



## Office of the State Actuary

*"Securing tomorrow's pensions today."*

### **Actuarial Certification Letter Report of the Combined Actuarial Valuation As of June 30, 2014**

September 2015

This report documents the results of an actuarial valuation of the retirement plans defined under Chapters 41.26, 41.32, 41.35, 41.37, 41.40, and 43.43 of the Revised Code of Washington. The primary purpose of this valuation is to determine contribution requirements for the retirement plans as of the June 30, 2014, valuation date consistent with the prescribed funding policies. These contribution requirements are purely informational since, according to state law, this "off-cycle" valuation is not used to determine contribution rates. This valuation also provides information on the funding progress and developments in the plans over the past year. This valuation report should not be used for other purposes. Please replace this report with a more recent report when available.

The valuation results summarized in this report involve calculations that require assumptions about future economic and demographic events. We believe that the assumptions and methods used in the underlying valuation are reasonable and appropriate for the primary purpose stated above. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results. Actual results may vary from our expectations.

The assumptions used in this valuation for investment return, inflation, salary growth, and membership growth were prescribed by the Legislature. Please see our latest *Economic Experience Study* report for further information on the economic assumptions. We developed the demographic assumptions used in this valuation during the *2007-2012 Demographic Experience Study*. The Legislature was responsible for the selection of the actuarial cost and asset valuation methods. In our opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this publication.

The Department of Retirement Systems (DRS) provided us with member and beneficiary data. We checked the data for reasonableness as appropriate based on the purpose of the valuation. The Washington State Investment Board (WSIB) and DRS provided financial and asset information. An audit of the financial and participant data was not performed. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for purposes of this valuation.

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The asset smoothing method adopted during the 2003 Legislative Session (Chapter 11, Laws of 2003, E1) was intended to address the volatility of contribution rates under the aggregate funding method when used in combination with the existing asset allocation policy of WSIB. The combination of the current asset smoothing method with any other funding method or asset allocation policy may not be appropriate. The Legislature may need to revisit the application of the current asset smoothing method with the Plan 1 funding method as the duration of liabilities in those plans becomes shorter.

Under legislation enacted in 2009 (Chapter 561, Laws of 2009), the Unfunded Actuarial Accrued Liability (UAAL) in the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Plans 1 must be amortized over a rolling ten-year period, as a level percentage of projected system payroll. The projected payroll includes pay from current members of PERS and TRS Plans 2/3, as well as projected payroll from future new members. For PERS, the projected payroll includes payroll from retirement systems previously covered under PERS. This is a non-standard amortization method since it includes payroll outside the plan. Additionally, the funding method includes minimum contribution rates effective at the beginning of the 2015-17 Biennium. All contributions required under this method are necessary to fully amortize the UAAL in these plans near the previous target date of June 30, 2024. Failure to make all future required contributions may result in premature plan insolvency.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this report is intended to be complete, we are available to offer extra advice and explanations as needed.

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