Core Fund Annuity Adjustment Projections

Joint Meeting

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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
2010	$1,077	1.5%	$1,435	7.5%	1.7%
2005	$1,077	0.7%	$1,150	1.4%	2.1%
2000	$1,087	0.6%	$860	(1.0%)	2.2%
1995	$1,655	2.5%	$1,865	3.2%	2.3%
1990	$2,051	2.9%	$2,117	3.1%	2.5%

* Including annuity adjustments to be made effective April 1, 2015
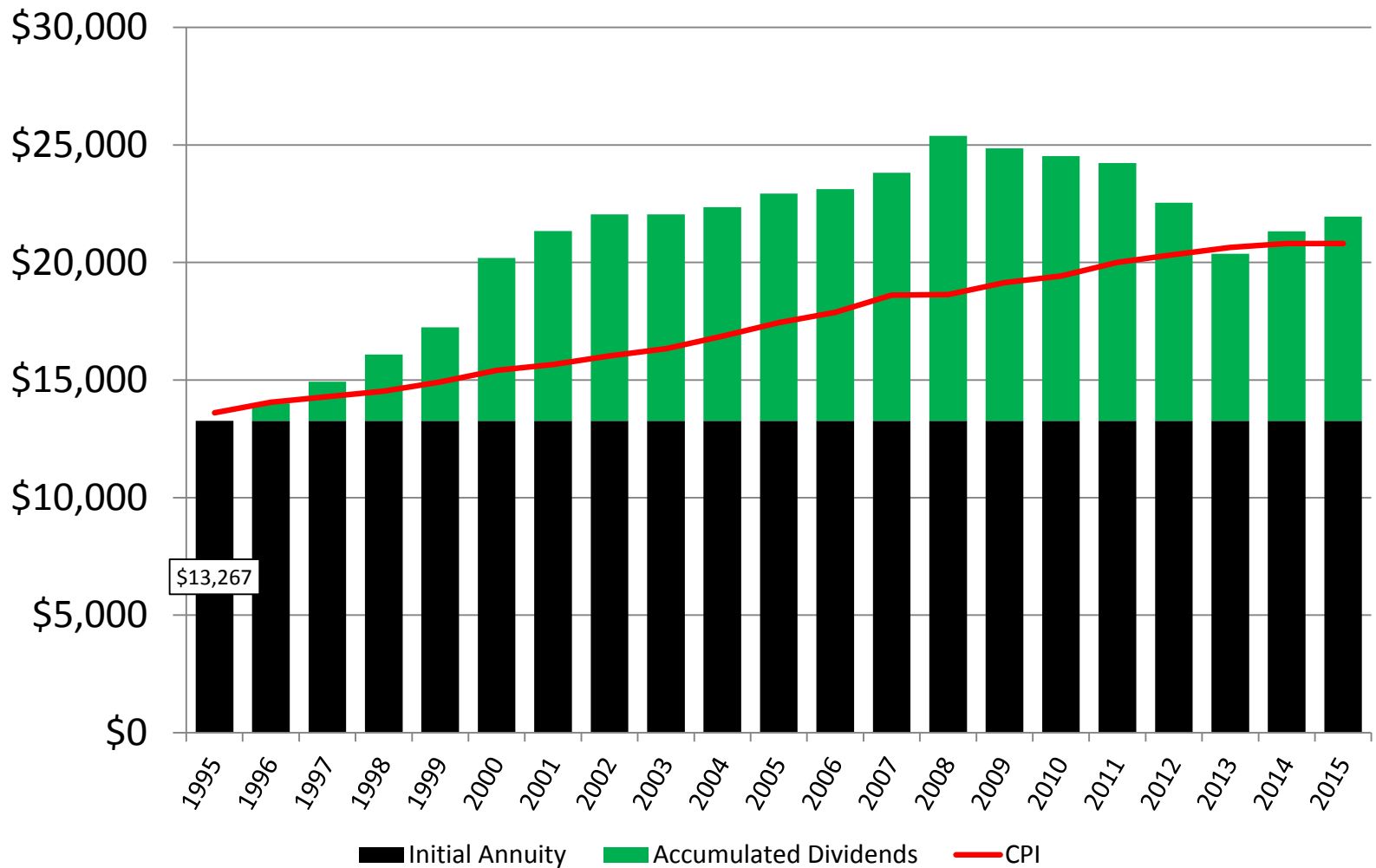
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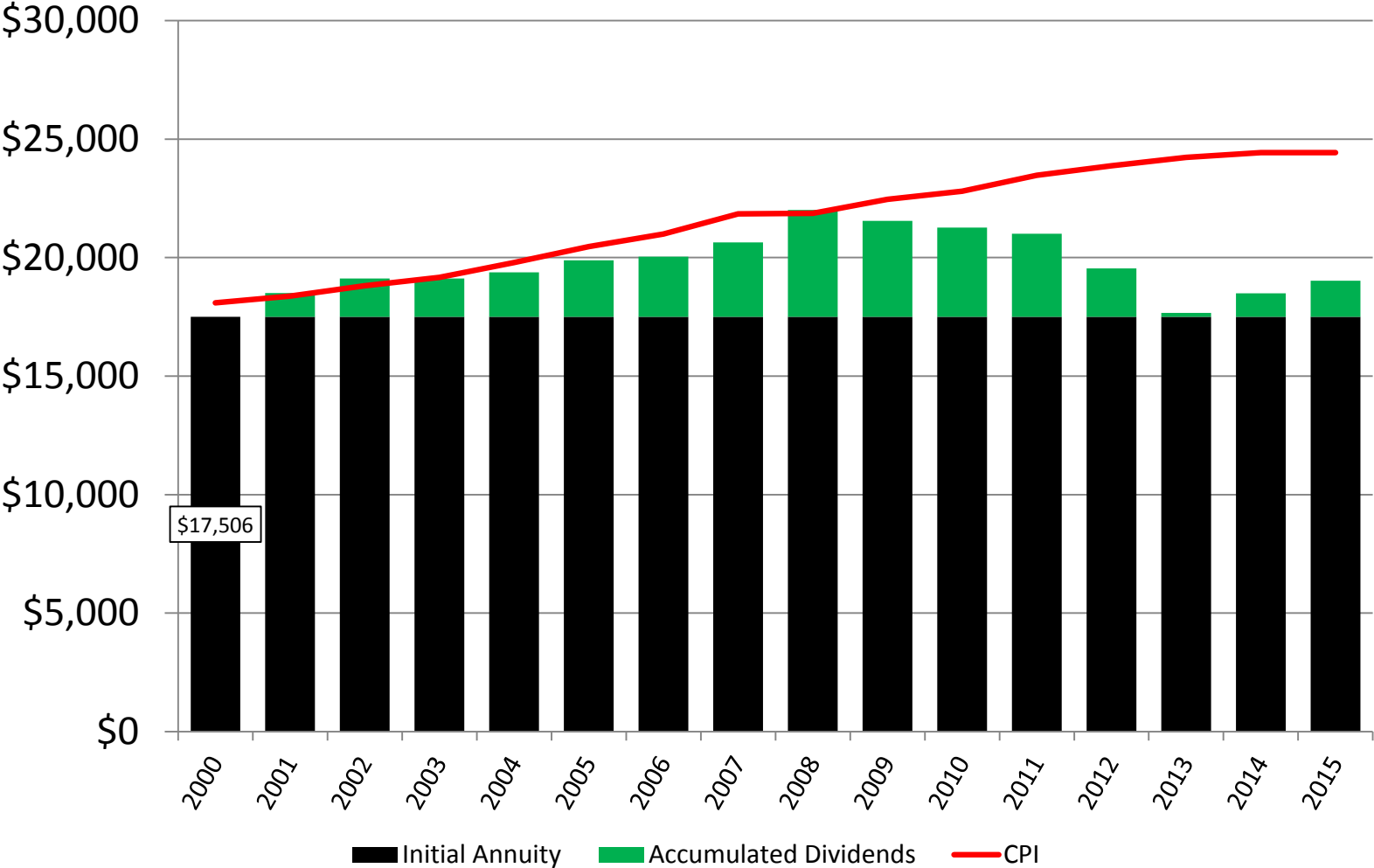# Change in Value of 1990 Annuity

