

LEOFF 2 Valuation Results

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Actuarial Valuation - Basics

- Comparison of plan assets and liabilities at the valuation date
- Closed group of participants as of valuation date
- Primary purpose is to determine contribution rates
- September 30, 2002 is the most recent valuation date

Funding Cycle

- Tied to the biennial operating budget
- Odd-year valuations are used for contribution rate setting purposes
- LEOFF 2 rates adopted by the Board
- September 30, 2002 is an off-year valuation

Results of 2002 Valuation

- Significant factors that impacted the results:
 - Change in asset valuation method
 - Actual investment return for the plan year well below 8% assumption
 - New entrants currently exert modest upward adjustment on rates
 - General salary increases were less than assumed for the year

Contribution Rates

LEOFF 2	9/30/2002	9/30/2001
Member	6.41%	5.05%
Employer	3.84%	3.03%
State	2.57%	2.02%

Current Contribution Rates

LEOFF 2	03-05 Biennium
Member	5.05%
Employer*	3.25%
State	2.02%

** Includes DRS expense charge of 0.22%*

Actuarial Liabilities

LEOFF 2	9/30/2002 (\$ in millions)
PV of fully projected benefits	\$4,042
Unfunded actuarial accrued liability	\$0
PV of credited projected benefits	\$1,937
Valuation interest rate	8.00%

Assets

LEOFF 2	9/30/2002 (\$ in millions)
Market value of assets	\$2,136
Actuarial value of assets	\$2,646
Contributions	\$80
Disbursements	\$11
Return on assets*	-6.33%

* *Dollar-weighted return*

Funded Status

LEOFF 2	9/30/2002 (\$ in millions)
PV of credited projected benefits	\$1,937
Actuarial value of assets	\$2,646
Unfunded credited projected benefits	(\$709)
Funded ratio	137%

Participant Data - Actives

LEOFF 2	9/30/2002
Number of actives	14,011
Average annual salary	\$64,347
Average attained age	39.0
Average service	10.4

Participant Data - Inactives

LEOFF 2	9/30/2002
Number of annuitants	244
Average annual benefit	\$14,256
Number of terminated-vested members	376
Number of terminated non-vested members	1,137

Key Assumptions

Valuation interest rate	8.00%
Salary increase (general)	4.50%
Inflation	3.50%

Plan Maturity

Ratio of Actives to Annuitants at 9/30/02

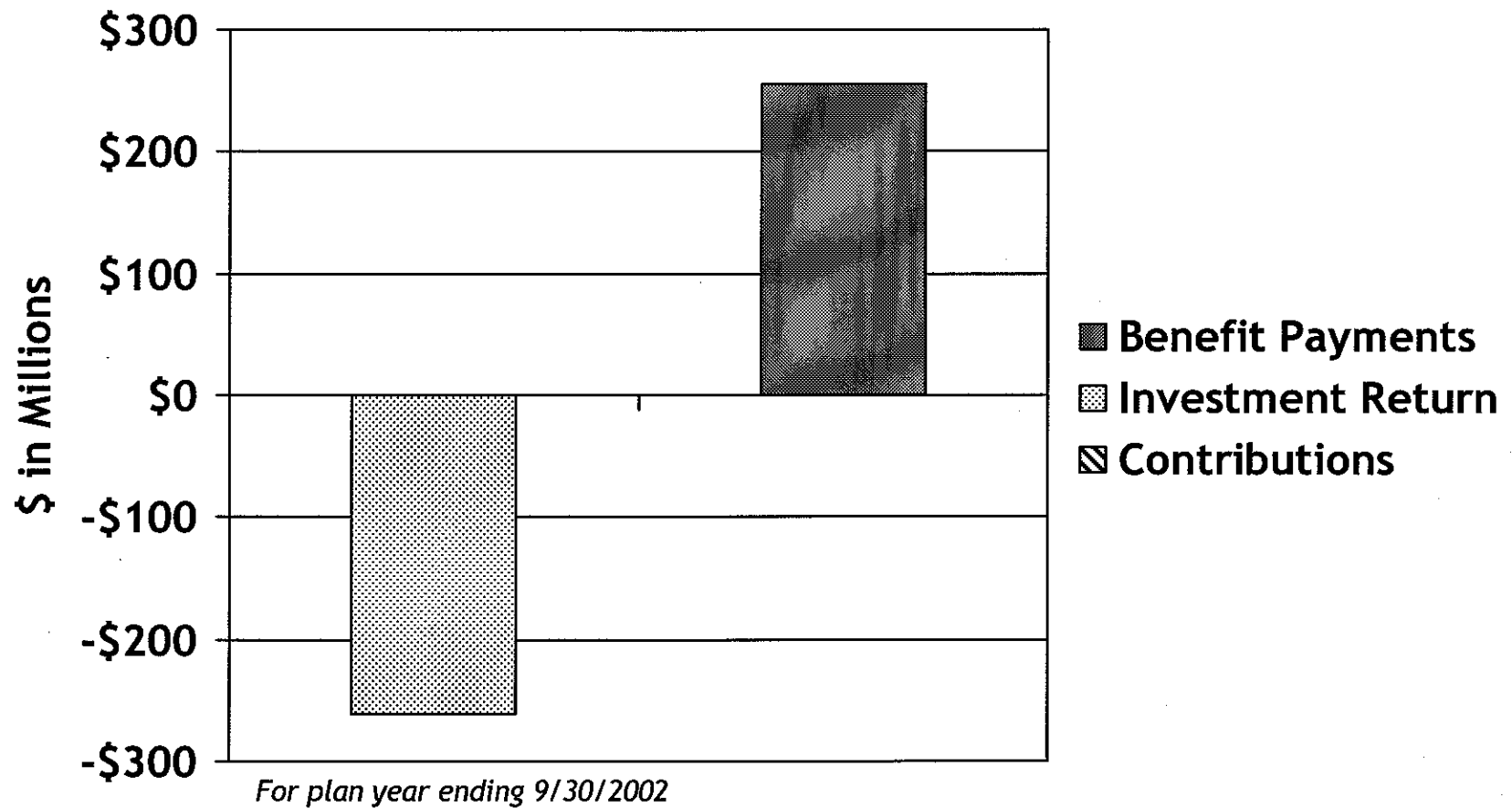
LEOFF 1	LEOFF 2
1,147 (actives)	14,011 (actives)
7,987 (annuitants)	244 (annuitants)
0.14 (ratio)	57.42 (ratio)

