



LEOFF₁ Funded Status And Funding Policies

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"Securing tomorrow's pensions today."

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Today's Presentation

- A review of LEOFF 1 history
- Health assessment
- Prognosis



LEOFF1 Opened In 1970

- Created on March 1, 1970 (Chapter 209, Laws of 1969)
- Closed on September 30, 1977, with the creation of LEOFF 2
- A consolidation of municipal police and fire pension plans into a state-wide LEOFF retirement system
- Significant unfunded liability at that time
- Thirty-three percent of pay state contribution recommended at first actuarial valuation
- Six percent contributions required from both members and employers
- No state contributions made for first five years



Initial State Funding Policy

- Amortization of unfunded liability over a period not to exceed 40 years from March 1, 1970 (Chapter 209, Laws of 1969)
- Fixed amortization date of June 30, 2024, for fully funding LEOFF 1 established in 1989 (Chapter 273, Laws of 1989)
- State began contributions in 1976 and continued through 1999
 - Averaging just over 40 percent of pay



Contributions Suspended After Fully Funded

- LEOFF 1 reached a fully funded status in 1997
- Legislature suspended state contributions in July 1999
- Member and employer contributions suspended in May 2000



Recap Of History

- Opened in 1970
 - Consolidation of local plans
 - Significant unfunded liability
- State funding policy established
 - State responsible for paying off unfunded liability
- All contributions suspended in 2000 after plan became fully funded



- Does the plan have sufficient assets to pay earned benefits?
- Measured by the “funded status”
- Healthy plans - at least 80 percent funded
- Unhealthy plans - at least 60, but less than 80 percent funded
- Poor health, at risk plans - less than 60 percent funded
 - At risk of running out of assets (prematurely if closed plan)



Funded Status Of LEOFF1

- One hundred twenty-eight percent funded status at June 30, 2008
- A lot has changed since the last valuation



Unprecedented Change In A Short Period Of Time

- Market value of assets fell from \$6.4 billion on June 30, 2007, to \$4.4 billion on June 30, 2009
- We expect a 30 percent decline in funded status over the next eight-ten years



- Pension systems facing unprecedented challenges
- Likely return of unfunded liability in LEOFF 1 in the future
- So much will depend on future investment performance and funding policy

