

Core Fund Annuity Adjustments and Effective Rate Projections

Employee Trust Funds Board
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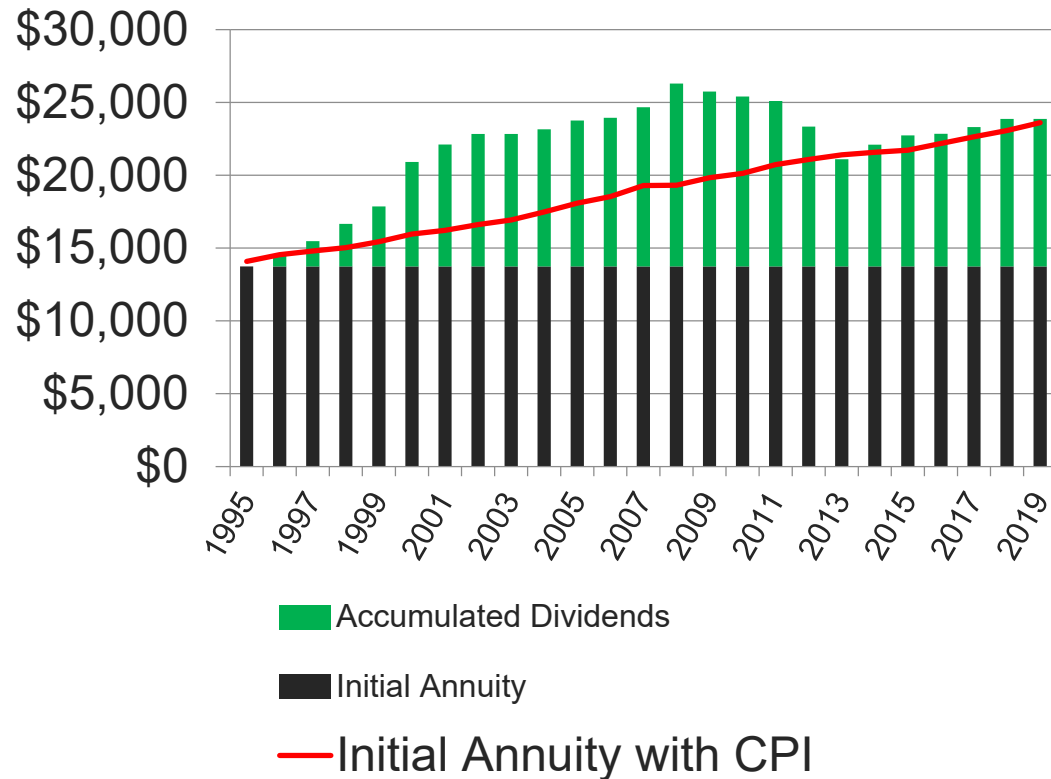
Current Value of Annuities*

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
2015	\$1,068	1.3%	\$1,259	4.7%	1.8%
2010	\$1,150	1.4%	\$1,806	6.1%	1.8%
2005	\$1,150	0.9%	\$1,448	2.5%	2.0%
2000	\$1,161	0.7%	\$1,082	.4%	2.1%
1995	\$1,766	2.3%	\$2,347	3.5%	2.2%

