



## Washington State Pensions Overview

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Presentation to  
*DRS Advisory Committee*



Office of the State Actuary  
*"Securing tomorrow's pensions today."*

**November 1, 2013**

### Today's Presentation

- Actuaries and OSA
- Overview of Washington State pensions
- 2013 Legislative update
- Risks and challenges
- Planning for the future



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1

## What Is An Actuary?

- Identify, measure, and manage financial risk
- Relies on mathematical principles and assumptions, statistics, probabilities, and experience
- Employed in many different fields
- Subject to professional standards of practice

## Office Of The State Actuary

- Independent, in-house pension actuaries and policy analysts
- Mission: promote the security of state retirement benefits by providing expert, accurate, and objective actuarial and policy analysis
- Key services
  - Actuarial fiscal notes and reports
  - Calculate contribution rates
  - Risk analysis and projections
  - Consulting and pension education
  - Staff Select Committee on Pension Policy (SCPP)



## Overview Of Washington State Pensions

- Membership
- Governance
- Financial condition
- Comparisons to other states

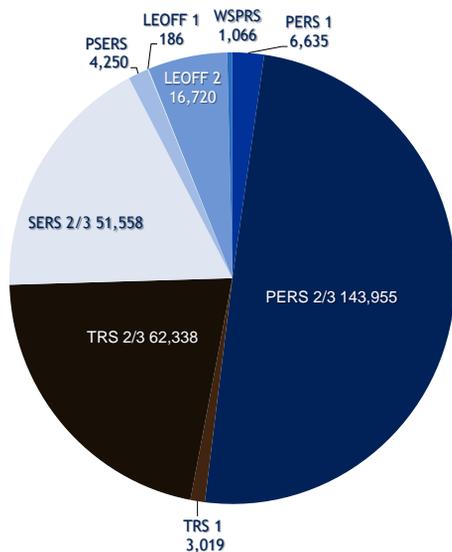


## State Plans Cover Diverse Membership

- Six open systems
  - Defined Benefit (DB) plans
  - Hybrid plans - DB and Defined Contribution (DC)
- General government employees
  - Except first-class cities
- School employees
- Police, fire, and public safety
- Nearly 290,000 active members and 144,000 annuitants

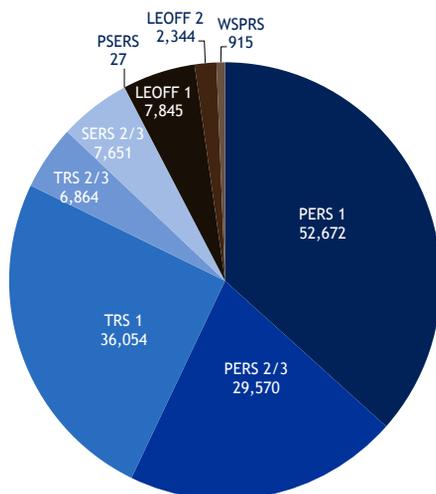


### Distribution Of Active Members At June 30, 2012



Participant Data	
All Systems	2012
<b>Active Members</b>	
Number	289,727
Total Salaries (in Millions)	\$16,245
Average Annual Salary	\$56,069
Average Attained Age	47.8
Average Service	12.4

### Distribution Of Annuitants At June 30, 2012



Participant Data	
All Systems	2012
<b>Retirees and Beneficiaries</b>	
Number	143,942
Average Annual Benefit	\$21,321

