

Lower General Salary Increase Assumption

Description Of Issue

The issue is whether to lower the general salary increase assumption from 4.50 to 4.25 percent. The general salary increase assumption is an economic assumption that is used for the systematic actuarial funding of the Washington State retirement systems.

Economic assumptions are specified in the actuarial funding chapter of state law. See RCW 41.45.035. The funding chapter also provides that the Pension Funding Council (PFC) and ultimately, the Legislature, can modify these assumptions. As part of the contribution rate-setting process, the SCPP makes recommendations to the PFC regarding any changes to the assumptions based on changes in actuarial experience.

The State Actuary completed a six-year experience study in 2008, and recommended that the assumption be lowered to 4.25 percent.

Policy Highlights

- ❖ Matching assumptions to experience prevents the accumulation of excess gains and losses.
- ❖ The proposed legislation would align the statute with the recommendation of the State Actuary and the decision of the PFC.

Committee Activity

Staff briefed the Committee on this issue in July and the SCPP recommended to the PFC that it lower the general salary increase assumption from 4.50 to 4.25 percent. The PFC agreed and adopted this change on July 22, 2008. The SCPP held a public hearing in September and took executive action to recommend to the Legislature that the general salary increase assumption be lowered.

Recommendation To 2009 Legislature

Lower the statutory general salary increase assumption from 4.50 percent to 4.25 percent for all plans except the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2—consistent with the actions of the Pension Funding Council.

Staff Contact

Laura Harper, Policy and Research Services Manager
360.786.6145
harper.laura@leg.wa.gov

O:\Reports\Interim Issues\2008\Exec_Summ\8.Lower_Gen_Sal_Increase_Assump_Exec_Sum.docx

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0119.2/09 2nd draft

ATTY/TYPIST: LL:seg

BRIEF DESCRIPTION: Lowering the general salary increase assumption
for the actuarial funding of certain public
retirement systems.

1 AN ACT Relating to lowering the general salary increase assumption
2 from 4.5 percent to 4.25 percent for the actuarial funding of the
3 public employees' retirement system, the teachers' retirement system,
4 plan 1 of the law enforcement officers' and firefighters' retirement
5 system, the school employees' retirement system, the public safety
6 employees' retirement system, and the Washington state patrol
7 retirement system; amending RCW 41.45.035; providing an effective date;
8 and declaring an emergency.

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

10 **Sec. 1.** RCW 41.45.035 and 2004 c 93 s 2 are each amended to read
11 as follows:

12 (1) Beginning July 1, 2001, the following long-term economic
13 assumptions shall be used by the state actuary for the purposes of RCW
14 41.45.030:

15 (a) The growth in inflation assumption shall be 3.5 percent;

16 (b) The growth in salaries assumption, exclusive of merit or
17 longevity increases, shall be 4.5 percent;

18 (c) The investment rate of return assumption shall be 8 percent;

19 and

1 (d) The growth in system membership assumption shall be 1.25
2 percent for the public employees' retirement system, the school
3 employees' retirement system, and the law enforcement officers' and
4 firefighters' retirement system. The assumption shall be .90 percent
5 for the teachers' retirement system.

6 (2) Beginning July 1, 2009, the following long-term economic
7 assumption for growth in salaries, exclusive of merit or longevity
8 increases, shall be used by the state actuary for the purposes of RCW
9 41.45.030: 4.25 percent for the public employees' retirement system,
10 the teachers' retirement system, plan 1 of the law enforcement
11 officers' and firefighters' retirement system, the school employees'
12 retirement system, the public safety employees' retirement system, and
13 the Washington state patrol retirement system.

14 (3)(a) Beginning with actuarial studies done after July 1, 2003,
15 changes to plan asset values that vary from the long-term investment
16 rate of return assumption shall be recognized in the actuarial value of
17 assets over a period that varies up to eight years depending on the
18 magnitude of the deviation of each year's investment rate of return
19 relative to the long-term rate of return assumption. Beginning with
20 actuarial studies performed after July 1, 2004, the actuarial value of
21 assets shall not be greater than one hundred thirty percent of the
22 market value of assets as of the valuation date or less than seventy
23 percent of the market value of assets as of the valuation date.
24 Beginning April 1, 2004, the council, by affirmative vote of four
25 councilmembers, may adopt changes to this asset value smoothing
26 technique. Any changes adopted by the council shall be subject to
27 revision by the legislature.

28 (b) The state actuary shall periodically review the appropriateness
29 of the asset smoothing method in this section and recommend changes to
30 the legislature as necessary.

31 NEW SECTION. Sec. 2. This act is necessary for the immediate
32 preservation of the public peace, health, or safety, or support of the
33 state government and its existing public institutions, and takes effect
34 July 1, 2009.

