

Actuary Report

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Presentation to
Washington State LEOFF Education Association



May 15, 2014

Today's Presentation

- LEOFF 1 funded status
- COLA update
- LEOFF 1 medical valuation
- Other items of interest?
- Q&A



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LEOFF 1 Funded Status

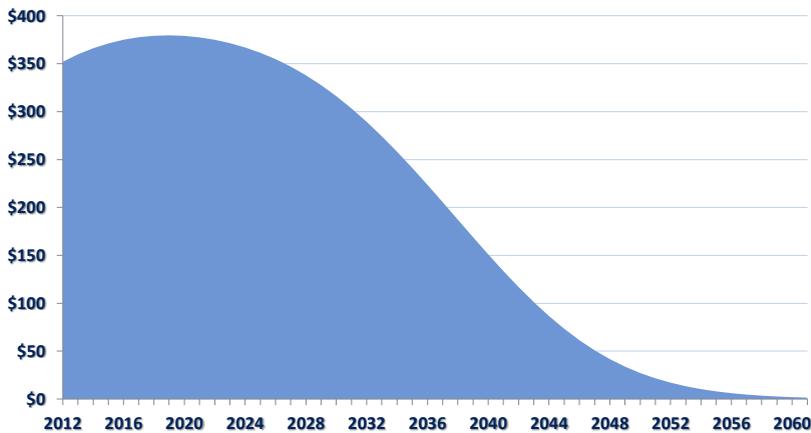
(Dollars in Millions)	LEOFF 1 at June 30, 2012*
a. Future value of fully projected benefits	\$10,001
b. Present value of fully projected benefits	\$4,132
c. Present value of accrued benefits	\$4,121
d. Market value of assets	\$4,903
e. Deferred asset gains/(losses)	(\$658)
f. Actuarial value of assets (d – e)	\$5,562
g. Unfunded liability (c – f)	(\$1,440)
h. Funded status (f ÷ c)	135%

Note: Totals may not agree due to rounding. Source: June 30, 2012, Actuarial Valuation Report.

**Accrued liabilities represent the present value of future benefits for current members earned at the valuation date assuming an expected rate of return on assets of 7.9% per year. Actuarial assets have been valued under the actuarial asset method (the "smoothing" method).*

Projected LEOFF 1 Benefit Payments (Future Value)

LEOFF 1 Projected Benefit Payments
(Dollars in Millions)



Present Value Of Future Benefits By Source

Present Value of Fully Projected Benefits	
(Dollars in Millions)	LEOFF 1
Active Members	
Retirement	\$184
Termination	0
Death	2
Disability	1
Return of Contributions on Termination	0
Return of Contributions on Death	\$0
Inactive Members	
Terminated	\$0
Service Retired	1,718
Disability Retired	1,720
Survivors	508
Laws of 2013	0
2012 Total	\$4,132

Note: Totals may not agree due to rounding.

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4

LEOFF 1 Funded Status At 6.9 Percent Interest Rate Assumption

(Dollars in Millions)	LEOFF 1 at June 30, 2012*
a. Accrued liability	\$4,498
b. Actuarial value of assets	\$5,562
c. Unfunded liability (a - b)	(\$1,064)
d. Funded status (b ÷ a)	124%

Note: Totals may not agree due to rounding. Source: June 30, 2012, Actuarial Valuation Report.

*Accrued liabilities represent the present value of future benefits for current members earned at the valuation date assuming an expected rate of return on assets of 6.9% per year. All assets have been valued under the actuarial asset method (the "smoothing" method).

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5

LEOFF 1 Funded Status On A Market Value Basis

(Dollars in Millions)	LEOFF 1 at June 30, 2012*
a. Accrued liability	\$5,400
b. Market value of assets	\$4,903
c. Unfunded liability (a - b)	\$497
d. Funded status (b ÷ a)	91%

Note: Totals may not agree due to rounding. Source: June 30, 2012, Actuarial Valuation Report.

*Accrued liabilities have been valued using an interest rate of 5% while assets at their market value. The 5% interest rate approximates the "risk free" rate of return on assets while maintaining consistency with the 3% inflation assumption used to project future benefit payments. This method was not used to determine contribution requirements.

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Summary Of Plan Participants

LEOFF 1 at June 30, 2012				
	Number	Average Age	Average Service	Average Salary/Benefits*
Actives	186	60.9	37.1	\$100,828
Annuitants				
Service Retirees	2,686	70.6	28.5	\$53,001
Retirees with Disabilities	3,659	69.5	20.8	\$40,321
Survivors	1,500	75.9	22.4	\$40,202

*Annualized.

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Summary Of Plan Participants - Preliminary

LEOFF 1 at June 30, 2013				
	Number	Average Age	Average Service	Average Salary/Benefits*
Actives	143	61.9	38.2	\$103,362
Annuitants				
Service Retirees	2,654	71.2	28.8	\$55,128
Retirees with Disabilities	3,556	70.2	20.7	\$41,372
Survivors	1,519	76.3	22.4	\$41,344

*Annualized.

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Questions On Funded Status?