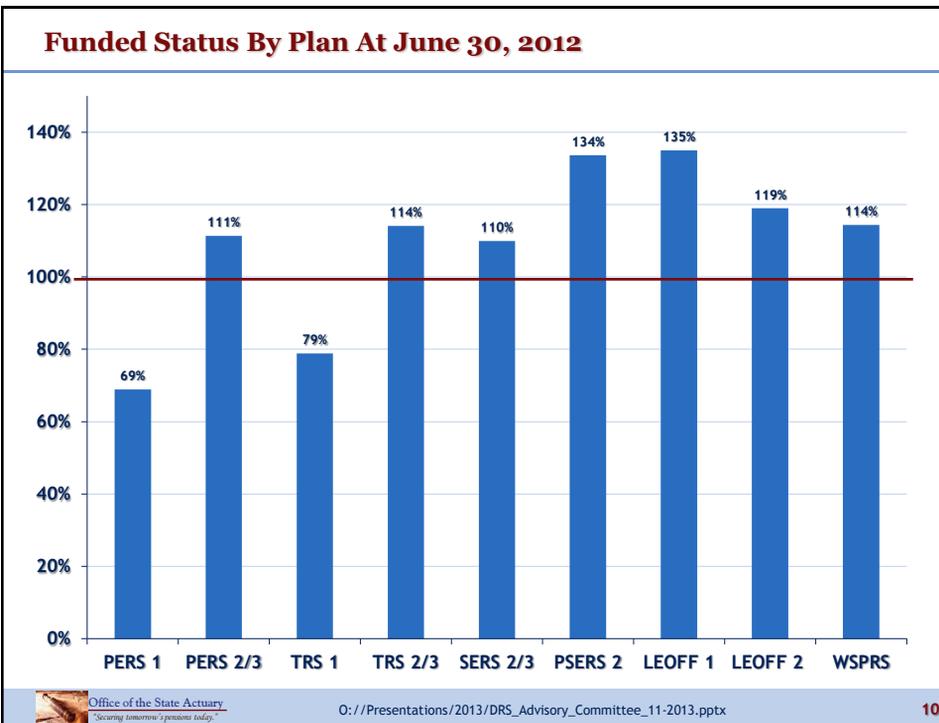
## Governance

- Direct oversight by the Legislature
  - Sets statewide benefit and funding policy
  - Exceptions: LEOFF 2 and first class cities
- Consolidated, statewide administration
  - Benefits and investments
- Independent advisors
- Key players
  - Plan administrator (DRS)
  - Independent investment board (WSIB)
  - Independent, in-house actuarial services (OSA)
  - Standing pension policy committee (SCPP)

## Washington Plans Well-Funded Overall

Funded Status At June 30		
(Dollars in Millions)	2012	2011
<b>All Systems</b>		
a. Present Value of "Earned" Benefits	\$62,578	\$60,193
b. Market Value of Assets	56,753	57,350
c. Deferred Gains/(Losses)	(6,369)	(3,304)
d. Actuarial Value of Assets (b-c)	63,122	60,654
e. Unfunded Liability (a-d)	(\$544)	(\$461)
f. Funded Ratio (d/a)	101%	101%

Note: Totals may not agree due to rounding. Source, 2012 Actuarial valuation Report, OSA.



### Funded Status By Plan At June 30, 2012

Funded Status on an Actuarial Value Basis*										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2		
Accrued Liability	\$12,368	\$20,347	\$9,058	\$6,799	\$2,820	\$135	\$4,121	\$6,071	\$859	\$62,578
Valuation Assets	\$8,521	\$22,653	\$7,145	\$7,758	\$3,100	\$180	\$5,562	\$7,222	\$982	\$63,122
Unfunded Liability	\$3,847	(\$2,306)	\$1,914	(\$959)	(\$280)	(\$45)	(\$1,440)	(\$1,150)	(\$123)	(\$544)
Funded Ratio										
2012	69%	111%	79%	114%	110%	134%	135%	119%	114%	101%
2011	71%	112%	81%	113%	110%	132%	135%	119%	115%	101%
2010	74%	113%	84%	116%	113%	129%	127%	119%	118%	102%
2009	70%	116%	75%	118%	116%	128%	125%	128%	119%	99%
2008	71%	119%	77%	125%	121%	127%	128%	133%	121%	100%
2007	71%	120%	76%	130%	126%	120%	123%	129%	118%	99%
2006	74%	121%	80%	133%	125%	99%	117%	116%	114%	100%
2005	74%	127%	80%	134%	122%	N/A	114%	114%	113%	99%
2004	81%	134%	88%	153%	137%	N/A	109%	117%	118%	105%
2003	82%	142%	89%	155%	138%	N/A	112%	125%	123%	107%
2002	92%	158%	98%	182%	169%	N/A	119%	137%	135%	118%
2001	97%	179%	100%	197%	197%	N/A	129%	154%	147%	126%
2000	98%	190%	100%	196%	170%	N/A	136%	161%	152%	131%