--- END ---

DRAFT ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	035	01/05/09	Z-0119.2 / Z-0444.1

WHAT THE READER SHOULD KNOW

The Office of the State Actuary (“we”) prepared this draft fiscal note based on our understanding of the proposal as of the date shown above. We intend this draft fiscal note to be used by the Select Committee on Pension Policy throughout the 2008 Interim only. If a legislator introduces this proposal as a bill during the next Legislative Session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

We advise readers of this draft fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this draft fiscal note as a whole. Distribution of or reliance on only parts of this draft fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This proposal changes the general salary increase assumption currently in statute to be consistent with the assumption change adopted by the Pension Funding Council (PFC) on July 22, 2008. The PFC lowered the general salary increase assumption for the actuarial funding of the state retirement systems from 4.5 percent to 4.25 percent for all state-administered plans and systems identified in Chapter 41.45 RCW except the Law Enforcement Officers’ and Firefighters’ (LEOFF) Plan 2.

There is no fiscal impact resulting from this proposal.

WHAT IS THE PROPOSED CHANGE?

Summary of Change

This proposal impacts the following systems and plans:

- Public Employees’ Retirement System (PERS): Plans 1, 2, and 3
- Teachers’ Retirement System (TRS): Plans 1, 2, and 3
- School Employees’ Retirement System (SERS): Plans 2 and 3 [Note: there is no Plan 1 in SERS.]

- Public Safety Employees' Retirement System (PSERS) [Note: there is only one plan in PSERS.]
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF): Plan 1 [Note: LEOFF Plan 2 is excluded from this proposal.]
- Washington State Patrol Retirement System (WSPRS), "Plans 1 and 2" [Note: "Plan 2" covers commissioned employees who first became members of the system on or after January 1, 2003.]

The proposal changes the general salary increase assumption for the actuarial funding of the plans and systems listed above to be consistent with the assumption change adopted by the PFC. The PFC lowered the general salary increase assumption from 4.5 percent to 4.25 percent. This assumption is referred to in state statute as the "growth in salaries assumption, exclusive of merit or longevity increases," and is found in RCW 41.45.035(1)(b).

Assumed Effective Date: July 1, 2009

What Is The Current Situation?

Currently the actuarial funding chapter of state law specifies the general salary increase assumption to be used for the actuarial funding of the plans and systems identified within the chapter. The assumption in statute is 4.5 percent. On July 22, 2008, the Pension Funding Council adopted a change in this economic assumption. The assumption was lowered to 4.25 percent in response to a recommendation from the State Actuary based on the results of the 2008 Experience Study. The Board of Trustees for LEOFF Plan 2 also received this recommendation from the State Actuary and did not adopt the assumption change.

This proposal would make the statutory provision in the actuarial funding chapter consistent with the assumption change already adopted by the Pension Funding Council. Also, the proposal is crafted to retain the 4.5 percent assumption already in place for LEOFF Plan 2.

[Note: RCW 41.45.030(3) authorizes the Council to modify the long-term economic assumptions for those retirement systems identified in the actuarial funding chapter. Economic assumptions for LEOFF Plan 2 are set by the LEOFF Plan 2 Board of Trustees pursuant to RCW 41.26.720(1)(a).]

ACTUARIAL RESULTS

This proposal simply aligns the current assumptions which are set in statute with the latest actions of the PFC. The PFC also adopted contribution rates that reflect this assumption change and the fiscal impact is included in the current law budget. As a result, there is no additional impact on the actuarial liabilities or contribution rates for this proposal.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. This draft fiscal note has been prepared for the Select Committee on Pension Policy.
2. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this draft fiscal note.

This draft fiscal note is a preliminary actuarial communication and the results shown may change. While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Matthew M. Smith, FCA, EA, MAAA
State Actuary

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

July 15, 2008

TO: Pension Funding Council Members
Senator Margarita Prentice, Chair Ways and Means Committee
Senator Joseph Zarelli, Ranking Minority Member Ways and Means Committee
Representative Helen Sommers, Chair Appropriations Committee
Representative Gary Alexander, Ranking Minority Member, Appropriations Committee
Ms. Sandra Matheson, Director Department of Retirement Systems
Mr. Victor Moore, Director Office of Financial Management

FROM: *ms* *Senator Mark Schoesler, Chair Select Committee on Pension Policy*
sd *Representative Steve Conway, Vice-Chair Select Committee on Pension Policy*

**SUBJECT: SELECT COMMITTEE ON PENSION POLICY
RECOMMENDATION ON 2009-11 PENSION
CONTRIBUTION RATES**

The Select Committee on Pension Policy recommends that the Pension Funding Council adopt the State Actuary's recommended contribution rates for the 2009-2011 biennium with projected mortality improvements, using the general salary increase assumption of 4.25 percent. The SCPP will recommend legislation for 2009 that reduces the salary growth assumption in RCW 41.45.035(b) from 4.5 to 4.25 percent.

O:\PFC\2008\SCPP_Recommendation_7-15-08.doc

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

***Representative Steve Conway,**
Vice Chair

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

Randy Davis
TRS Actives

Representative Bill Fromhold

Senator Steve Hobbs

Senator Janea Holmquist

Robert Keller
PERS Actives

***Sandra J. Matheson, Director**
Department of Retirement Systems

***Corky Mattingly**
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Ed Murray

Glenn Olson
PERS Employers

***Senator Mark Schoesler,**
Chair

J. Pat Thompson
PERS Actives

***David Westberg**
SERS Actives

***Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993