



Office of the State Actuary
"Securing tomorrow's pensions today."



The State of the State's Pension Systems



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DRS Advisory Committee



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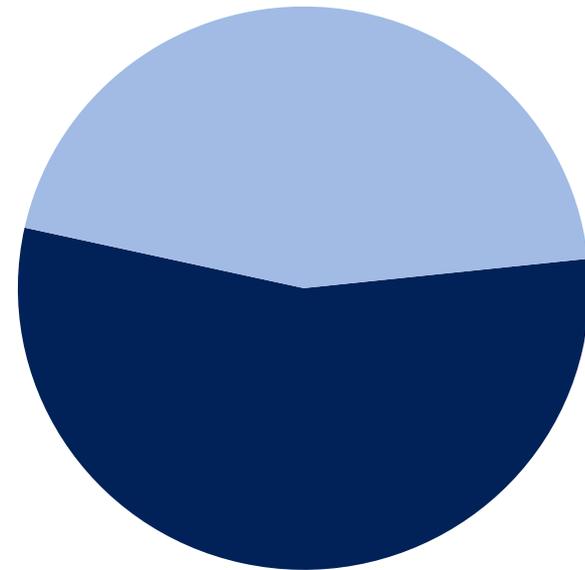
Trillion Dollar Gap

- A new report from the PEW Center on the states
 - “The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road to Reform”
- According to PEW, that’s “the gap at the end of fiscal year 2008 between the \$2.35 trillion states had set aside to pay for employees’ retirement benefits and the \$3.35 trillion price tag of those promises”



Details Behind The Numbers

- \$452 billion from state pensions
 - Contractual obligation of most states
- \$555 billion from retiree healthcare
 - Not a contractual obligation of most states



- Retiree Healthcare
- State Pensions



Numbers For Washington State

- \$179 million “surplus” for pensions
 - Only three other states in that situation in 2008
 - Florida
 - New York
 - Wisconsin
- \$7.9 billion unfunded liability for retiree healthcare
 - No prefunding
 - Paid on a “pay-as-you-go” basis
 - Considered non-contractual

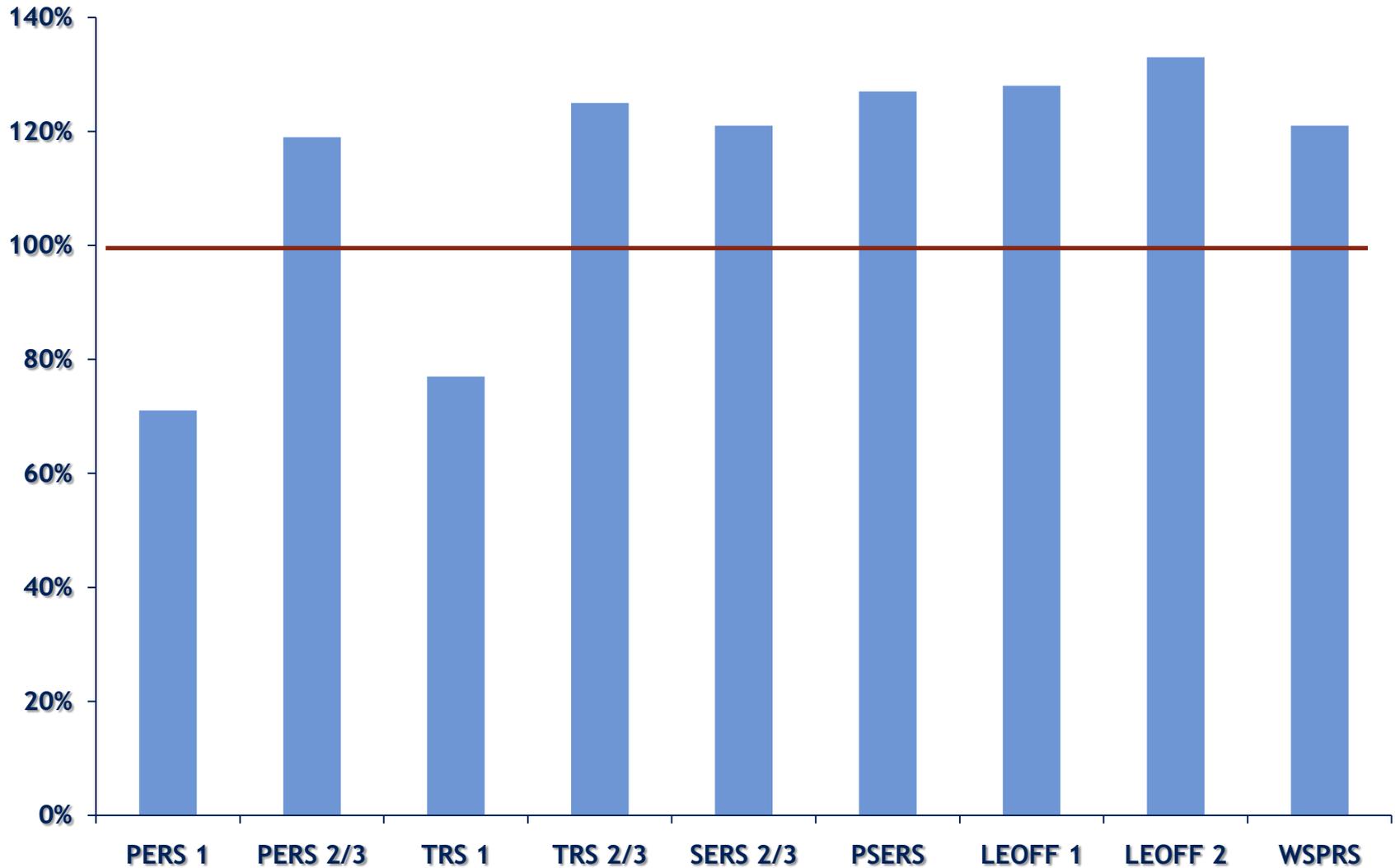


Washington State Participant Data Summary

| All Systems | June 30, 2008 |
|-----------------------------------|---------------|
| Active Members | |
| Number | 302,079 |
| Average Annual Salary | \$51,648 |
| Average Age | 46.4 |
| Average Years of Service | 11.0 |
| Retirees and Beneficiaries | |
| Number | 126,245 |
| Average Annual Benefit | \$19,281 |



Funded Status Of Washington State Pension Plans*



* As of June 30, 2008.



