



Washington State Legislature 

Update on Pension Liabilities


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

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Latest Actuarial Valuation

- Reflects assets, liabilities, and participant data as of June 30, 2007
- Audited by outside actuary
- Includes assumption changes from an experience study
- Includes recommended contribution rates for 2009-11



 Office of the State Actuary

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Experience Study Results

- We're living longer
- We're delaying retirement
- We're more mobile in our careers
- Our salaries are increasing less than assumed
- All demographic assumptions reviewed and updated



Participant Data

All Systems	
Active Members	
Number	294,190
Average Annual Salary	\$48,751
Average Age	46.2
Average Service	10.9
Retirees and Beneficiaries	
Number	122,382
Average Annual Benefit	\$18,676

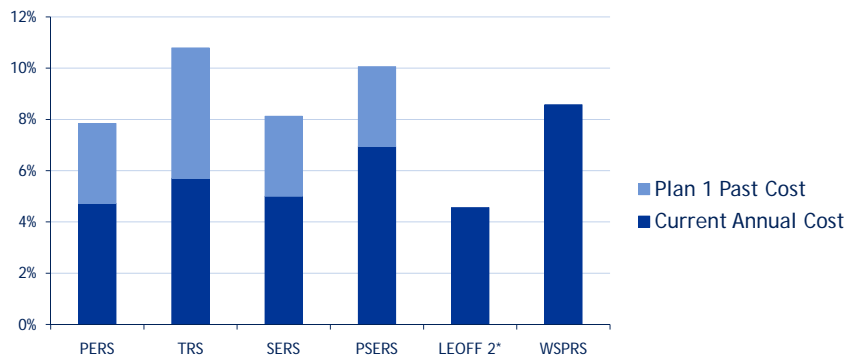


Contribution Rates – Two Components

- Current annual cost
 - Cost of projected benefits earned in the next year
 - On-going annual cost of future benefits
- Plan 1 past cost
 - Cost of Plan 1 benefits earned in the past, but not yet fully funded
 - AKA “the Plan 1 unfunded liability”
 - Present in PERS 1 and TRS 1 only
 - Employer only cost

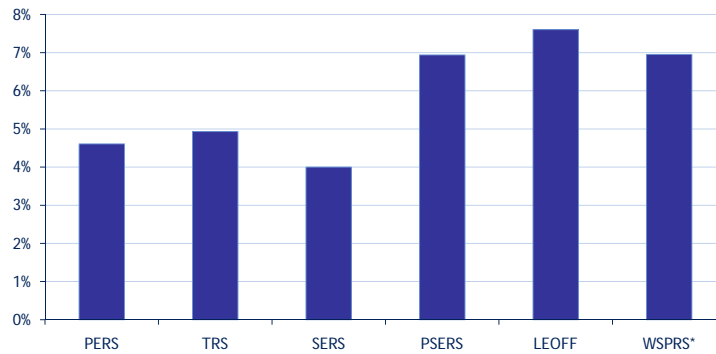


Recommended 2009-11 Employer Contribution Rates



* Local employer only. State rate = 3.04%.

Recommended 2009-11 Plan 2 Member Contribution Rates



* Rate applies to both Plan 1 and Plan 2 members.



Key Funding Policies

- Continue to fully fund the Plans 2/3
 - Current annual cost must include any past unfunded costs
- Fully fund Plan 1 past costs by June 30, 2024
 - Separate employer amortization charge from current annual cost



Recent Funding Policy Changes

- Recent changes to address stability and adequacy of pension funding
 - Minimum contribution rates
 - Longer asset smoothing periods
 - Additional funding to account for longer life spans into the future

Pension Liabilities

(\$ in millions)	All Systems
Today's Value of All Future Pensions	\$67,081
Today's Value of All Earned Pensions	\$51,115

Key Assumptions

	All Systems
Valuation Interest Rate	8.00%
Salary Increase*	4.25%
Inflation	3.50%
Growth in Membership**	1.25%

* 4.5% in LEOFF 2.