Note: Totals may not agree due to rounding.  
\*Liabilities valued using the PUC cost method at an interest rate of 7.9% (7.5% for LEOFF 2). All assets have been valued under the actuarial asset method.

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## Funded Status By Plan With Different Interest Rate Assumption

Funded Status at a 1% Lower Interest Rate Assumption*										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2		
Accrued Liability	\$13,372	\$23,618	\$9,790	\$8,025	\$3,263	\$167	\$4,498	\$7,207	\$982	\$70,921
Valuation Assets	\$8,521	\$22,653	\$7,145	\$7,758	\$3,100	\$180	\$5,562	\$7,222	\$982	\$63,122
Unfunded Liability	\$4,851	\$966	\$2,646	\$267	\$163	(\$14)	(\$1,064)	(\$15)	\$0	\$7,800
Funded Ratio										
2012	64%	96%	73%	97%	95%	108%	124%	100%	100%	89%

Note: Totals may not agree due to rounding.

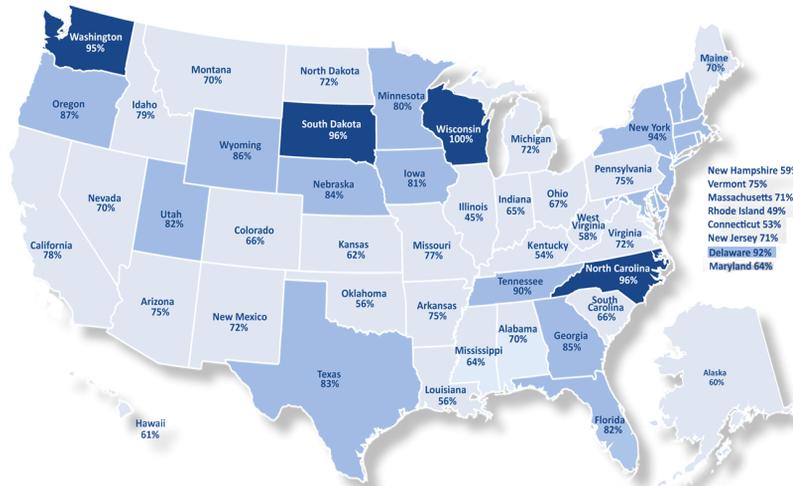
\*Liabilities valued using the PUC cost method at an interest rate of 6.9% (6.5% for LEOFF 2). All assets have been valued under the actuarial asset method.

Funded Status at a 1% Higher Interest Rate Assumption*										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2		
Accrued Liability	\$11,495	\$17,713	\$8,422	\$5,829	\$2,461	\$111	\$3,797	\$5,177	\$759	\$55,766
Valuation Assets	\$8,521	\$22,653	\$7,145	\$7,758	\$3,100	\$180	\$5,562	\$7,222	\$982	\$63,122
Unfunded Liability	\$2,975	(\$4,939)	\$1,278	(\$1,929)	(\$639)	(\$69)	(\$1,764)	(\$2,045)	(\$223)	(\$7,356)
Funded Ratio										
2012	74%	128%	85%	133%	126%	162%	146%	140%	129%	113%

Note: Totals may not agree due to rounding.

\*Liabilities valued using the PUC cost method at an interest rate of 8.9% (8.5% for LEOFF 2). All assets have been valued under the actuarial asset method.

## Top Four Funded Status Nationally



Source: The PEW Center on the States June 2012 report, "The Widening Gap Update."