Good News

- All but two of the state's plans were fully funded heading into the "Great Recession"
- Major pension reform occurred over 30 years ago in our state
- Other states now moving in the direction of Washington State's earlier reforms



Pension Reform In Washington State

- Plans 1 closed to new members in 1977
- Plans 2 created with age 65 normal retirement
- Hybrid plans (Plans 3) first created in 1996
 - Combination defined benefit and defined contribution

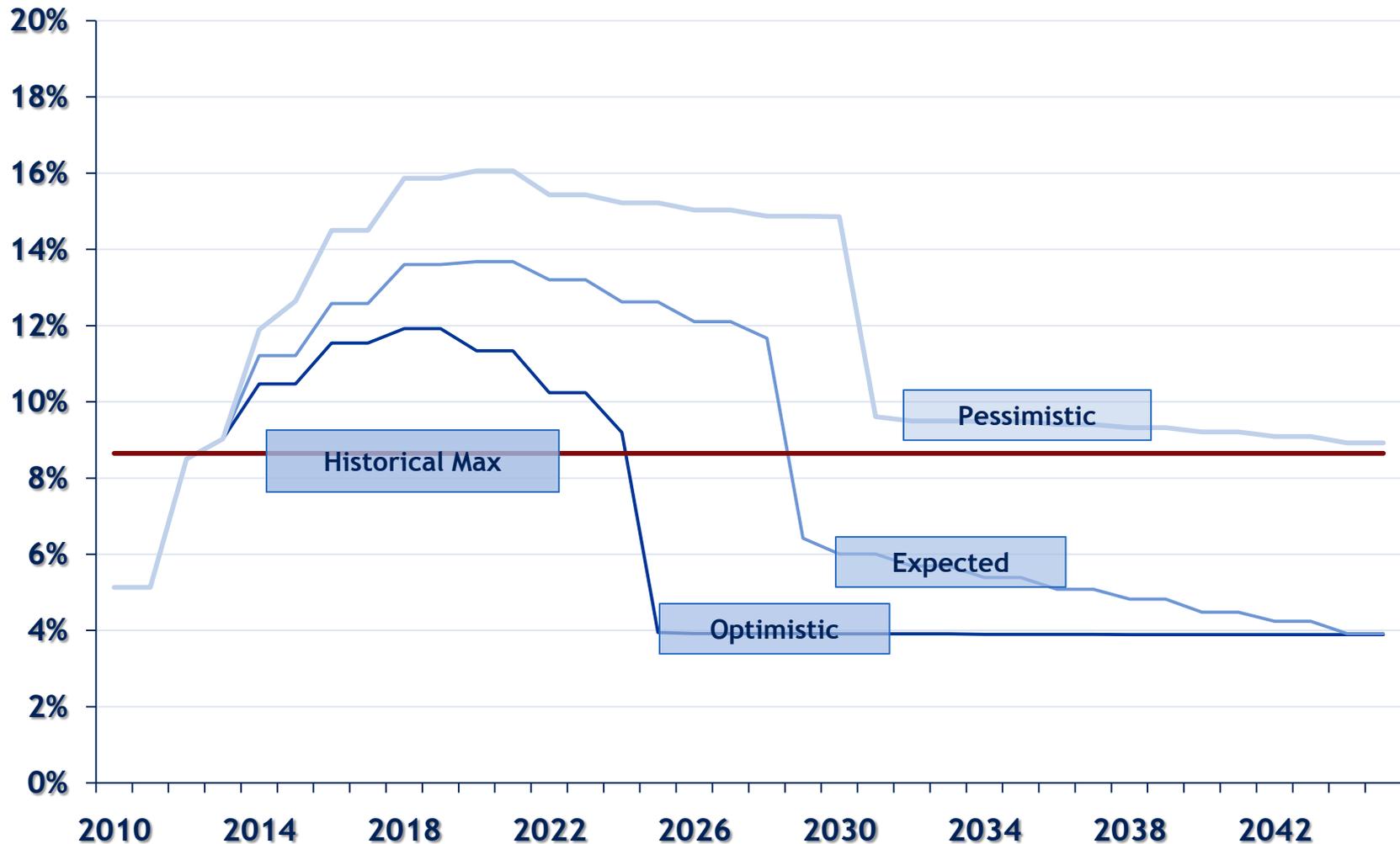


Bad News

- We haven't seen the full effects of the Great Recession
- Funded status expected to drop 25 - 30 percent over the next eight years
- Significant increases in contributions required to keep healthy plans healthy
- Two unhealthy plans now at risk of running out of assets prematurely
- LEOFF 1 could come out of surplus



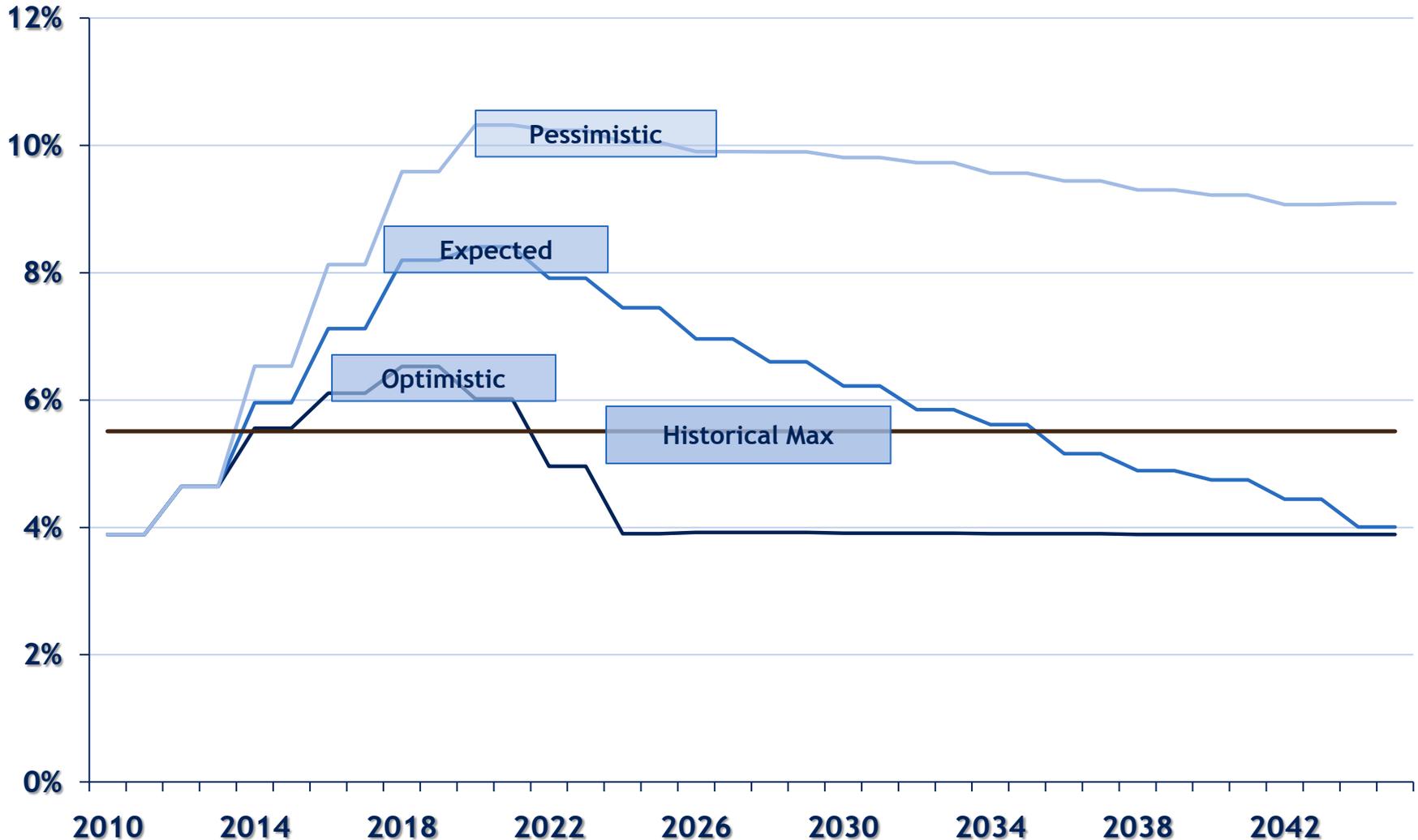
Projected PERS Employer Contribution Rates*



