



## Actuary Report 2009 WSLEA Conference

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

May 14, 2009

### Discussion Topics

- Funding Update
- COLA Update
- LEOFF 1 Medical Study
- 2009 Pension Legislation
- Economic Experience Study



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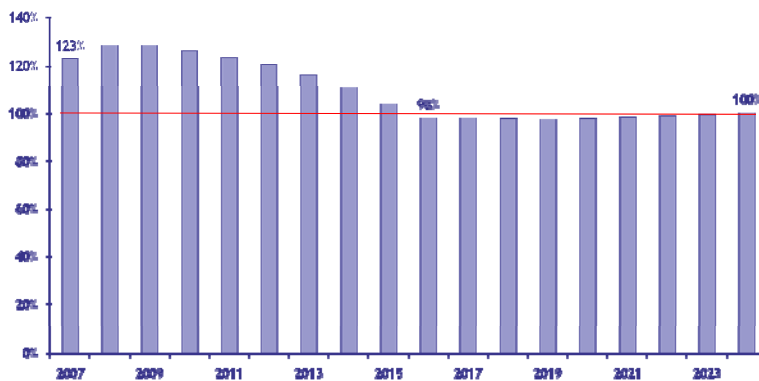
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## Significant Investment Losses Since Last Report

- Market value of assets dropped over 25 percent since June 30, 2007
- Contributions may resume in the future
- Amount and timing of future contributions depend on future investment performance

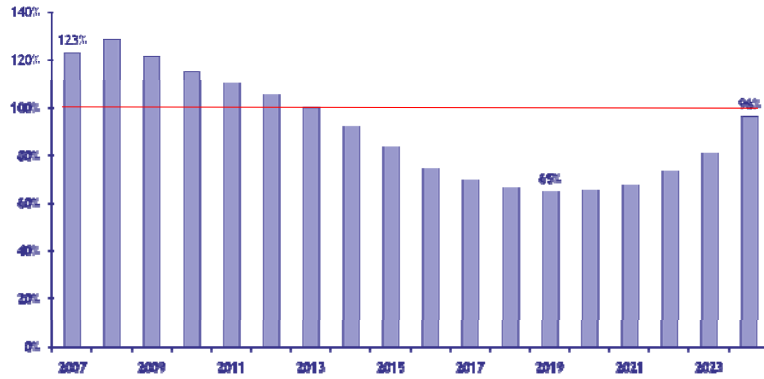


## Funded Status – Expected Investment Outlook\*



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

## Funded Status – Pessimistic Investment Outlook\*



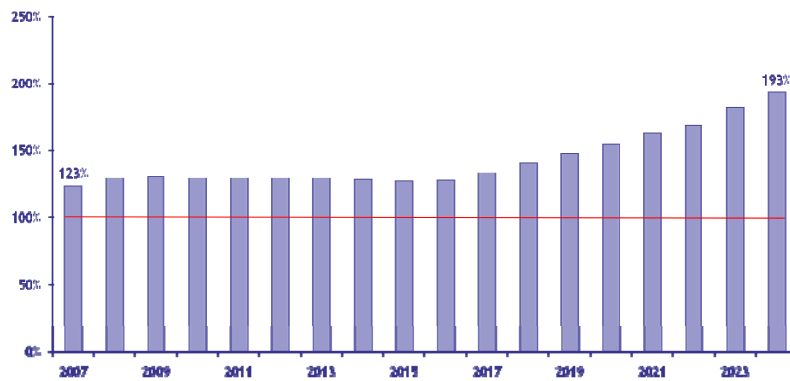
\* Assumes contributions resume under the previous state funding policy when the plan is no longer fully funded.



