

Core Fund Annuity Adjustment Projections

Joint Information Meeting
March 18, 2010

Board	Mtg Date	Item #
Jl	3.18.10	3B

Assumptions

- Based on 2009 actual Core Trust Fund investment returns.
- Includes 2006 - 2008 investment gains and losses carried forward in the Market Recognition Account (MRA).
- Dividends will be paid if annuity reserve surplus provides at least a 0.5% dividend.
- Annuities will be reduced if annuity reserve shortfall would require at least a -0.5% adjustment .

Assumptions (cont.)

- Negative adjustments can only reduce dividends granted in prior years. A core annuity cannot be reduced below the original value.
- 0.4% per year is reserved for mortality improvement and other actuarial adjustments and is not available for dividends.

Market Recognition Account

- Investment gains / losses are “smoothed” through the Market Recognition Account (MRA):
 - The MRA is intended to give recognition to long-term changes in asset values while minimizing the impact of short-term fluctuations in the capital markets;
 - Investment gains equal to the assumed rate (7.8%) are recognized;
 - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.

At the end of 2009 there is a \$9.5 billion investment loss to be recognized in future years

	Year to Be Recognized (millions \$)				
Year Earned	2009	2010	2011	2012	2013
2009	1,288	1,288	1,288	1,288	1,288
2008	(5,370)	(5,370)	(5,370)	(5,370)	
2007	212	212	212		
2006	1,065	1,065			
2005	86				
Totals	(2,719)	(2,805)	(3,870)	(4,082)	1,288

Current Value of Annuities

If You Retired in	A \$1,000 Core Annuity is Receiving	The Annual Rate of Increase is	A \$1,000 Variable Annuity is Receiving	The Annual Rate of Increase is	The Annual Change in CPI is
2005	\$1,069	1.4%	\$802	(4.3%)	2.6%
2000	\$1,215	2.0%	\$599	(5.0%)	2.5%
1995	\$1,849	4.2%	\$1,300	1.8%	2.5%
1990	\$2,292	4.2%	\$1,476	2.0%	2.7%
1985	\$3,269	4.9%	\$2,496	3.7%	2.9%

A 7.8% investment return in 2010 will result in an annuity adjustment between -1.8% and -2.2%

	2009	2010	2011	2012	2013	2014
SWIB Net Investment Return	22.4%	7.8%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.2%	3.9% to 4.3%	2.3% to 2.7%	1.8% to 2.2%	9.6% to 10.0%	7.7% to 8.1%
Annuity Adjustment	-1.3%	-1.8% to -2.2%	-3.2% to -3.6%	-3.6% to -4.0%	3.1% to 3.5%	1.5% to 1.9%

A 0% investment return in 2010 will result in an annuity adjustment between -3.1% and -3.5%

	2009	2010	2011	2012	2013	2014
SWIB Net Investment Return	22.4%	0%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.2%	2.4% to 2.8%	0.6% to 1.0%	-0.1% to 0.3%	7.9% to 8.3%	5.9% to 6.3%
Annuity Adjustment	-1.3%	-3.1% to -3.5%	-4.7% to -5.1%	-5.3% to -5.7%	1.6% to 2.0%	0.0% to 0.4%

An investment return between 14.2% and 15.4% in 2010 is needed to avoid a negative dividend

	2009	2010	2011	2012	2013	2014
SWIB Net Investment Return	22.4%	14.2% to 15.4%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.2%	5.2% to 5.5%	3.7% to 4.0%	3.5% to 3.7%	11.1% to 11.3%	9.2% to 9.4%
Annuity Adjustment	-1.3%	0%	-2.0% to -2.3%	-2.3% to -2.5%	4.5% to 4.7%	2.8% to 3.0%

Above average returns will be needed for the next three years to avoid future negative dividends

	2009	2010	2011	2012	2013	2014
SWIB Net Investment Return	22.4%	14.2% to 15.4%	17.1% to 18.3%	10.4% to 11.2%	7.8%	7.8%
Effective Rate	4.2%	5.2% to 5.5%	5.7% to 6.1%	6.3% to 6.7%	13.2% to 13.6%	11.2% to 11.6%
Annuity Adjustment	-1.3%	0%	0%	0%	6.4% to 6.8%	4.7% to 5.1%

An investment return between 20.2% and 21.4% in 2010 is needed to pay a positive dividend

	2009	2010	2011	2012	2013	2014
SWIB Net Investment Return	22.4%	20.2% to 21.4%	7.8%	7.8%	7.8%	7.8%
Effective Rate	4.2%	6.4% to 6.6%	4.9% to 5.2%	4.8% to 5.0%	12.2% to 12.4%	10.3% to 10.5%
Annuity Adjustment	-1.3%	0.5%	-0.6% to -0.8%	-1.1% to -1.5%	5.5% to 5.7%	3.8% to 4.0%

A background of various US coins including pennies, nickels, dimes, and quarters. The coins are scattered across the page, with some showing the profile of George Washington, some showing the Union Shield, and others showing the profile of Abraham Lincoln. The word "LIBERTY" is visible on several coins.

Questions?