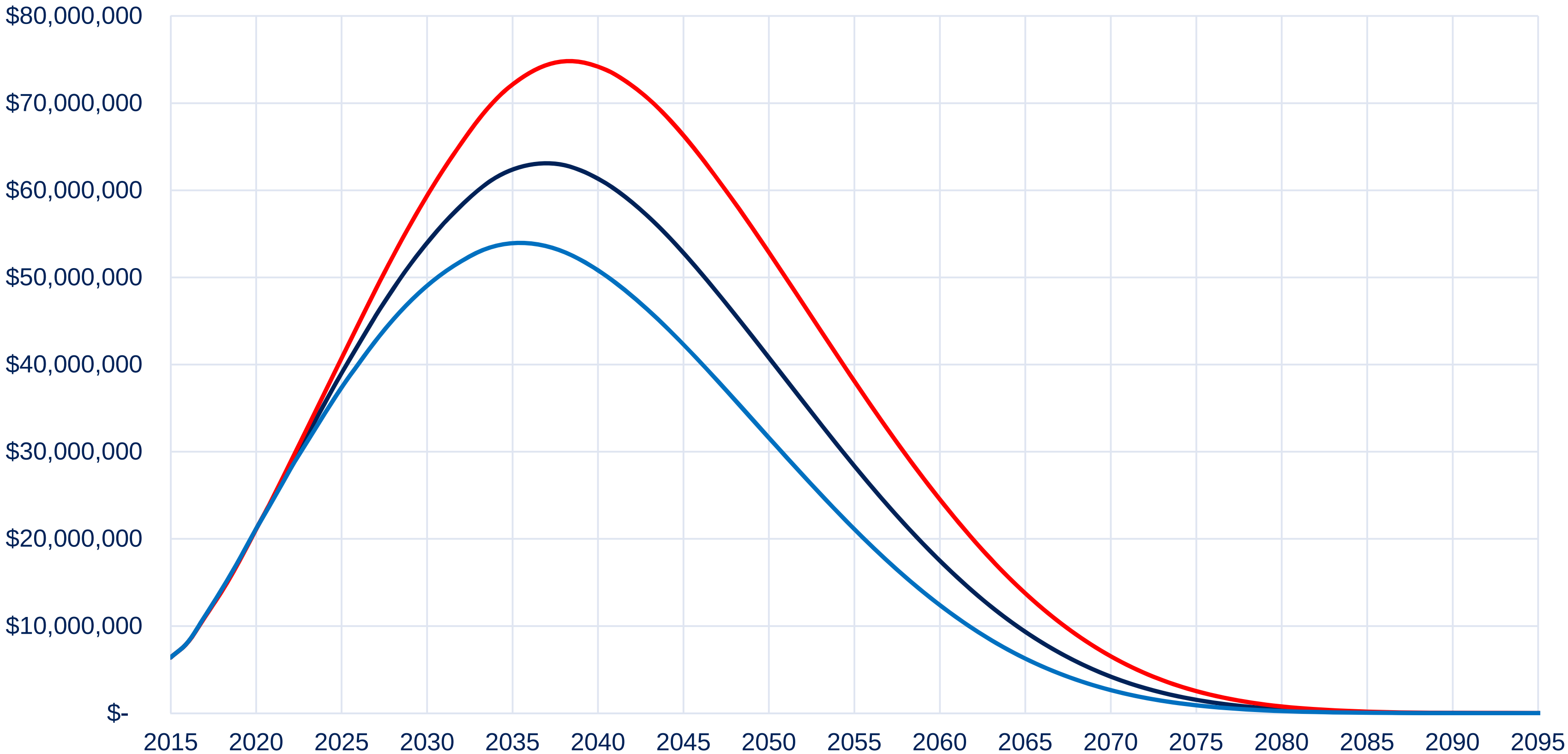
- Future growth of salaries and investment return on DC accounts drives most outcomes for this plan design
- Future salary growth impacts DB Goal Income to greater extent than DC Assumed Income
  - Current assumption ≈ 4.00 percent (weighted average)
- Investment return on assumed DC account balance impacts DC Assumed Income only
  - Assumed DC account comprised of two investments
    - 50 percent TIAA retirement and 50 percent CREF stock account
  - CREF account offers higher risk and return than TIAA investment
  - Current long-term expected return of 6.75 percent for CREF account

