



Core Fund Annuity Adjustment Projections

Joint Meeting

Robert Willett
Office of Trust Finance

March 24, 2016



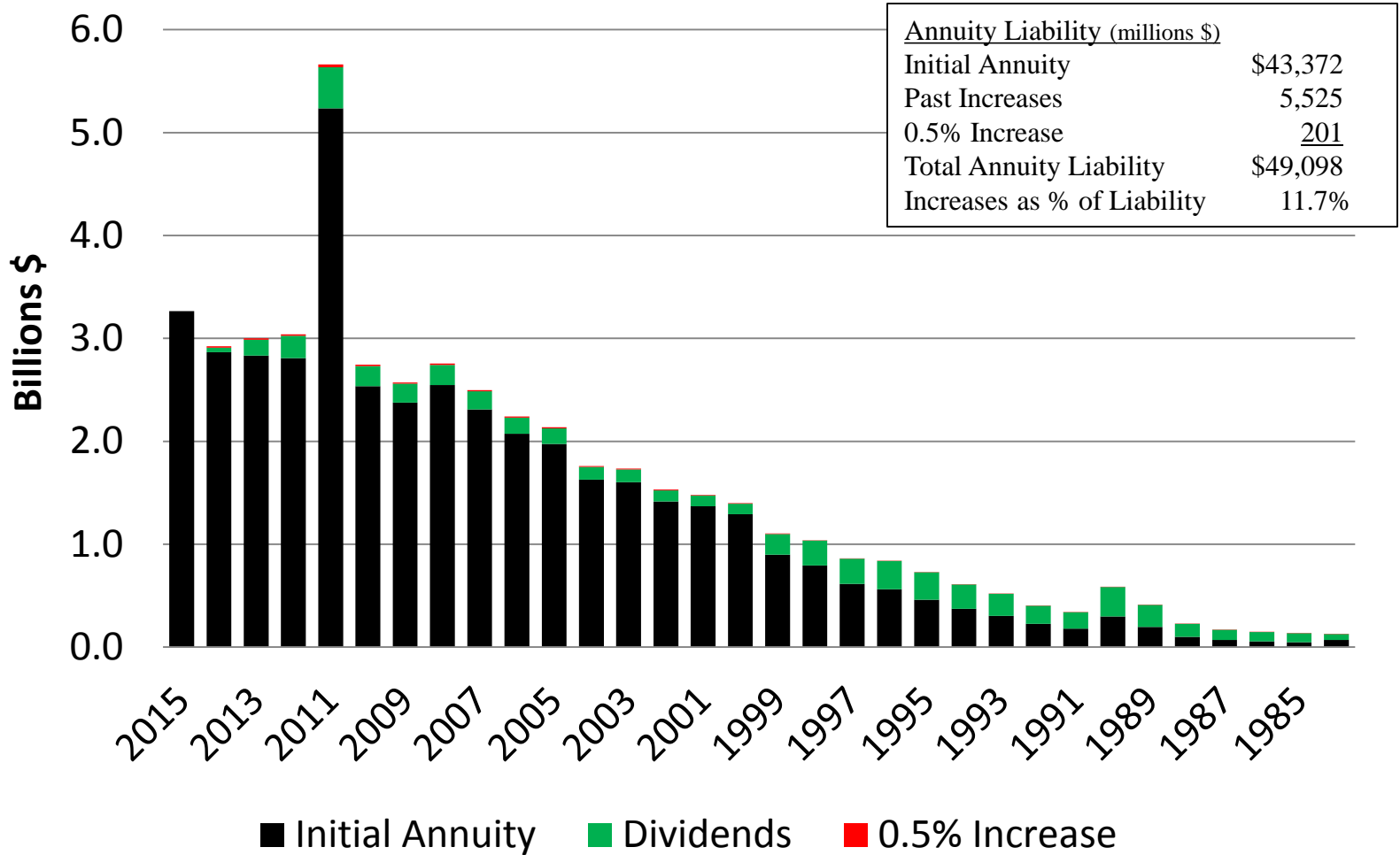
Current Value of Annuities*

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
2011	\$1,083	1.6%	\$1,228	4.2%	1.5%
2006	\$1,083	0.8%	\$1,061	0.6%	1.9%
2001	\$1,083	0.5%	\$917	(0.6%)	2.1%
1996	\$1,575	2.3%	\$1,489	2.0%	2.2%
1991	\$1,990	2.8%	\$2,339	3.5%	2.3%

* Including annuity adjustments to be made effective April 1, 2016



Annuity Liability by Year of Inception



Annuity Adjustment Projections



Assumptions

- Based on 2015 actual Core Trust Fund investment returns.
- Includes 2012 - 2015 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
- 0.5% 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.

There is a \$3.4 billion investment loss to be recognized in future years

Year Earned	Year to Be Recognized (millions \$)				
	2015	2016	2017	2018	2019
2016		???	???	???	???
2015	(1,346)	(1,346)	(1,346)	(1,346)	(1,346)
2014	(243)	(243)	(243)	(243)	
2013	953	953	953		
2012	793	793			
2011	(936)				
Totals	(779)	157	(636)	(1,589)	(1,346)

The deferred investment gains and losses 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

A 7.2% investment return in 2016 will result in an annuity adjustment between 1.2% and 1.6%

	2015	2016	2017	2018	2019
SWIB Net Investment Return	(0.4%)	7.2%	7.2%	7.2%	7.2%
Effective Rate	6.4%	7.4% to 7.8%	6.4% to 6.8%	5.3% to 5.7%	5.6% to 6.0%
Annuity Adjustment	2.9%	1.2% to 1.6%	0% to 0.8%	0%	0% to 0.5%

A 0% investment return in 2016 will result in a 0% annuity adjustment

	2015	2016	2017	2018	2019
SWIB Net Investment Return	(0.4%)	0%	7.2%	7.2%	7.2%
Effective Rate	6.4%	6.0% to 6.4%	4.9% to 5.3%	3.7% to 4.1%	3.9% to 4.3%
Annuity Adjustment	0.5%	0%	(0.5%) to (0.9%)	(1.2%) to (1.6%)	(1.1%) to (1.5%)

A -3.8% investment return in 2016 will result in a negative annuity adjustment

	2015	2016	2017	2018	2019
SWIB Net Investment Return	(0.4%)	(3.8%)	7.2%	7.2%	7.2%
Effective Rate	6.4%	5.2% to 5.6%	4.1% to 4.5%	2.8% to 3.2%	3.0% to 3.4%
Annuity Adjustment	0.5%	(0.5%)	(1.3%) to (1.7%)	(2.0%) to (2.4%)	(2.0%) to (2.4%)

Questions?