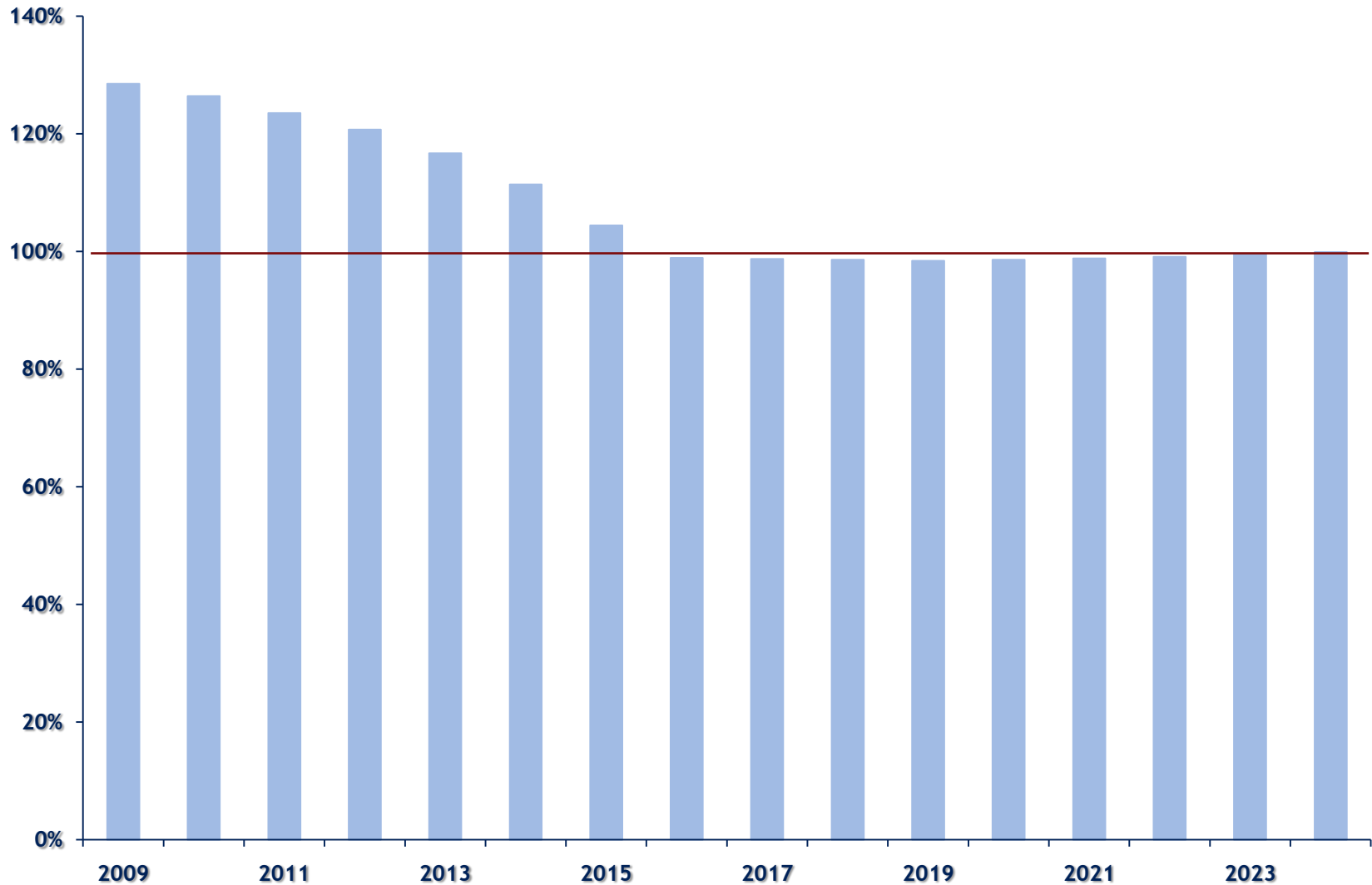


Investment Outlook - Impact On LEOFF₁

- Future investment performance unknown
- Consider optimistic, expected, and pessimistic outlooks
 - Will unfunded liability return?