Six Fold Increase In Benefit Payments Expected Under Best Estimate



Scenario	**Best Estimate**
Salary Scale	4%
CREF Return	6.75%

Projected Benefit Payments May Vary From Best Estimate



Scenario	+1%	Best Estimate	-1%
Salary Scale	5%	4%	3%
CREF Return	7.75%	6.75%	5.75%

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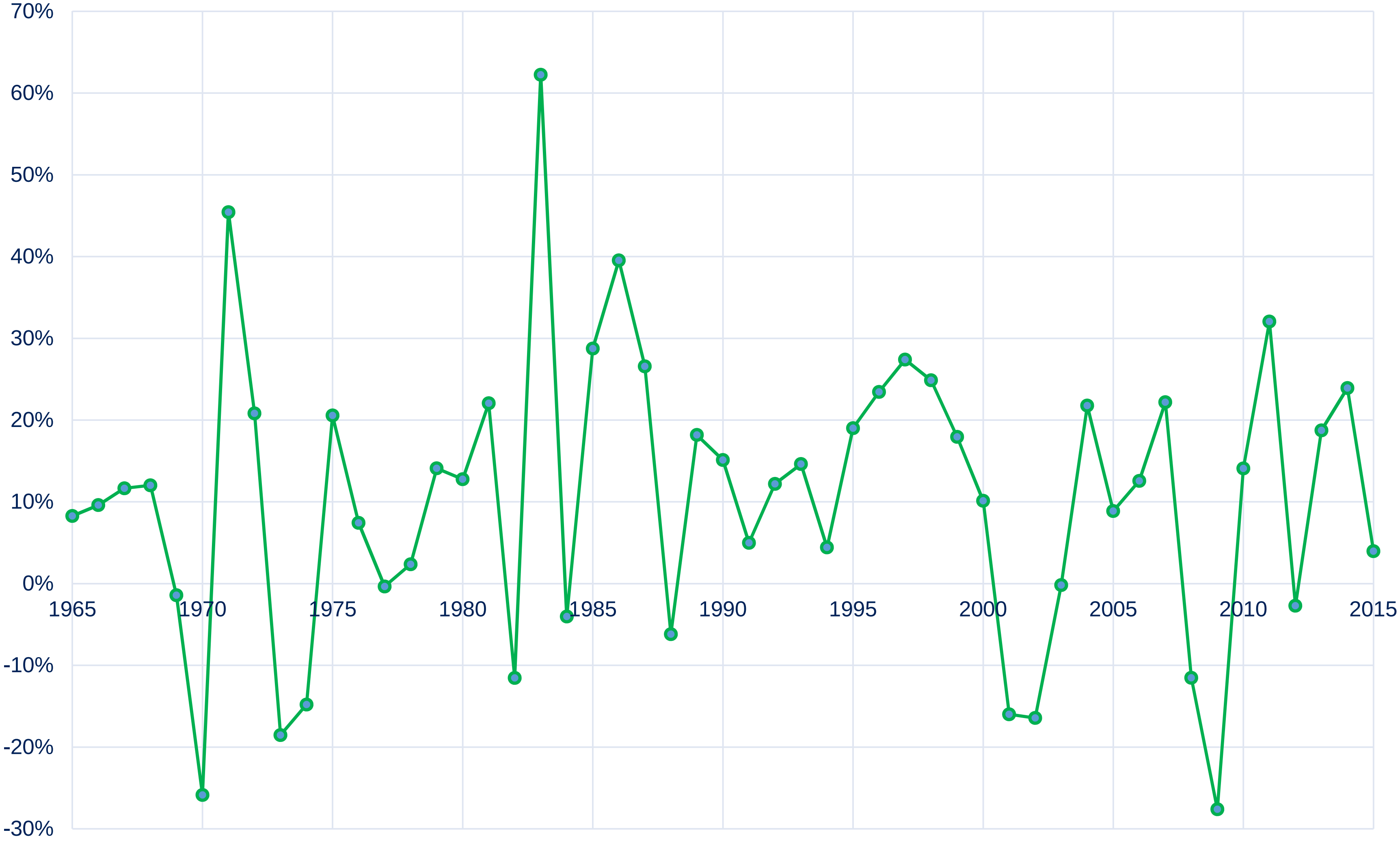
Historical CREF Account Returns Show Expected Volatility



