



LEOFF 1 Pension Check-Up

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Presentation to LEOFF 1 Medical Study Group



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

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LEOFF Plan 1 "Physical"

- What's the plan's history?
- Is the plan healthy today?
- What is the prognosis for the future?



LEOFF 1 Opened In 1970

- Created on March 1, 1970 (Chapter 209, Laws of 1969)
- Closed on September 30, 1977, with the creation of LEOFF 2
- A consolidation of municipal police and fire pension plans into a state-wide LEOFF retirement system
- Significant unfunded liability at that time
- 33 percent of pay state contribution recommended at first actuarial valuation
- 6 percent contributions required from both members and employers
- No state contributions made for first five years



Initial State Funding Policy

- Amortization of unfunded liability over a period not to exceed 40 years from March 1, 1970 (Chapter 209, Laws of 1969)
- Fixed amortization date of June 30, 2024 for fully funding LEOFF 1 established in 1989 (Chapter 273, Laws of 1989)
- State began contributions in 1976 and continued through 1999
 - Averaging just over 40 percent of pay



Contributions Suspended After Fully Funded

- LEOFF 1 reached a fully funded status in 1997
- Legislature suspended state contributions in July 1999
- Member and employer contributions suspended in May 2000



Recap Of History

- Opened in 1970
 - Consolidation of local plans
 - Significant unfunded liability
- State funding policy established
 - State responsible for paying off unfunded liability
- All contributions suspended in 2000 after plan became fully funded



Health Assessment

- Healthy plans have sufficient assets to pay earned benefits
- Measured by the “funded status”
- Healthy plans - at least 80 percent funded
- Unhealthy plans - at least 60, but less than 80 percent funded
- Poor health, at risk plans - less than 60 percent funded
 - At risk of running out of assets (prematurely if closed plan)



Funded Status Of LEOFF 1

- 114 percent funded status at June 30, 2007
- Preliminary funded status of 129 percent at June 30, 2008
- A lot has changed since the last valuation



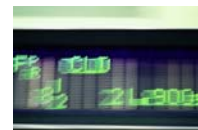
What's Changed Since Last Valuation?

- Unprecedented change in a short period of time
- Assets dropped almost 24 percent since last actuarial valuation (\$1.5 billion for LEOFF 1)
- We expect over a 30 percent decline in funded status over the next eight-ten years



Prognosis

- Pension systems facing unprecedented challenges
- Likely return of unfunded liability in LEOFF 1 in the future
- So much will depend on future investment performance and funding policy

