



Washington State Legislature 

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# Pension Funding

*Matt Smith, EA, FCA, MAAA*  
State Actuary

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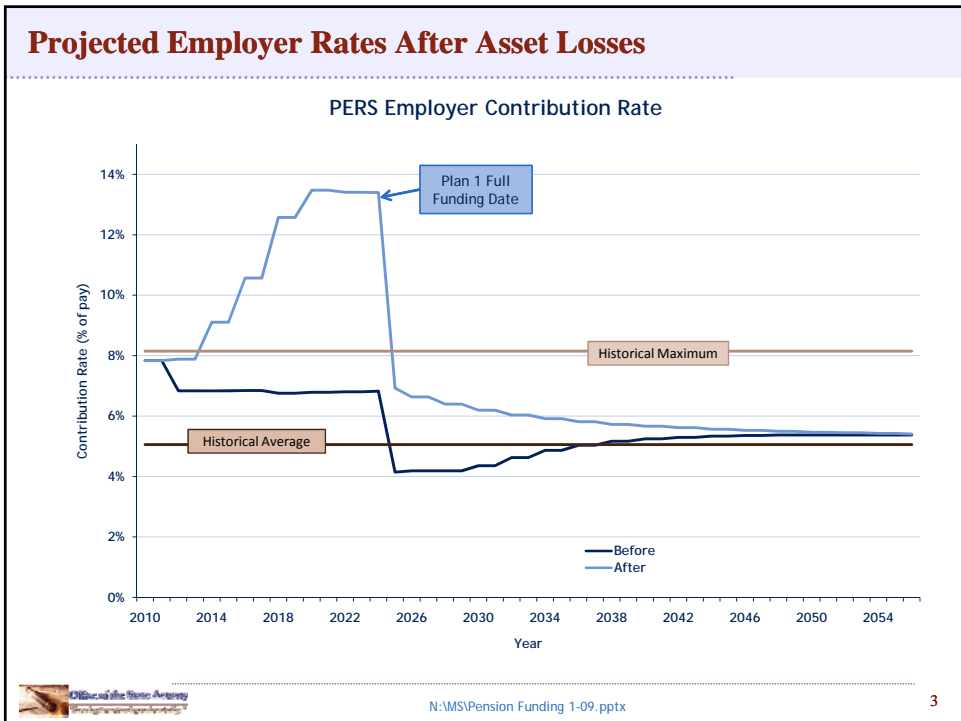
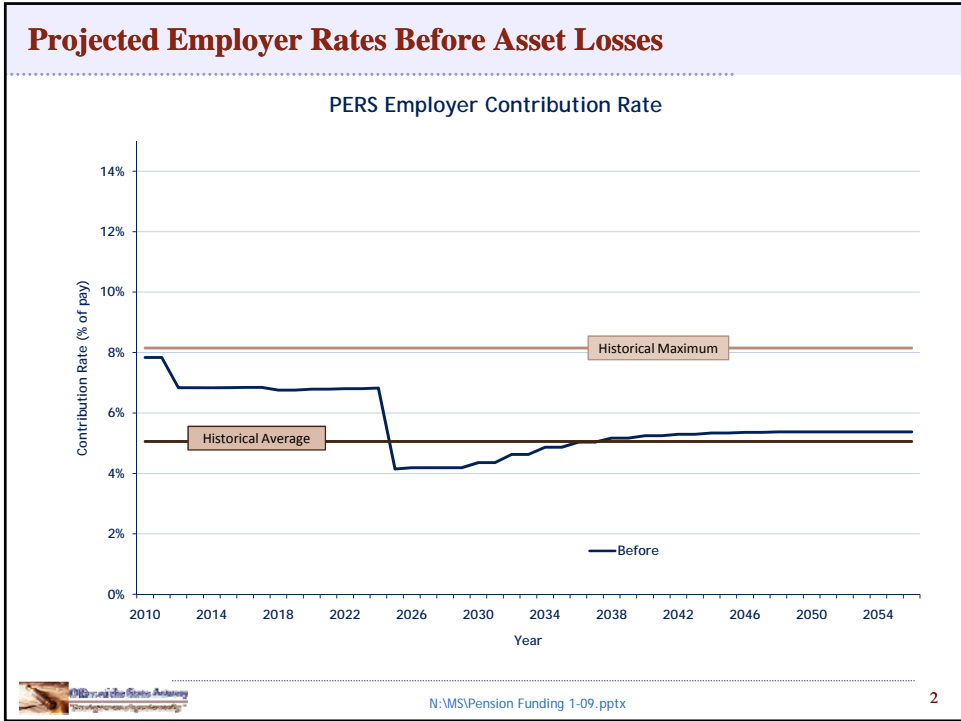
 Office of the State Actuary  
*"Securing tomorrow's pensions today."*