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## Funded Status – Optimistic Investment Outlook



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## Investment Outlook

- Optimistic outlook
  - 10.2 percent annual rate of return (ROR) over 15 years
  - Surplus holds steady and then grows
- Expected outlook
  - 8 percent ROR
  - Funded status drops to about 98 percent
- Pessimistic outlook
  - 5.4 percent ROR over 15 years
  - Funded status drops to about 65 percent



## Funding Policy Could Change In The Future

- Current policy
  - No contributions required when plan is fully funded
- Previous policy
  - 6 percent employee and employer contributions
  - State contribution for any unfunded liability
- Future funding policy options
  - Return to previous policy
  - Develop new policy
  - Maintain current policy until pay-as-you-go
- “Lock-in” existing funded status after recovery?





## Questions on Funding?



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## LEOFF 1 COLA

- Defined under RCW 41.26.240
- 2009 COLA based on annual change in CPI from 2007 to 2008
- COLAs payable as of April 1, 2009

Retirement Dates	Adjustment
4/2/2008 - 3/31/2009	0.00%
1/1/2008 - 4/1/2008	4.48%
4/2/2007 - 12/31/2007	8.44%
Prior to 4/2/2007	4.48%



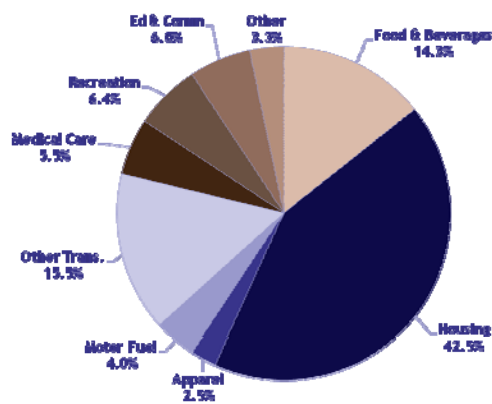
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## CPI Basics

- CPI-W is used for LEOFF 1
- Annual price inflation measured by annual change in prices for a “market basket” of goods

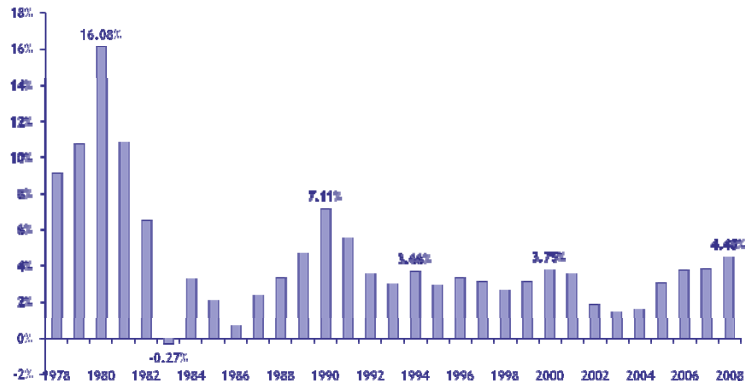


## What Is The Seattle CPI-W Market Basket?



Source: U.S. Department of Labor, Bureau of Labor Statistics

## Annual Changes In The Seattle CPI-W Have Moderated



Source: U.S. Department of Labor, Bureau of Labor Statistics



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## CPI Changes Vary By Region

Area	Percent Change
San Francisco	3.3%
Denver	3.9%
Phoenix	3.8%
Los Angeles	3.9%
Miami	4.8%

Source: U.S. Department of Labor, Bureau of Labor Statistics



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## LEOFF 1 CPI Defined

- CPI-W = Urban Wage Earners and Clerical Workers (Current Series)
- Not seasonally adjusted
- Area = Seattle-Tacoma-Bremerton
- Base = Alternate (Base Period = 1967)
- All items
- <http://www.bls.gov/cpi/home.htm>



## Questions On LEOFF 1 COLA?



## LEOFF 1 Medical Study Released In December 2007

- Identifies the state-wide GASB liability for LEOFF 1 post-retirement medical benefits
  - Including long-term care
- Calculated under the new GASB rules
- Results audited by an outside actuary