*Please see the "Report on Financial Condition" on OSA's website for the data, methods, and assumptions used to develop the results shown on this chart.



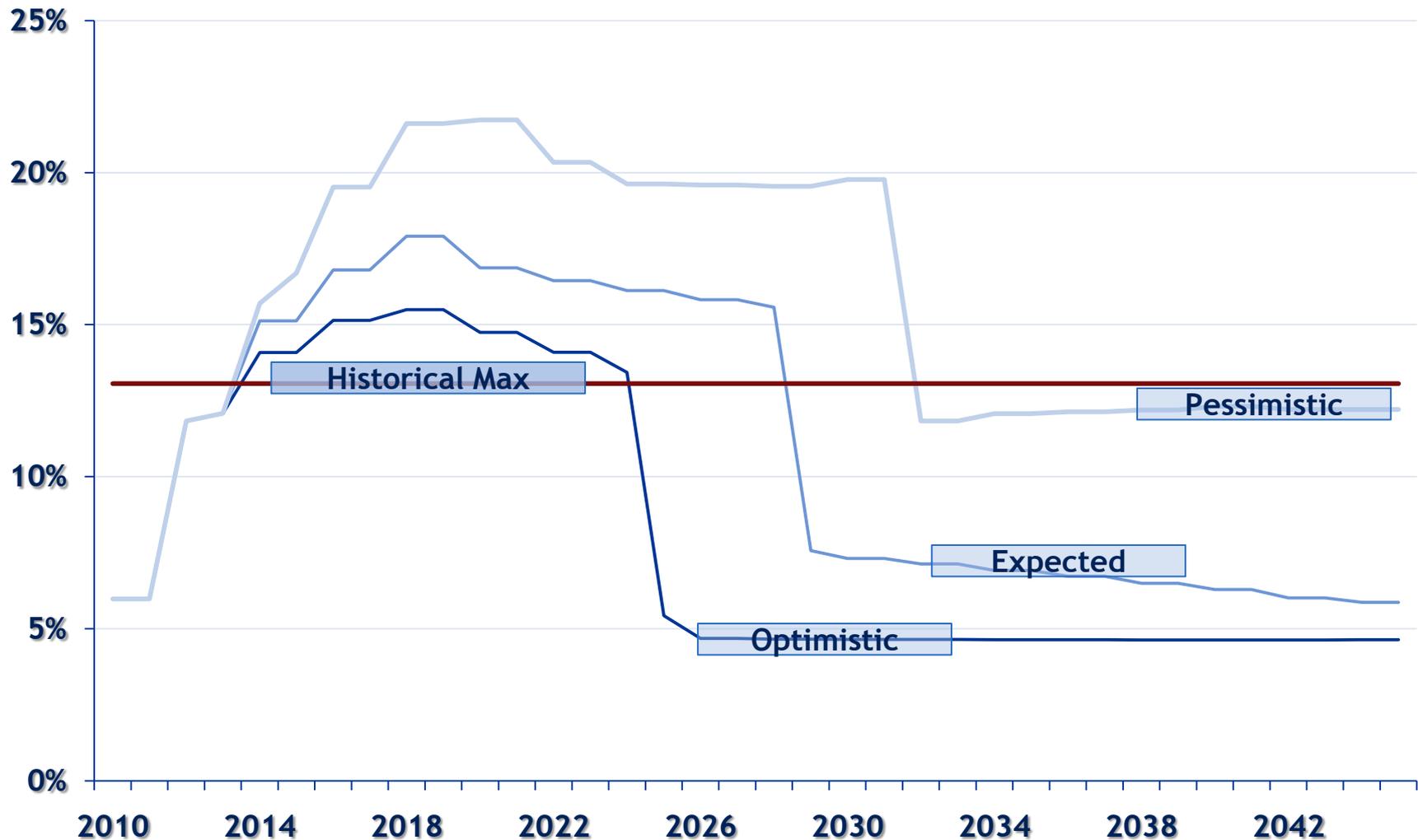
Projected PERS 2 Employee Contribution Rates*



**Please see the "Report on Financial Condition" on OSA's website for the data, methods, and assumptions used to develop the results shown on this chart.*