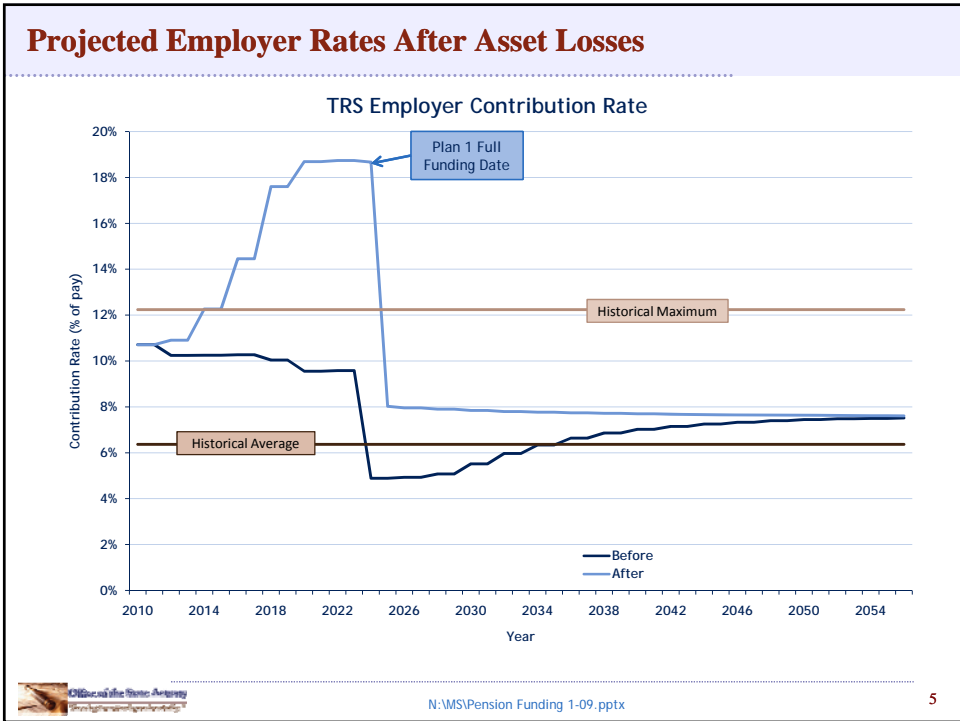
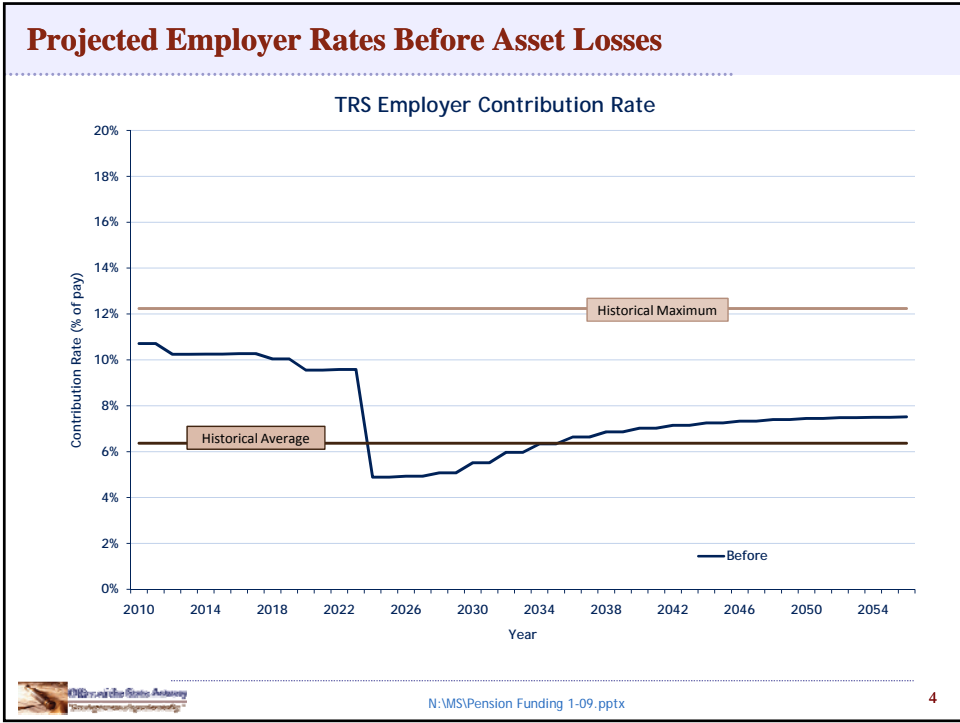
January 26, 2009