(4,156 annuitants)
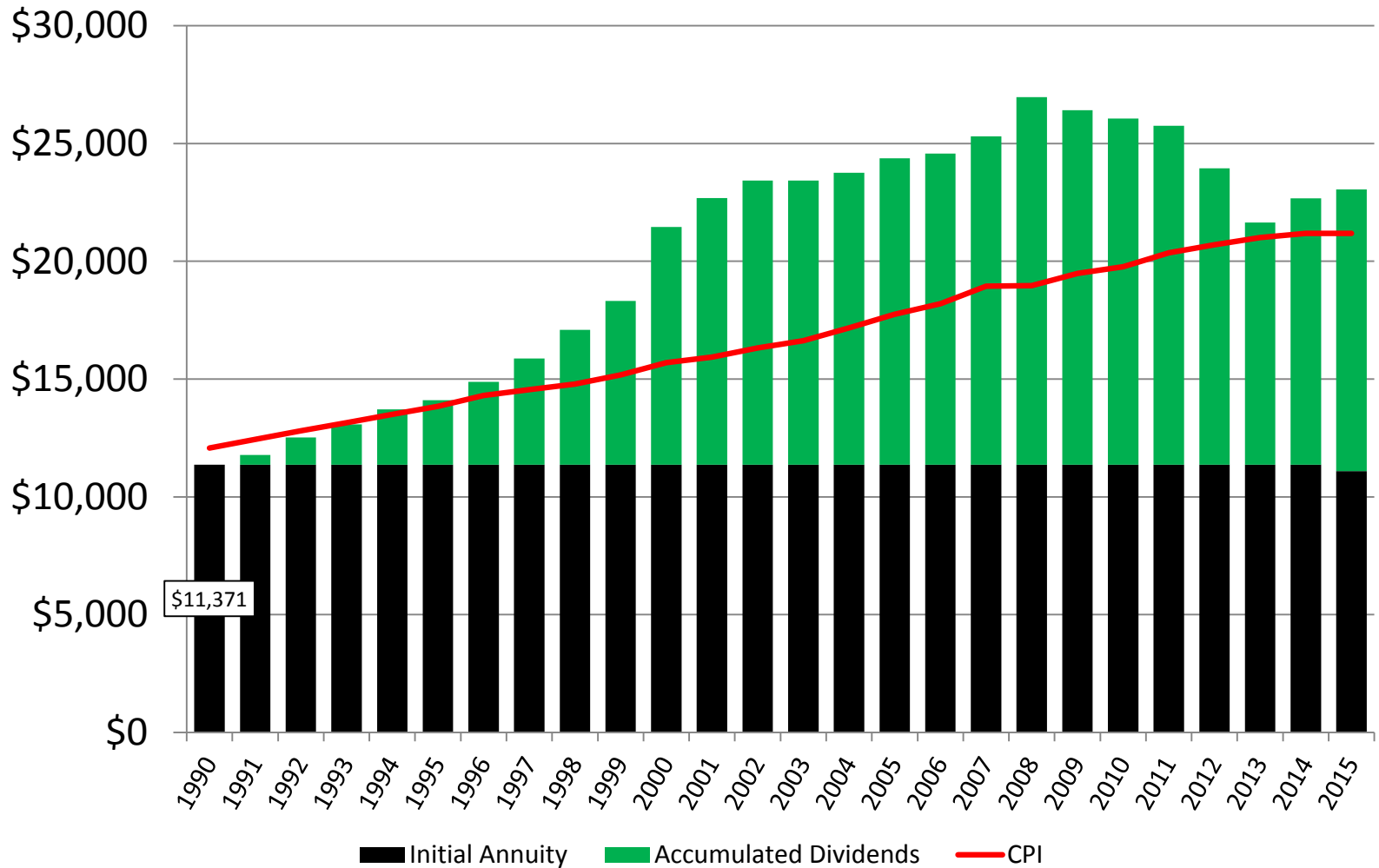
Change in Value of 1995 Annuity