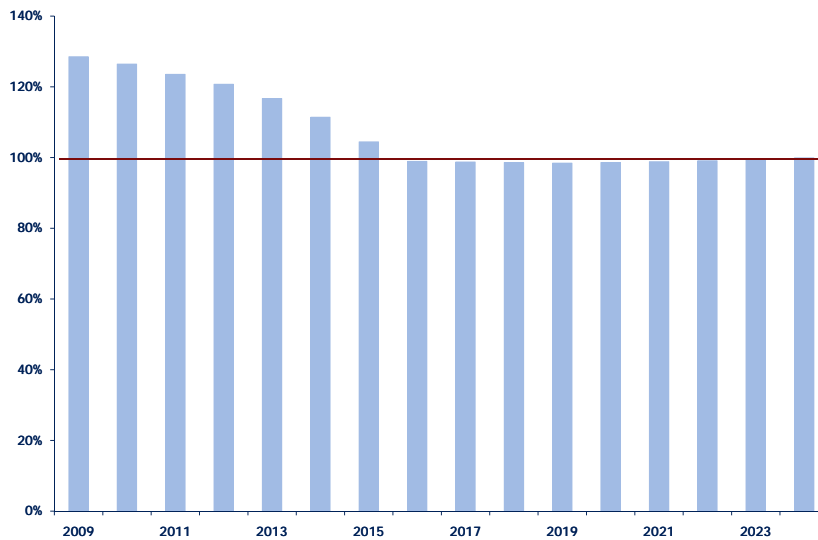


Investment Outlook – Impact On LEOFF 1

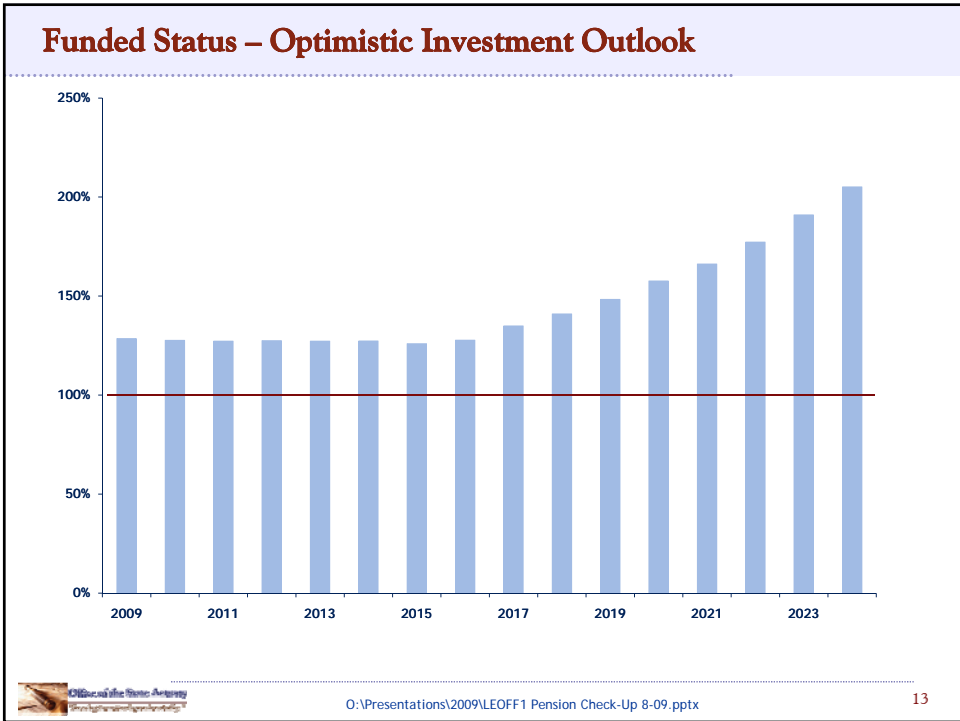
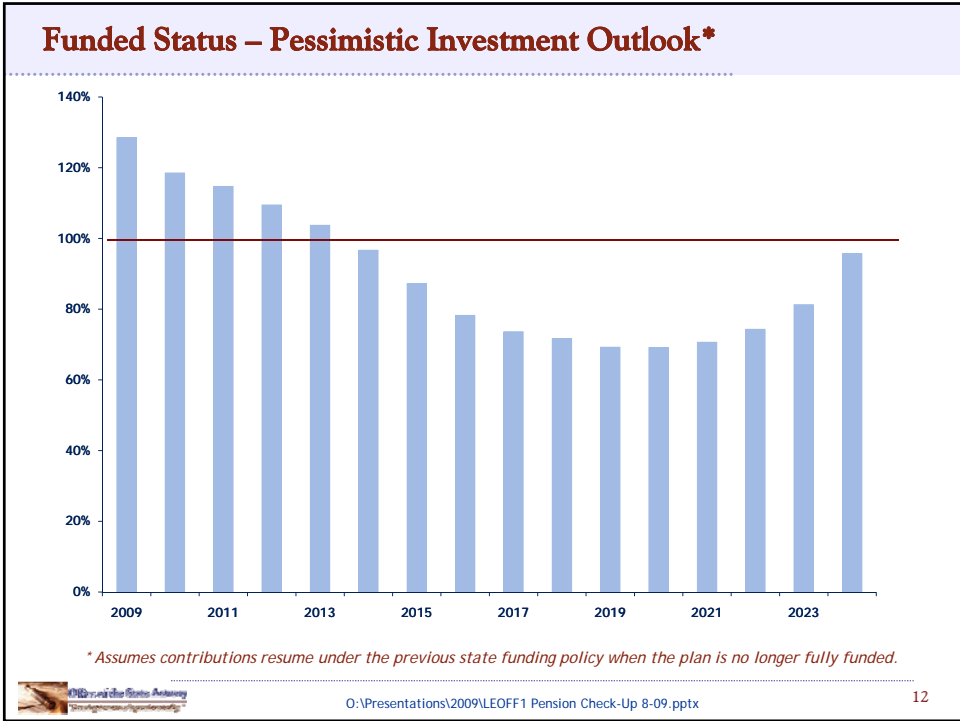
- Extent of future losses unknown
- Consider optimistic, expected, and pessimistic outlooks
 - Will unfunded liability return?



Funded Status – Expected Investment Outlook*



* Assumes contributions resume under the previous state funding policy when the plan is no longer fully funded.



LEOFF 1 Health Assessment

- LEOFF 1 is healthy, but future contributions may be required to maintain health
- Optimistic outlook
 - 10.3 percent annual rate of return (ROR) over 15 years
 - Plan remains fully funded
- Expected outlook
 - 8 percent annual ROR
 - Plan remains fully funded through 2015
 - Unfunded liability returns in 2016
- Pessimistic outlook
 - 5.6 percent annual ROR over 15 years
 - Plan remains fully funded through 2013
 - Unfunded liability returns in 2014

What Are The Health Risks In LEOFF 1?

- Future unfunded liability
- Plan maturity and closed status
- Can the state afford contributions to LEOFF 1 and LEOFF 2?
- Can LEOFF 1 withstand future investment losses?



Ways To Safeguard Future Health Of LEOFF 1

- Provide additional funding when opportunities present
 - Practically speaking, not an option until we recover from current economic crisis
- Resume contributions in the future when the plan is no longer fully funded
 - Establish new funding policy
 - Resumption of prior funding policy likely insufficient
- No benefit improvements
- Closely manage and monitor assets and liabilities
 - “Lock-in” funded status after recovery



Results Of LEOFF 1 Pension Check-Up

- Today's health challenges for pensions are unprecedented
 - Asset losses
 - Uncertain investment outlook
 - Budget pressures
 - Pressure amplified by aging of the Plan
- LEOFF 1 is healthy today, but may require future contributions to maintain health
- Opportunities to further safeguard the plan's health



Disclosure

- The information contained in this presentation was prepared for the LEOFF 1 Medical Study Group to assist them during their study of the LEOFF 1 medical benefits unfunded liability. The presentation was prepared during the 2009 Interim and should not be used beyond that period.
- Please use the entire presentation. Distribution of, or reliance on, only parts of the presentation could result in its misuse and may mislead others.
- All data, methods, and assumptions match those used in the 2007 Actuarial Valuation Report. We used actual investment returns through June 30, 2009, as reported by the Washington State Investment Board.
- All data, methods, and assumptions used in determining the preliminary funded status at June 30, 2008, will be disclosed in the 2008 Actuarial Valuation Report.
- We believe that the data, methods, and assumptions are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this communication.
- Another set of assumptions and methods could also be reasonable and could produce materially different results.