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CORRESPONDENCE MEMORANDUM

DATE: September 7, 2012

TO: Employee Trust Funds Board

FROM: Robert C. Willett, Chief Trust Finance Officer
Office of Budget and Trust Finance

SUBJECT: Unfunded Actuarial Accrued Liability

This memo is for informational purposes only. No Board action is required.

The adequacy of funding for public employee retirement systems is a frequent topic of discussion among public officials, interest groups, and the media. These discussions often focus on the unfunded actuarial accrued liability, or "unfunded liability", as a measure of plan funding.

Measuring pension liabilities and the related unfunded liability is a complex process. The legislature, the Employee Trust Funds Board, and our consulting actuary have selected methodologies and assumptions that control how these liabilities are calculated. There are alternative methodologies and assumptions that reflect different philosophies on funding pension plans that would result in different measures of liabilities and funding.

The attached presentation is an overview of some of the issues involved in measuring pension liabilities and unfunded liabilities. The presentation is intended to provide you with some context for the ongoing public discussions.

Staff will be at the Board meeting to answer any questions you may have.

Attachment: Unfunded Actuarial Accrued Liability Presentation

Reviewed and approved by Robert J. Conlin, Secretary

RJC 9/11/12
Signature Date

Board	Mtg Date	Item #
ETF	9.20.12	4E

Unfunded Actuarial Accrued Liabilities

Employee Trust Funds Board

September 20, 2012

Board	Mtg Date	Item #
ETF	9.20.12	4E

What is an “Unfunded Actuarial Accrued Liability”?

Actuarial Accrued Liability − Actuarial Value of Assets = Unfunded Actuarial Accrued Liability

How does the UAAL relate to the Funded Ratio?

Actuarial Value of Assets ÷ Actuarial Accrued Liability = Funded Ratio

Valuing the Actuarial Accrued Liability

- **Actuarial Cost Method** – different cost methods result in different amounts being assigned to past service versus future service

- **Discount Rate** – determines how much of future benefits are assumed to be funded with investment earnings and how much needs to be collected in contributions

Determining the Actual Value of Assets

- **Fair Market Value** – reflects a point-in-time value of assets
  - UAAL will reflect the volatility of the financial markets
- **Actuarial Value** – smoothes market volatility to provide an “average” asset value
  - UAAL will be less volatile, but also less reflective of current value of assets

Where does an Unfunded Liability come from?

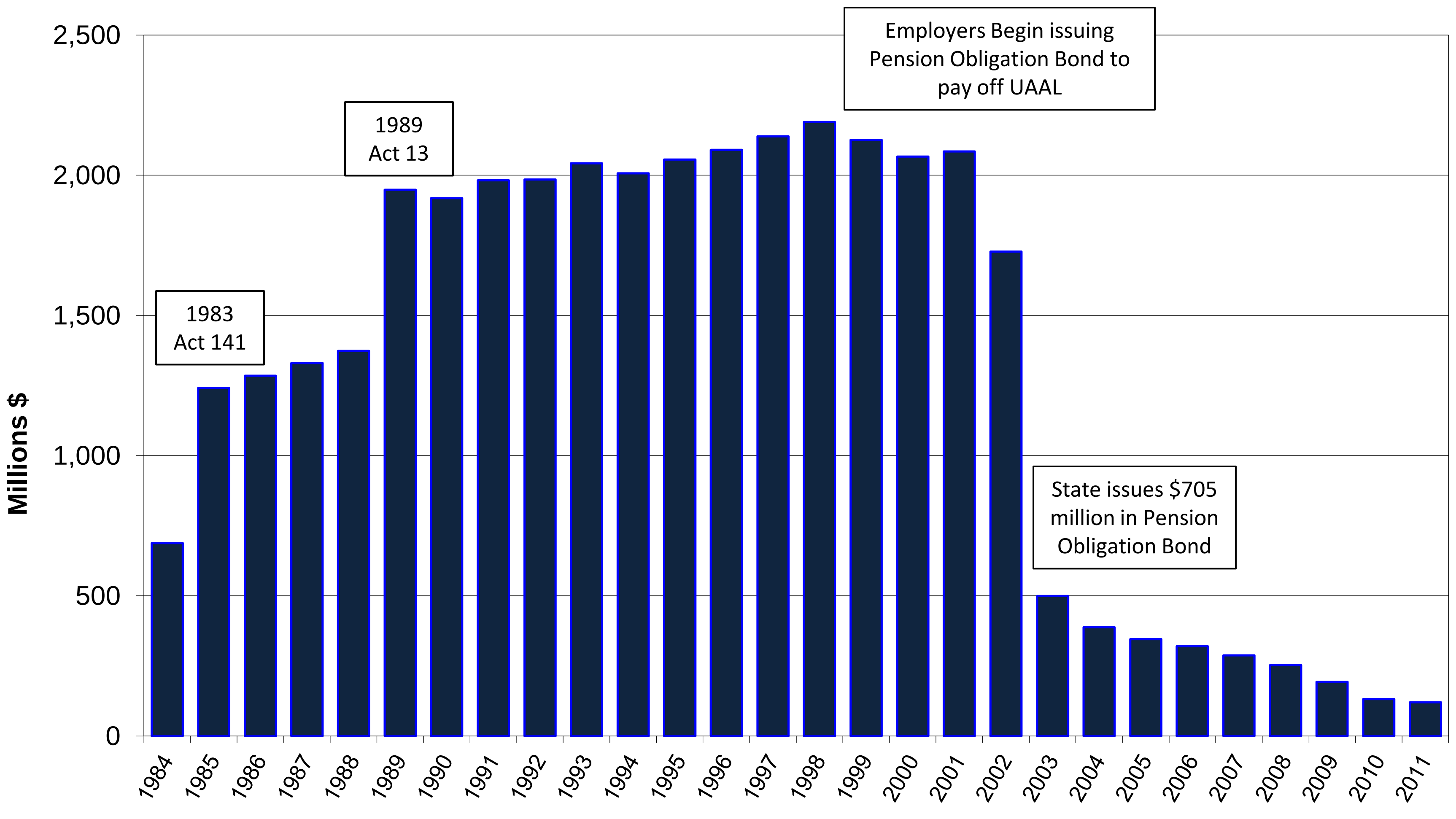
- New employers joining the system recognizing employee’s past service
- Benefit improvements being applied to past service
- Failure to pay actuarially required contributions
- Actuarial experience not matching assumptions

