Office of the State Actuary
"Supporting financial security for generations."

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Responses to Actuarial Questions from Stakeholders

Actuarial Questions and Answers

Historical

1. *How did gainsharing impact the Teachers' Retirement System (TRS) Plan 1?*

   Answer: When gainsharing was in effect for TRS 1, it provided increases to the former Plan 1 Uniform Cost of Living Adjustment (COLA). From a funding and actuarial perspective, those past increases lowered the plan's funded status and increased the TRS 1 Unfunded Actuarial Accrued Liability (UAAL).

   a. *Is that partly why the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 1 is in such good shape and TRS 1 is not?*

      Answer: No. LEOFF 1's funded status benefitted from below expected inflation. With the benefit of hindsight, we now know this experience gain resulted in LEOFF 1 collecting more in contributions than what was necessary. Those extra contributions also grew with additional investment earnings. No other plan benefitted from this experience to the same degree as LEOFF 1 because LEOFF 1 is the only plan in our state with a fully indexed (Consumer Price Index) post-retirement COLA.

2. *What is the funding history for each plan?*

   Answer: Please find historical funded status for both LEOFF 1 and TRS 1 in the tables below.

Historical Funded Status			
Year	LEOFF 1	Year	LEOFF 1
2015	**125%**	2000	136%
2014	127%	1999	125%
2013	125%	1998	117%
2012	135%	1997	108%
2011	135%	1996	89%
2010	127%	1995	80%
2009	125%	1994	68%
2008	128%	1993	68%
2007	123%	1992	65%
2006	117%	1991	66%
2005	114%	1990	65%
2004	109%	1989	65%
2003	112%	1988	66%
2002	119%	1987	69%
2001	129%	1986	57%

Note: EAN Cost Method used starting in 2014 (PUC previously).

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Historical Funded Status			
Year	TRS 1	Year	TRS 1
2015	**64%**	2000	100%
2014	69%	1999	93%
2013	71%	1998	86%
2012	79%	1997	82%
2011	81%	1996	70%
2010	84%	1995	65%
2009	75%	1994	65%
2008	77%	1993	62%
2007	76%	1992	59%
2006	80%	1991	59%
2005	80%	1990	60%
2004	88%	1989	58%
2003	89%	1988	59%
2002	98%	1987	58%
2001	100%	1986	50%

Note: EAN Cost Method used starting in 2014 (PUC previously).

a. *Who paid what?*

Answer: Please find historical contribution rates on this website: www.drs.wa.gov/employer/EmployerHandbook/chpt6/tables/default.htm

3. *Is LEOFF 1 cost sharing the same as other plans?*

Answer: No. Generally speaking, member contribution rates in the Plans 1 were fixed at 6 percent. Plan 1 employers in Public Employees' Retierement System (PERS) and TRS contribute to the Plan 1 UAAL in addition to the normal cost. When LEOFF 1 had a UAAL, contributions to amortize the UAAL were made exclusively by the state through the General Fund-State budget.

Member contributions in LEOFF 1 ceased. Member contributions in PERS 1 and TRS 1 continue.

Plan 2 members share equally with their employers in the cost of their defined benefits. Plan 3 members do not share in the cost of their defined benefits, but generally receive half the defined benefit of a similarily situated Plan 2 member. The remaining Plan 3 retirement benefit is derived from member contributions (and assoicated investment earnings) to a defined contribution account.

a. *I.e., did the state only put in 20 percent of contributions?*

Answer: No. The state contributes 20 percent of the cost of **LEOFF 2** benefits. When the state made contributions to LEOFF 1, the state was exclusively responsible for amortizing the LEOFF 1 UAAL. Please see the table on the next page for a history of LEOFF 1 contributions by source.

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Total Employee, Employer, and State Contributions to LEOFF 1			
	Employer	Employee	State
(Dollars in Millions)			
1971	$4.3	$4.3	$0.0
1972	$4.9	$4.9	$0.0
1973	$5.4	$5.4	$0.0
1974	$5.9	$5.9	$0.0
1975	$6.5	$6.5	$0.0
1976	$7.1	$7.1	$39.8
1977	$7.8	$7.8	$39.7
1978	$8.6	$7.4	$63.7
1979	$8.8	$8.7	$62.5
1980	$9.3	$9.2	$81.7
1981	$9.6	$9.6	$81.2
1982	$10.4	$10.4	$56.7
1983	$10.5	$10.6	$178.1
1984	$10.7	$10.8	$128.7
1985	$10.9	$10.9	$93.1
1986	$10.9	$11.0	$139.1
1987	$11.4	$11.4	$138.4
1988	$11.7	$11.7	$52.5
1989	$12.0	$12.0	$46.2
1990	$10.6	$10.7	$56.8
1991	$10.8	$10.9	$54.4
1992	$10.4	$10.4	$70.3
1993	$10.4	$10.5	$54.7
1994	$9.8	$9.8	$61.3
1995	$9.5	$9.5	$65.5
1996	$8.9	$8.9	$70.9
1997	$8.2	$8.2	$66.7
1998	$7.6	$8.3	$50.4
1999	$7.2	$7.2	$48.8
2000	$6.3	$6.3	$0.0
Total	**$266.4**	**$266.3**	**$1,801.2**

After 2000, contributions are not required while the plan remains fully funded.

