

LEOFF 2 Preliminary Actuarial Valuation Results

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Presentation to: LEOFF Plan 2 Retirement Board



Today's Presentation

- Purpose of an actuarial valuation
- Preliminary 2017 Actuarial Valuation Results
- Informational - no Board action needed today



Purpose Of The 2017 Actuarial Valuation

- Estimate future benefits to be paid from the plan
 - When and for how long will members receive benefits?
 - How large will benefits be?
- Calculate contribution rates that fund expected future benefits
 - Updated with latest data, assets, and legislation (if applicable)
- Check funding progress
 - Are we on track with the systematic actuarial funding plan?
- Certify the underlying data, assumptions, and methods are reasonable and conform with current actuarial standards of practice

Highlights Of Preliminary 2017 Valuation Results

Assets

- 14.14% return on Market Value of Assets (MVA)
- Actuarial Value of Assets (AVA) is deferring asset gains of \$581 million from higher than expected returns in 2017

Funded Status

- Funded status increased from the prior valuation to 109%
- Greater than expected asset returns and new economic assumptions contributed to higher funded status

Preliminary Contribution Rates

- Preliminary contribution rates lower compared to currently adopted rates for Aggregate (statutory funding method) and Normal Cost under the EAN method (Board's current funding policy)

Change In Participant Data From Last Valuation

| LEOFF 2 | | | |
|------------------------------|-----------|-----------|------------|
| | 2016 | 2017 | Difference |
| Number of Actives | 17,186 | 17,694 | 508 |
| Average Annual Salary | \$103,947 | \$106,169 | \$2,222 |
| Average Attained Age | 43.5 | 43.2 | (0.3) |
| Average Service | 14.5 | 14.2 | (0.3) |
| Number of Annuitants | 4,259 | 4,851 | 592 |

Change In Market Value Of Assets From Last Valuation

| | LEOFF 2 | | |
|--|----------|----------|------------|
| <i>(Dollars in Millions)</i> | 2016 | 2017 | Difference |
| Market Value | \$10,194 | \$11,758 | \$1,564 |
| Contributions Less Disbursements* | \$118 | \$117 | (\$1) |
| Investment Return | \$244 | \$1,446 | \$1,202 |
| Return on Assets** | 2.48% | 14.14% | 11.66% |

*Includes transfers, restorations, and payables.

**Dollar-weighted return on MVA.

Calculation Of Smoothed Value Of Assets

- MVA reported by WSIB
- Calculate 2017 asset gain (or loss) based on 7.5% expected return
- Develop AVA by smoothing past and current asset gains (or losses)
 - Smooth gain (or loss) over a period up to 8 years
 - AVA limited to 30% “corridor” around MVA
 - Smoothing method reduces contribution rate and funded status volatility

Actuarial Value Of Assets

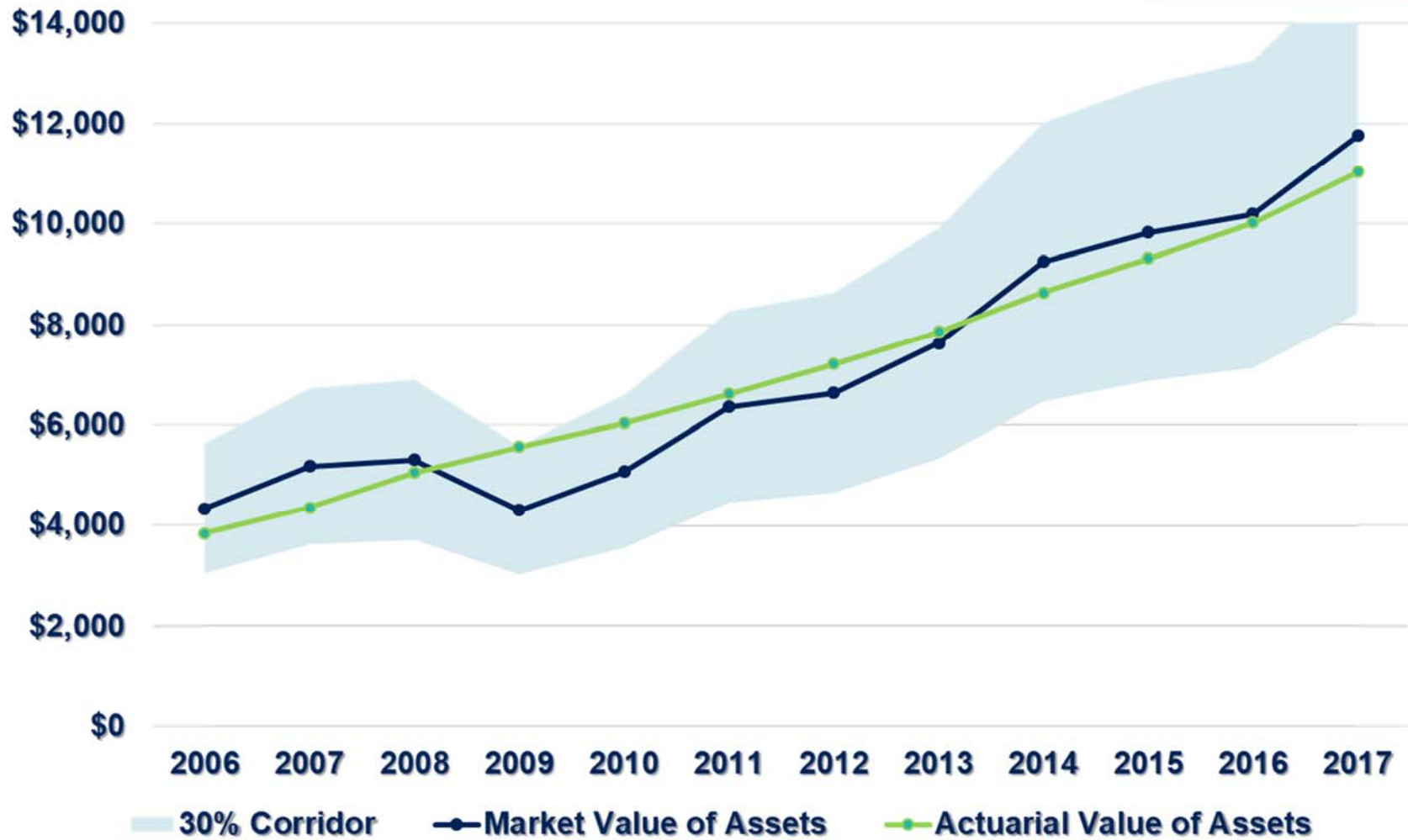
| Calculation of Actuarial Value of Assets | | | | |
|--|-------------------|----------------|-----------------|-------------------|
| LEOFF 2 | | | | |
| <i>(Dollars in Millions)</i> | | | | 2017 |
| Market Value of Assets | | | | \$11,758 |
| Plan Year Ending | Return on Assets* | Years Deferred | Years Remaining | Amount Deferred** |
| 6/30/2017 | 14.14% | 7 | 6 | 581 |
| 6/30/2016 | 2.48% | 6 | 4 | (331) |
| 6/30/2014 | 18.93% | 8 | 4 | 439 |
| 6/30/2012 | 1.45% | 7 | 1 | (56) |
| 6/30/2011 | 21.08% | 8 | 1 | 87 |
| Total Deferral | | | | 720 |
| Actuarial Value of Assets*** | | | | \$11,037 |