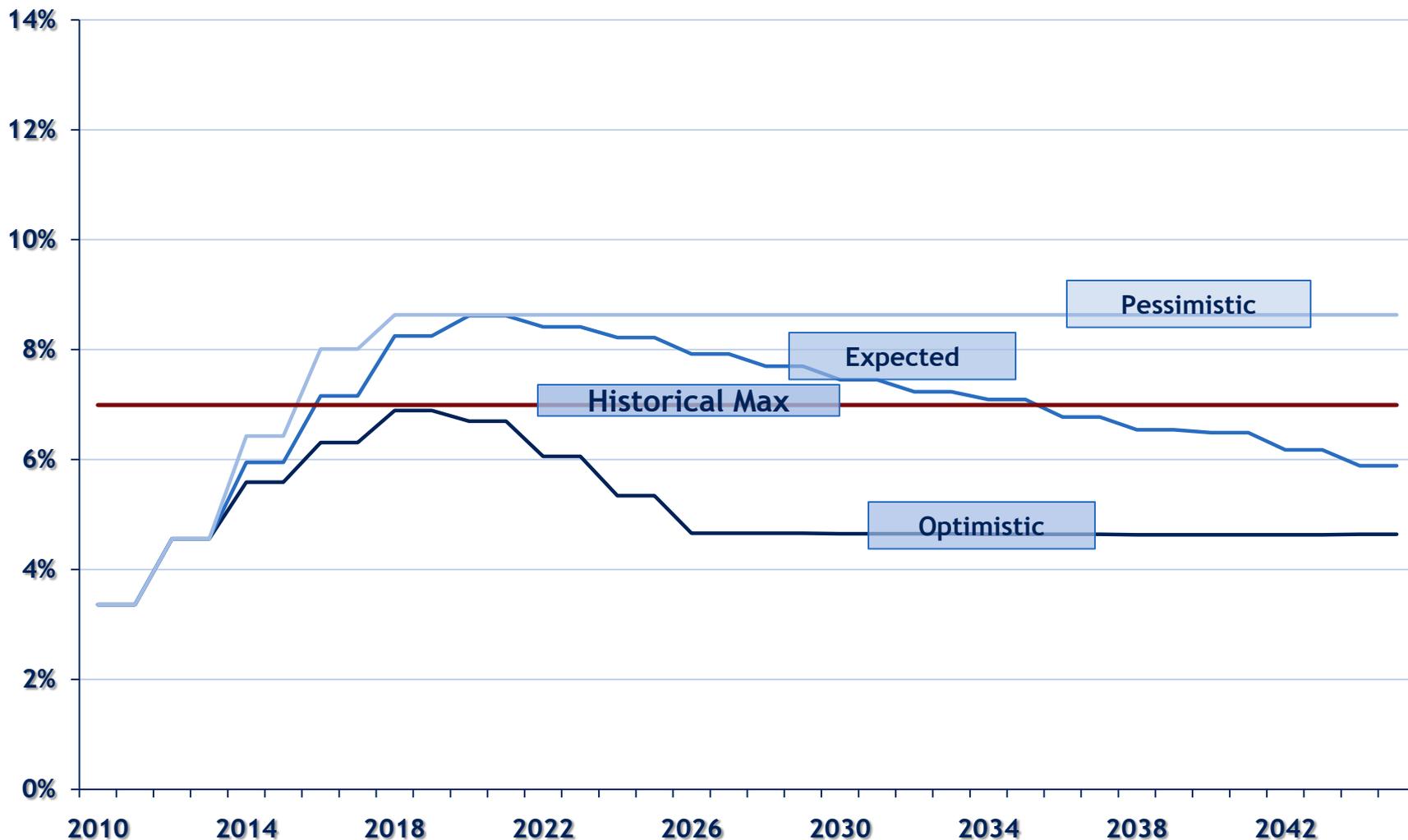
Projected TRS Employer Contribution Rates*



*Please see the "Report on Financial Condition" on OSA's website for the data, methods, and assumptions used to develop the results shown on this chart.



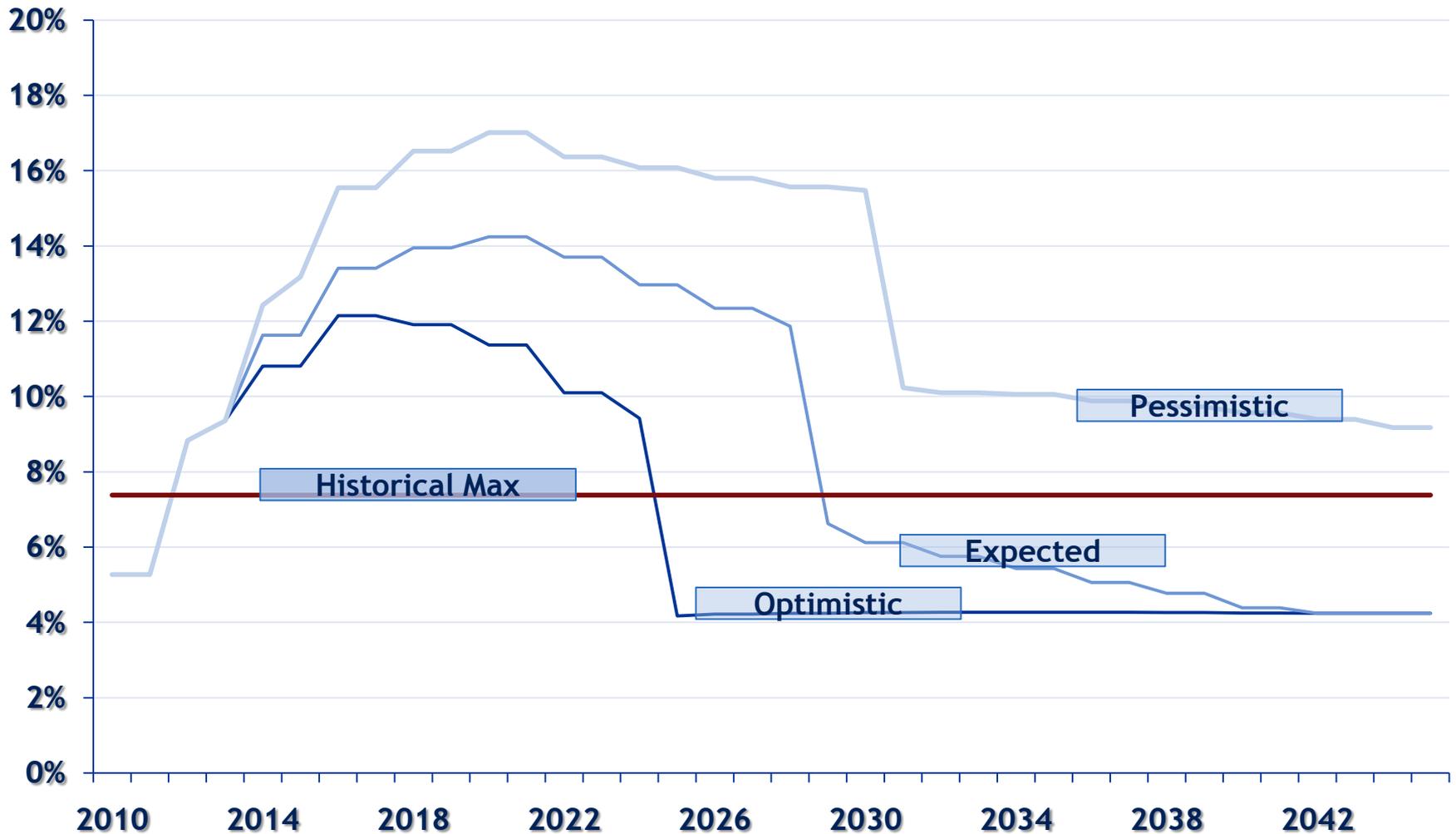
Projected TRS 2 Employee Contribution Rates*