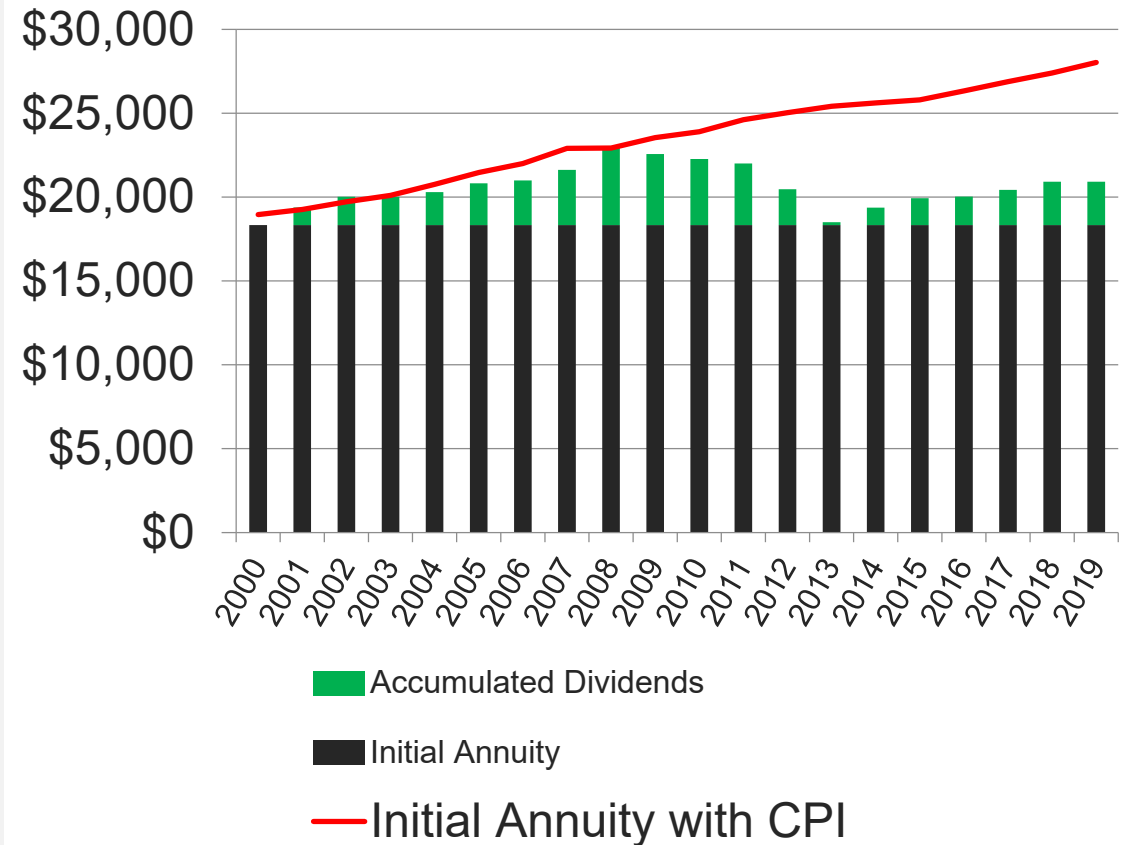
*Including annuity adjustments (if any) to be made effective April 1, 2020

A Look at Core Annuity Increases versus Cost of Living

Change in Value of 1995 Annuity (3,434 annuitants)