Plan Maturity

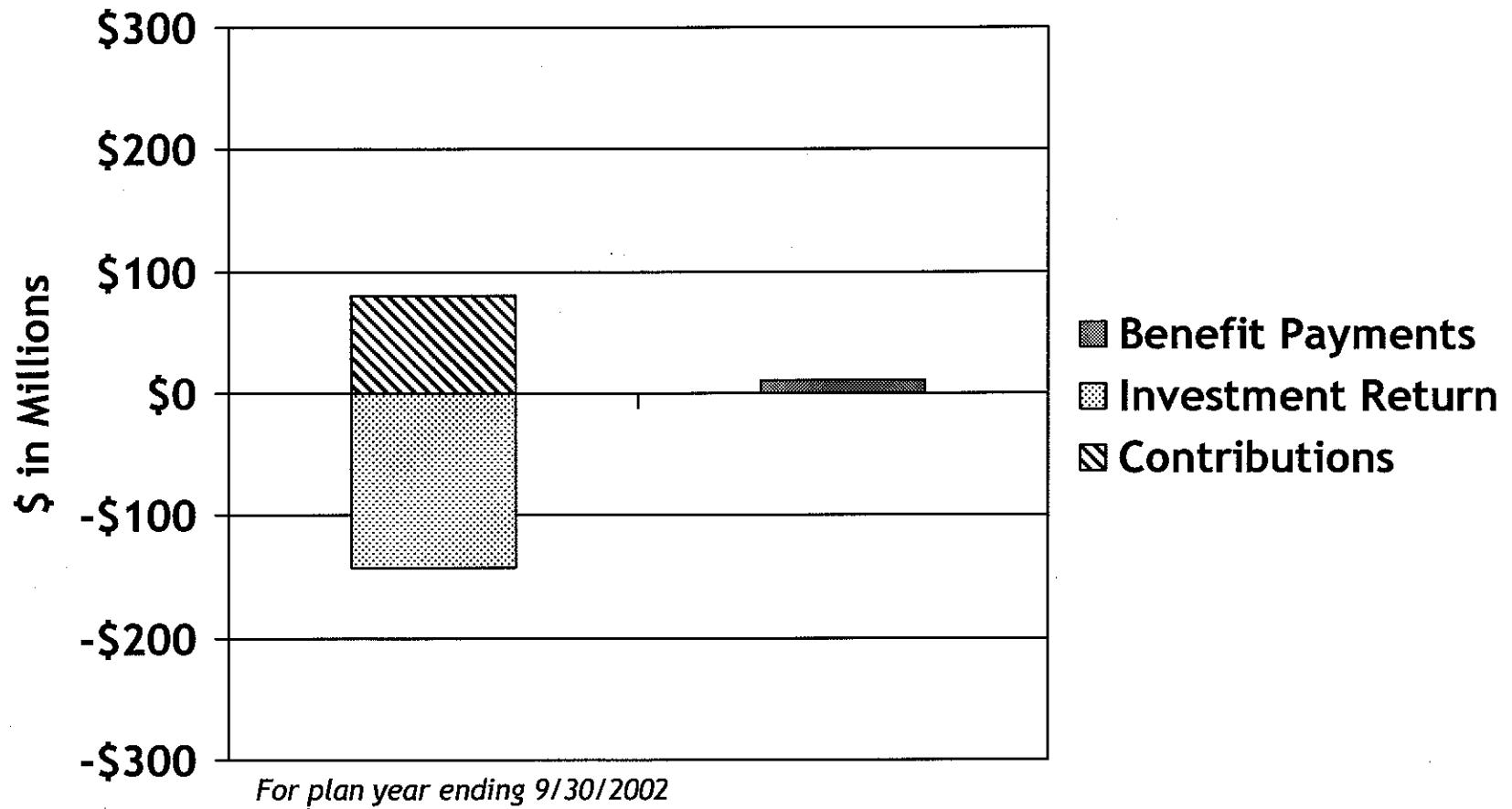
Ratio of Liability Measures at 9/30/02

LEOFF 1	LEOFF 2
\$4,265 (credited proj)	\$1,937 (credited proj)
\$4,338 (fully proj)	\$4,042 (fully proj)
0.98 (ratio)	0.48 (ratio)