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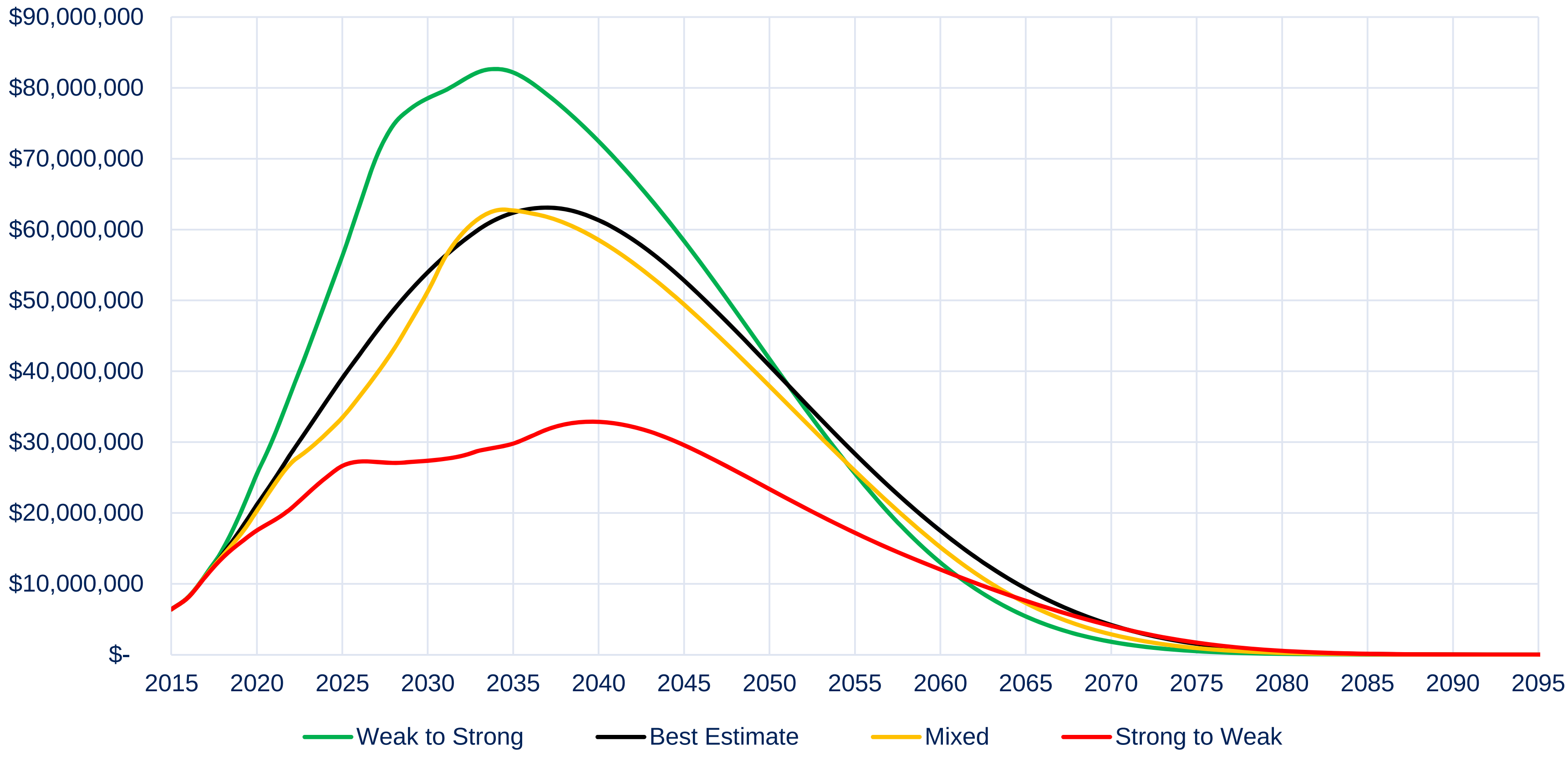
Projected Benefit Payments With Assumed CREF Volatility



- All scenarios have average annual CREF return of 6.75% (2015-2035)
- Minimum and maximum annual return of -17% and 36% respectively