## Introduction

- Pension systems face future challenges in light of recent economic turmoil
- Pension assets dropped about 20 percent since our last actuarial valuation (\$12 billion)
- Future contribution requirements will increase significantly







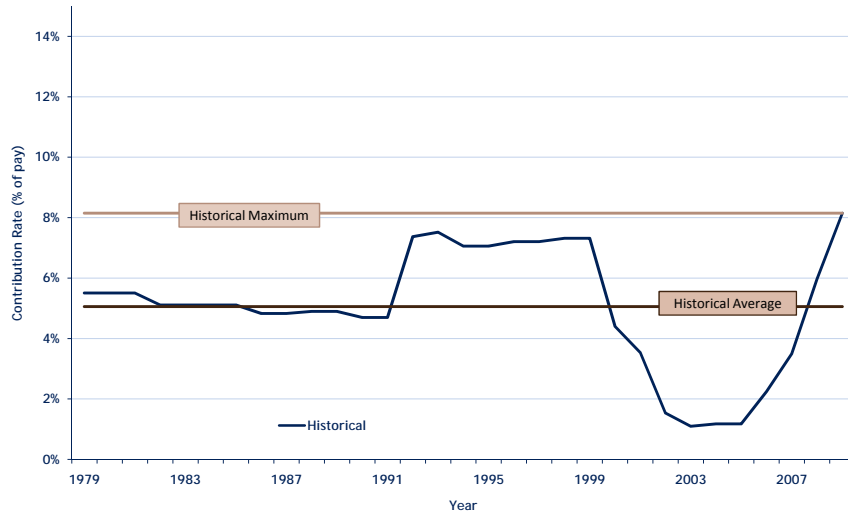
### Have We Been Here Before?

