

Report on Financial Condition

*Presentation to
Select Committee on Pension Policy*

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Today's Presentation

- Assessing plan health in the *Report on Financial Condition* (RFC)
- Current health of the retirement plans
- Projected health
- Financial risks to the plans
- No action required

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Assessing Plan Health in the RFC

- **Affordability:** Ability to provide adequate funding
 - Examples: Contribution rate levels, pension contributions relative to state budget
- **Solvency:** Ability to pay for member benefits when due
 - Example: Funded ratio



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Current Plan Health



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Contribution Rates Trending Downward

- As of 2024 AVR, \$7.3 billion in deferred asset gains (all plans combined) under asset smoothing method
- 2025-27 rates set by ESSB 5357, which suspended Plan 1 UAAL funding and decreased the rates adopted by PFC
- See Appendix for Plan 2 member rates

Total Employer Contribution Rates ¹			
	2021-23 Biennium	2023-25 Biennium	2025-27 Biennium
System	Collected ²	Collected ²	Adopted
PERS	10.13%	9.10%	5.38%
TRS	14.38%	9.58%	7.54%
SERS	11.54%	10.52%	6.87%
PSERS	10.31%	9.48%	6.91%
LEOFF ³	8.53%	8.53%	8.53%
WSPRS	17.66%	17.78%	15.85%

¹Excludes DRS administrative expense fee.

²Average collected rate over biennium.

³LEOFF 2 rate. No contributions are required for LEOFF 1 when the plan is fully funded.

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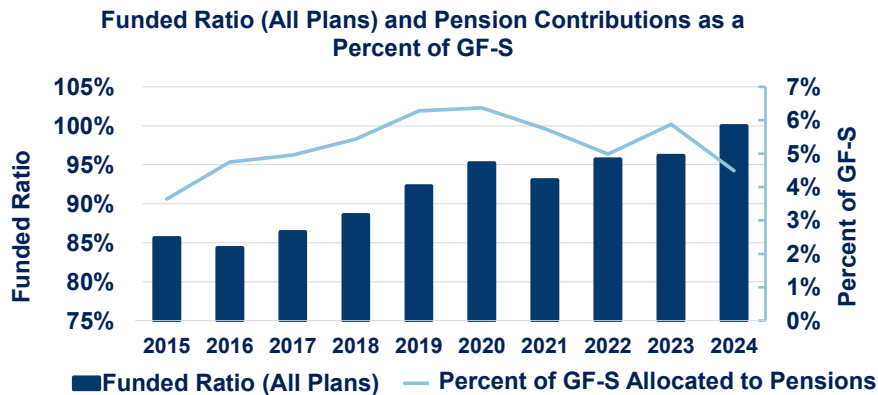
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Improved Funded Ratio Aided by Higher Contribution Levels

- GF-S pension allocation began declining in FY 2021
 - One-time, TRS 1 \$250 million payment in FY 2023



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Affordability and Solvency Continue to Improve

- Affordability
 - Contribution rates began trending downward in 2021-23 Biennium
 - Recent legislation prescribed lower contribution rates in 2025-27 Biennium and paused PERS 1 and TRS 1 UAAL funding
- Solvency
 - Funded ratio (all plans combined) has trended upward since 2016
 - June 30, 2024, funded ratios
 - All open plans above 95%
 - PERS 1, TRS 1, and LEOFF 1 are 87%, 91%, and 160%, respectively

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Projected Plan Health

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Projected Rates Continue Downward Trend for Most Plans

- Reflects future experience occurring exactly as assumed
- Smaller portion of the GF-S allocated to pensions
 - ~ 3.5% in FY 2026 vs. ~ 6% in FY 2020

Total Employer Contribution Rates ¹				
	2025-27 Biennium	2027-29 Biennium	2029-31 Biennium	2031-33 Biennium
System	Adopted	Projected	Projected	Projected
PERS	5.38%	4.71%	4.94%	4.93%
TRS	7.54%	6.79%	6.89%	6.60%
SERS	6.87%	5.85%	5.40%	5.28%
PSERS	6.91%	6.87%	7.01%	6.87%
LEOFF ²	8.53%	8.73%	9.32%	9.35%
WSPRS	15.85%	14.71%	10.35%	8.36%

¹Excludes DRS administrative expense fee.

²Displayed the average LEOFF 2 adopted rate for the 2027-29 Biennium. No contributions are required for LEOFF 1 when the plan is fully funded.

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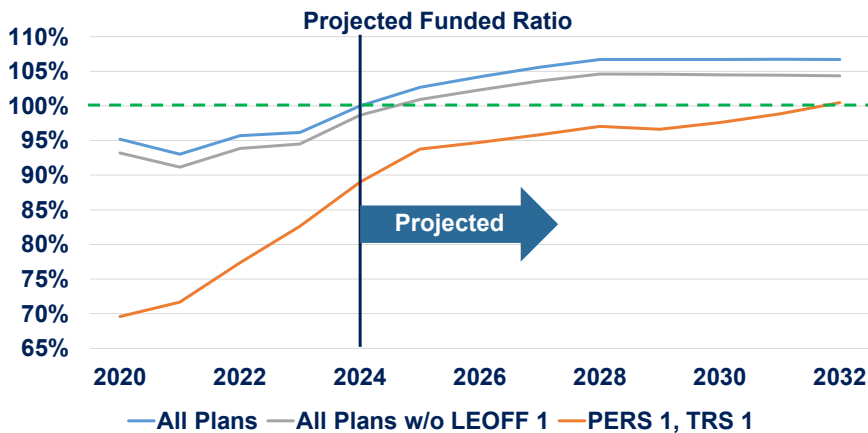
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Projected Funded Ratio Continues Upward Trend

- All plans nearing 100% funded
 - Ongoing contributions still required for most plans



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Affordability and Solvency Projected to Continue to Improve

- Near-term contribution rates and pension contributions as a percent of GF-S budget expected to decrease before leveling off
- Upward trend in funded status
- **Important Note:** Projections are based on assumptions as well as benefit provisions, funding policy, and methods defined in current law (where applicable).
 - Actual experience will vary
 - Assumes full actuarially required contributions are collected

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Financial Risks to Plans

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How Can the Future Look Different than Expected?