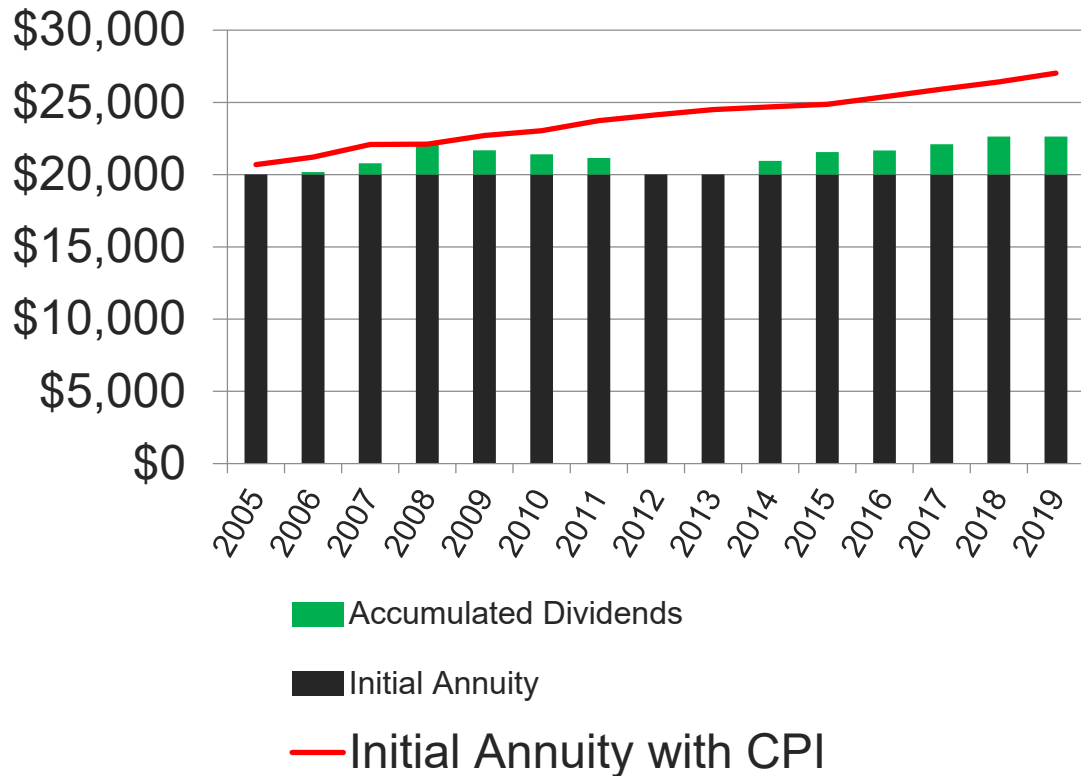


Change in Value of 2000 Annuity (6,306 annuitants)