(4,217 annuitants)

Change in Value of 2000 Annuity

(7,087 annuitants)

$17,506

Legend: Initial Annuity, Accumulated Dividends, CPI

Change in Value of 2005 Annuity

(8,147 annuitants)

Chart showing the change in value of a 2005 annuity from 2005 to 2015, with Initial Annuity (black, starting at $20,013), Accumulated Dividends (green), and CPI (red line).

Legend: Initial Annuity | Accumulated Dividends | CPI
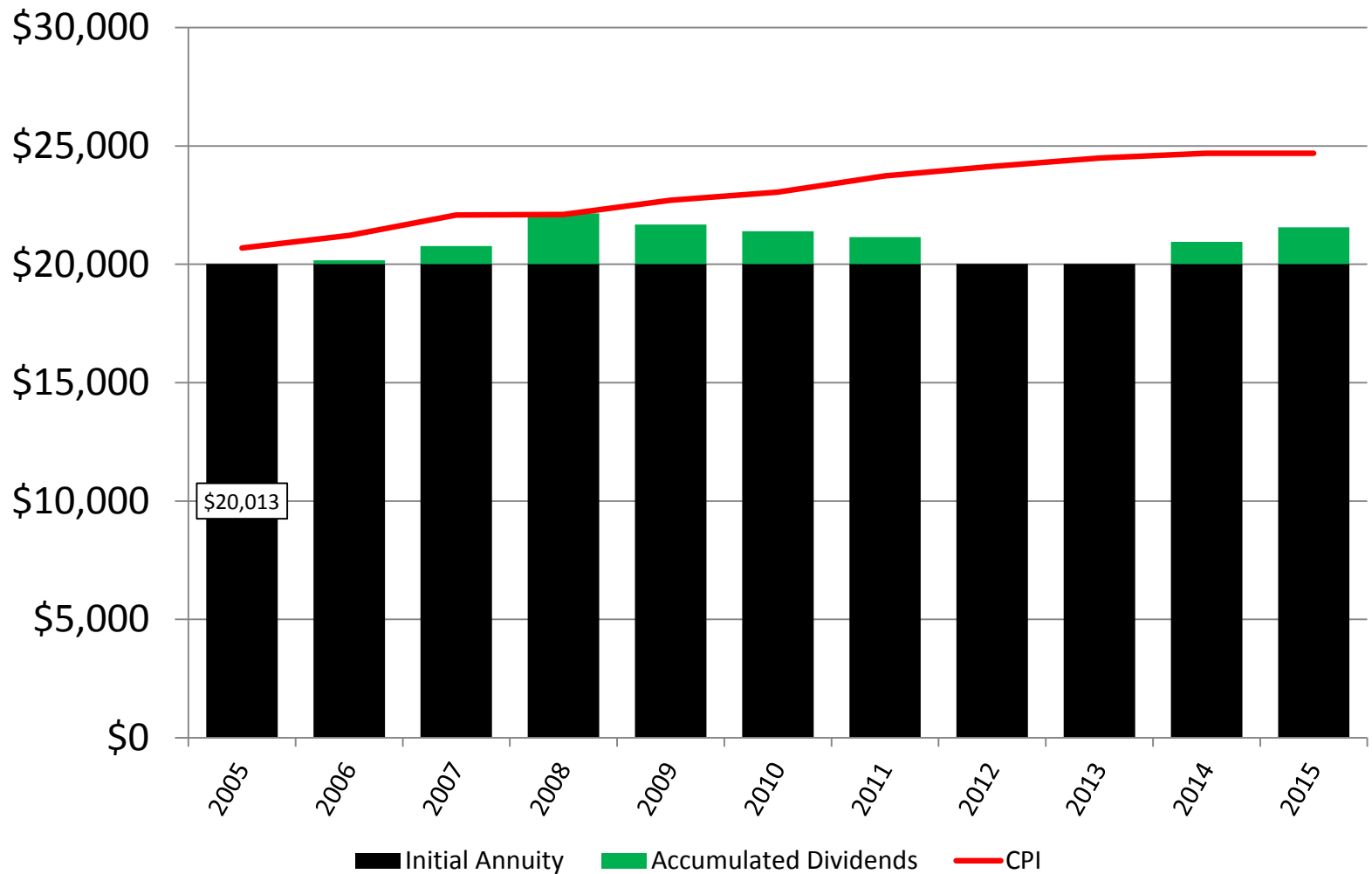
Change in Value of 2010 Annuity