The WRS Unfunded Liability

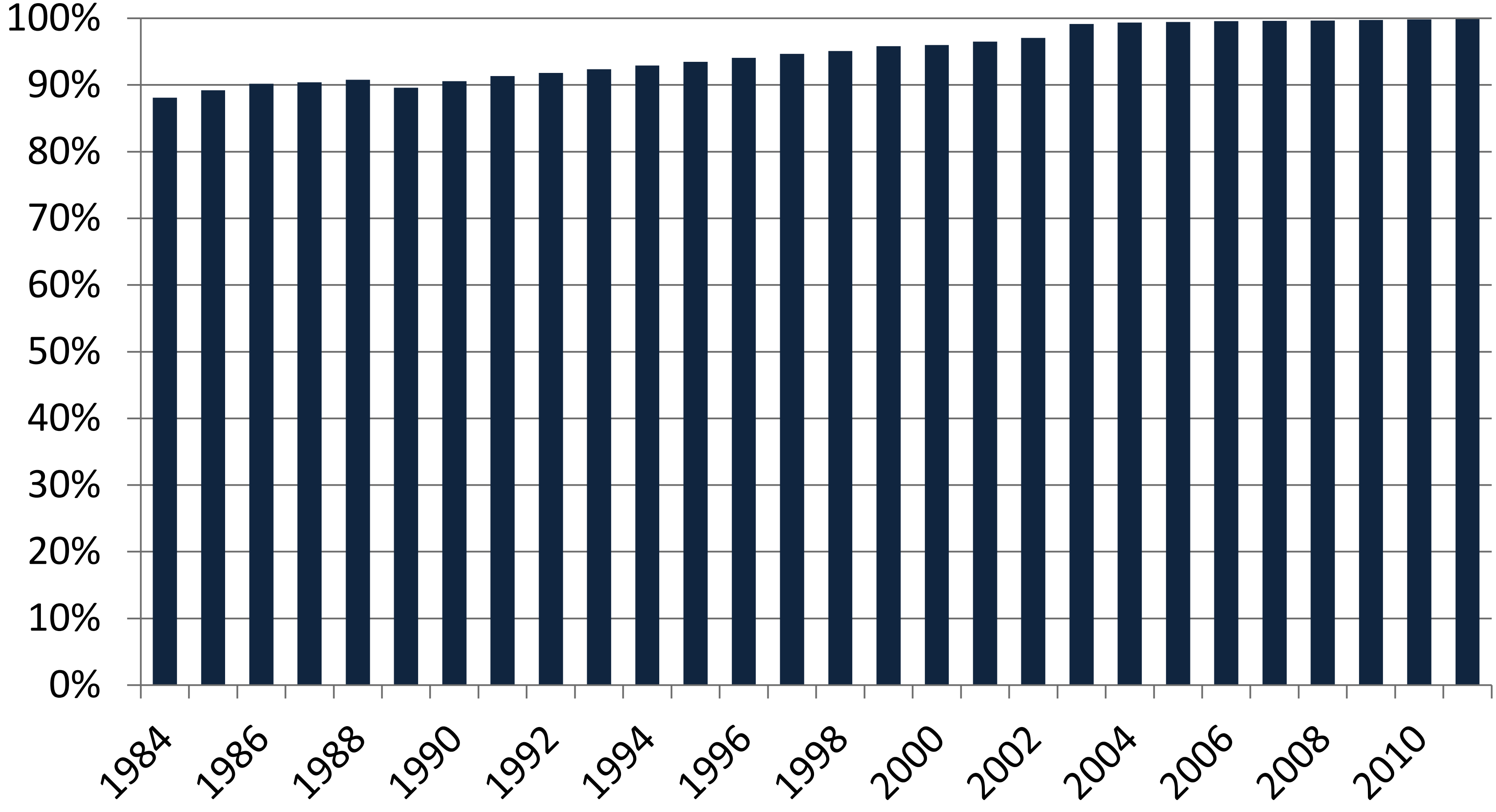
- The WRS uses the “Frozen Entry Age” actuarial cost method
  – The unfunded liability is affected only by new employers entering the system, amortization payments, interest, and statutory changes to benefits
  – Actuarial gains and losses affect future contributions, but not the unfunded liability

- The WRS unfunded liability is assigned to individual employers rather than a collective liability

WRS Unfunded Liability Balance



WRS Funded Ratio



Questions