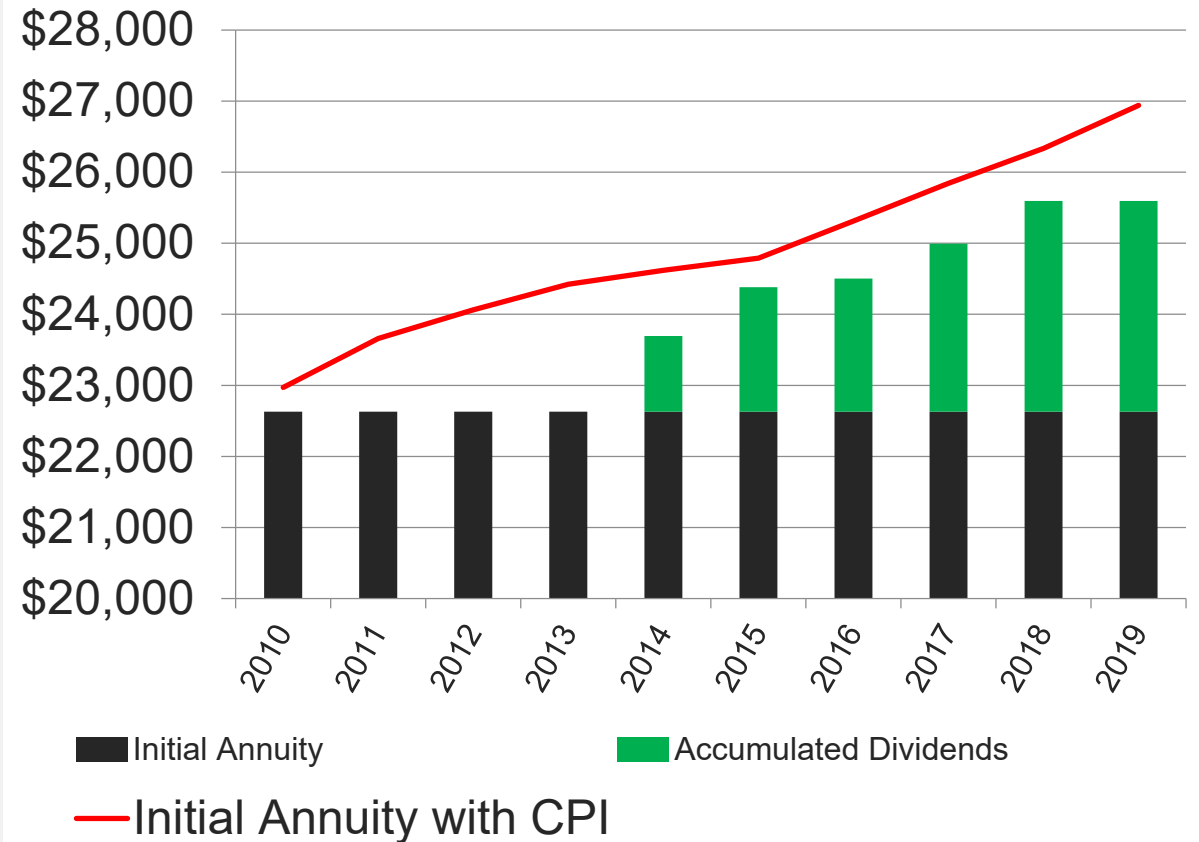


A Look at Core Annuity Increases versus Cost of Living

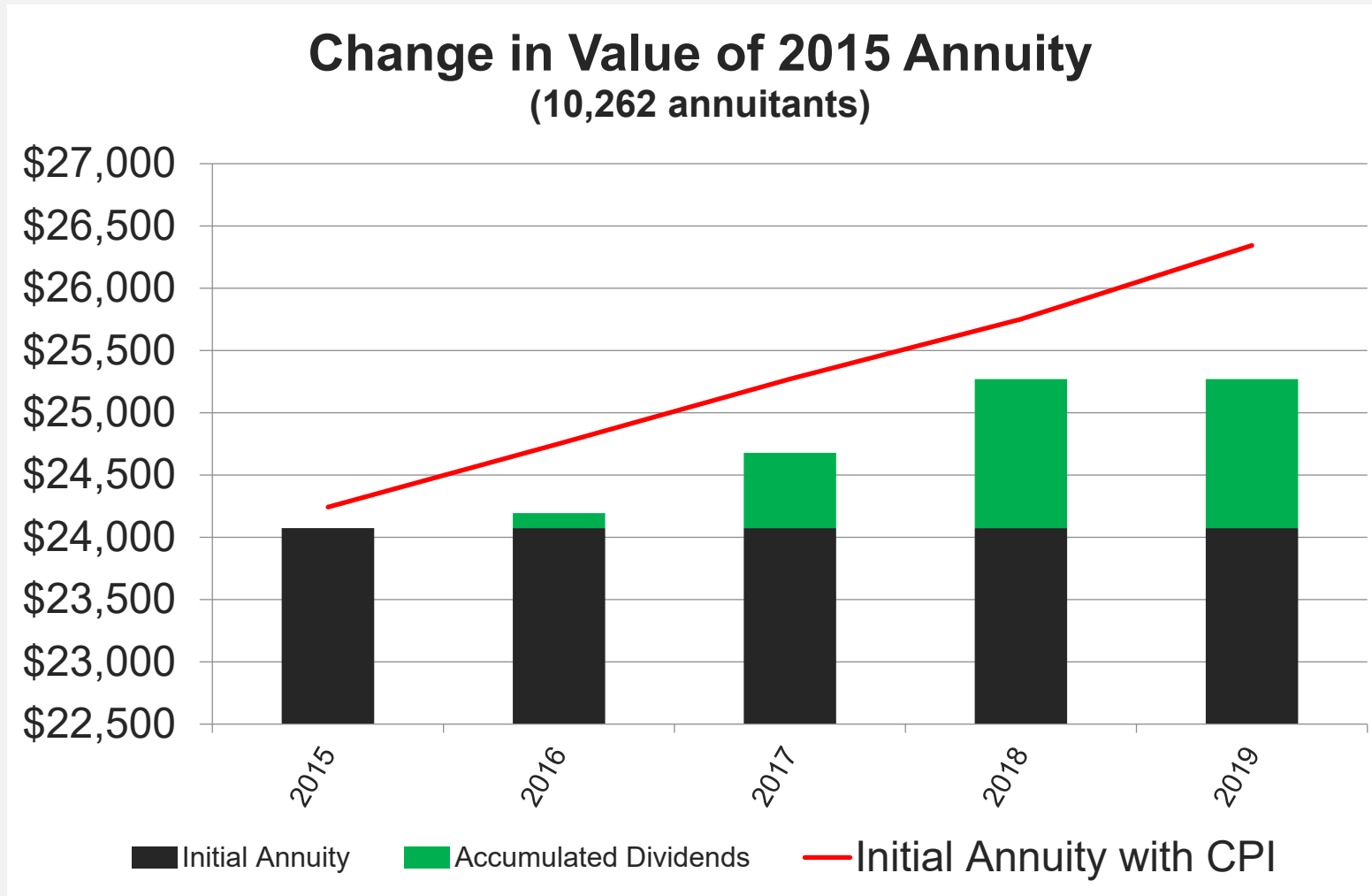
Change in Value of 2005 Annuity (7,890 annuitants)



