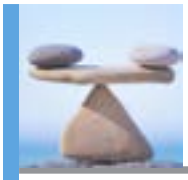

Office of the State Actuary

"Supporting financial security for generations."

Actuarial Certification Letter
Actuarial Valuation Report
As of June 30, 2019

August 2020

This report documents the results of an actuarial valuation of the retirement plans defined under Chapters 41.26, 41.32, 41.35, 41.37, 41.40, and 43.43 of the Revised Code of Washington. The primary purpose of this valuation is to determine contribution requirements for the retirement plans for the 2021-23 Biennium based on a June 30, 2019, measurement date, consistent with the prescribed funding policies. This valuation also provides information on the funding progress and developments in the plans over the past year. This valuation report should not be used for other purposes. Please replace this report with a more recent report when available.

Future actuarial measurements may differ significantly from the current measurements presented in this report if plan experience differs from that anticipated by the assumptions, or if changes occur in the methods, assumptions, plan provisions, or applicable law. The Risk Assessment page of our website provides further information on the range and likelihood of potential outcomes that vary from expected results. The Commentary on Risk page of our website provides additional risk education.

The valuation results summarized in this report involve calculations that require assumptions about future economic and demographic events. We believe that the assumptions and methods used in the underlying valuation are reasonable and appropriate for the primary purpose stated above. However, the use of another set of assumptions and methods could also be reasonable and could produce materially different results. Actual results may vary from our expectations.

For all plans with the exception of LEOFF 2, the assumptions used in this valuation for investment return, inflation, salary growth, and membership growth were prescribed by the PFC and are subject to revision by the Legislature. For LEOFF 2, these assumptions are prescribed by the LEOFF 2 Retirement Board. Please see our *2019 Economic Experience Study* report for further information on economic assumptions. We developed the demographic assumptions used in this valuation during the *2013-2018 Demographic Experience Study*. The Legislature prescribed the actuarial cost and asset valuation methods. In our opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this publication.

The Department of Retirement Systems (DRS) provided us with audited member and beneficiary data. We checked the data for reasonableness as appropriate based on the purpose of the valuation. WSIB and DRS provided audited financial and asset information. We relied on all the information provided as complete and accurate, however we did adjust

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the LEOFF 2 assets to reflect an expected future transfer to the LEOFF 2 Benefit Improvement Account consistent with RCW 41.26.805. In our opinion, this information is adequate and substantially complete for purposes of this valuation.

The asset smoothing method adopted during the 2003 Legislative Session (Chapter 11, Laws of 2003, E1) was intended to address the volatility of contribution rates under the aggregate funding method when used in combination with the existing asset allocation policy of WSIB. The combination of the current asset smoothing method with any other funding method or asset allocation policy may not be appropriate. The Legislature may need to revisit the application of the current asset smoothing method with the Plan 1 funding method as the duration of liabilities in those plans becomes shorter.

The funding method prescribed by the Legislature for PERS 1 and TRS 1 is a non-standard amortization method since it includes payroll outside the plan. Additionally, the funding method includes minimum contribution rates effective at the beginning of the 2015-17 Biennium. All contributions required under this method are necessary to fully amortize the UAAL in these plans. Failure to make all future required contributions may result in premature plan insolvency.

The Plan 1 funding method for PERS 1 and TRS 1 is also non-standard in its use of the employer normal cost rate from the Plans 2/3 instead of the underlying Plan 1 employer normal cost rate. However, we find this method reasonable and appropriate given the limited remaining future salary in Plan 1 and the relatively short period for amortizing the UAAL. Furthermore, Plan 1 member normal cost rates are fixed in statute at 6 percent and the use of the Plan 2/3 employer normal cost for Plan 1 allows the Legislature to charge all employers the same contribution rate regardless of the plan in which employees hold membership (except for LEOFF).

In order to limit the short-term expected volatility in WSPRS Plans 1/2 employer contribution rate, the Legislature elected to smooth the employer rates over three biennia. The smoothing is expected to result in no expected funding shortfall to WSPRS Plans 1/2 at the end of the three biennia on June 30, 2025.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this report is intended to be complete, we are available to offer extra advice and explanations as needed.

Sincerely,

Luke Masselink, ASA, EA, MAAA
Senior Actuary

Matthew M. Smith, FCA, EA, MAAA
State Actuary