

Preliminary 2021 LEOFF 2 Actuarial Valuation Results

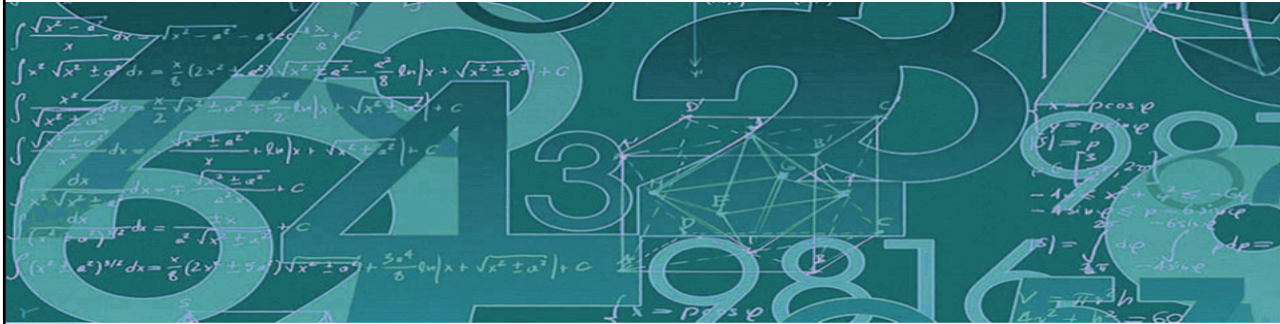
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Presentation to:

LEOFF Plan 2 Retirement Board

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Sarah Baker, Senior Actuarial Analyst



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Today's Presentation

- Background on the actuarial valuation cycle
- 2021 Preliminary Actuarial Valuation Report results
- Informational – No Board action needed today



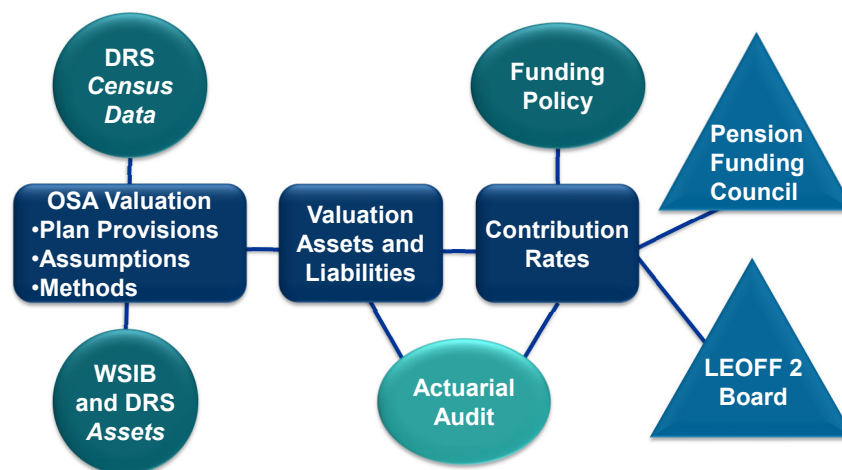
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Purpose of 2021 Valuation

- Estimate future benefits to be paid from the plan
- Calculate contribution rates that fund expected future benefits
 - Rate-setting valuation
- Check funding progress
- Certify the underlying data, assumptions, and methods are reasonable and conform with current actuarial standards of practice

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The Actuarial Valuation Process: How We Get from Participant Data to Contribution Rates



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Important Notes on the 2021 Actuarial Valuation

- The 2021 valuation measures the system on June 30, 2021
- This presentation will reconcile results from the 2019 to the 2021 rate-setting valuations
- All results are preliminary and currently under audit

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Key 2021 Valuation Updates

- Economic Assumption Update
 - Updated economic assumptions consistent with the Board's adoption at the November 2021 meeting
 - Investment Return assumption lowered from 7.40% to 7.00%
 - General Salary Growth assumption lowered from 3.50% to 3.25%
- 2021 Investment Earnings
 - Assets include large 2021 investment return of 31.65%
- [SHB 1701](#) Benefit Improvement
 - Updated plan costs and funding policy consistent with legislation

