LEOFF
Plan 2 Retirement Board

Funding Policy

Strategic Planning
October 24, 2018

Strategic Plan

Goal Three: Maintain the financial integrity of the plan.

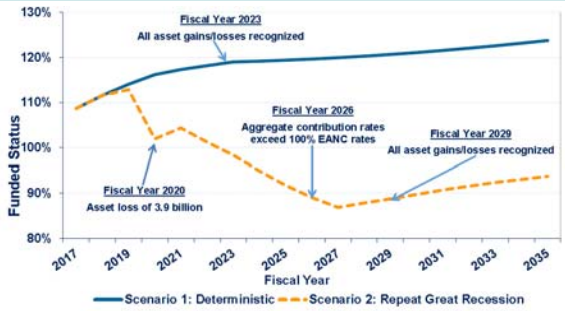
Objectives

- Maintain prudent financial policies
- Identify additional funding mechanisms
- Maintain the stability of contribution rates

Strategic Questions/Discussion Points

- What is full funding?
- What is a reasonable funding range?
- What is a reasonable protection against investment losses?

Funded Status Comparison



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LEOFF Plan 2 Projected Funded Status Handout

October 24, 2018

At the request of LEOFF 2 staff, the enclosed handout provides two scenarios of projected LEOFF 2 funded status and other plan measures. The scenarios are (1) a deterministic projection [future matches expectation] using current assumptions, and (2) a deterministic projection using investment returns from Fiscal Years 2008-2012 to simulate a repeat of the Great Recession and subsequent recovery.

Unless noted otherwise, all assumptions, methods, data, and assets are consistent with the most recent actuarial valuation, June 30, 2017, which is available on our website. We used investment returns from the Commingled Trust Fund for the 2008-2012 period. In addition, we included the actual investment return of 10.04 percent from July 1, 2017, through June 30, 2018. We also made assumptions on plan growth and new entrants. Please see the Projection Disclosures section of our website for additional information.

We provided this analysis to assist the LEOFF 2 Board in understanding how the system could react to these specific scenarios. Please do not rely on this analysis after the 2018 Interim. Lisa A. Won, ASA, FCA, MAAA, served as the reviewing and certifying actuary for this analysis.

Scenario 1: Deterministic Projection – Future Matches Expectation

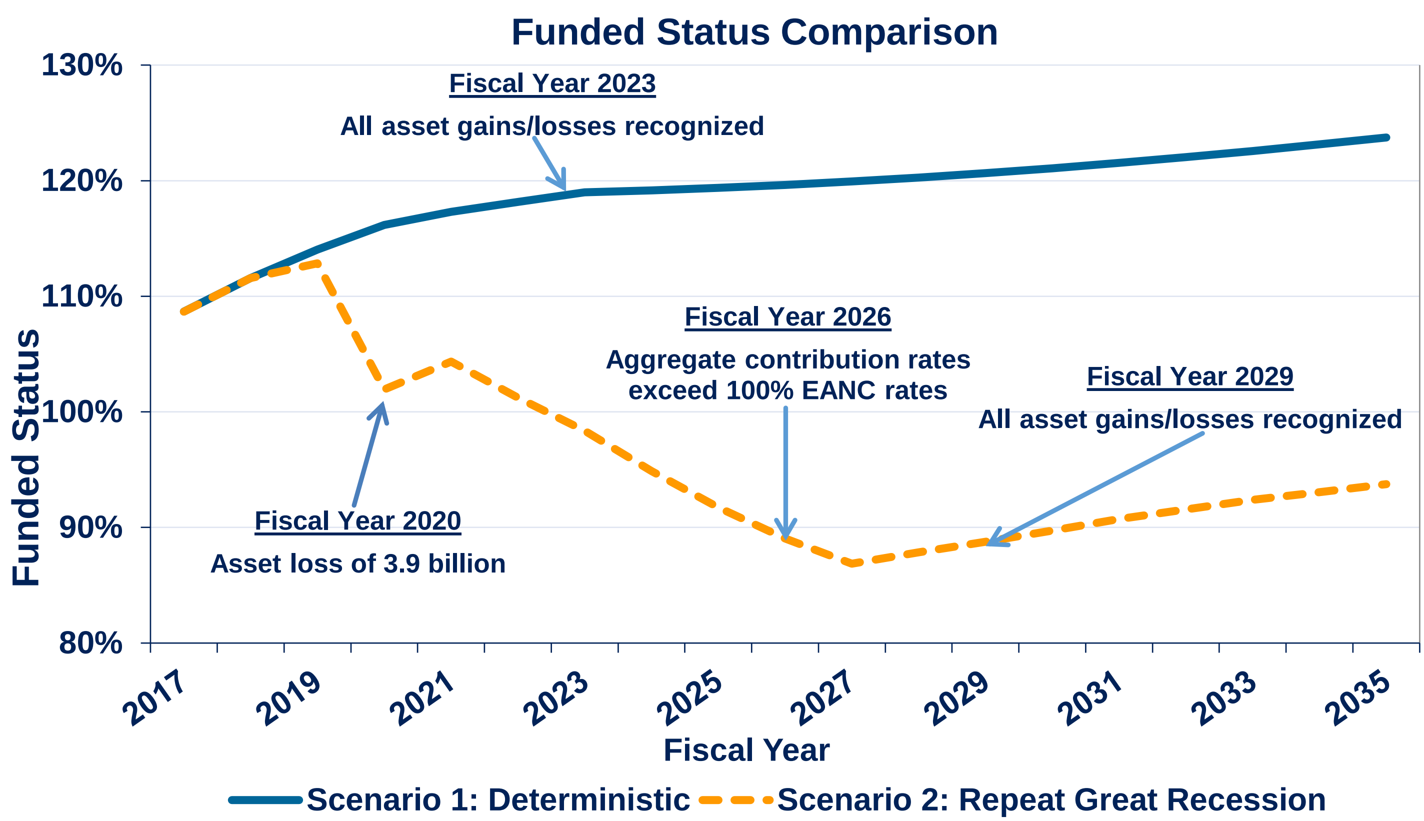
This scenario projects the LEOFF Plan 2 funded status by assuming future experience equals current assumptions. In particular, the scenario assumes the annual investment return equals the long-term assumption of 7.4 percent for each future year.

