

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 Select Committee on Pension Policy (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 the 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.

State Actuary's Recommendation to the PFC

Assumption	Current	Recommended
Inflation	3.00%	2.75% ↓
General Salary Growth	3.75%	3.50% ↓
Annual Investment Return	7.70%	7.40% ↓
Growth in System Membership	0.95% (PERS), 1.25% (TRS)	0.95% (PERS), 1.25% (TRS)

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

More information on the state actuary's recommendation is provided in the [2017 Report on Financial Condition and Economic Experience Study](#).

Options

- ❖ **Option 1:** No changes to current assumptions.
- ❖ **Option 2:** Recommend the state actuary's assumptions with no phase-in.
- ❖ **Option 3:** Recommend assumptions different than the state actuary's recommended assumptions.
- ❖ **Option 4:** Recommend the state actuary's assumptions with phase-in.

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 recommended Option 2 to the PFC.

Staff Contact

Aaron Gutierrez, MPA, JD
Senior Policy Analyst
360.786.6152
aaron.gutierrez@leg.wa.gov

O:\SCPP\2017\Recommendations\Rec.to.PFC.Long-Term.Econ.Assumptions-Exec.Summary.docx