## Washington Is A National Leader In Pension Policy

- Major reforms as far back as 1977
  - Closed Plans 1 to new members; created Plans 2
  - Age 65 unreduced retirement
  - Equal employee/employer cost sharing in Plans 2
  - Hybrid plans - Plans 3
- Early adopter of policies
  - Hybrid plan design
  - Investments in private equity
  - Risk analysis
- Other states following Washington's earlier examples



## 2013 Legislative Update

- No major policy changes adopted
  - Few pension related bills passed
  - No immediate contribution rate impacts
- Some major policy changes introduced and considered
  - Defined contribution plan
  - Membership in PSERS
  - Excess compensation
- High volume of pension related bills introduced but not passed
- Contribution rates fully funded as passed by the Pension Funding Council and calculated by the State Actuary

## Certain Risks And Challenges Ahead

- Plan 1 unfunded past liability
  - AKA “Unfunded Actuarial Accrued Liability” or “UAAL”
- Contribution rate increases expected in short-run before stabilizing
- Reporting changes from GASB and Moody’s
- Litigation risks



## Unfunded Actuarial Accrued Liability Or “UAAL”

- PERS and TRS Plan 1 have a UAAL
  - Insufficient assets to cover earned benefits
  - Off track with funding plan
- Requires additional contributions to get back on track
- If funding doesn’t get back on track, plan becomes pay-as-you-go
- Pay-go means no assets set aside to pay benefits
  - Benefits must be paid from other sources as they come due

## PERS 1 And TRS 1 UAAL At June 30, 2012

Funded Status on an Actuarial Value Basis*										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2		
Accrued Liability	\$12,368	\$20,347	\$9,058	\$6,799	\$2,820	\$135	\$4,121	\$6,071	\$859	\$62,578
Valuation Assets	\$8,521	\$22,653	\$7,145	\$7,758	\$3,100	\$180	\$5,562	\$7,222	\$982	\$63,122
Unfunded Liability	<b>\$3,847</b>	<b>(\$2,306)</b>	<b>\$1,914</b>	<b>(\$959)</b>	<b>(\$280)</b>	<b>(\$45)</b>	<b>(\$1,440)</b>	<b>(\$1,150)</b>	<b>(\$123)</b>	<b>(\$544)</b>

Note: Totals may not agree due to rounding.

\*Liabilities valued using the PUC cost method at an interest rate of 7.9% (7.5% for LEOFF 2). All assets have been valued under the actuarial asset method.

## Plan For Getting PERS 1 And TRS 1 Back On Track

- New funding method adopted in 2009
- Requires higher employer UAAL contribution rates
- Phasing in higher UAAL rate requirements
  - Full requirements begin in 2015
- Expected full funding dates
  - 2027 in PERS 1; 2026 in TRS 1
  - Assumes required contributions are made and actuarial assumptions are realized
  - Full funding will occur sooner/later under optimistic/pessimistic outcomes



## Future Contribution Increases Expected

- Still recognizing deferred asset losses under asset smoothing method
- Phasing-in higher Plan 1 UAAL requirements
- Lowering assumed rate of investment return
  - 7.9 percent assumed ROR for 2013-15
  - 7.8 percent assumed ROR for 2015-17
  - 7.7 percent assumed ROR for 2017+
- Creates short-term pressure on state and local government budgets
  - Pay now or pay more later

## Changes In Pension Reporting Coming

- New reporting of pension liability and funded status from GASB and Moody's
  - Governmental Accounting Standards Board (GASB)
- Different measures used for different purposes
  - OSA valuations — funding
  - GASB — accounting
  - Moody's — credit rating
- GASB and Moody's changes aimed at more comparability across plans
- Does not change the financial health of the plans unless they lead to future changes in funding policy



## Litigation Risks Remain

- Potential reinstatement of gain-sharing benefits or Plan 1 UCOLA would change financial condition of affected plans
- Gain-sharing and UCOLA cases now at State Supreme Court
  - DRS website contains updates on litigation
- Following tables display how current funded status and budget impacts could change should the court reinstate repealed benefits
  - Actual impacts will depend on final court decision and may vary from these estimates
  - Full actuarial analysis in *2013 Report on Financial Condition*