Change in Value of 2010 Annuity (8,318 annuitants)



A Look at Core Annuity Increases versus Cost of Living





Annuity Adjustment Projections

Annuity Adjustment Projections

- Projections only. Several assumptions and estimates used.
- Only an actuarial valuation can accurately calculate the annuity adjustments.
- Useful for anticipating the magnitude, not exact amount, of future adjustments.

The Basics

- Annuities will be increased if annuity reserve surplus provides at least a 0.5% increase. Annuities will be reduced if annuity reserve shortfall would require at least a -0.5% adjustment.
- Negative adjustments can only reduce increases granted in prior years. A core annuity cannot be reduced below the original value.
- In calculating annuity adjustments, a 5.0% assumed investment return is used to fund the original benefit. Thus, in a world where experience matched assumptions each year perfectly, annuitants would receive a 2.0% adjustment each year (7.0% less 5.0%). We don't live in that world.

Assumptions

- Based on preliminary 2019 Core Trust Fund net of fee investment return.
- 0.2% per year is reserved for mortality improvement and is not available for annuity adjustments.
- The projections include 2016 - 2019 investment gains and losses carried forward in the Market Recognition Account (MRA).

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 of 7.0% are recognized;
 - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.

Investment Gain/Loss to be Recognized in Future Years

Year Earned	Year to Be Recognized (millions \$)					Core Net of Fee Investment Return
	2019	2020	2021	2022	2023	
2020		?	?	?	?	?
2019	2,204	2,204	2,204	2,204	2,204	19.36
2018	(2,048)	(2,048)	(2,048)	(2,048)		(3.68%)
2017	1,461	1,461	1,461			15.82%
2016	119	119				8.29%
2015	(1,344)					(.67%)
Totals	392	1,736	1,617	156	2,204	

Result of 7.0% Investment Return in 2020 - 2023

	2019	2020	2021	2022	2023
SWIB Net Investment Return	19.36%	7.0%	7.0%	7.0%	7.0%
Effective Rate	7.7%	8.9% to 9.3%	8.8% to 9.2%	7.3% to 7.7%	9.2% to 9.6%
Average Annuity Adjustment	1.7%	3.0% to 3.4%	3.2% to 3.6%	1.8% to 2.2%	3.5% to 3.9%

Result of 0% Investment Return in 2020 and 7.0% in 2021 - 2023

	2019	2020	2021	2022	2023
SWIB Net Investment Return	19.36%	0%	7.0%	7.0%	7.0%
Effective Rate	7.7%	7.4% to 7.8%	7.2% to 7.6%	5.8% to 6.2%	7.7% to 8.1%
Average Annuity Adjustment	1.7%	1.6% to 2.0%	1.7% to 2.1%	0% to .8%	2.0% to 2.4%

Result of -12% Investment Return in 2020 and 7.0% in 2021 - 2023

	2019	2020	2021	2022	2023
SWIB Net Investment Return	19.36%	(12%)	7.0%	7.0%	7.0%
Effective Rate	7.7%	4.7% to 5.1%	4.5% to 4.9%	2.9% to 3.3%	4.9% to 5.3%
Average Annuity Adjustment	1.7%	(.8%) to 0%	(.9%) to (.5%)	(2.4%) to (2.0%)	(.7%) to 0%



Questions?

Thank you



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