*Dollar-weighted rate of return.

**Amount of asset gains and (losses) left to recognize, or apply, in future valuations.

***Actuarial Value of Assets can never be less than 70% (\$8,230) or greater than 130% (\$15,285) of the Market Value of Assets.

Actuarial Value Of Assets Less Volatile Than Market Value



Change In Liabilities And Assumptions From Last Valuation

| LEOFF 2 | | | |
|---|----------|----------|------------|
| <i>(Dollars in Millions)</i> | 2016 | 2017 | Difference |
| Present Value of Future Benefits | \$13,013 | \$13,689 | \$676 |
| Accrued Liability | \$9,571 | \$10,160 | \$589 |
| Valuation Interest Rate | 7.50% | 7.40% | (0.10%) |
| General Salary Growth | 3.75% | 3.50% | (0.25%) |
| Inflation | 3.00% | 2.75% | (0.25%) |

- Present Value of Future Benefits
 - Today's value of all future expected benefits for current members
- Accrued Liability
 - Today's value of all future plan benefits that have been accrued or "earned" as of the valuation date by current plan members

Change In Funded Status From Last Valuation

| LEOFF 2 | | | |
|-------------------------------------|----------|----------|------------|
| <i>(Dollars in Millions)</i> | 2016 | 2017 | Difference |
| a. Accrued Liability | \$9,571 | \$10,160 | \$589 |
| b. Actuarial Value of Assets | \$10,021 | \$11,037 | \$1,016 |
| c. Unfunded Liability (a-b) | (\$450) | (\$877) | (\$427) |
| Funded Status (b/a) | 105% | 109% | 4% |

- Funded status =
 - \$ Actuarial Value of Assets, Divided By
 - \$ Accrued Liabilities**
- If the funded status exceeds 100%, the plan has more than \$1 of assets for every \$1 of accrued benefits
- Plan greater/less than 100% funded status not necessarily overfunded/at-risk

Preliminary Impacts To Contribution Rates

| LEOFF 2 | |
|---------------------------------------|-------|
| Adopted Contribution Rates: 2017-2021 | |
| Member | 8.75% |
| Employer* | 5.25% |
| State | 3.50% |

**Excludes current administrative expense rate of 0.18%*

- Current contribution rates adopted for 2017-2021 Biennia equal to 100% of the NC under the EAN funding method from the 2015 valuation
- Preliminary results show contribution rates decrease under both the Aggregate rates (statutory policy) and NC rate of the EAN method (funding policy)
 - Decrease primarily from adoption of new economic assumptions

Summary Of Preliminary 2017 Actuarial Valuation

- Plan assets returned more than expected
- Strong asset returns combined with new economic assumptions boosted funded status
- Preliminary rates lower compared to currently adopted rates
 - Finalized rates will be available at the June meeting
- The plan is considered healthy
- Actuarial valuation is snap-shot in time

Questions

