Washington State’s Pension System: A Three-legged Stool

Retirement Public Employees Council Conference

Theresa Whitmarsh, Executive Director
Washington State Investment Board
September 23, 2015
Washington State – A Positive Exception to the Rule

Washington Success Attributable to Three Legs of Pension Stool All Stable

Sound Pension System Design

- Strong governance structure with an independent State Actuary, State Investment Board, and Department of Retirement Systems
- System has evolved to meet changing needs

(Mostly) Adequate Contributions

- Relatively strong history of full funding

Strong Investment Program

- Returns consistently in top decile of public pension funds
- Exceeding actuarial return assumption over time
1930’s-1940’s: various public pension systems created

1950’s-1960’s: independent administration continued

1960’s-1970’s: local police/fire systems consolidated into LEOFF

1976: Dept. of Retirement Systems and State Actuary created

1977: Plan 2 created for PERS, TRS and LEOFF

1981: Washington State Investment Board created

1987: Joint Committee on Pension Policy Created

1995: TRS Plan 3 created

1998: SERS Plan 2/3 created

1999: PERS Plan 3 created
Sound Pension System Design – State, County, and City Employees Now Under One Pension Roof

- All public employees share similar plan designs
- Benefits administered by a single agency
- Defined benefit (DB) plans and hybrid DB/DC (defined contribution) plans commingled into one investment fund – Commingled Trust Fund (CTF)

<table>
<thead>
<tr>
<th>Defined Benefit Plans</th>
</tr>
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<tbody>
<tr>
<td>Public Employees' Retirement System Plan 1 (PERS)</td>
</tr>
<tr>
<td>Public Employees' Retirement System Plan 2/3</td>
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<tr>
<td>Teachers' Retirement System Plan 1 (TRS)</td>
</tr>
<tr>
<td>Teachers' Retirement System Plan 2/3</td>
</tr>
<tr>
<td>Volunteer Fire Fighters' Relief &amp; Pension Fund (VOLFF)</td>
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<tr>
<td>Washington State Patrol Retirement System Plan 1 (WSPRS)</td>
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<tr>
<td>Washington State Patrol Retirement System Plan 2</td>
</tr>
<tr>
<td>Law Enforcement Officers' &amp; Fire Fighters' Plan 1 (LEOFF)</td>
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<tr>
<td>Law Enforcement Officers' &amp; Fire Fighters' Plan 2</td>
</tr>
<tr>
<td>School Employees' Retirement System Plan 2/3 (SERS)</td>
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<tr>
<td>Public Safety Employees' Retirement System Plan 2 (PSERS)</td>
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</tbody>
</table>
In 1981, the Washington State Legislature created the Board to “...exercise all powers and perform all duties prescribed by law with respect to public trust and retirement funds” (RCW 43.33A.010)

The Legislature gave the 10 voting and 5 non-voting members of the Board the responsibility to invest and manage retirement funds contributed by public employers and employees

- The Board’s plenary authority and responsibility is broadly set forth in RCW 43.84.150: “... the State Investment Board shall have full power to invest, reinvest, manage, contract, or sell or exchange investments acquired”
- The WSIB is also given similar broad authority to make and manage investments for other state trust funds in a number of other statutes

The WSIB, comprised of the Board and its staff, is a state agency and part of the Executive Branch of Washington State
WSIB has Strong Governance Structure

Board comprised of 10 members representing system owners
- Plus five non-voting investment experts that advise the Board independent of staff and consultants

No single appointing authority controls the Board
- Structure minimizes political interference

<table>
<thead>
<tr>
<th>Appointment Authority</th>
<th>Name</th>
<th>Position</th>
</tr>
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<tbody>
<tr>
<td>Ex-Officio</td>
<td>Jim McIntire</td>
<td>State Treasurer</td>
</tr>
<tr>
<td></td>
<td>Marcie Frost, Chair</td>
<td>Director, DRS</td>
</tr>
<tr>
<td></td>
<td>Joel Sacks</td>
<td>Director, Labor &amp; Industries</td>
</tr>
<tr>
<td>Senate President</td>
<td>Mike Hewitt</td>
<td>State Senator</td>
</tr>
<tr>
<td>House Speaker</td>
<td>Timm Ormsby</td>
<td>State Representative</td>
</tr>
<tr>
<td>Governor</td>
<td>Judy Kuschel</td>
<td>Active Member, PERS</td>
</tr>
<tr>
<td></td>
<td>George Masten</td>
<td>Retired Member, PERS</td>
</tr>
<tr>
<td></td>
<td>Kelly Fox, Vice Chair</td>
<td>Active Member, LEOFF</td>
</tr>
<tr>
<td>Superintendent of Public Instruction</td>
<td>Arlista D. Holman</td>
<td>Active Member, SERS</td>
</tr>
<tr>
<td></td>
<td>Stephen Miller</td>
<td>Active Member, TRS</td>
</tr>
<tr>
<td>5 Investment Professionals</td>
<td>Robert Nakahara</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jeffrey Seely</td>
<td></td>
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<tr>
<td></td>
<td>David Nierenberg</td>
<td></td>
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<tr>
<td></td>
<td>William A. Longbrake</td>
<td></td>
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<td></td>
<td>Richard Muhlebach</td>
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</tbody>
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WSIB Investment Responsibility (35 Funds Managed)

