

A new feature in *Outlook* – *pension plan checkup*

How much do you know about your pension plan? In this newsletter, we'll go over the:

- Facts about Washington's pension systems;
- Status of plan funding;
- Roles of the different entities – who does what;
- Publications available for your review;
- Terms used when referring to plan funding; and
- Steps you can take to build your personal financial security in retirement.

The facts about Washington's pension systems

The state has eight separate retirement systems and, within those, 15 different pension plans. There are more than 550,000 active, inactive (including those who are vested and those who are not) and retired members.

Pension contributions from members and their employers are invested in funds managed by the Washington State Investment Board, which currently holds nearly \$64 billion in the pension trust fund.

The Department of Retirement Systems, formed a little over 30 years ago to administer the plans, pays out nearly \$2.5 billion a year in benefits to retired members and their survivors. Industry experts estimate that on average 75 – 80 percent of the benefits paid out are generated from investment returns.

The status of Washington's plans

The state actuary's most recent valuation report shows that the collective funded status for all 15 of Washington's plans is currently 100 percent, which means that overall, the value of the assets on hand equals the accrued liabilities. The total funded status was previously 99 percent (2005), 105 percent (2004), 107 percent (2003) and 118 percent (2002).

Only two of the state's large retirement plans – PERS 1 and TRS 1 (which have been closed to new members since 1977) – have unfunded accrued liabilities. In 1989, the Legislature enacted a policy that requires bringing those plans to fully funded status by the year 2024.

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Financial Fitness for Life: *Live healthy. Retire well.*

If you're within five years of retirement, this seminar is for you.

Seminar overview: Understand the details of your retirement benefits by learning how Social Security, VEBA (voluntary employees' beneficiary association), health insurance, deferred compensation and your pension work. The seminar is designed to provide you with a broad range of information you need as you near retirement.

There are three easy ways to register for a seminar:

1. Online: www.drs.wa.gov
2. E-mail: register@drs.wa.gov
3. Phone: 1-888-711-6676 or 360-664-7300 in the Olympia area

Visit www.drs.wa.gov for dates and locations. ■

The status of Washington's plans (continued)

You can learn more about the funded status of each of Washington's plans in the 2006 Actuarial Valuation Report, which is available on the state actuary's Web site at <http://osa.leg.wa.gov>.

It might be helpful for you to know that the actuary determines contribution requirements and reports the funded status of the plans according to policies set by the Legislature and standards set by the Actuarial Standards Board. This results in a different look at plan assets and liabilities than what might be shown, for instance, in DRS' annual financial report.

In the annual financial report, DRS uses accounting methods set by the Government Accounting Standards Board (GASB). There has been talk in recent years of moving public plans to methods more commonly used in the private sector, which calculate a plan's assets and liabilities based on their current market value (also known as a plan's termination liability). Public pension plan administrators use the GASB methods, which measure assets and liabilities on a long-term basis, primarily because, unlike private companies, governmental entities rarely cease operations and terminate their retirement plans.

Private sector plans, however, operate in a market-driven environment. That makes the termination liability a factor for private sector plans, but not for public plans.

Who does what? The roles of different entities

While you most often hear from DRS, other organizations have important roles when it comes to Washington's pension systems.

The state Legislature's **Select Committee on Pension Policy** studies pension plan issues and recommends any changes in the plans to the full Legislature. Active members and retirees are represented on the committee, as are state legislators and public employers.

The **Legislature** enacts retirement plan policy, which includes changing benefits and funding the plans, and establishes the contribution rates.

The **Office of the State Actuary** performs annual valuations of the retirement plans to determine overall health and funding status and recommends contribution rates to the Pension Funding Council.

The **Pension Funding Council** evaluates the state actuary's contribution rate recommendations and economic assumptions and makes a determination on adopting them.

The **Washington State Investment Board** invests the trust fund dollars.

The **Department of Retirement Systems** collects and accounts for contributions from public employees and their employers; verifies member data submitted by employers; maintains pension records; communicates information to retirees and members and pays retirement benefits each month.

Terms used in referring to pension plan funding

Actuarial assumptions. In studying the financial condition of the pension plans, the actuary makes assumptions about factors that will impact the plans in the future. Those assumptions fall into two categories: economic and demographic. Economic assumptions are used to estimate the amount of future pensions and include salary growth, inflation and the assumed rate of return on investment earnings. Demographic assumptions are used to estimate when and how long benefits will be paid and include expected retirement, mortality and disability.

Funded status/ratio. The ratio of a plan's assets to its current liabilities. When a plan is funded at 100 percent, the last dollar of assets is expected to match the last dollar of earned benefits paid to the last member or beneficiary.

Open/closed plans. Open plans are available for new members to join, while closed plans are not. For example, PERS Plan 1 closed to new members in 1977. PERS Plans 2 and 3 are both open to new membership.

Plan assets. The money on hand today, including contributions and investment earnings, to pay benefits that have been earned to date.

Unfunded liabilities. The excess, if any, of plan liabilities over the value of its assets.