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Preliminary Participant Data—Two Year Comparison

LEOFF 2		
	2019	2021
Actives		
Headcount	18,557	18,683
Average Annual Salary	\$114,100	\$122,500
Average Age	42.8	42.3
Average Service	13.6	13.1
Annuitants		
Headcount	6,064	7,574
Average Annual Benefit	\$50,900	\$56,200
Actives to Annuitants	3.1	2.5

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Preliminary Changes in Market Value of Assets

LEOFF 2	
<i>(Dollars in Millions)</i>	
2019 Market Value	\$13,916
Contributions	829
Disbursements	(791)
Investment Earnings*	5,233
Adjustments**	450
2021 Market Value	\$19,637

*Investments returned 4.50% and 31.65% in FY 2020 and 2021, respectively.

**Adjusted the Market Value of Assets to reflect the transfer of the Benefit Improvement Account, measured on June 30, 2021, into the LEOFF 2 trust under SHB 1701.

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Calculation of Actuarial Value of Assets

- MVA reported by DRS
- Develop Actuarial Value of Assets (AVA) by smoothing past and current asset gains (or losses) from investments
 - Calculate 2020 and 2021 asset gain (or loss) based on 7.4% expected return
 - Smooth gain (or loss) over a period up to 8 years
 - Smoothing method reduces contribution rate and funded status volatility

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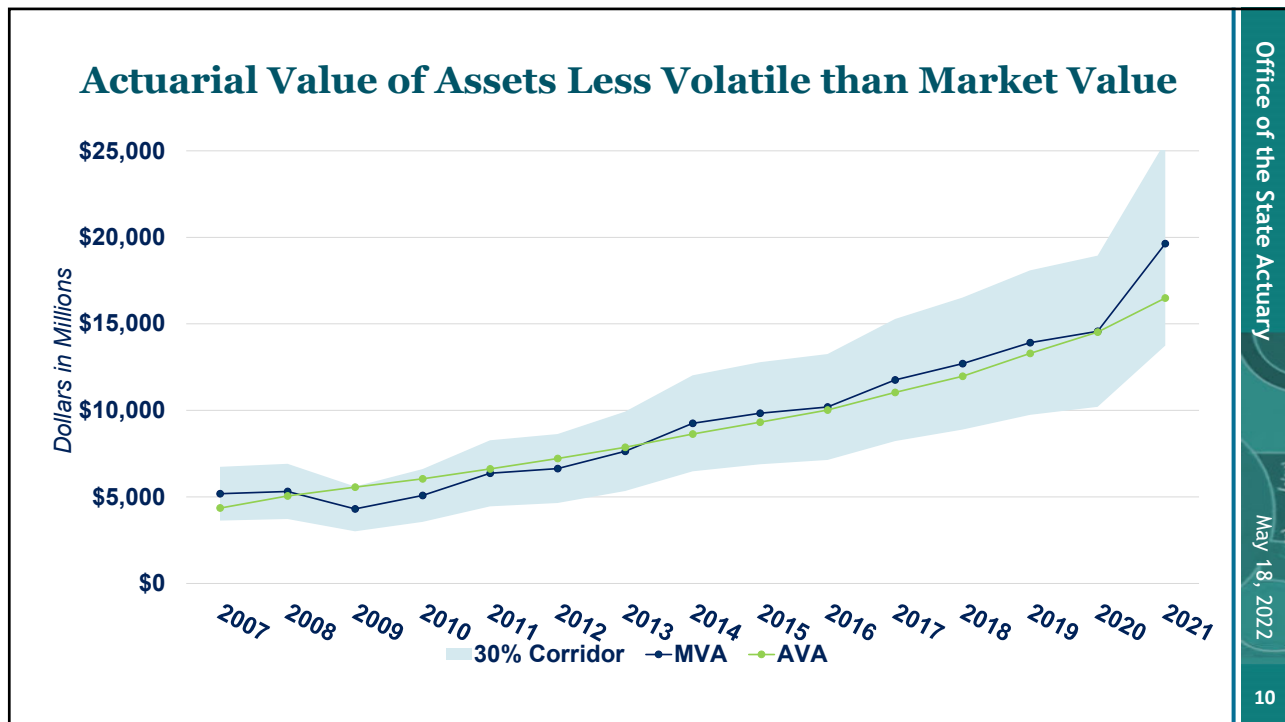
Calculating Preliminary 2021 AVA