## Estimated Funded Status Impacts

Estimated Funded Status on an Actuarial Value Basis				
	2012 Funded Status <sup>1</sup>	Funded Status After Restoration of Gain-Sharing <sup>2</sup>	Funded Status After Restoration of UCOLA <sup>3</sup>	Funded Status After Restoration of Gain-Sharing and UCOLA <sup>4</sup>
PERS 1	69%	66%	60%	57%
PERS 2/3	111%	111%	N/A	111%
TRS 1	79%	76%	65%	63%
TRS 2/3	114%	108%	N/A	108%
SERS 2/3	110%	103%	N/A	103%
PSERS 2	134%	N/A	N/A	N/A
LEOFF 1	135%	N/A	N/A	N/A
WSPRS	114%	N/A	N/A	N/A

<sup>1</sup>Based on 2012 Actuarial Valuation results (AVR).

<sup>2</sup>Based on AVR results after restoration of gain-sharing and continuation of all replacement benefits.

<sup>3</sup>Based on AVR results after restoration of UCOLA for all members.

<sup>4</sup>Based on AVR results after restoration of gain-sharing and UCOLA.

## 2015-17 Estimated GF-S Budget Impacts

2015-17 Estimated Employer Contributions From the State General Fund			
(Dollars in Millions)	Increase in Contributions After Restoration of Gain-Sharing <sup>1</sup>	Increase in Contributions After Restoration of UCOLA <sup>2</sup>	Increase in Contributions After Restoration of Gain- Sharing and UCOLA <sup>3</sup>
PERS	\$24	\$67	\$95
TRS	\$139	\$293	\$447
SERS	\$35	\$28	\$65
PSERS	\$2	\$7	\$9
<b>Total</b>	<b>\$199</b>	<b>\$395</b>	<b>\$616</b>

<sup>1</sup>Based on 2012 Actuarial Valuation results (AVR) after restoration of gain-sharing and continuation of all replacement benefits.

<sup>2</sup>Based on AVR results after restoration of UCOLA for all members.

<sup>3</sup>Based on AVR results after restoration of gain-sharing and UCOLA.

## 2015-17 Estimated Total Employer Budget Impacts

2015-17 Estimated Total Employer Contributions			
(Dollars in Millions)	Increase in Contributions After Restoration of Gain-Sharing <sup>1</sup>	Increase in Contributions After Restoration of UCOLA <sup>2</sup>	Increase in Contributions After Restoration of Gain- Sharing and UCOLA <sup>3</sup>
PERS	\$126	\$356	\$502
TRS	\$209	\$441	\$675
SERS	\$79	\$62	\$145
PSERS	\$3	\$10	\$14
<b>Total</b>	<b>\$417</b>	<b>\$871</b>	<b>\$1,336</b>

<sup>1</sup>Based on 2012 Actuarial Valuation results (AVR) after restoration of gain-sharing and continuation of all replacement benefits.

<sup>2</sup>Based on AVR results after restoration of UCOLA for all members.

<sup>3</sup>Based on AVR results after restoration of gain-sharing and UCOLA.

## Planning For The Future

- Pension plans require consistent, stable, and adequate funding to remain affordable over the long term
- Stay on track with the funding plan
  - Funding shortfalls today increase future contribution requirements
  - Pay now or pay more later
- Ensure benefits and any future changes remain affordable for the long term
  - Whether the economy is up or down



## Conclusion

- Among best funded systems nationally
- National leader in pension policy
- Certain risks and challenges ahead
- Opportunities for future planning

## Additional Pension References

- [Office of the State Actuary](#)
  - [2012 Actuarial Valuation Report](#)
  - [Report on Financial Condition](#)
  - [Risk Assessment Report](#)
- [Select Committee on Pension Policy](#)
  - [Pension Primer](#)
  - [Pensions 101](#)
  - [Pensions 102 - Plan Design](#)
  - [Pensions 103 - Governance](#)