(8,393 annuitants)
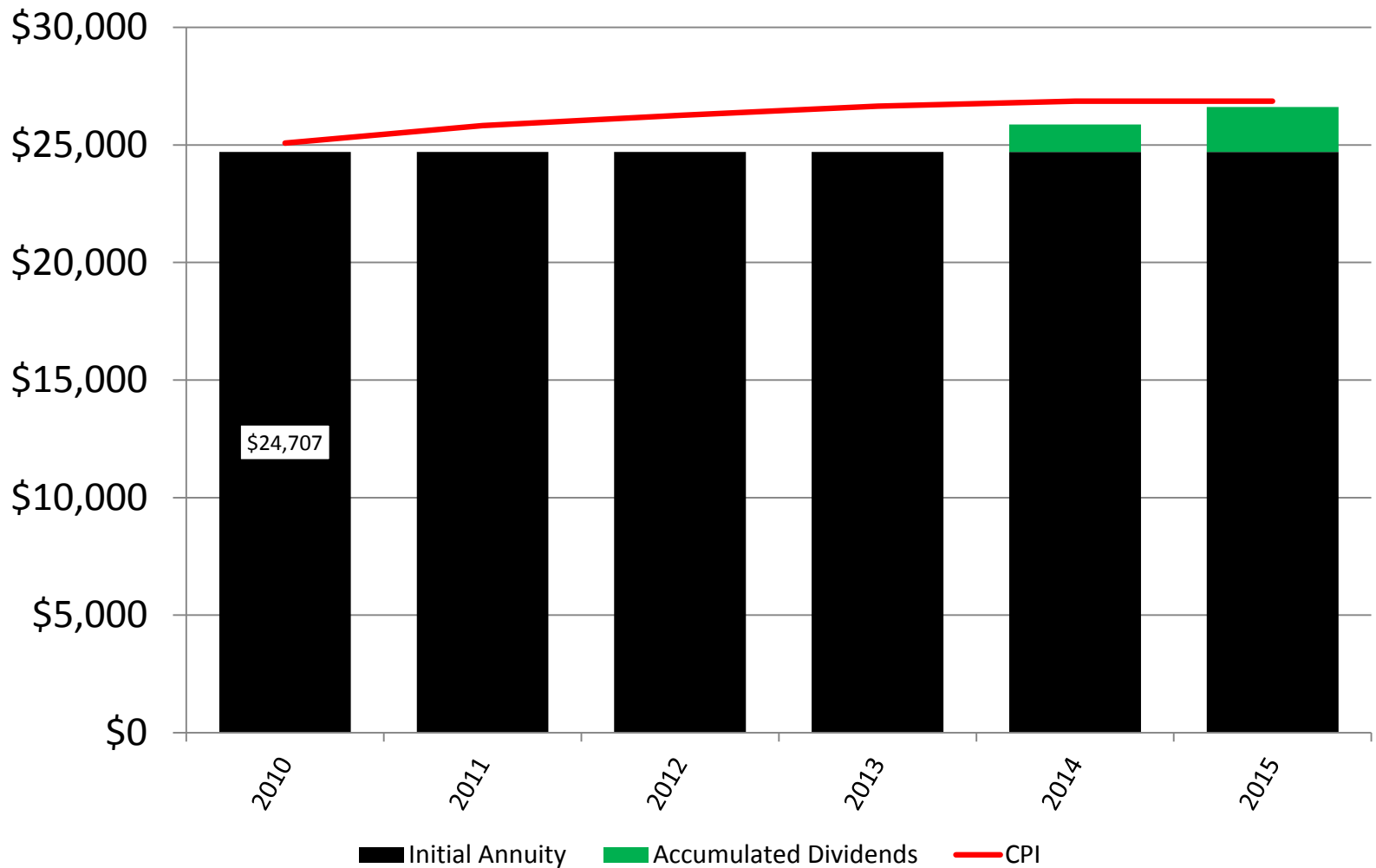
Annuity Liability by Year of Inception