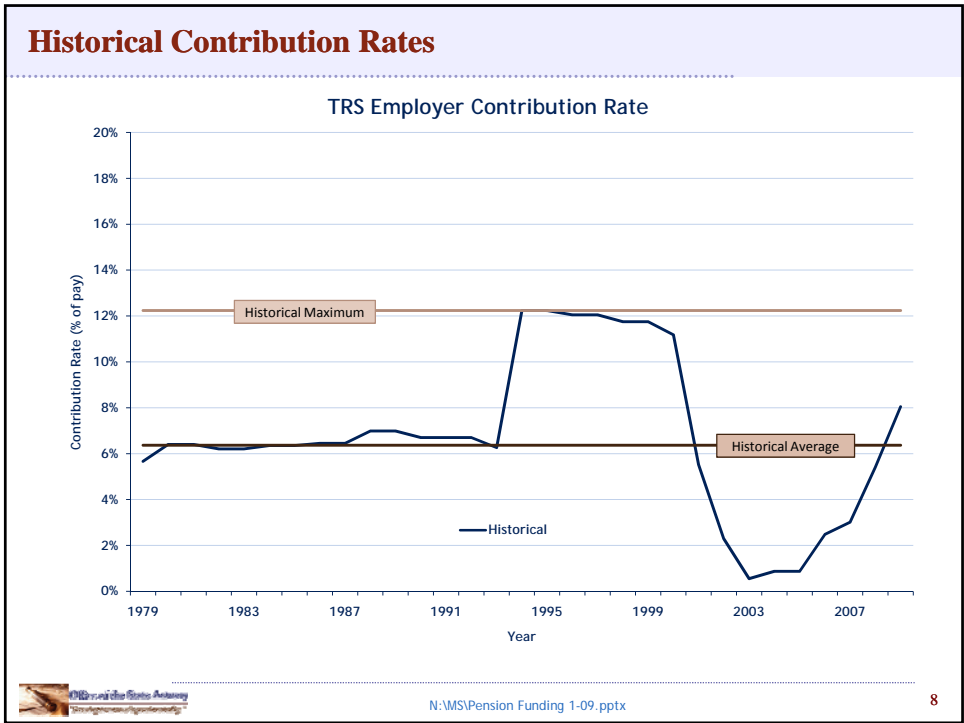
- No
- We've experienced rate volatility, but for different reasons and with smaller magnitudes




### Historical Contribution Rates

PERS Employer Contribution Rate





- ### Dynamics Of The Past
- Enactment of Plan 1 funding method
    - 35-year full-funding plan beginning in 1989
  - Short-term actuarial funding policy and methods
  - Early or premature recognition of investment gains produced lower rates
  - Early adoption of falling rates
  - Investment losses followed the gains producing higher rates
  - Higher rates deferred, phased-in, or suspended during market gains
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## Lessons Learned From The Past

- Unmanageable contribution rate volatility
- Members and employers unable to absorb rate increases
- Longer asset smoothing method adopted
- Minimum contribution rates enacted

## Today's Dynamics

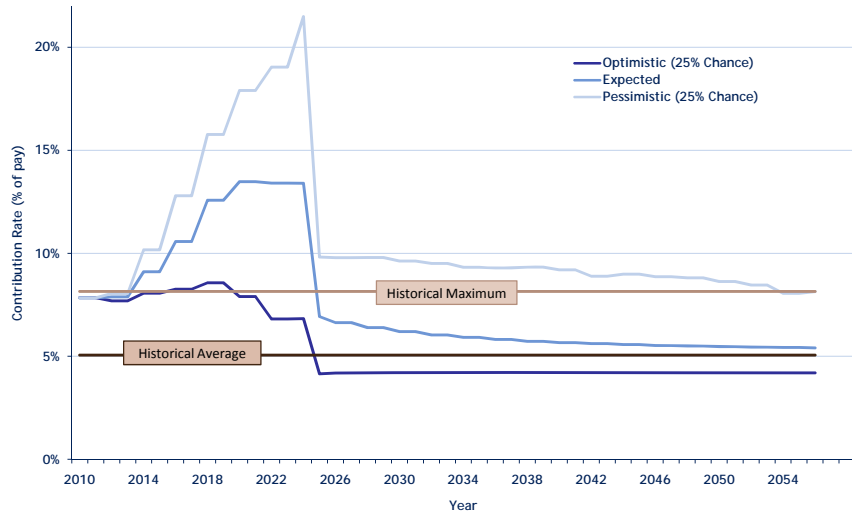
- Market fall decreased assets significantly
- Added pressure on future contribution rates
- Effects amplified by rapidly approaching full funding date for the Plans 1
- Unprecedented budget pressures
- Ultimate impact not yet known



future?