Cash Flow – LEOFF 1



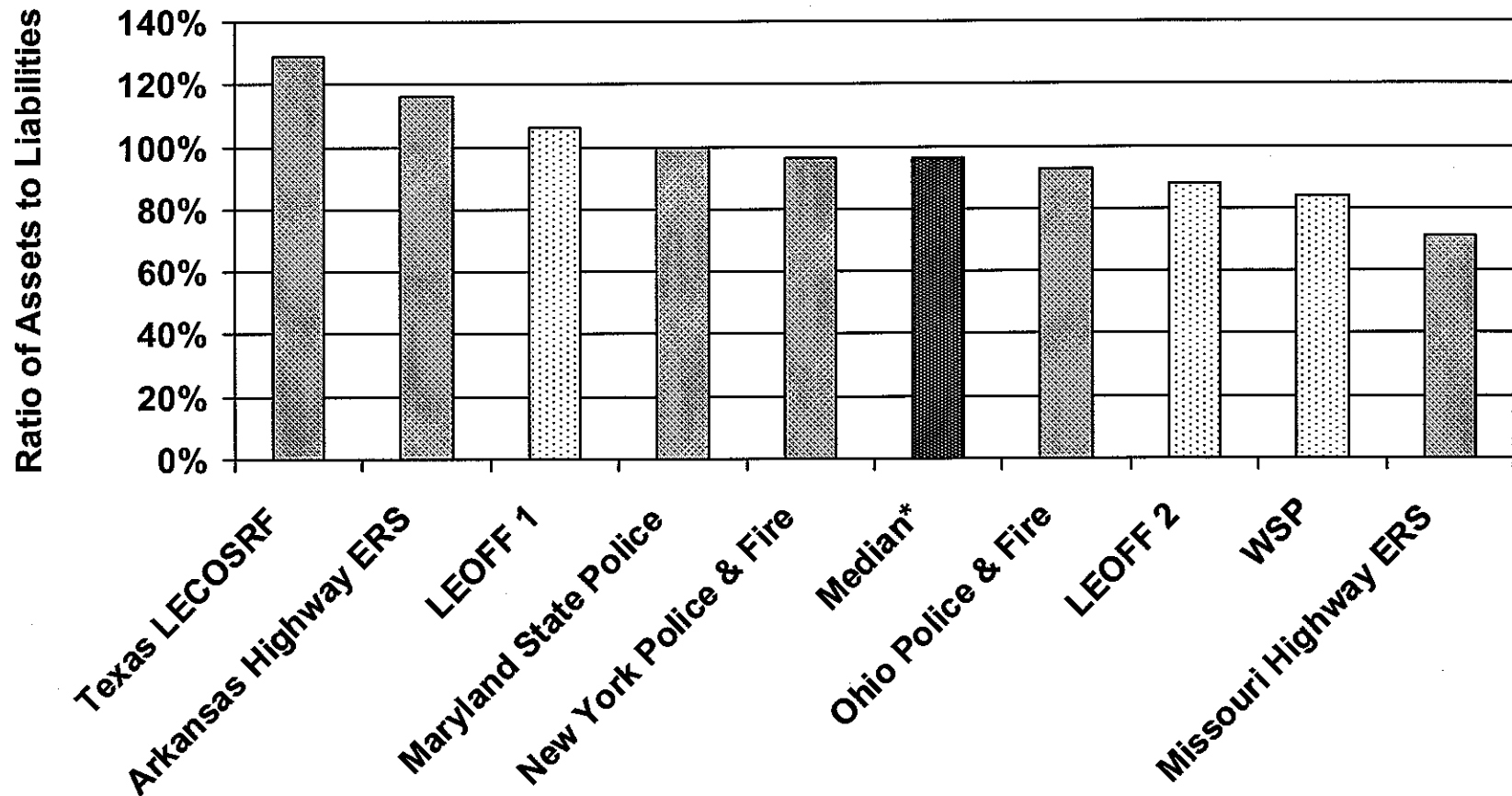
Cash Flow – LEOFF 2



Comparison with Other States

- Source: 2003 Wilshire Report on State Retirement Systems
- Cautions:
 - No standardization in reporting (different assumptions, funding methods, etc.)
 - Use of market value instead of actuarial value of assets
 - Understates LEOFF 2 funded ratio by comparison

Select Funded Ratios by System As Reported



Select Funded Ratios by System

Entry Age Normal (EAN) Method