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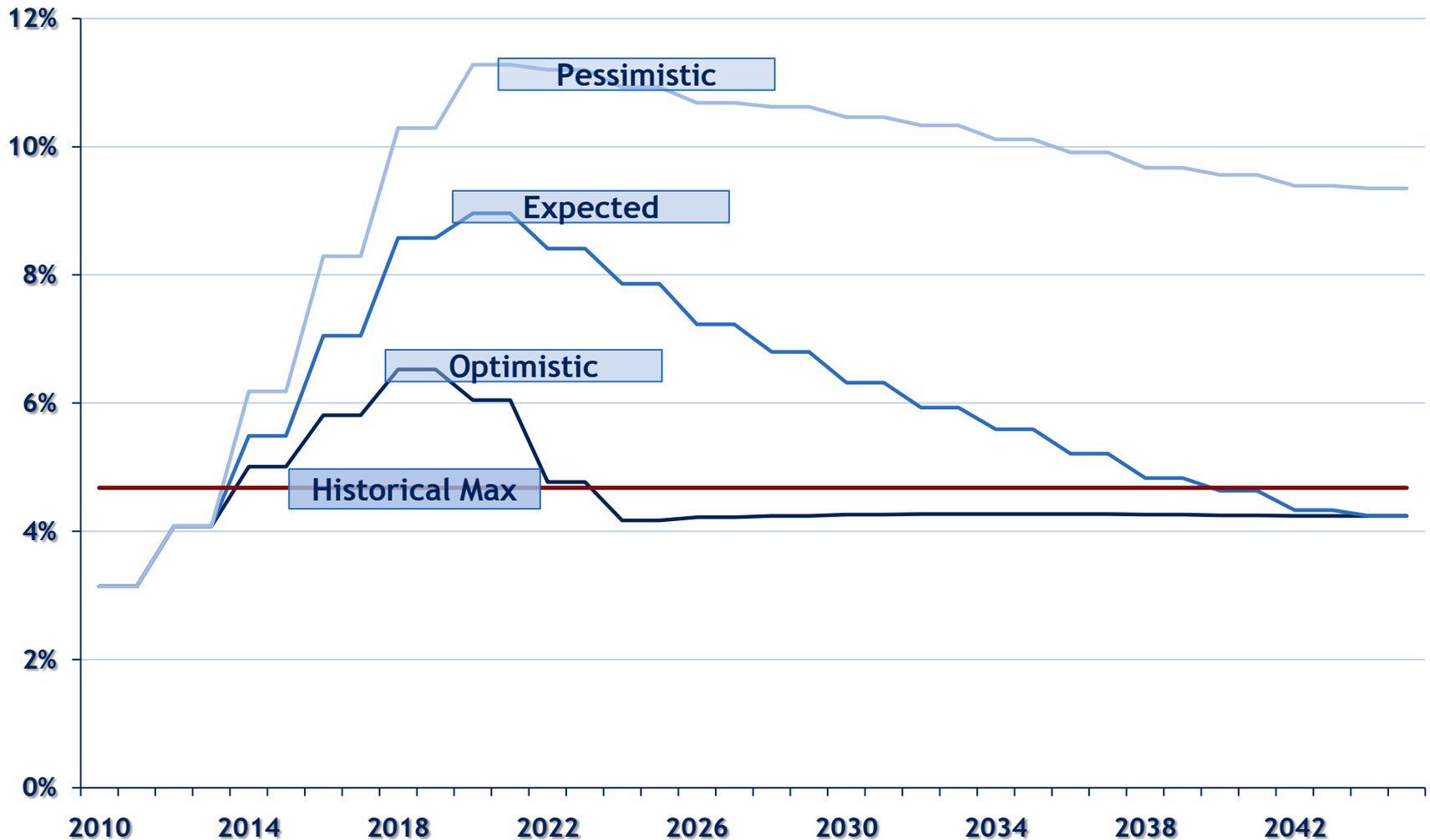
Projected SERS Employer Contribution Rates*



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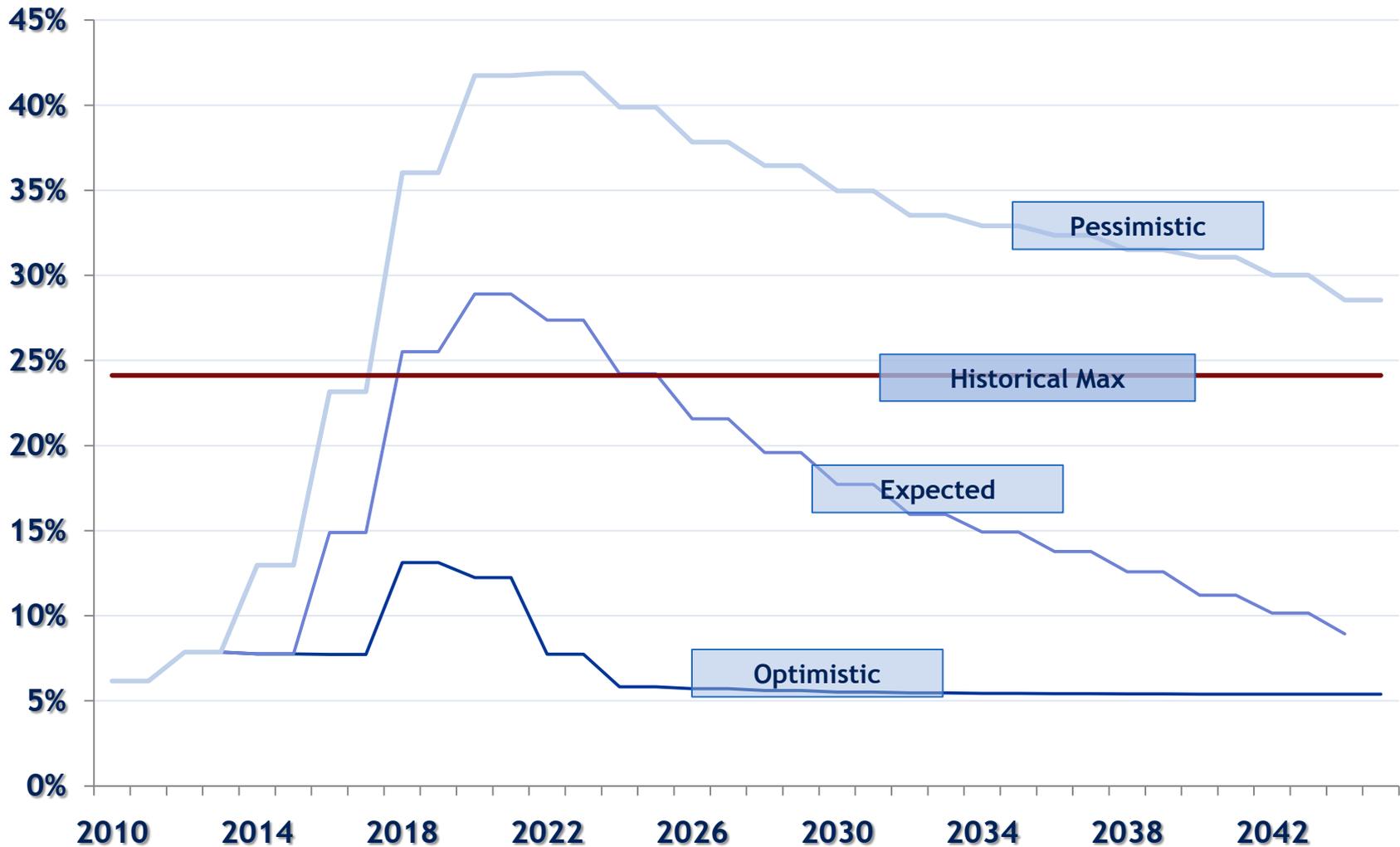
Projected SERS 2 Employee Contribution Rates*



