



# Retired Public Employees Council of Washington

June 10, 2022

The Honorable Senator Steve Conway, Chairman  
Select Committee on Pension Policy (SCPP)  
PO Box 40914  
Olympia, WA 98504-0914

Dear Chairman Conway:

The Retired Public Employees Council of Washington (RPEC) is requesting SCPP initiate a follow-up analysis of the Option A, an annual automatic Plan 1 COLA, submitted last November, 2021, for SCPP approval. This recurring COLA option was rejected with a one-time Plan 1 COLA instead being approved.

The purpose of this request is twofold: applying a different set of assumptions from those used last year which may result in reducing the UAAL and in adjusting the estimated 2021 cost to implement Option A.

Option A's 2021 analysis incorporated eight assumptions. Examples were employer contributions, present active members salary growth and estimated active members filing for benefits. RPEC is recommending four of the eight assumptions used be adjusted in an updated analysis. Following are these recommendations with further explanation. The attached Tables represent statistics extrapolated from the Department of Retirement Systems (DRS) "Comprehensive Annual Financial Report." With primary concern about PERS 1 UAAL, RPEC suggests limiting an analysis to this Plan 1.

### Revised Assumption #1: Is the Current 7% Return on Investment (ROI) Still Valid?

Table #1 on the attached reflects the ROI for 2014-2021 with an average ROI of 11.7% per year. For 2022, a continuing upward ROI is questionable with a possible recession occurring. However, it's worth exploring if the ROI requires adjustment upward taking also into consideration the recent inflationary trend. If ROI adjustment is warranted, incorporate it into our updated analysis request.

### Revised Assumptions #2: Trend in Number of Annuitants Receiving a Plan 1 Pension.

Table #2 illustrates the number of annuitants receiving benefits for 2010-2021 which reflects an ongoing year-to-year increasing decline perhaps due, in part, to the Covid impact. Given 76 is average annuitants age, RPEC projects 3.5% annual decline for 2021-2032 and reasonable for updated analysis.

### Revised Assumption #3: Trend in Number of Active Members Filing for Plan 1 Pension.

Table #3 illustrates a significant year-to-year decline in number of active members filing

for retirement benefits. In this requested Option A re-analysis, zero active members out by 2027.

Revised Assumption #4: Adjust Rate of Inflation for Option A.

With the rate of inflation significantly higher in 2021 (Table #4) and into 2022, the assumed 2.75% used for the 2021 Option A should be adjusted higher. In its presentation by The Office of the State Actuary (OSA) to the SPCP on May 17th, OSA estimated a 4.75% rate of inflation for 2022 which REPC agrees is appropriate for the re-analysis.

RPEC greatly appreciates your, and the SPCP's efforts, both past and current, in addressing the financial hardships of Plan 1 annuitants in meeting daily financial needs. Again, with average age 76 for Plan 1 beneficiaries, and given the current rate of inflation, their financial challenges are greater than ever.

RPEC welcomes the opportunity to discuss our analysis assumptions directly with OSA staff.

Sincerely,



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PERS AND TRS 1 PENSION PLANS INFORMATION

Table #1: Return On Investments (ROI)

Year	ROI(%)	ROI(%)
	<u>PERS 1</u>	<u>TRS 1</u>
2014	18.76	18.73
2015	4.45	4.41
2016	2.19	2.09
2017	13.84	14.45
2018	9.55	9.54
2019	8.68	8.65
2020	4.49	4.48
2021	31.34	31.31

Avg./year(%): PERS 1:11.7 TRS 1:11.7

Table #2 Notes

\*CY 2010-2021: annuitants receiving pensions including those with automatic COLA.  
 \*\*CY 2021-2033: annuitants receiving pensions reduced by 30% for PERS 1 and 10% for TRS 1 recipients excluding annuitants receiving automatic COLA.  
 Note: based on %decline trend for 2010-2021, a 3.5% decline per year is assumed for CY 2021-2032 to predict annuitants receiving monthly pensions.

Table #2: Estimated Number of Plan 1 Annuitants Per Year for CY 2010-2032

Year	<u>PERS 1*</u>		<u>TRS 1*</u>	
	<u>#Annuitants</u>	<u>%Dec</u>	<u>#Annuitants</u>	<u>%Dec</u>
2010	53,742	----	-----	----
2011	53,264	0.80	36,111	----
2012	52,672	1.11	36,054	0.16
2013	51,680	1.88	35,912	0.39
2014	51,070	1.20	35,639	0.76
2015	50,270	1.57	35,239	1.12
2016	49,268	1.99	34,787	1.28
2017	48,111	2.35	34,151	1.83
2018	46,880	2.56	33,385	2.24
2019	45,633	2.66	32,570	2.44
2020	44,199	3.00	31,698	2.68
2021	42,886	3.30	30,762	3.00
2021	30,020	**	27,686	**
2022	28,969	---	24,917	---
2023	27,955	---	22,425	---
2024	26,977	---	20,182	---
2025	26,033	---	18,164	---
2026	25,122	---	16,348	---
2027	24,243	---	14,713	---
2028	23,395	---	13,242	---
2029	22,576	---	11,918	---
2030	21,786	---	10,726	---
2031	21,023	---	9,653	---
2032	20,287	---	8,688	---

Table #3: Number of PERS/TRS 1 active members still working CY2016-21:

Year	<u>PERS 1</u>		<u>TRS 1</u>	
	<u>#Active Members</u>	<u>% Decline</u>	<u>#Active Members</u>	<u>% Decline</u>
2016	3,227	---	967	---
2017	2,597	19.5	698	27.8
2018	2,011	22.6	491	29.7
2019	1,538	23.5	350	28.7
2020	1,181	23.2	260	25.7
2021	875	25.9	162	37.7

Table #4: Rate of Inflation for Seattle-Tacoma-Bellevue CY 2010-2022(%):

CY 2010-2020: 2.14% average per year  
 CY 2021: 7.6%(December-December)  
 CY 2022: 8.0%(through February)

References:

- Department of Retirement Systems Annual Comprehensive Financial Rpt.
- U.S. Bureau of Labor Statistics
- Office of the State Actuary
- Warren Warfield 04/02/2022