4. *What would have happened if there had been no general fund contributions to LEOFF 1?*
   a. *Or the Prior Act systems (e.g., City of Seattle)?*

      Answer: LEOFF 1 would have a significant unfunded liability today without those contributions. However, as noted in the table above, the state contributions to the LEOFF 1 UAAL comprise the majority of past LEOFF contributions.

5. *What is the year-by-year funded status and UAALs rate for TRS 1 since 2000?*

   Answer: Please see the table above for historical funded status.

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6. *What other bills (proposed or enacted) have "utilized the device of pension premium reduction at reduced or would have reduced the obligation of the state to make pension contributions"?*

   Answer: This question is not actuarial in nature.

Related to a Merger

7. *What is the financial situation before and after?*

   Answer: Please see the draft actuarial fiscal note in this study.

   a. *What does the "surplus" represent?*

      i. *Is it the excess of funds needed to pay benefits this month? This year?*

   b. *Is the surplus "real" or just projected?*

      i. *How reasonable is the investment return assumption?*

      ii. *What would it look like under alternate scenarios (e.g., 7 percent or 6 percent)?*

      Answer: These questions were answered during presentations from the Office of the State Actuary (OSA) to the Select Committee on Policy (SCPP) during the 2016 Interim. We have included those materials in the actuarial section of this report.

   c. *If the surplus disappears, would it be too late to insure the LEOFF 1 benefits?*

      i. *E.g., ensuring payment under a pay-go scenario versus insuring through plan immunization.*

      Answer: As of June 30, 2015, LEOFF 1 lacks sufficient assets to completely "immunize" or "settle" plan obligations. The decision to immunize or settle plan obligations is complex and would require analysis outside the scope of this study.

   d. *Would a merger be revenue neutral?*

   Answer: As noted in the draft actuarial fiscal note, the merger proposed under SB 6668 is expected to result in a savings to the state, but could result in a cost under very pessimistic future economic outlooks. Please see the actuarial fiscal note in this report for supporting information.

8. *How might the funds be used?*

   a. *Clarify: Usable across the merged plan vs. usable outside either of the retirement plans (other obligations).*

   b. *Should it be treated like a reserve for LEOFF 1 only?*

   c. *Can money be "skimmed out" of the fund during transfer from LEOFF 1 to TRS 1?*

   Answer: These questions are not actuarial in nature. Some are addressed in the legal and policy sections of this study.

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9. *What happens in the event of a deficit?*
   a. *If the funded status were 87 percent, would that mean I only get 87 percent of my current check amount?*
   b. *Before merger?*
   c. *After?*
   d. *Who pays what?*
   e. *Who will be paid first? (Overlap with legal/admin analysis)*
   f. *Could the state default on the pensions?*

   Answer: These questions are not actuarial in nature. Some are addressed in the legal and policy sections of this study.

10. *Would there be other costs (e.g., admin)?*

    Answer: Yes. Please see the Department of Retirement Systems' (DRS) section on administrative impacts in this report.

11. *How would a merger impact accounting and reporting?*
    a. *How would a merger impact financial reporting (GASB) for state and local governments?*

    Answer: As of this writing, DRS, in consultation with the Office of Financial Management and OSA, is reviewing this question.

12. *Who is constitutionally liable for future benefit payments?*

    Answer: This question is not actuarial in nature.

13. *Are there other options to address TRS 1 underfunding?*

    Answer: Yes.

    a. *What would the impact be if the TRS 1 UAAL rate was reduced without a merger?*

    Answer: If funding to the TRS 1 UAAL is reduced below the level actuarially required to eliminate the UAAL under state funding policy, we would expect the TRS 1 UAAL to persist, potentially increase, and lead to even higher future contribution requirements.

14. *Can the legislature raise taxes to meet pension obligations (pension or general)?*

    Answer: This question is not actuarial in nature.

15. *What is the position of professional actuarial associations about moving a retirement plan from surplus to unfunded?*

    Answer: OSA cannot and does not speak on behalf of professional actuarial associations.

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