

OSA Request Legislation

Description Of Issue

The State Actuary is seeking to update the actuarial funding chapter to clarify how the State Actuary studies salary growth and to codify current practices around actuarial experience studies.

The State Actuary studies economic and demographic components of total salary growth together and makes recommendations as needed. However, current statute can be read to suggest that they are studied at different times.

The State Actuary makes recommendations to the Pension Funding Council (PFC) concerning long-term demographic assumptions based on the results of actuarial experience studies. The PFC considers these recommendations when adopting biennial contribution rates. Current statute only requires the State Actuary to *file* the experience study results—not make recommendations for the PFC to consider.

State Actuary's Proposal

- ❖ Clarify that the State Actuary may study all components of total salary growth together.
- ❖ Codify current practice that the State Actuary makes recommendations to the PFC based on actuarial experience studies and the PFC considers these recommendations when adopting biennial contribution rates.

Policy Highlights

The proposed changes are consistent with the Actuarial standards of practice and have no fiscal impact on the retirement systems.

Committee Activity

Staff briefed the Committee at its June and October meetings, and a public hearing was held in November. The Committee took executive action to recommend the State Actuary's proposal as SCPP request legislation in 2009.

Recommendation To 2009 Legislature

Clarify how the State Actuary studies salary growth, and codify current practices relating to recommendations of the State Actuary following an actuarial experience study.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0222.1/09

ATTY/TYPIST: LL:seg

BRIEF DESCRIPTION: Addressing the state actuary's recommendations
for assumptions used in the actuarial funding of
the state retirement systems.

1 AN ACT Relating to the state actuary's recommendations for
2 assumptions used in the actuarial funding of the state retirement
3 systems; and amending RCW 41.45.030 and 41.45.090.

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

5 **Sec. 1.** RCW 41.45.030 and 2007 c 280 s 1 are each amended to read
6 as follows:

7 (1) Beginning September 1, 2007, and every two years thereafter,
8 the state actuary shall submit to the council information regarding the
9 experience and financial condition of each state retirement system, and
10 make recommendations regarding the long-term economic assumptions set
11 forth in RCW 41.45.035. When making recommendations regarding the
12 general salary increase assumption, the state actuary may also consider
13 the demographic components of total salary growth and make
14 recommendations to the council concerning any changes to the
15 demographic assumptions within total salary growth. The council shall
16 review this and such other information as it may require.

17 (2) By October 31, 2007, and every two years thereafter, the
18 council, by affirmative vote of four councilmembers, may adopt changes

1 to the long-term economic assumptions established in RCW 41.45.035.
2 Any changes adopted by the council shall be subject to revision by the
3 legislature.

4 The council shall consult with the economic and revenue forecast
5 supervisor and the executive director of the state investment board,
6 and shall consider long-term historical averages, in reviewing possible
7 changes to the economic assumptions.

8 (3) The assumptions and the asset value smoothing technique
9 established in RCW 41.45.035, as modified in the future by the council
10 or legislature, shall be used by the state actuary in conducting all
11 actuarial studies of the state retirement systems, including actuarial
12 fiscal notes under RCW 44.44.040. The assumptions shall also be used
13 for the administration of benefits under the retirement plans listed in
14 RCW 41.45.020, pursuant to timelines and conditions established by
15 department rules.

16 **Sec. 2.** RCW 41.45.090 and 2003 c 295 s 9 are each amended to read
17 as follows:

18 (1) The department shall collect and keep in convenient form such
19 data as shall be necessary for an actuarial valuation of the assets and
20 liabilities of the state retirement systems, and for making an
21 actuarial investigation into the mortality, service, compensation, and
22 other experience of the members and beneficiaries of those systems.
23 The department and state actuary shall enter into a memorandum of
24 understanding regarding the specific data the department will collect,
25 when it will be collected, and how it will be maintained. The
26 department shall notify the state actuary of any changes it makes, or
27 intends to make, in the collection and maintenance of such data.

28 (2) At least once in each six-year period, the state actuary shall
29 conduct an actuarial experience study of the mortality, service,
30 compensation, and other experience of the members and beneficiaries of
31 each state retirement system(~~(, and into the financial condition of~~
32 ~~each system)~~). The state actuary shall make recommendations to the
33 council regarding the long-term demographic assumptions for the state
34 retirement systems. Concurrently, when considering the demographic
35 components of total salary growth, the state actuary may also study the
36 general salary increase assumption and make recommendations to the
37 council regarding any change to the noninflationary component of that

1 economic assumption. The council shall review the experience study
2 results, the recommendations of the state actuary, and other
3 information as it may require.

4 The results of each investigation shall be filed with the
5 department, the office of financial management, the budget writing
6 committees of the Washington house of representatives and senate, the
7 select committee on pension policy, and the pension funding council.
8 Upon the basis of such actuarial investigation the department shall
9 adopt such tables, schedules, factors, and regulations as are deemed
10 necessary in the light of the findings of the actuary for the proper
11 operation of the state retirement systems.

--- END ---

DRAFT ACTUARY'S FISCAL NOTE

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|------------------------------------|------------|-----------------|------------------------------|
| RESPONDING AGENCY: | CODE: | DATE: | PROPOSAL [NAME or Z-NUMBER]: |
| Office of the State Actuary | 035 | 12/31/08 | Z-0222.1 / Z-0406.1 |

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 (SCPP) 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.

RESULTS

There is no fiscal impact resulting from this proposal.

This proposal affects the processes around actuarial assumption-setting. First, the proposal would clarify how the State Actuary studies total salary growth. Total salary growth is an actuarial assumption with both economic and demographic components. The current statute could be read to suggest that the components are studied at different times. Under this proposal, the State Actuary is specifically authorized to study various components of total salary growth at the same time and make recommendations as needed.

The proposal also codifies current practice related to experience studies. Under current practice and based on experience study results, the State Actuary makes recommendations to the Pension Funding Council (PFC) concerning long-term demographic assumptions. The PFC considers these recommendations when adopting biennial rates. Current statute does not require these steps; it only requires the State Actuary to file the experience study results. The new law would codify current practice.

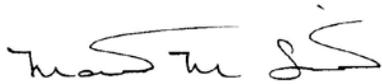
Both process changes are consistent with the Actuarial Standards of Practice.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. This draft fiscal note has been prepared for the SCPP.
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.



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State Actuary