

Washington State Pension Funding Council

Overview

**John Charles
Chair**

September 18, 2002

Pension Funding Council Membership

◆ Six Members:

- Senate Ways and Means Committee Chair and ranking minority member
- House Appropriations Committee Chair and ranking minority member
- Director of the Department of Retirement Systems
- Director of the Office of Financial Management

Pension Funding Council Roles

- ◆ Adopt employer and member contribution rates for all retirement plans except:
 - PERS Plan 1, TRS Plan 1 and WSPRS Plan 1 and Plan 2 member rates (set in statute)
 - TRS, SERS, and PERS Plan 3 member rates (chosen by the member)

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Pension Funding Council Roles

- ◆ Adopt long-term economic assumptions and the asset value smoothing technique used by the Office of the State Actuary beginning in 2004

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Pension Funding Council Roles

- ◆ Solicit and administer a biennial audit of the actuarial valuation used for rate-setting purposes
- ◆ Solicit and administer an audit of the experience study that is prepared by the Office of the State Actuary every six years
- ◆ Receive public comment

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Pension Funding Council Workgroup

- ◆ Membership
 - Six staff members representing:
 - ◆ Senate Ways & Means Committee
 - ◆ House Appropriations Committee
 - ◆ Office of Financial Management
 - ◆ Department of Retirement Systems
 - ◆ State Investment Board
 - ◆ Economic Revenue and Forecast Council

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Pension Funding Council Workgroup

◆ Roles

- Prepare actuarial audit RFPs
- Manage audit contracting process
- Provide for and receive public comment
- Prepare briefings for Council
- Provide support to Council

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Pension Funding Council Schedule

- ◆ Adopt contribution rates by September 30 of each even-numbered year
- ◆ Adopt economic assumptions by May 31 every fourth year beginning in 2004
- ◆ Audit every even-numbered year's actuarial valuation
- ◆ Audit the actuarial experience study produced every six years

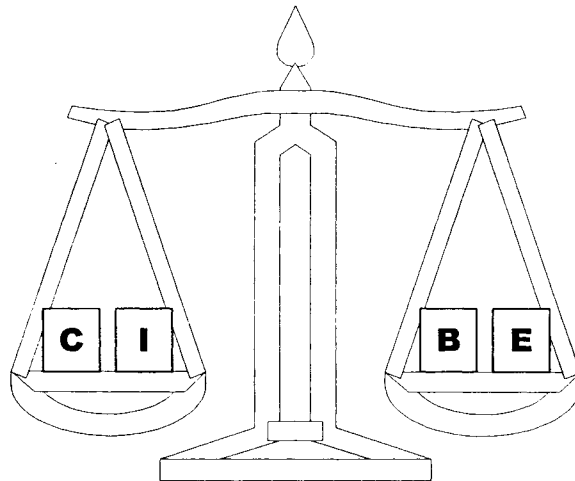
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Retirement System Funding

- ◆ Goal of pension funding:
 - Match fund inflow with fund outflow over the life of a plan
- ◆ Basic Plan Formula: **C + I = B + E**
 - Contributions plus Investment Return must equal Benefits plus Expenses

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Retirement System Funding



C = Contributions
I = Investment Income

B = Benefits
E = Expenses

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Actuarial Valuation

- ◆ A measurement at a point in time of the cash flows that have occurred to date versus those that are expected to come in the future

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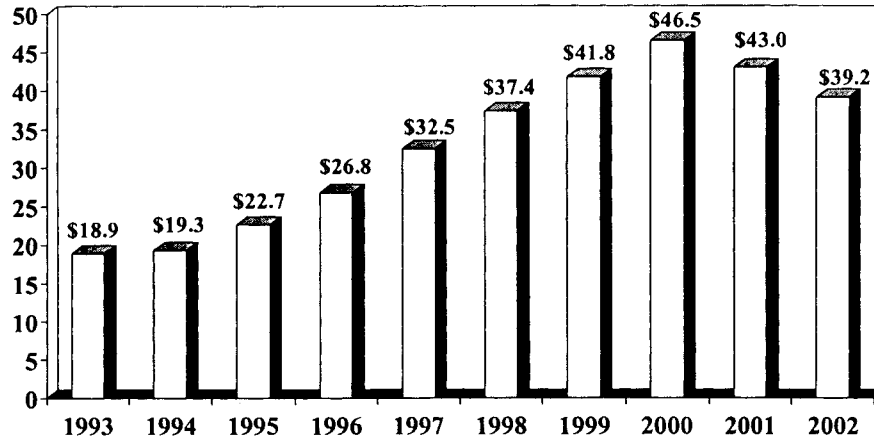
Current Assumptions