## State-Wide Liability, \$1.7 Billion

- Present value based on service credit earned to date (accrued liability)
- Local government obligation
- Results are highly sensitive to
  - Funding policy (report assumes pay-as-you-go funding)
  - Anticipated medical inflation
- Sensitivity analysis available in report

## What's The Response So Far?

- DRS study group formed
  - Finalizing fact book
  - Next steps?
- Legislature provided funding to OSA for the on-going study and reporting of the medical liability



## Intended Use Of This Study?

- Quantify the state-wide liability to supplement state-wide funding policy discussions
- Study does not satisfy an individual employer's GASB reporting needs



## What About The On-line Tool?

- OSA developed an on-line tool to help small employers estimate their share of the state-wide GASB liability
- Please visit the following link for more details on the tool and to locate the state-wide study
  - [http://osa.leg.wa.gov/Actuarial\\_Services/OPEB/OPEB.htm](http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm)



## Questions About LEOFF 1 Medical Study?



## Busy Session For Pensions

- Fourteen pension bills passed the 2009 Legislature
- Ranging from technical corrections to pension funding
- Several bills on domestic partner benefits



## Pension Bills That Passed The 2009 Legislature

- Reclassification to LEOFF 2 duty disablement (HB 1678/SB 5542)
- Pre-LEOFF survivor benefits (HB 1506)
- F&W service credit transfer to LEOFF 2 (HB 1953)
- Interruptive military service credit (HB 1548)
- Military death benefits (HB 1551)
- Domestic partners (E2SSB 5688)
  - WSP domestic partners (EHB 1445)
  - LEOFF 2 domestic partners (EHB 1616)
- PERS to SERS auto-transfer (SB 5303)
- Technical corrections (SB 5305)
- Survivors of PERS 1 inactive members (SB 5315)
- Impact of furloughs on retirement benefits (SB 6157)
- Pension funding budget (SSB 6161)

## 2009-11 Employer Contribution Rates – SSB 6161

System/Plan	Current	2009-11*
PERS	8.31%	5.29%
TRS	8.46%	6.14%
SERS	7.54%	5.43%
PSERS	9.43%	7.84%
LEOFF 1	0.16%	0.16%
LEOFF 2**	5.46%	5.23%
WSPRS	7.86%	6.33%

\* Effective 7/1/2009 for PERS, PSERS, LEOFF 1, LEOFF 2, and WSPRS; 9/1/2009 for TRS and SERS. Includes DRS administrative rate. Does not include supplemental rates for 2009 legislation.

\*\* Local employer only.



## 2009-11 Plan 2 Contribution Rates – SSB 6161

System/Plan	Current	2009-11*
PERS	5.45%	3.89%
TRS	4.26%	3.36%
SERS	4.68%	3.14%
PSERS	6.57%	6.55%
LEOFF 2	8.83%	8.45%
WSPRS**	6.65%	4.85%

\* Effective 7/1/2009 for PERS, PSERS, LEOFF 1, LEOFF 2, and WSPRS; 9/1/2009 for TRS and SERS. Does not include supplemental rates for 2009 legislation.

\*\* All plan members.





## Questions on 2009 Pension Legislation?



## Economic Experience Study Underway

- We are studying the following assumptions
  - Investment return
  - Inflation
  - General salary growth
  - Growth in system membership



## Why Do We Perform Them?

- Ensure assumptions remain reasonable
- Reasonable assumptions contribute to reasonable funding
- Things change
- Required every two years under state law



## How Do We Perform Them?

- Review historical data
- Compare actual to expected experience
- Incorporate future expectations
- Guided by professional actuarial standards of practice

## Next Steps?

- Recommend best-estimate assumptions to PFC and SCPP by September 1
- PFC may adopt assumption changes by October 31
- Any changes would impact contribution rates in the 2011-13 biennium



## Questions on Experience Study?



## Contacting OSA

- Our website
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