### Investment Outlook – Rate Impacts

PERS Employer Contribution Rate

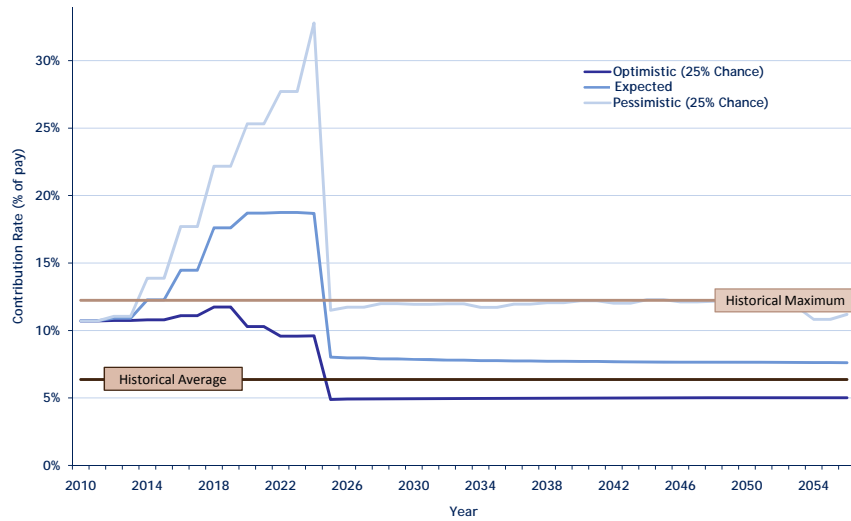


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### Investment Outlook – Rate Impacts

TRS Employer Contribution Rate



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## Investment Outlook – Impact On Plans 1

- Fifteen years remaining until full-funding date
- Optimistic outlook
  - 10.2% annual rate of return (ROR) over 15 years
  - Plans fully funded by 2023
- Expected outlook
  - 8% annual ROR
  - Plans fully funded by 2024; steep rate increases required
- Pessimistic outlook
  - 5.4% annual ROR over 15 years
  - Plans 1 run out of money in 2027 with up to \$2.3 billion in required annual benefit payments
  - Contractual benefits means funding is no longer discretionary

## Investment Outlook – Impact On Cash Flow

- The Washington State Investment Board uses contributions and interest and dividend income to cover benefit payments from the trust fund
- Investment income currently depressed
- Contribution cuts reduce investment income and increase liquidity pressure



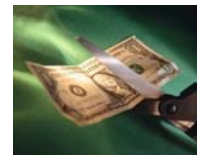
## An Initial Response To Current Budget Pressure