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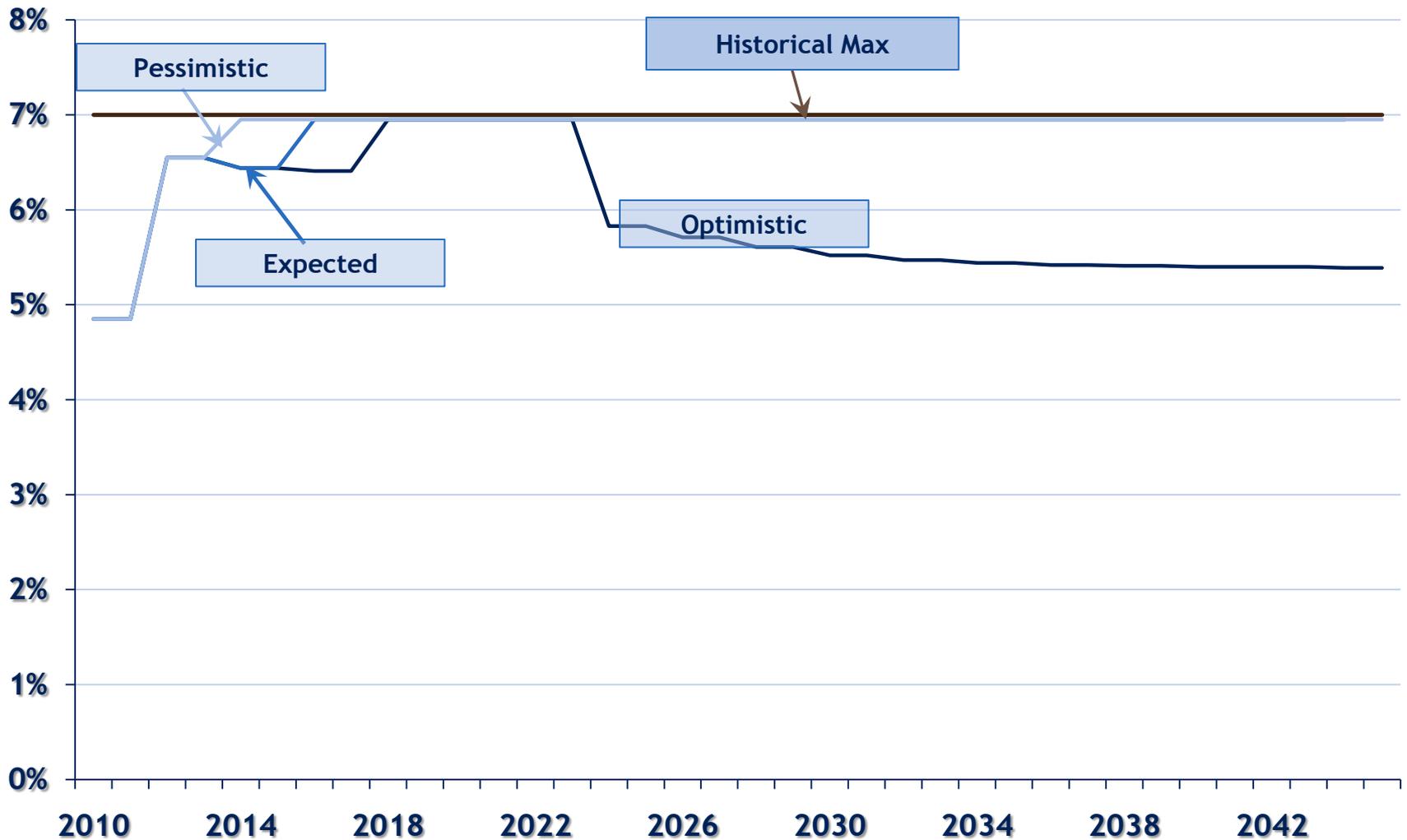
Projected WSPRS Employer Contribution Rates*