Annuity Liability (millions $)	
Initial Annuity	$41,174
Past Increases	4,571
2.9% Increase	1,326
Total Annuity Liability	$47,071
Increases as % of Liability	12.5%

■ Initial Annuity   ■ Dividends   ■ 2.9% Increase
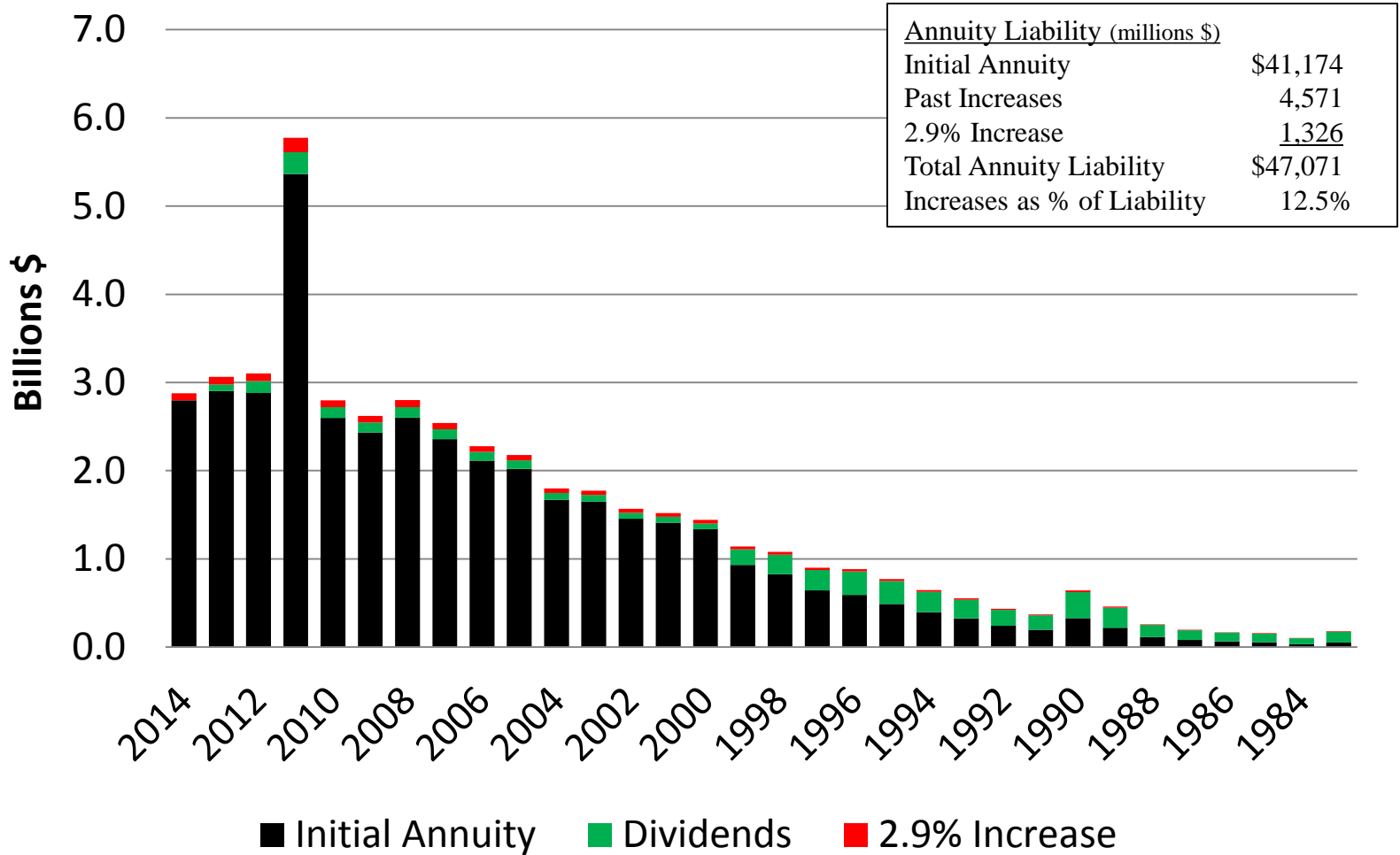
Annuity Adjustment Projections