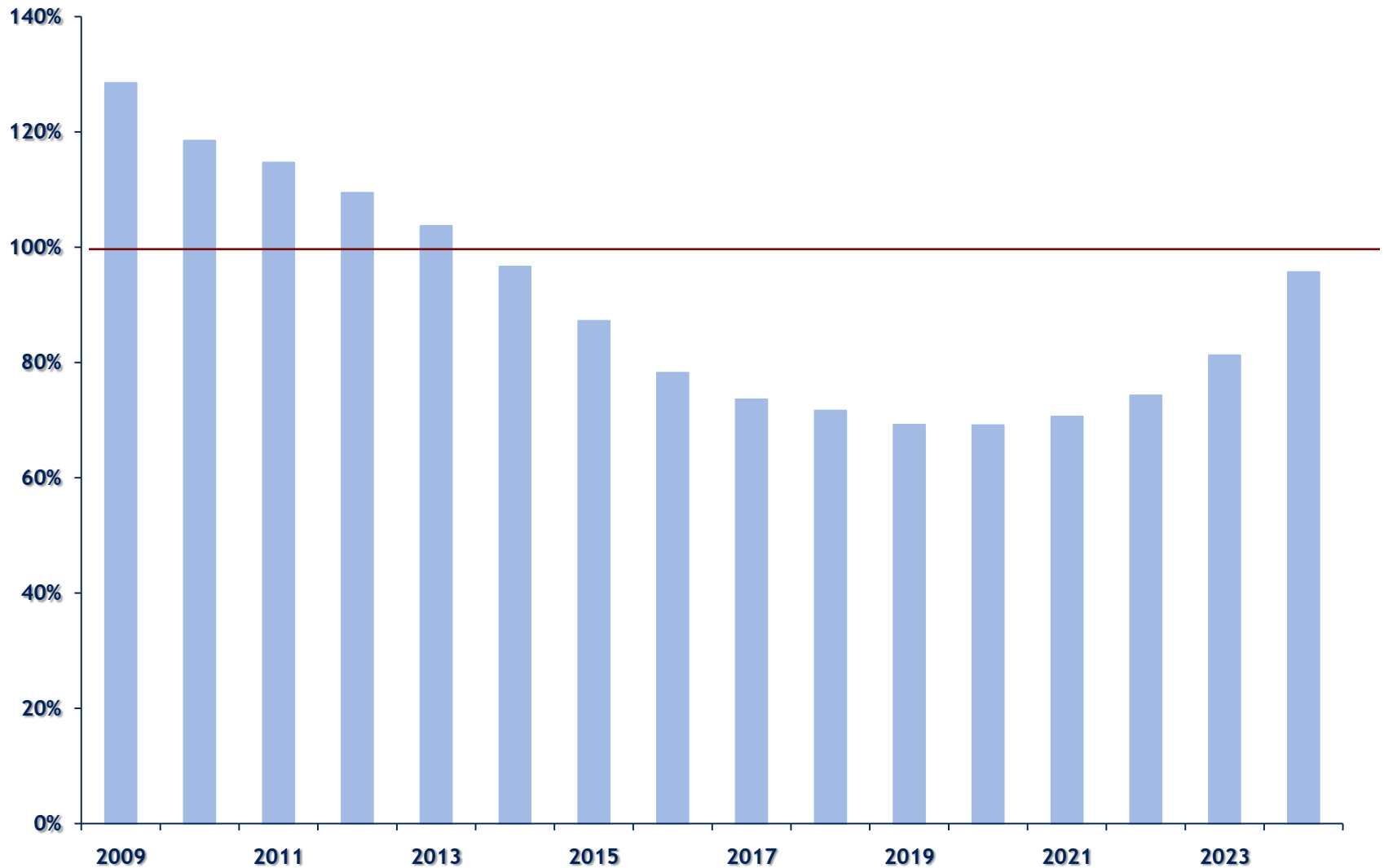
Funded Status - Expected Investment Outlook*



* Assumes contributions resume under the previous state funding policy when the plan is no longer fully funded.