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LEOFF 1 COLA

- Defined under RCW 41.26.240
- 2014 COLA based on annual change in CPI from 2012 to 2013
- COLAs payable as of April 1, 2014

Retirement Dates	Adjustment
4/2/2013 – 3/31/2014	0.00%
1/1/2013 – 4/1/2013	1.22%
4/2/2012 – 12/31/2012	3.79%
Prior to 4/2/2012	1.22%

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
- bls.gov/cpi/home



Questions On LEOFF 1 COLA



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LEOFF 1 Medical Valuation

- As directed by the Legislature, OSA completes an actuarial valuation of LEOFF 1 medical benefits every two years
- June 30, 2011, last measurement date
 - Released in June 2013
- Report prepared in accordance with GASB Statement No. 45
- Determines the statewide liability, as of the measurement date, for retiree medical benefits provided by LEOFF 1 employers
- Report prepared to inform statewide policy discussions
- Responsibility to fund obligation rests with local employers, not the state of Washington



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Present Value Of Future Medical Benefits

Present Value of Future Medical Benefits (PVFB)	
<i>(Dollars in Thousands)</i>	
Active Members¹	
Medical	\$99,252
Institutional Long-Term Care	24,400
Non Institutional Long-Term Care	9,787
Total Active	\$133,439
Inactive Members²	
Medical	\$1,669,848
Institutional Long-Term Care	519,580
Non Institutional Long-Term Care	199,433
Total Inactive	\$2,388,862
Total	\$2,522,301

Note: Totals may not agree due to rounding.

¹Currently employed.

²Retired members and terminated members entitled to a benefit.

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14

GASB 45 Actuarial Accrued Liability

GASB 45 Actuarial Accrued Liability (AAL)	
<i>(Dollars in Thousands)</i>	
Active Members¹	
Medical	\$92,768
Institutional Long-Term Care	22,765
Non Institutional Long-Term Care	9,140
Total Active	\$124,673
Inactive Members²	
Medical	\$1,669,848
Institutional Long-Term Care	519,580
Non Institutional Long-Term Care	199,433
Total Inactive	\$2,388,862
Total	\$2,513,534

Note: Totals may not agree due to rounding.

¹Currently employed.

²Retired members and terminated members entitled to a benefit.

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15

Key Assumptions – Economic And Medical

Economic Assumptions				
LEOFF 1				
Annual Growth in Membership				0.00%
Annual Rate of Investment Return				4.00%
Inflation				3.00%
General Salary Increases				3.75%

Annual Medical Costs and Inflation Trend				
Age	Costs	Trend by Year	Under 65	Over 65
57	\$12,776	2012	7.0%	7.0%
62	\$16,401	2013	7.5%	7.5%
67	\$10,947	2014	6.2%	6.2%
72	\$12,134	2015	5.8%	5.8%
77	\$13,133	2016	5.7%	5.7%
82	\$13,791	2017	24.7%	12.9%
87	\$14,119	2018+*	6.2%	6.3%

*Rate for members over the age of 65 trends downward to 4.6% by 2089. Increase in trend at 2017 represents employer excise tax under ACA.

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16

Long-Term Care Assumptions

Annual Long-Term Care Costs and Inflation Trend				
	Institutional	Non-Institutional	Trend	
	\$88,884	\$54,492	4.75%	

Long-Term Care Incidence Rates and Duration (Months)				
Age	Institutional		Non Institutional	
	Rate	Duration	Rate	Duration
45	0.09%	22	0.29%	20
55	0.19%	21	0.56%	16
62	0.27%	17	0.95%	15
67	0.49%	18	1.35%	12
72	0.98%	20	2.06%	10
77	2.10%	21	3.74%	11
82	3.88%	21	5.72%	11
87	7.67%	21	7.77%	10
92	13.88%	19	9.26%	9
97	18.15%	16	9.67%	9

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17

How The Results Change Under Different Trend Assumptions

Statewide LEOFF 1 Medical Liabilities With Varying Medical Trend Assumptions			
<i>(Dollars in Thousands)</i>	Low (-1.0%)	Expected*	High (+ 1.0%)
PVFB	\$2,241,432	\$2,522,301	\$2,854,322
GASB 45 AAL	\$2,234,112	\$2,513,534	\$2,843,761

Note: Totals may not agree due to rounding.

*Based on Medical Inflation Trends referenced on the Key Assumptions slide (slide 16).

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18

Summary Of Plan Participants

	LEOFF at June 30, 2011	
	LEOFF 1	LEOFF 2
Active Members		
Number	250	16,805
Total Salary <i>(Dollars in Thousands)</i>	\$24,520	\$1,534,666
Average Age	60.4	42.7
Average Service	36.4	13.8
Average Salary	\$98,078	\$91,322
Inactive Members*		
Number	6,454	2,539
Average Age	69.3	56.4

*Includes retirees and terminated, vested members.

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19

Questions On LEOFF 1 Medical Valuation



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Other Items Of Interest?

- LEOFF 1 medical valuation results include employer excise tax
 - Inclusion of tax does not represent tax advice or opinion
 - Illustration of impact provided in report
- Demographic experience study
- Pension Funding Council will adopt contribution rates this summer for 2015-17 Biennium
 - Includes results of demographic experience study and outside audit
 - Lower assumed rate of return (7.8 percent)
 - Subject to revision by the 2015 Legislature



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