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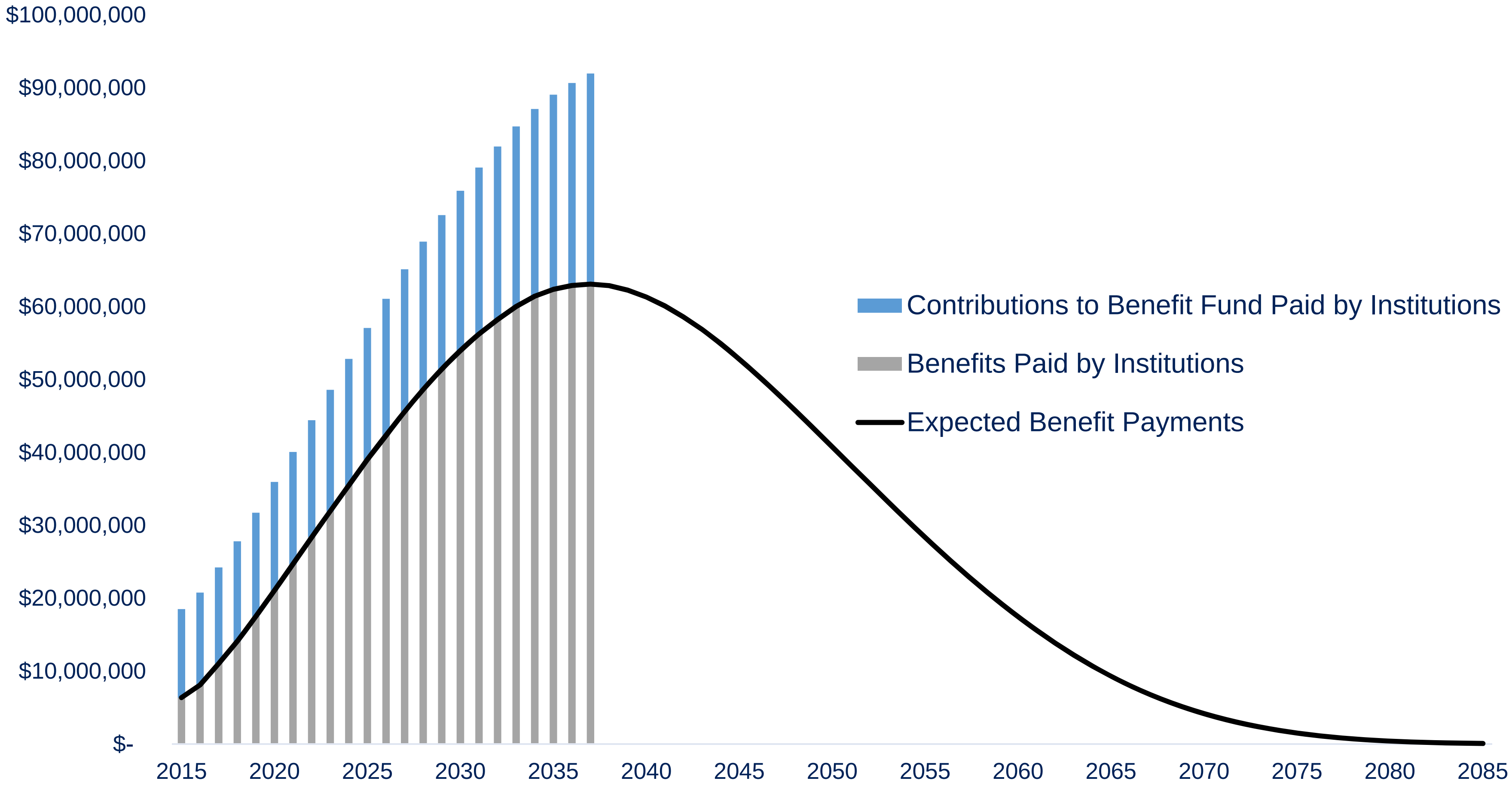
When Will Benefit Fund Cover Future Benefit Payments?

- Answer varies based on some key assumptions
  - Contribution rate, salary growth, and assumed investment return on the invested contributions
  - WSIB to set on-going investment policy based on on-going funding policy
- Key assumptions for following analysis and projections
  - Assumed employer contribution rate = 0.50 percent (current rate)
  - Assumed salary growth for plan benefits = 4.00 percent
  - Assumed return on contributions invested in benefit fund = 4.00 percent

Benefit Fund Can Cover Future Payments In 2038 Under Given Scenario



Recap

- Six fold increase in annual supplemental benefit payments expected over next 20 years if experience matches our assumptions
- Under favorable market conditions, supplemental benefit payments expected to triple in next five to ten years
- Future salary growth and volatility of future CREF returns will have significant impact on future plan costs
- The level of future contributions and investment income on those contributions will greatly impact the sufficiency of benefit fund

Next Steps

- Determine whether changes to current funding policy are necessary
- Once an on-going funding policy is set, WSIB will determine whether changes to current investment policy are necessary
- Further actuarial analysis likely needed as well