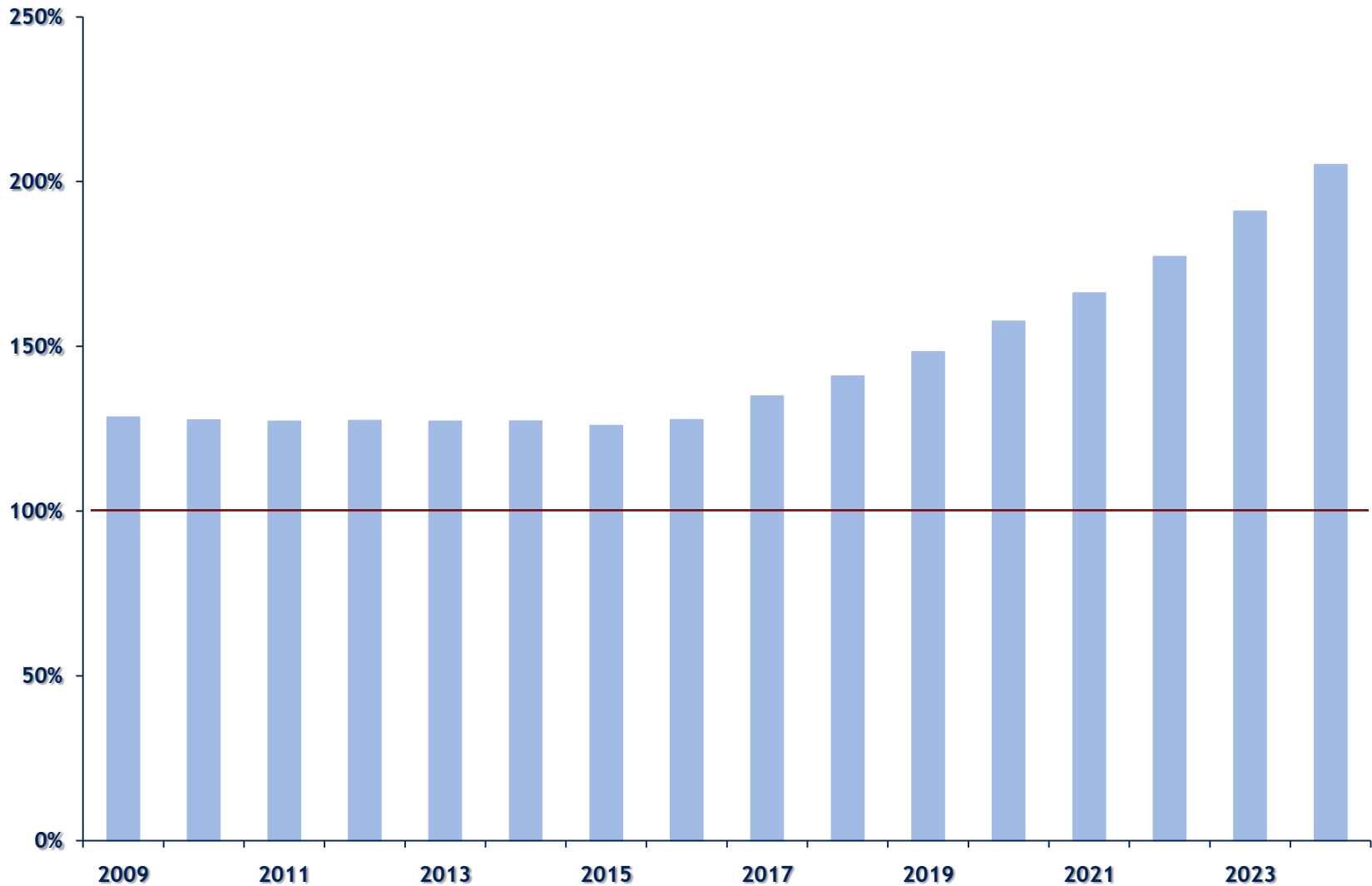
Funded Status - Pessimistic Investment Outlook*



* Assumes contributions resume under the previous state funding policy when the plan is no longer fully funded.



Funded Status - Optimistic Investment Outlook



- LEOFF 1 is healthy, but future contributions may be required to maintain health
- Optimistic outlook
 - 10.3 percent annual rate of return (ROR) over 15 years
 - Plan remains fully funded
- Expected outlook
 - 8 percent annual ROR
 - Plan remains fully funded through 2015
 - Unfunded liability returns in 2016
- Pessimistic outlook
 - 5.6 percent annual ROR over 15 years
 - Plan remains fully funded through 2013
 - Unfunded liability returns in 2014



What Are The Health Risks In LEOFF₁?

- Future unfunded liability
- Plan maturity and closed status
- Can the state afford contributions to LEOFF 1 and LEOFF 2?
- Can LEOFF 1 withstand future investment losses?



Ways To Safeguard Future Health Of LEOFF1

- Provide additional funding when opportunities present
 - Practically speaking, not an option until we recover from current economic crisis
- Resume contributions in the future when the plan is no longer fully funded
 - Establish new funding policy
 - Resumption of prior funding policy likely insufficient
- No benefit improvements
- Closely manage and monitor assets and liabilities
 - “Lock-in” funded status after recovery



- Today's health challenges for pensions are unprecedented
 - Asset losses
 - Uncertain investment outlook
 - Budget pressures
 - Pressure amplified in LEOFF 1 by aging of the Plan
- LEOFF 1 is healthy today, but may require future contributions to maintain health
- Opportunities to further safeguard the plan's health



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- Please use the entire presentation. Distribution of, or reliance on, only parts of the presentation could result in its misuse and may mislead others.
- All data, methods, and assumptions match those used in the 2008 Actuarial Valuation Report and the 2009 Report on Financial Condition. Projections reflect actual investment returns through June 30, 2009, as reported by the Washington State Investment Board.
- We believe that the data, methods, and assumptions are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this communication.
- Another set of assumptions and methods could also be reasonable and could produce materially different results.

