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LEOFF 2 Economic Assumptions and Actuarial Projections

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Today's Presentation

- Recap 2010 valuation results
- Recap recommended economic assumptions
- Projected contributions and funded status
- Closing comments



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June 30, 2010, Actuarial Valuation

- Not a contribution rate-setting valuation
- Annual update and check-in
- A "single point-in-time" or snapshot
 - Includes current members only - "closed group valuation"
- Supports state financial reporting requirements
- Base for actuarial pricing and projections

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Contribution Rates

- Underlying funding method is Aggregate
- Board adopted long-term funding policy for minimum rates based on 90 percent of Entry Age Normal Cost (EANC)
- In 2010 Board adopted contribution rates for 2011-17 based on 100 percent of EANC
 - Policy decision to provide rate stability

LEOFF 2	
Member Rates*	2010
Aggregate Rate	5.43%
90% EANC Rate	7.35%
100% EANC Rate	8.17%
Board Adopted Rate	8.46%

*Rates exclude 'add-on' for 2011 legislation.

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Other Key Results


LEOFF 2	
(\$ in millions)	2010
Today's value of fully projected benefits	\$7,933
Today's value of earned benefits*	\$4,863
Actuarial value of assets	\$6,043
Unfunded liability	(\$1,179)
Funded status	124%

*Calculated using the Project Unit Credit Actuarial Cost Method. We use this method for reporting the plan's funded status but not for calculating contribution rates.

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Key Findings From 2010 Valuation

- Current contribution rates remain reasonable
- Current funded status is healthy
- Actuarial valuation is snap-shot in time
- Continue to recognize deferred asset losses (\$961 million)
 - Upward pressure on expected contribution rates
 - Downward pressure on expected funded status
- Adopted rates exceed calculated rates
 - Additional funding helps offset deferred asset losses
- Actuarial projections provide view into the future



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Recommendations For Economic Assumptions

Assumption	Current	Recommended
Inflation	3.50%	3.00%
General salary growth	4.50%*	3.75%
Annual investment return	8.00%	7.50%

* 4.00% for all other plans.

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Contribution Rate Analysis

Member Rates*	LEOFF 2	
	Current Assumptions	Recommended Assumptions
Aggregate Rate	5.43%	6.37%
90% EANC Rate	7.35%	7.56%
100% EANC Rate	8.17%	8.41%
Board Adopted Rate	8.46%	8.46%

*Aggregate and EANC rates based on June 30, 2010, Actuarial Valuation Report. Rates exclude any supplemental rate for HB 2070.

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No Short-Term Budget Impacts For LEOFF 2

- Current rates adopted by the Board are above underlying valuation rates using both current and recommended assumptions
- Recommended economic assumptions do not impact the 2013-15 contribution rates or budgets for LEOFF 2

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What Is The Cost Of An Assumption Change?

- Cost of a pension plan = actual benefits paid - actual investment returns
- Actual benefit payments and investment returns occur in the future
- Pre-funding a pension plan requires an estimate of future benefit payments and returns
 - Assumptions are used to model our best estimate
- Assumption changes impact the timing and amount of contributions
 - "When" the costs are pre-funded and "how much"
- Actual costs will emerge over time regardless of assumption
 - We show one biennium of costs only for assumption changes
- Benefit improvements differ since they change the benefits of the plan and thus the actual and expected costs of the plan

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Summary Of Recommendation

- Recommend lowering all economic assumptions to reflect our best estimate of future experience
- Adopting recommendation will improve plan health and lessen financial risks
 - Will not increase short-term budget impacts for LEOFF 2