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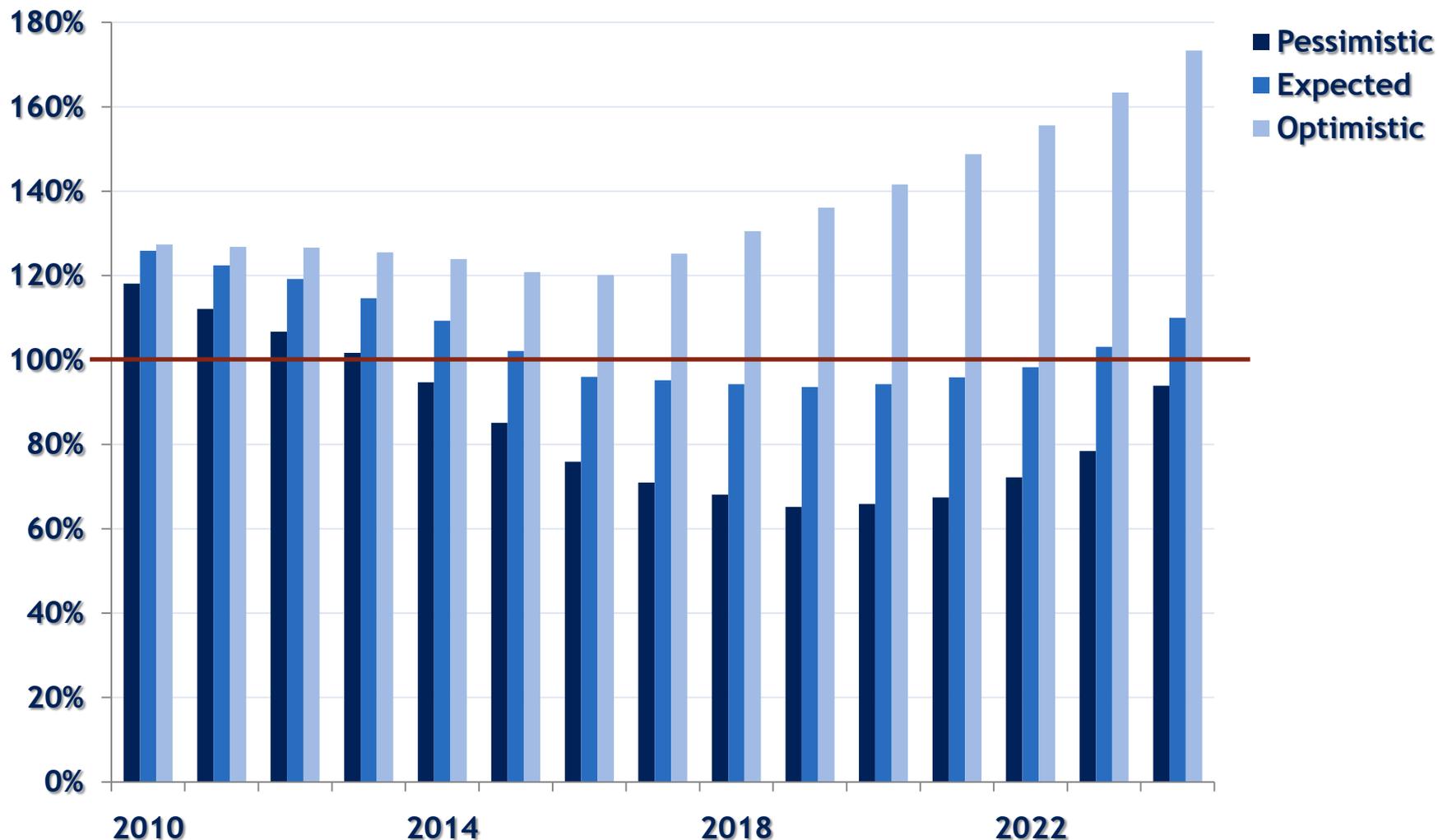
Projected WSPRS Employee Contribution Rates*



*Please see the "Report on Financial Condition" on OSA's website for the data, methods, and assumptions used to develop the results shown on this chart.



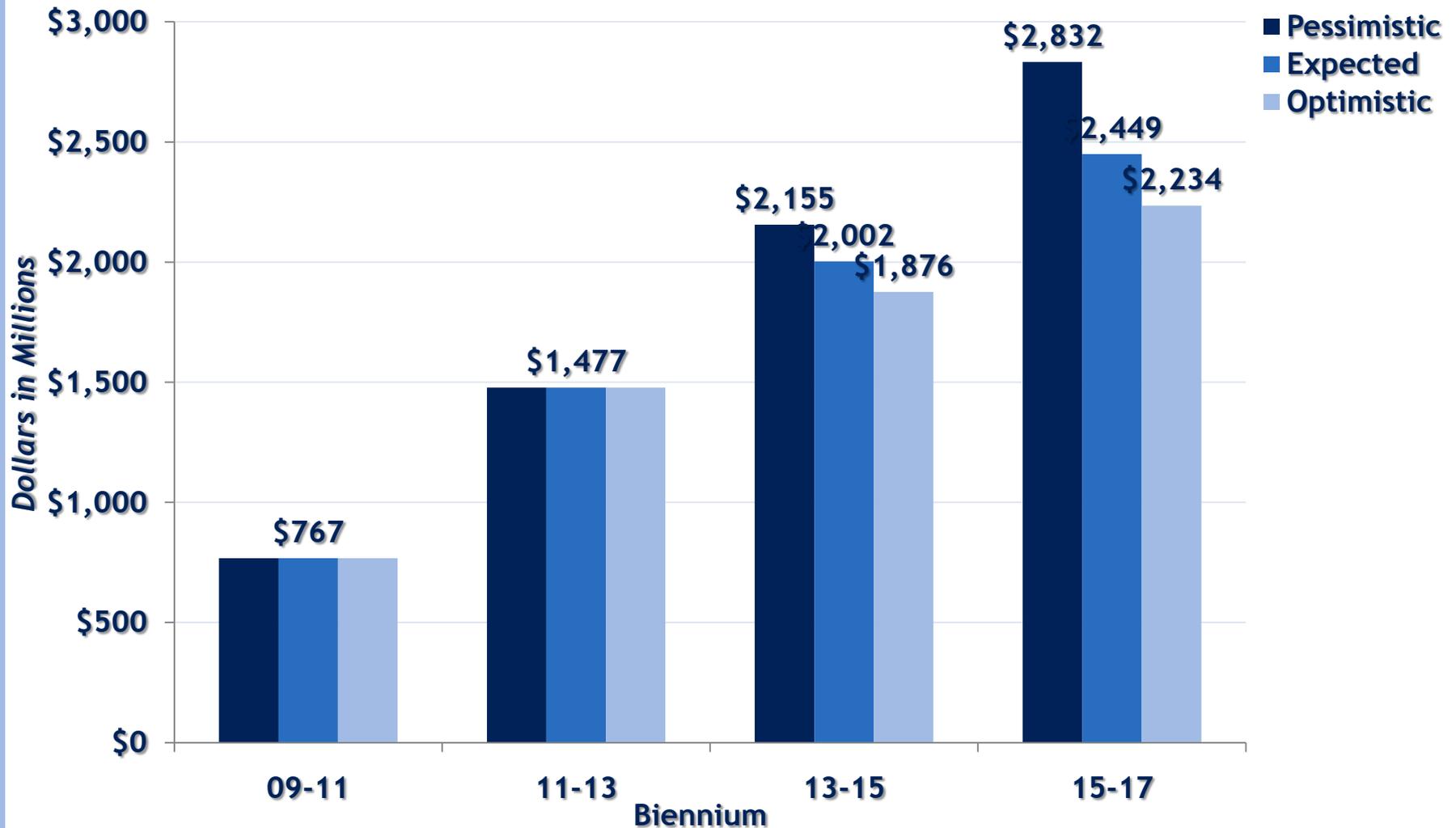
Projected LEOFF 1 Funded Status*



**Please see the "Report on Financial Condition" on OSA's website for the data, methods, and assumptions used to develop the results shown on this chart. Assumes resumption of contributions under previous state funding policy when the plan is no longer fully funded.*