Calculation of Actuarial Value of Assets				
LEOFF 2				
<i>(Dollars in Millions)</i>				2021
Market Value of Assets				\$19,637
Plan Year Ending	Return on Assets	Years Deferred	Years Remaining	Amount Deferred*
6/30/2021	31.65%	8	7	3,083
6/30/2020	4.50%	3	1	(135)
6/30/2017	14.14%	7	2	194
Total Deferral				3,142
Actuarial Value of Assets**				\$16,494

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

**Actuarial Value of Assets can never be less than 70% (\$13,746) or greater than 130% (\$25,528) of the Market Value of Assets.

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Preliminary Liability Change from Last Valuation

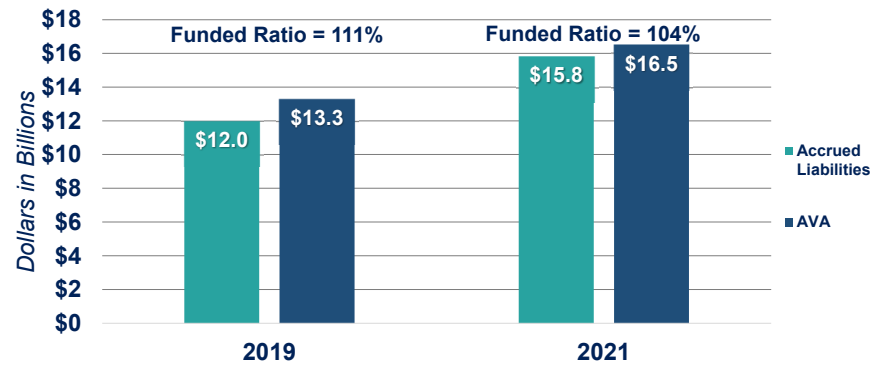
LEOFF 2			
<i>(Dollars in Millions)</i>	2019	2021	Difference
Present Value of Future Benefits	\$16,096	\$21,075	\$4,978
Accrued Liability	\$11,992	\$15,819	\$3,827

- 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 under the EAN cost method

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Funded Status Change from Last Valuation



- Funded Ratio = $\frac{\$ \text{Actuarial Value of Assets}}{\$ \text{Accrued Liabilities}}$
- If the funded ratio exceeds 100%, the plan has more than \$1 of assets for every \$1 of accrued benefits

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Preliminary Calculated Contribution Rate Notes

- Contribution rates will be presented at the June meeting
- We expect the following impacts from the key valuation updates
 - Update of Economic Assumptions - ↑ Increased rates
 - 2021 Investment Returns - ↓ Decreased rates
 - 2022 Benefit Improvement - ↑ Increased rates

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Summary of 2021 Actuarial Valuation

- Lower economic assumptions and the recent benefit improvement offset the 2021 investment earnings to reduced funded status
- The plan is considered healthy
 - Funded ratio decreased but still exceeds 100%
 - AVA is deferring over \$3.1 billion
 - Expect continued funded ratio improvement as deferred assets are recognized
- Next steps include preliminary contribution rate and funding policy presentation from OSA at June meeting
- Final contribution rates available for Board action at the July meeting

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Questions? Please Contact: The Office of the State Actuary

leg.wa.gov/OSA; state.actuary@leg.wa.gov

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Thank You



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Disclosure

- This presentation is based on the [Preliminary 2021 Actuarial Valuation Report](#). Please see the preliminary posted sections for disclosure of assumptions, methods, and data used to produce the results contained in this presentation
- All results are preliminary and currently under audit
- Michael T. Harbour, ASA, MAAA served as the reviewing and certifying actuary for this presentation

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