- ◆ Investment rate-of-return 8.0%
- ◆ Growth in salary 4.5%
- ◆ Inflation 3.5%
- ◆ Growth in membership
 - TRS 0.90%
 - PERS, SERS, and WSPRS 1.25%
- ◆ Level, four-year smoothing of assets

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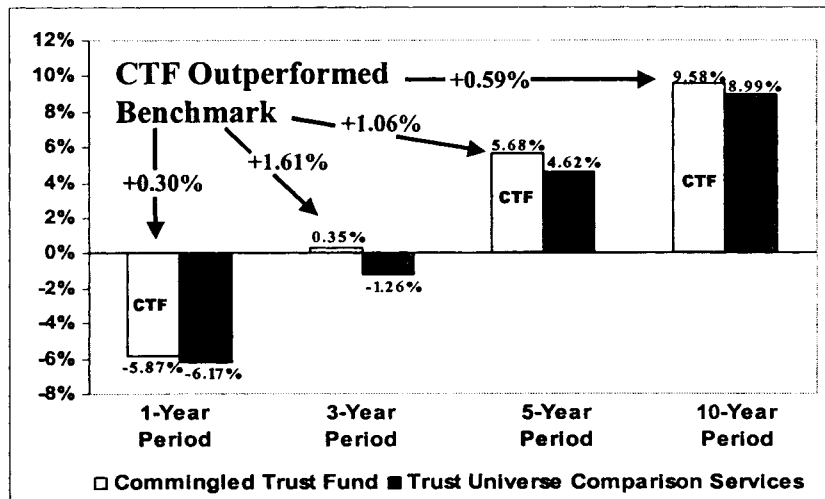
Commingled Trust Fund Balance

\$ Billions



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Trust Fund Performance



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2003-05 Contribution Rates

System/Plan	Employer	Member
PERS Plan 1	2.05% (+0.95)	6.00% *
PERS Plan 2	2.05% (+0.95)	1.41% (+0.76)
PERS Plan 3	2.05% (+0.95)	N/A
TRS Plan 1	2.22% (+1.17)	6.00% *
TRS Plan 2	2.22% (+1.17)	1.20% (+1.05)
TRS Plan 3	2.22% (+1.17)	N/A

* No change, rate set in statute

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Plan 3 Member Contributions

Option A	5% fixed rate at all ages
Option B	5% up to age 35 6% ages 35 through 44 7.5% ages 45 and older
Option C	6% up to age 35 7.5% ages 35 through 44 8.5% ages 45 and older
Option D	7% fixed rate at all ages
Option E	10% fixed rate at all ages
Option F	15% fixed rate at all ages

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2003-05 Contribution Rates

System/Plan	Employer	Member	State
SERS Plan 2	1.74% (+0.78)	1.10% (+0.75)	N/A
SERS Plan 3	1.74% (+0.78)	N/A	N/A
LEOFF Plan 1	0.00% *	0.00% *	0.00% *
LEOFF Plan 2	3.03% (+0.39)	5.05% (+0.66)	2.02% (+0.27)
WSPRS Plans 1 and 2	0.00% *	2.00% **	N/A

* No change

** No change, rate set in statute

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2001 Funding Status Summary

(Dollars in Millions)

System/Plan	Valuation Assets	Funding Ratio
PERS Plan 1	\$10,990	97%
PERS Plan 2	11,032	179%
TRS Plan 1	9,342	100%
TRS Plans 2/3	3,547	197%
SERS Plans 2/3	1,472	197%
LEOFF Plan 1	5,369	129%
LEOFF Plan 2	2,576	154%
WSPRS	712	147%
TOTAL	\$45,038	126%

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