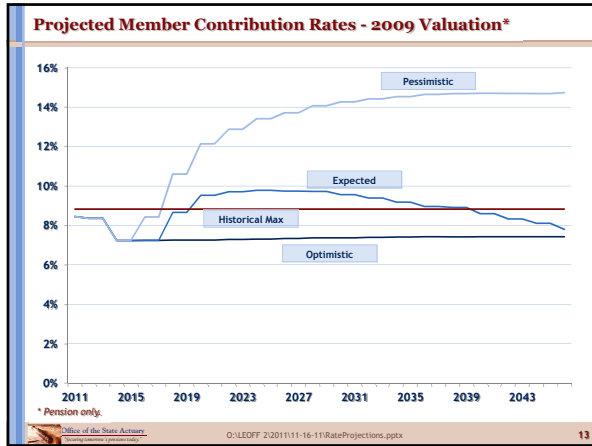


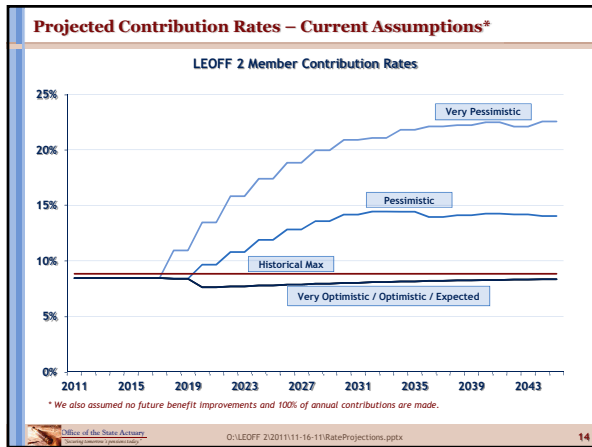
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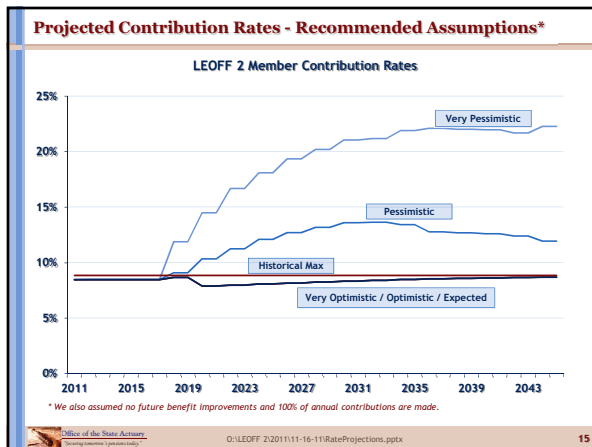
Actuarial Projections

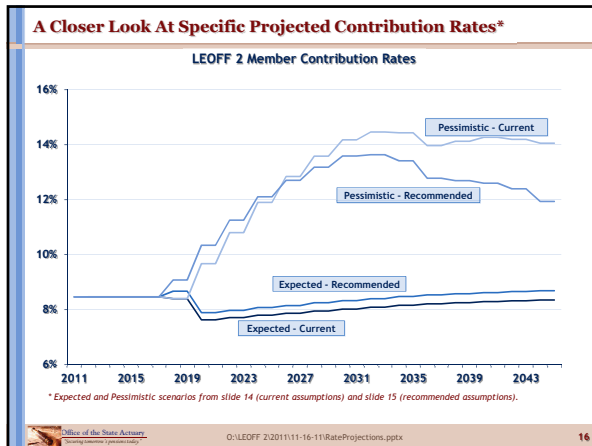
- Valuations into the future - typically 50 years
- Includes current members plus expected new members
 - "open group valuation"
- OSA produces results on a stochastic basis
 - Allow economic assumptions to vary within specific range
 - Provides information on what possible outcomes could occur
 - Likelihood and amount
 - Display very pessimistic -> very optimistic
- Help decision makers plan for future and manage risk

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Impact Of Recommended Assumptions On Funded Status

- Current funded status drops from 124 percent to 119 percent
- Long-term funded status measures improve

Projected Funded Status Measures			
Valuation Years 2010 Through 2059			
Measure	Scenario	Current Assumptions	Recommended Assumptions
Average	Expected	118%	131%
	Pessimistic	90%	97%
Minimum*	Expected	106%	110%
	Pessimistic	82%	87%

*Lowest funded status level reached in projection period.

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- ### Closing Comments
- Current assumptions remain reasonable but not our best estimate
 - Assumptions determine the timing and amount of contributions
 - Actual costs will emerge over time regardless
 - Projections help with decisions today
 - Adopting recommendation will improve plan health and lessen financial risks
 - Will not increase short-term budget impacts for LEOFF 2
 - Will increase expected contribution rates but decrease bad outcomes
 - Will lower current funded status but improve long-term funded status
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Questions



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Appendices

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