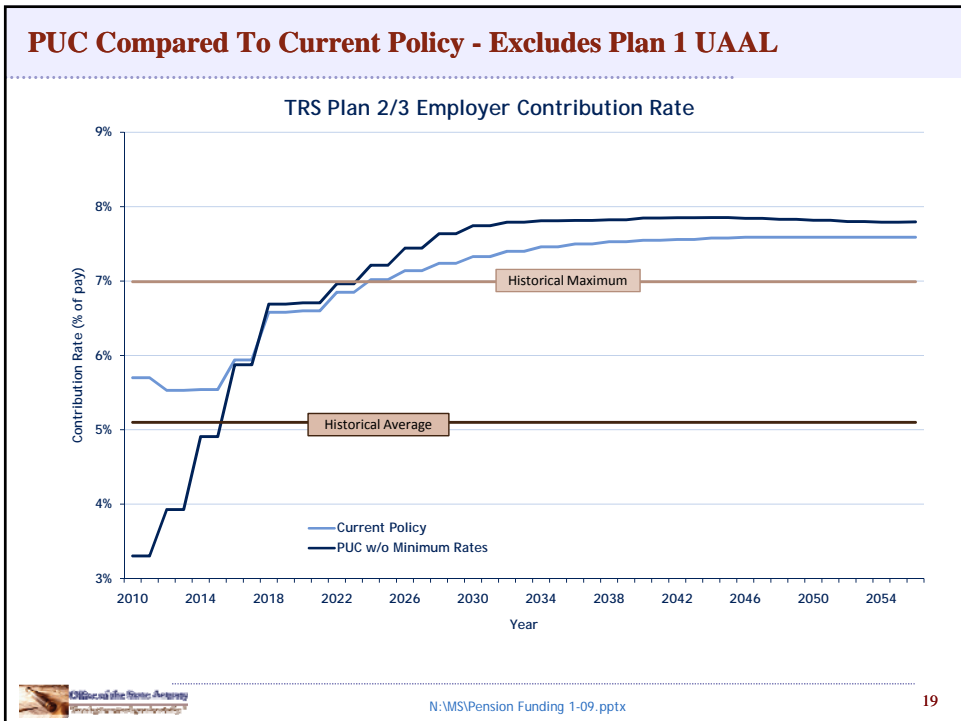
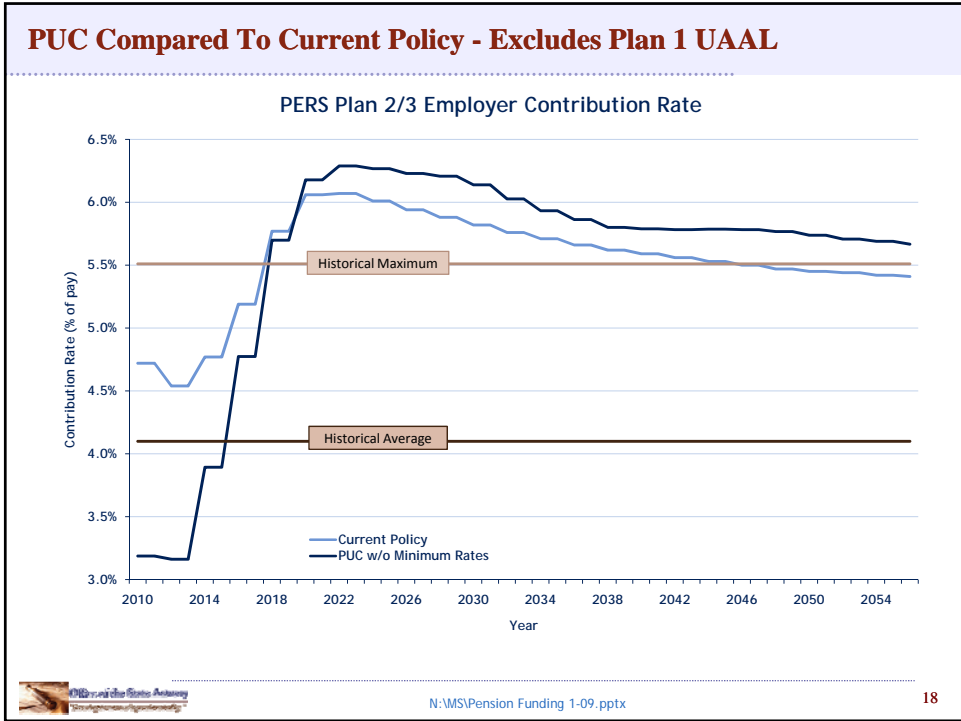
- Cut pension funding
- Examples
  - Assumption changes
  - Funding method changes
  - Contribution holidays
  - Suspend minimum contribution rates
- Save money now, pay more later