Assumptions

- Based on 2014 actual Core Trust Fund investment returns.

- Includes 2011 - 2014 investment gains and losses carried forward in the Market Recognition Account (MRA).

- 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 .

Assumptions (cont.)

- 0.4% per year is used for administrative expenses, primarily SWIB investment expenses

- 0.4% per year is reserved for mortality improvement and other actuarial adjustments and is not available for annuity adjustments.

- Negative adjustments can only reduce increases granted in prior years. A core annuity cannot be reduced below the original value.

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 (7.2%) are recognized;
  - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.

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There is a $2.6 billion investment gain to be recognized in future years, $574 million of it in 2015

Year Earned	Year to Be Recognized (millions $)				
	2014	2015	2016	2017	2018
2015		???	???	???	???
2014	(238)	(238)	(238)	(238)	(238)
2013	955	955	955	955	
2012	793	793	793		
2011	(936)	(936)			
2010	399				
Totals	973	574	1,510	717	(238)

The deferred investment gains will be allocated approximately 55% to the annuity reserve, 27% to the employer reserve and 18% to the member reserve.

Annuity Adjustment Projections

- Projections…not predictions
- Only an actuarial valuation can accurately calculate the annuity adjustments
- Useful for anticipating the magnitude, not exact amount, of future adjustments

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A 7.2% investment return in 2015 will result in an annuity adjustment between 2.3% and 2.7%

	2014	2015	2016	2017	2018
SWIB Net Investment Return	5.9%	7.2%	7.2%	7.2%	7.2%
Effective Rate	8.7%	7.9% to 8.3%	8.9% to 9.3%	7.9% to 8.3%	6.7% to 7.1%
Annuity Adjustment	2.9%	2.3% to 2.7%	3.1% to 3.5%	2.2% to 2.6%	1.1% to 1.5%

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A 0% investment return in 2015 will result in an annuity adjustment between 0.9% and 1.1%

	2014	2015	2016	2017	2018
SWIB Net Investment Return	5.9%	0.0%	7.2%	7.2%	7.2%
Effective Rate	8.7%	6.4% to 6.8%	7.4% to 7.8%	6.3% to 6.7%	5.1% to 5.5 %
Annuity Adjustment	2.9%	0.9% to 1.3%	1.7% to 2.1%	0.7% to 1.1%	0.0%

A -8.1% investment return in 2015 will result in a negative annuity adjustment

	2014	2015	2016	2017	2018
SWIB Net Investment Return	5.9%	-8.1%	7.2%	7.2%	7.2%
Effective Rate	8.7%	4.6% to 5.0%	5.6% to 6.0%	4.5% to 4.9%	3.1% to 3.5%
Annuity Adjustment	2.9%	-0.5%	0.0%	0.0%	-2.3% to -2.7%

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Questions?