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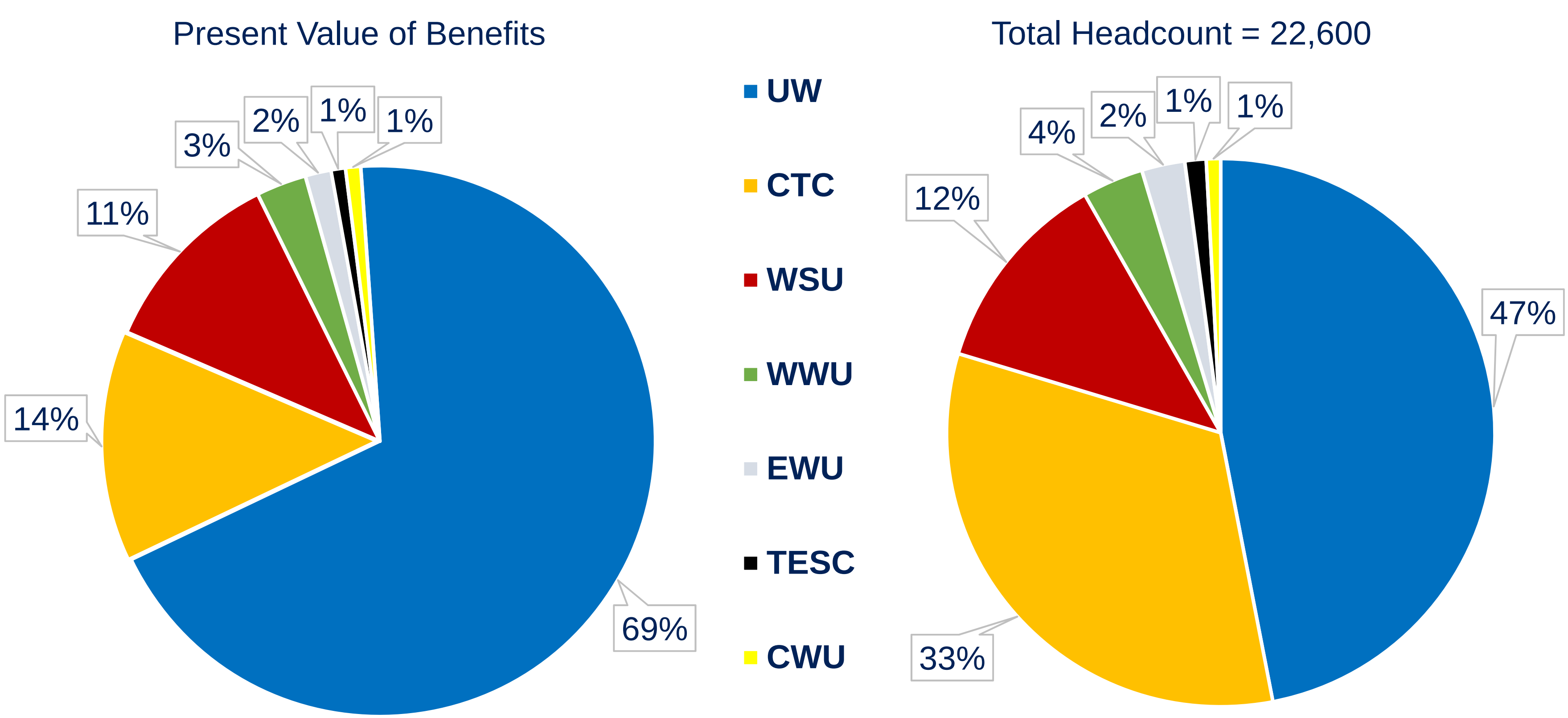
Appendix

Disclaimer

- Results contained within this presentation are preliminary and do not constitute a final actuarial report
- We prepared this analysis to inform stakeholders on expected plan costs and the variability of those costs
- We expect to prepare additional actuarial analysis in the future to help inform the selection of a final funding policy
- We advise readers of this analysis to not rely on this analysis without professional guidance. Please feel free to contact the Office of the State Actuary for such guidance.
  - Phone: 360.786.6140
  - Email: state.actuary@leg.wa.gov