Valuation. Every year the state actuary studies the financial condition of the PERS, SERS, TRS, PSERS, LEOFF and WSPRS plans to determine the contribution requirements for the following year. The resulting information is known as the *Valuation Report*, which is available on the actuary's Web site at <http://osa.leg.wa.gov>. ■

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New early retirement factors available this summer

For Plan 2 and Plan 3 members of PERS, TRS and SERS

If you're at least age 55 with 30 years of service, and you're a PERS, TRS or SERS Plan 2 or Plan 3 member, you can retire before age 65 with lower reductions to your benefit.

You may even be able to retire before age 65 with no reduction to your benefit depending upon your age.

For example: Currently, if you're an active member with 30 years of service who has reached age 62, your benefit is reduced by nine percent to represent the difference between your age at retirement and age 65. A new law, which goes into effect July 1 for PERS Plans 2 and 3 and September 1 for SERS and TRS Plans 2 and 3, allows you to retire at age 62 without a reduction in your benefit.

If you're planning to retire within a year, and you're interested in the new early retirement factors, try using the online retirement benefit estimator or call DRS directly for a benefit estimate.

It's important to note that if you retire using the 2008 retirement factors and you return to work for a public employer before age 65, your benefit will stop. This includes any work you perform 1) under a personal services contract, 2) as a temporary or project employee, or 3) under any other similarly compensated relationship with a public employer.

For more information about early retirement, please read the DRS brochure *Thinking About Retiring Early?* available on our Web site. ■

Early Retirement Factors (ERF)			
Retirement age	At least 10 or 20 years service ¹	30 years or more service	
		3% ERF	2008 ERF ²
55	0.37	0.70	0.80
56	0.40	0.73	0.83
57	0.43	0.76	0.86
58	0.49	0.79	0.89
59	0.55	0.82	0.92
60	0.61	0.85	0.95
61	0.67	0.88	0.98
62	0.73	0.91	1.00
63	0.82	0.94	1.00
64	0.91	0.97	1.00

1 Plan 3 members must have at least 10 years of service. Plan 2 members must have at least 20 years of service.

2 These factors are available beginning 7/1/2008 (PERS), 9/1/2008 (SERS and TRS), and were established by legislation which ended gain sharing. If a court of law decides the repeal of gain sharing is invalid, the factors and return-to-work rules in place before the law passed will apply.

Your annual statement

If you're a member of one of the retirement systems shown below, your 2007 annual retirement statement was delivered to your employer in March:

- Public Employees' (PERS) (Non-Educational Employers)
- Law Enforcement Officers' and Fire Fighters' (LEOFF)
- Washington State Patrol (WSPRS)
- Judicial (JRS)
- Public Safety Employees' (PSERS)

To view your annual statement online, sign up for the DRS *Online Account Access service*. Just visit the DRS Web site at www.drs.wa.gov.

Be sure to review your annual statement. If you find discrepancies or have questions, please contact your payroll officer, or if you are no longer employed, call DRS. ■

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Retirement Outlook is available to members in alternate formats.



This newsletter is delivered in bulk to employers.
Changes to affixed mailing labels should be directed to your employer.

Keeping you in touch with your pension plan – publications available for your review

You should have received a link to our *Summary Annual Financial Report* earlier this year. This document summarizes the information in our nearly 200-page *Comprehensive Annual Financial Report* and includes information on plan funding, membership in each plan and trust fund investment activity.

You should be receiving this newsletter – *Retirement Outlook* – twice a year. One edition concentrates on planning for retirement and the other brings you information about Washington’s pension plans overall.

Building your personal financial security in retirement

The pension benefit you’re earning is guaranteed to provide you with income in retirement. The personal savings you build over the years, however, can make the difference in the choices you have once you’ve decided to retire – including your lifestyle options, whether or not you have to continue working in some form and how far your dollars will stretch.

Health care costs alone are proving to be a significant expense in retirement. A study this year by the Center for Retirement Research at Boston College estimated that an individual needs to enter retirement earmarking \$102,000 for the cost of health care, while a couple needs about \$206,000.

If you don’t already have a savings plan, this is the perfect time to start one. Many public employers, including all state agencies, offer the state’s Deferred Compensation Program (DCP) where fees are low and investments are managed by the Washington State Investment Board. To find out more about DCP, visit our Web site at www.drs.wa.gov and choose Deferred Compensation under “quick clicks.” If your employer isn’t currently participating in DCP, another savings vehicle is likely offered. Be sure to ask.

You can find great tips for starting a savings plan at: www.americasaves.org. Sponsored by a coalition of nonprofit, government and corporate groups, the America Saves site includes several free, easy-to-use tools, including a two-part financial calculator that enables you to estimate your current and future net worth. ■

Update your beneficiary

Your beneficiary designation is one of the most important pieces of information associated with your retirement account. Be sure to submit a new form if there’s a name change or if you marry or divorce (even if your beneficiary remains the same).

You can find the form online at www.drs.wa.gov by selecting Forms under “Quick Clicks.” The form is also available from your employer. ■