

Recommendation to the PFC on Long-Term Economic Assumptions

Issue

The state actuary has recommended changes to long-term economic assumptions for the state's retirement systems. The recommendation to the Pension Funding Council (PFC) and the SCPP came out of a biennial review of economic experience required by statute. The SCPP has an opportunity to make its own recommendation to the PFC regarding changes to economic assumptions.

Background

Generally long-term economic assumptions are used for funding the state's retirement system and include investment return, salary growth, inflation, and membership growth. These assumptions are reviewed every two years according to a statutory cycle ([RCW 41.45.030](#)).

During odd-numbered years, the state actuary reviews economic assumptions and recommends any changes to the SCPP and PFC. The state actuary also reports on the financial condition of the state's retirement systems. Statute requires the SCPP to study any changes and make a recommendation on economic assumptions to the PFC ([RCW 41.04.281](#)). The PFC may adopt changes to economic assumptions subject to revision by the Legislature.

The current economic assumptions are provided in the next section. The annual investment return assumption is scheduled in statute to decrease by 0.10 percent a biennium until reaching 7.7 percent in the 2017-19 Biennium.

State Actuary's Recommendation to the PFC

Assumption	Current	Recommended
Inflation	3.00%	3.00%
General Salary Growth	3.75%	3.75%
Annual Investment Return	7.80%	7.50%
Growth in System Membership	0.80% (TRS)* 0.95% (PERS)**	1.25% (TRS) 0.95% (PERS)

Note: Excludes LEOFF 2. The LEOFF 2 Board adopts assumptions for LEOFF 2.

*Teachers' Retirement System (TRS)

**Public Employees' Retirement System (PERS)

The state actuary further recommends lowering the annual investment return assumption by extending the current statutory phase-in to the 2021-23 Biennium. Extending the phase-in would lower the assumption to 7.6 percent in the 2019-21 Biennium and 7.5 percent in the 2021-23 Biennium.

More information on the state actuary's recommendation is provided in the [2015 Report on Financial Condition and Economic Experience Study](#).

Options

- ❖ **Option 1:** No change to current assumptions.
- ❖ **Option 2:** Endorse the state actuary's recommendation without phase-in.
 - ◇ Lower the investment return assumption to 7.5 percent.
 - ◇ Increase TRS system growth rate to 1.25 percent.
- ❖ **Option 3:** Endorse the state actuary's recommendation with continued phase-in.
 - ◇ Extend the current phase-in of the investment return assumption to reach 7.5 percent by Fiscal Year 2021.
 - ◇ Increase TRS system growth rate to 1.25 percent.

Committee Activity

The SCPP considered this at the September and October meetings. In September, the committee received a briefing on the state actuary's recommended changes to long-term economic assumptions. In October, the committee considered a recommendation to the PFC and took no further action.

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