** 0.90% in TRS. Used for the amortization of the Plan 1 UAAL only.

Pension Assets

(\$ in millions)	All Systems
Market Value of Assets (MVA)	\$60,095
Deferred Investment Gains	\$9,308
Assets Used to Determine Contribution Rates (Actuarial Value of Assets - AVA)	\$50,787
AVA ÷ MVA	85%

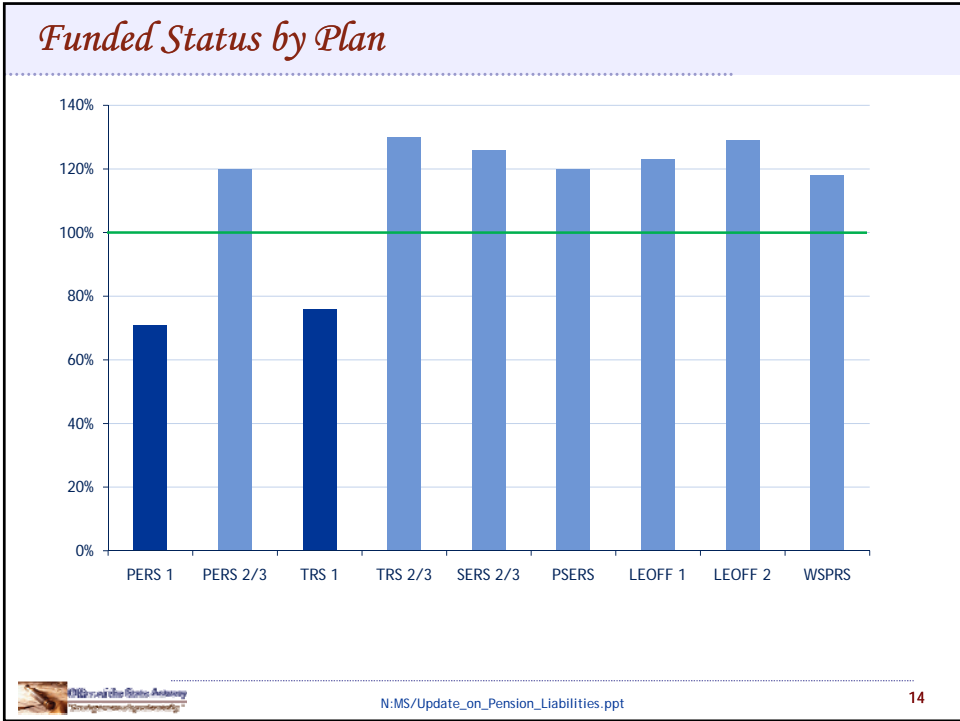
Asset Smoothing Method

- Start with the market value
- Determine annual investment gain or loss
 - Actual return less expected return (8 percent)
- Spread annual investment gain or loss over at most eight years
- End result must remain within a 30 percent corridor of the market value



Combined Funded Status

(\$ in millions)	All Systems
Today's Value of All Earned Pensions	\$51,115
Actuarial Value of Assets	\$50,787
Funded Ratio	99%



LEOFF 1 Market Value Funded Status

(\$ in millions)	LEOFF 1
Today's Value of All Earned Pensions*	\$5,634
Market Value of Assets	\$6,416
Funded Ratio	114%

* 5.5% interest rate.

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Effect of Recent Investment Performance

(\$ in millions)	All Systems
Deferred Investment Gains at 6/30/2007	\$9,308
Deferred Investment Loss for FYE 6/30/2008* (based on -1.22% ROR)	\$4,800
Deferred Investment Gains at 6/30/2008*	\$3,710
ROR for FYE 6/30/2009 That Would Exhaust Remaining Deferred Gains*	2% or lower

* Estimate.

Observations

- All but two plans are well funded
 - PERS 1 and TRS 1 below 80 percent funded
 - LEOFF 1 was fully funded on a market-value basis
- Asset smoothing method will help stabilize future contribution rates to a degree
- Continued investment losses combined with reduction in 2009-11 pension funding levels will shift higher risk and cost to the future

Additional Information

- 2007 Actuarial Valuation Report
- Experience Study Report
- Visit our website
 - <http://osa.leg.wa.gov>