Projected General Fund State (GF-S) Contributions*



*Please see the "Report on Financial Condition" on OSA's website for the data, methods, and assumptions used to develop the results shown on this chart. Excludes benefit enhancements from 2010 Legislative Session.



Benefit Enhancements From 2010 Legislative Session*

| 2010 Legislation | | Contribution Rate Impacts (Effective 9/1/2010) | |
|------------------|-----------------------------------|---|----------------|
| LEOFF 2 | | Employee | Local Employer |
| Bill Number | Description | | |
| SSB 1679 | LEOFF 2 Medical Premiums | 0.13% | 0.08% |
| EHB 2519 | Public Safety Duty Death Benefits | 0.05% | 0.03% |
| | LEOFF 2 Total | 0.18% | 0.11% |

**Includes only legislation that impacts contribution rates in the 2009-11 Biennium. Preliminary contribution rate impacts. The LEOFF Plan 2 Retirement Board will determine and adopt the actual rate impacts by July 31, 2010.*



Challenges

- Increasing contributions coming when state and local governments facing significant revenue shortfalls
- Budget writer's choice: pay now or pay more later



Opportunities

- Revisit pension and retiree healthcare costs within total compensation
- What's fair, affordable, and sustainable?
- Legal certainty on gain-sharing
- Identify lessons learned
- Risk assessment project

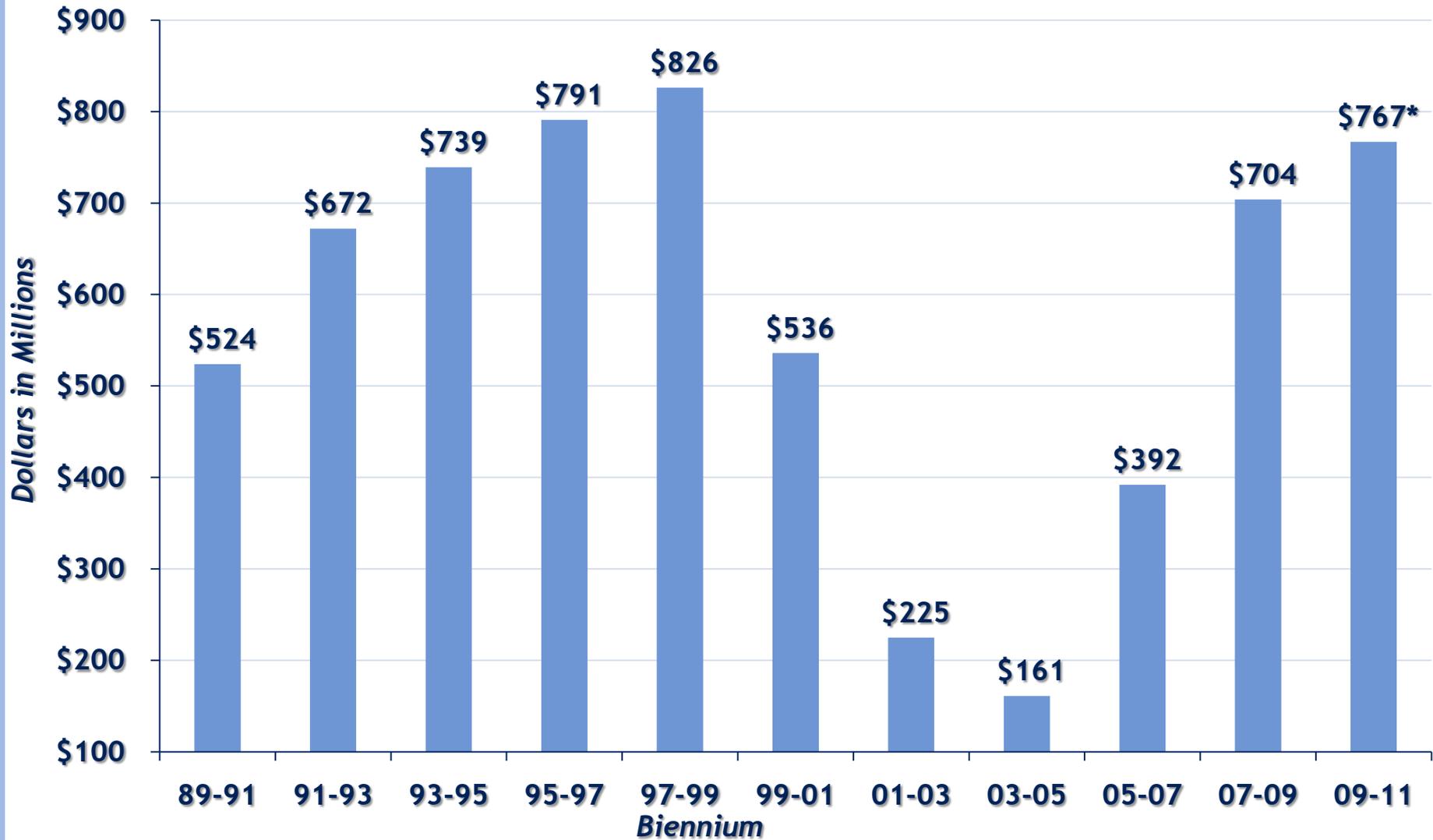


Preliminary Lessons Learned

- Long-term liabilities require long-term management and discipline
- Need more sophisticated risk management
- Short-term revenue and contribution rate volatility stress the systems



History Of Employer Contributions From GF-S



**Estimated.*



The State Of Our State's Public Pension Systems

- In aggregate, we're better off than most
- We've already reformed our systems
- Keeping our healthy plans healthy will require significant increases in contributions
- Returning our two unhealthy plans to health will also require steep contribution increases
- Significant budget challenges ahead
- Opportunity for further reforms



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Questions?