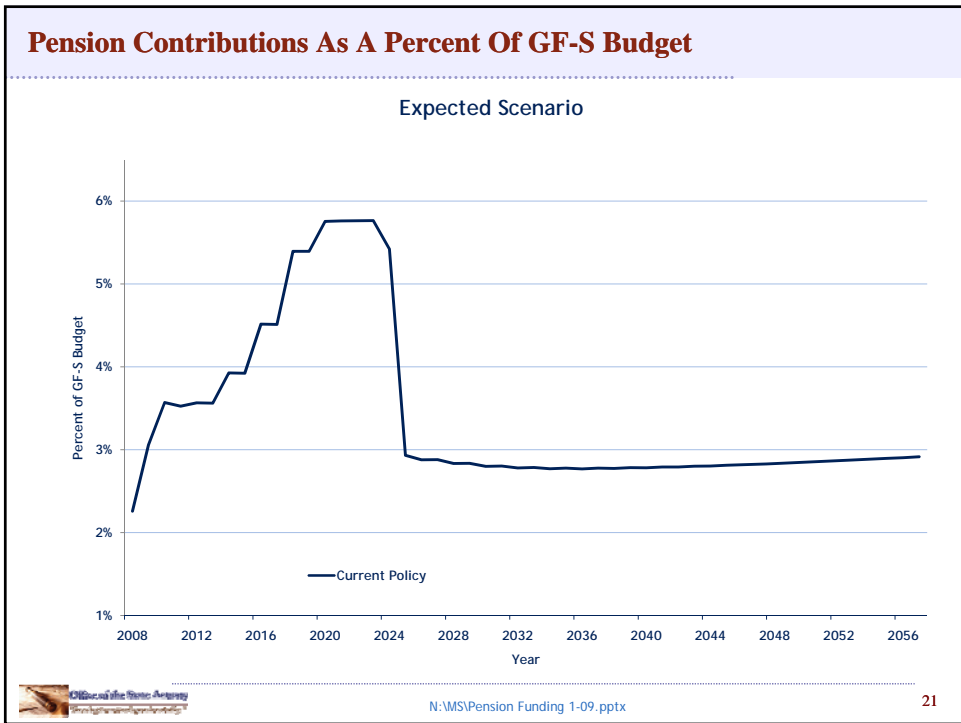
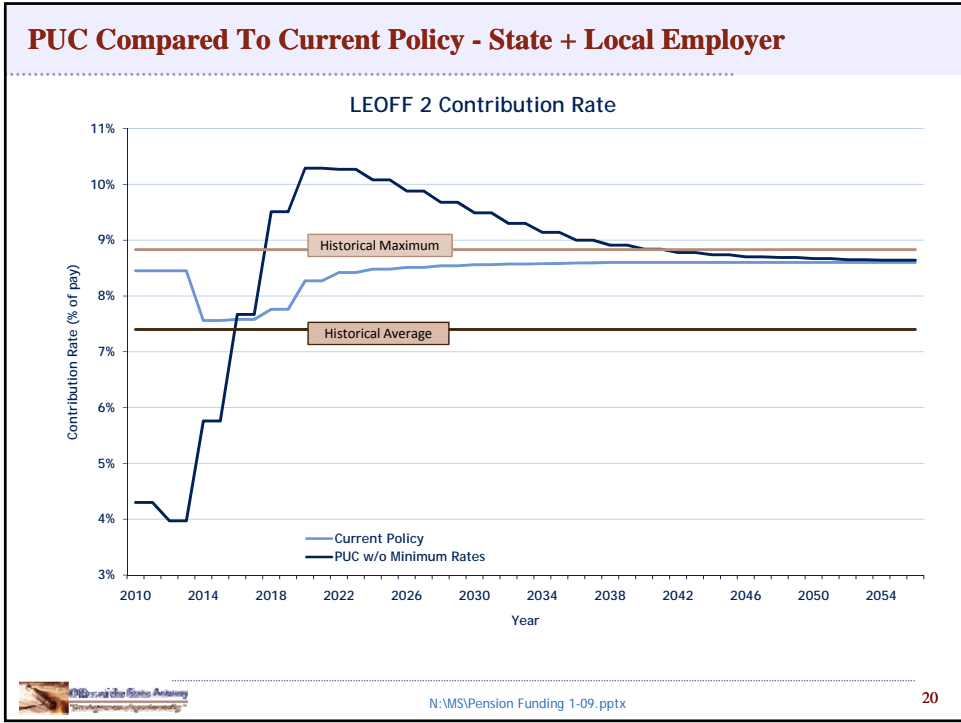