Scenario 2: Repeat of Great Recession

In this scenario, we illustrate the impact to LEOFF Plan 2 funded status if the Great Recession and subsequent recovery occurred again.

2008-2012 Fiscal Year Investment Returns					
	2008	2009	2010	2011	2012
Investment Returns	(1.24%)	(22.84%)	13.22%	21.14%	1.40%

We applied the five years of historical returns in the years 2019-2023. This series of returns captures the loss from the recession and ensuing bounce back. Investment returns for 2024 and beyond matches the current assumption of 7.4 percent. All other plan experience matches current assumptions.



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Scenario 1:

- The funded status continues to increase as investments return 7.4 percent annually and the Board's contribution rate policy adopts 100 percent of the Entry Age Normal Cost (EANC) rates.
- Deferred asset gains and losses are fully recognized by Fiscal Year 2023.

Scenario 2:

- The investment returns from the recession period vary significantly from our assumption of 7.4 percent. The large gains and losses are deferred over a period of six to eight years consistent with the asset smoothing policy.
- Fiscal Year 2020 Actuarial Value of Assets (AVA) exceeds 130 percent of the Market Value of Assets (MVA). The AVA is capped at 130 percent of the MVA.
- The asset smoothing policy reduces the initial impact to the funded status. The funded status decreases steadily as the large losses from the repeat Great Recession are recognized.
- The Aggregate contribution rates exceed the EANC contribution rates by 2026.

Scenario Asset Information

(Dollars in Millions)	2018	2019	2020	2021	2022	2023	2024*
Scenario 1							
Investment Returns	10.04%	7.40%	7.40%	7.40%	7.40%	7.40%	7.40%
Fiscal Year Gains/(Losses)	$311	$0	$0	$0	$0	$0	$0
Total Deferred Gains/(Losses)	$772	$545	$317	$194	$97	$0	$0
Scenario 2							
Investment Returns	10.04%	(1.24%)	(22.84%)	13.22%	21.14%	1.40%	7.40%
Fiscal Year Gains/(Losses)	$311	($1,126)	($3,901)	$579	$1,541	($810)	$0
Total Deferred Gains/(Losses)	$772	($441)	($3,941)	($2,954)	($1,171)	($1,622)	($1,167)

**Investment returns equal 7.40% for all future years in the projection.*