**Retirement Funds**
- Public Employees’ Plans 1, 2, 3 *
- School Employees’ Plans 2, 3 *
- Teachers’ Plans 1, 2, 3 *
- Law Enforcement Officers’ and Firefighters’ Plans 1, 2
- Judicial Retirement Account – Defined Contribution
- Washington State Patrol Plans 1, 2
- Volunteer Firefighters’ Relief and Pension Fund
- Deferred Compensation Program
- Public Service Employees’ Plan 2
- Higher Education Retirement Plan Supplemental Benefit Fund

**Permanent Funds**
- Agricultural College
- Common School
- Normal School
- Scientific
- State University
- American Indian Endowed Scholarship
- Foster Care Endowed Scholarship

**Other Funds**
- Guaranteed Education Tuition
- Developmental Disabilities Endowment
  - Private
  - State
- Washington State Opportunity Scholarship Fund
  - Scholarship
  - Endowment
- Family and Medical Leave Insurance Fund (unfunded)

* All Plan 1s are closed to new participants. The Plan 3s are hybrid plans with both defined benefit and defined contribution assets.
WSIB manages investments in:

- 74 different countries
- Across 6 continents
  - 49 currencies
  - Over 12,000 investment holdings
Geographically Diversified

Designed to manage risk across different economic market conditions to produce the best possible returns
WSIB success has been the result of being:

- Ahead of the market
  - Private Equity
  - Global
- Willing to be different
  - Real estate operating company (REOC) strategy
  - Tangible Assets
  - Fixed Income – not benchmark driven
- Disciplined
  - Walk away from strategies that do not fit
  - Walk away from transactions with unacceptable terms and/or condition
  - Stayed with asset allocation while others de-risked
- Long time horizon allows us to withstand interim volatility
## Strong Investment Returns

**June 30, 2015**

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>MV ($ Billions)</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTF Total Fund</td>
<td>$80.53</td>
<td>4.93%</td>
<td>11.34%</td>
<td>11.13%</td>
<td>7.55%</td>
<td>8.80%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>24%</td>
<td>$17.80</td>
<td>0.30%</td>
<td>2.32%</td>
<td>3.97%</td>
<td>5.32%</td>
</tr>
<tr>
<td>Tangibles</td>
<td>2%</td>
<td>$1.60</td>
<td>3.63%</td>
<td>2.25%</td>
<td>3.08%</td>
<td>N/A</td>
</tr>
<tr>
<td>Real Estate</td>
<td>15%</td>
<td>$11.60</td>
<td>14.29%</td>
<td>15.03%</td>
<td>13.58%</td>
<td>8.76%</td>
</tr>
<tr>
<td>Public Equity</td>
<td>37%</td>
<td>$30.10</td>
<td>1.37%</td>
<td>14.05%</td>
<td>12.85%</td>
<td>6.71%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>22%</td>
<td>$17.70</td>
<td>11.24%</td>
<td>14.88%</td>
<td>14.69%</td>
<td>12.15%</td>
</tr>
<tr>
<td>Innovation</td>
<td>0%</td>
<td>$0.26</td>
<td>-10.38%</td>
<td>17.58%</td>
<td>13.25%</td>
<td>N/A</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>$0.96</td>
<td>0.10%</td>
<td>0.13%</td>
<td>0.14%</td>
<td>1.56%</td>
</tr>
</tbody>
</table>
Low Cost to Participants and Taxpayers

- WSIB’s expenses are funded from investment earnings
- WSIB ranked as a low cost, high performing institutional investor (CEM Benchmarking Annual Survey)

Total Assets Under Management (as of June 30, 2015)
$106.9 Billion

WSIB Expenses 2015
$406.1 Million (0.38%)
Summary

- Washington has one of the best retirement systems in the nation
- WSIB is a long-term investor with a proven record of success
- WSIB takes a disciplined approach to investment with the highest standards of integrity
- Dedicated to working for the best interests of beneficiaries
- Dedicated to continuous improvement

Web address: http://www.sib.wa.gov