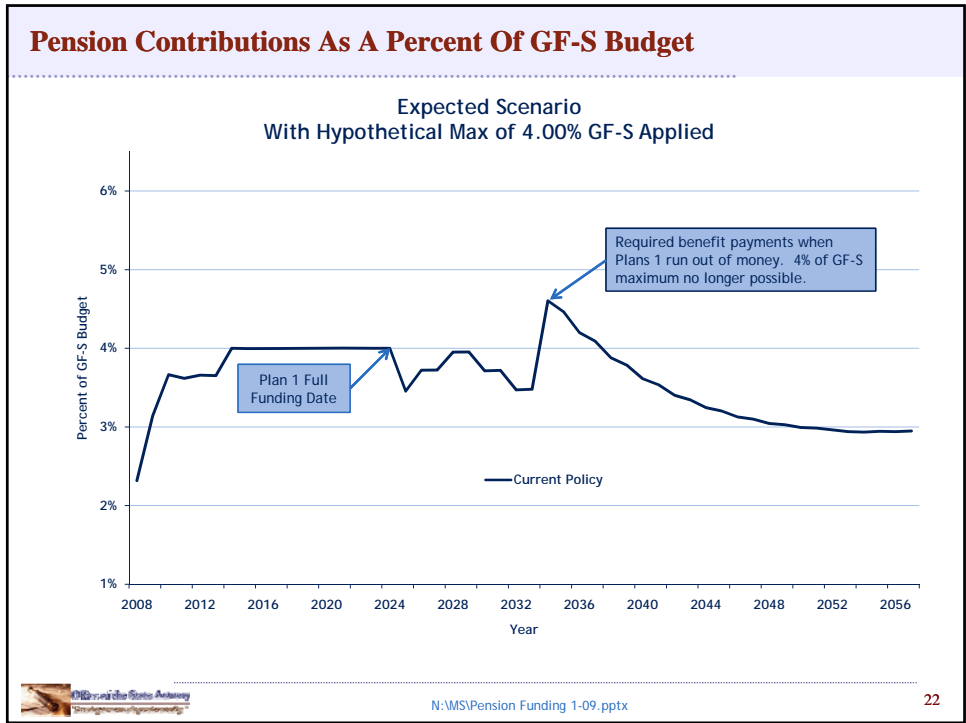
## Examples Of Proposals To Cut Pension Funding

- Projected Unit Credit (PUC) funding method (Governor's budget)
  - \$386 million 2009-11 GF-S savings
  - Increases long-term costs
  - Steep rate increases required after initial decrease
  - PUC costs also increase as the plan population ages
- Suspend Plan 1 funding
  - \$466 million 2009-11 GF-S savings
  - Increases long-term costs
  - Increases chances Plans 1 will run out of money
- Additional information in fiscal notes when available









- ### Possible Responses To Pressures On Pension System
- Increase funding
    - Restructure Plan 1 funding method
    - Lower assumed rate of investment return
  - Decrease future benefits
    - Less expensive benefits for new hires
  - Maintain long-term rates
  - Asset and liability management
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## Conclusion

- Asset losses have placed significant pressure on future contributions
- Amplified by Plan 1 funded status
- Uncertain investment outlook in the near term
- Convergence of these factors with budget pressure creates different context for pension funding
- Requires long-term budget and policy planning
- Well-managed defined benefit plans can weather storms
- Pension leadership opportunity