Projected Benefit Payments By Institution



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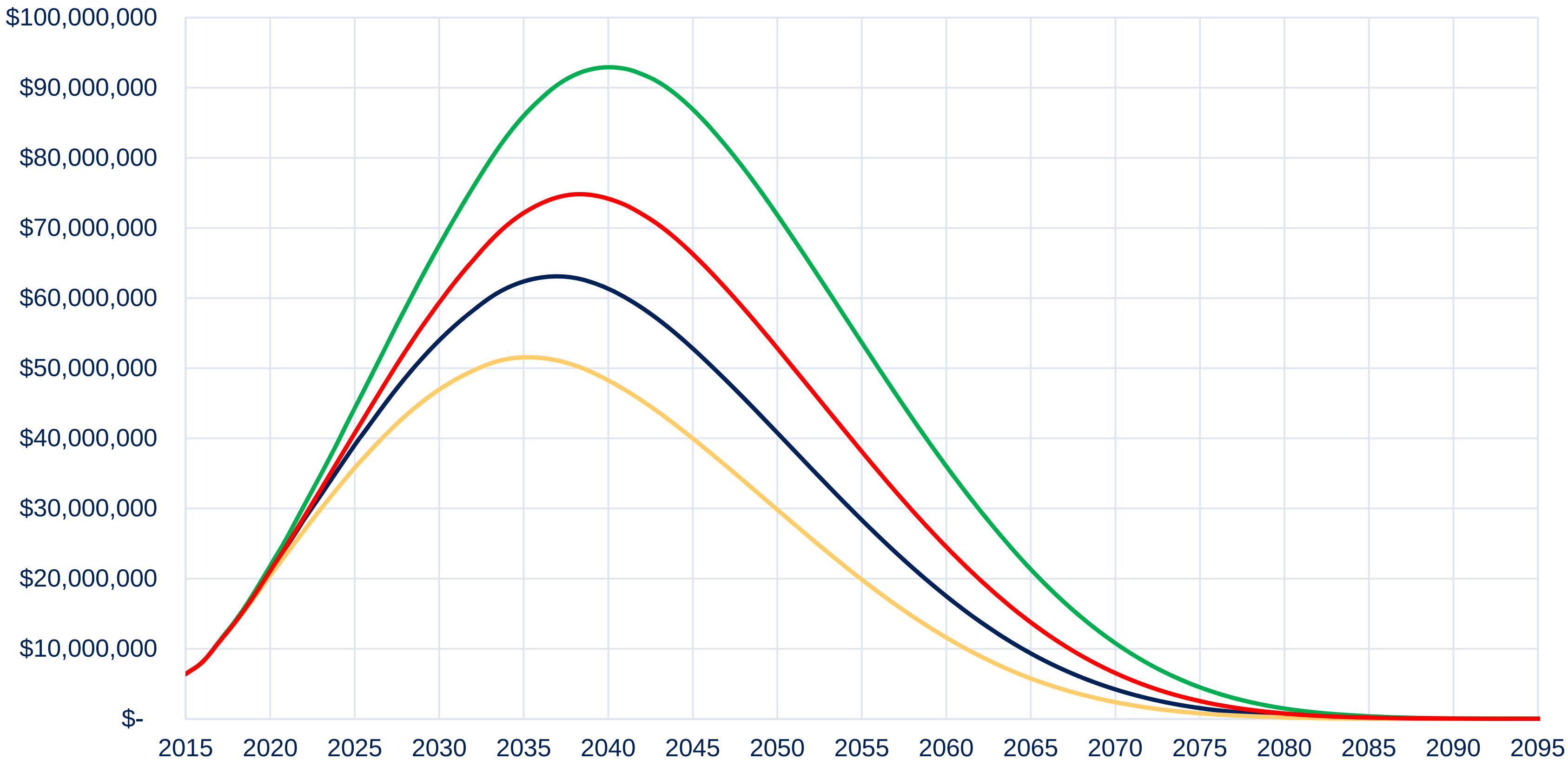
Projected Benefit Payments By Select Economic Assumptions



Scenario	Best Estimate	Salary only	CREF only	Salary and CREF
Salary Scale	4%	5%	4%	5%
CREF Return	6.75%	6.75%	7.75%	7.75%

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Supplemental Benefit Fund

- 2011 Legislature created benefit fund and established pre-funding
  - Value of fund at end of 2015 = $39 million
  - WSIB determines investment policy
- Institutions contribute 0.50 percent of pay into fund
  - $12 million in contributions during 2015
  - Collected over all Retirement Plan members
- 2015 supplemental benefit payments = $6 million
  - Not paid from Supplemental Benefit Fund
- $18 million total cost for 2015
  - Contributions to benefit fund + supplemental benefit payments

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