- Three key areas materially influence projected costs
 - Investment experience
 - Choices made by policy makers
 - Demographic experience

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Investment Experience – Test Impact of Market Downturn

- In FY 2026, we assumed a 1-year return of -5%
 - As part of the asset smoothing method, the full impact of this asset loss would be spread over an 8-year period
- Most plans would experience a 4% reduction in the June 30, 2027, funded ratio

Increase in Projected 2029-31 Contribution Rates -5% Return Stress Test	
System	Total Employer*
PERS	0.40%
TRS	0.75%
SERS	0.85%
PSERS	0.35%
LEOFF 2	0.45%
WSPRS	4.60%

*Rounded to the nearest 0.05%.

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Investment Experience – Variability of Investment Returns

- Previous slide modified a single year's investment return
- OSA also performs stochastic analysis to model varied investment experience each year into the future
- What's the probability an open plan's funded ratio drops below 90% or 80% at any point during FY 2028 – FY 2037?

Below 90%

**40% - 45%
likelihood**

Below 80%

**25% - 30%
likelihood**

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Additional Financial Risks to the Plans

- Uncertain economic environment
 - Tariffs and inflation
- Policy maker decisions
 - Benefit enhancements
- Demographic experience
 - Longevity and member behavior

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How Can Risk Factors Be Managed?

- Health of retirement plans cannot be completely controlled
- Legislature and policy makers can manage some risks
 - Adopting adequate contribution rates based on reasonable assumptions
 - If benefit enhancements are enacted, ensure they are affordable and sustainable
- OSA plays a role too
 - Regularly revisit assumptions
 - Continual review of affordability and solvency measures
 - Actuarial fiscal notes on proposed plan changes

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Summary of *Report on Financial Condition*

- Current and projected plan health remain strong
 - Current plan health aided by investment experience and commitment to adopt adequate contribution rates during increasing rate environments
- Projections will change due to actual experience and any assumption changes
- Managing financial risks is an on-going process
 - Monitor and make timely adjustments
 - Be mindful of long-term affordability
- Additional details in the Appendix
- Risk education is available on our website
 - [Commentary on Risk](#)
 - [Risk Assessment](#)

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Thank You

For questions, please contact
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Appendix

- 2025-27 Contribution Rates
- Historical Funded Ratios by Plan
- Plan 2 Member Contribution Rates
- Disclosure on Projections Model
- Actuary's Certification of the 2023 RFC

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2025-27 Contribution Rates

2025-27 Biennium Contribution Rates				
System	Employee		Employer ¹	
	Normal Cost	Normal Cost	UAAL	Total
PERS²	5.38%	5.38%	0.00%	5.38%
TRS²	7.54%	7.54%	0.00%	7.54%
SERS²	6.87%	6.87%	0.00%	6.87%
PSERS	6.91%	6.91%	0.00%	6.91%
LEOFF³	8.53%	8.53%	0.00%	8.53%
WSPRS	8.75%	15.85%	N/A	15.85%

¹Excludes DRS administrative expense fee.

²Plan 1 members' contribution rate is statutorily set at 6.0%. Members in Plan 3 do not make contributions to their defined benefit.

³LEOFF 2 contribution rates. No member or employer contributions are required for LEOFF Plan 1 when the plan is fully funded.

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Historical Funded Ratios by Plan

Funded Status on an Actuarial Value Basis											
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total	Interest Rate
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2	Plan 1/2		
Accrued Liability	\$10,113	\$63,150	\$7,375	\$26,857	\$10,021	\$1,615	\$4,123	\$20,738	\$1,857	\$145,849	
Valuation Assets	\$8,833	\$63,885	\$6,733	\$26,116	\$9,780	\$1,609	\$6,589	\$21,060	\$1,784	\$146,390	
Unfunded Liability	\$1,280	(\$735)	\$642	\$741	\$241	\$5	(\$2,466)	(\$322)	\$73	(\$541)	
Funded Ratio											
2024	87%	101%	91%	97%	98%	100%	160%	102%	96%	100%	7.25%
2023	80%	97%	86%	92%	93%	96%	149%	102%	94%	96%	7.00%
2022	75%	97%	80%	92%	92%	101%	152%	104%	94%	96%	7.00%
2021	71%	95%	73%	90%	91%	98%	146%	104%	92%	93%	7.00%
2020	69%	98%	71%	93%	93%	101%	148%	113%	97%	95%	7.50%
2019	65%	96%	66%	91%	91%	101%	141%	111%	95%	92%	7.50%
2018	60%	91%	63%	90%	89%	96%	135%	108%	93%	89%	7.50%
2017	57%	89%	60%	91%	88%	95%	131%	109%	92%	86%	7.50%
2016	56%	87%	61%	89%	87%	94%	126%	105%	91%	84%	7.70%
2015	58%	88%	64%	92%	89%	95%	125%	105%	98%	86%	7.70%

Note: Totals may not agree due to rounding. Liabilities valued using the EAN cost method. Assets valued using the actuarial smoothing method.
*7.00% interest rate assumption for LEOFF 2.

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Plan 2 Member Contribution Rates

	Employee Contribution Rates					
	2021-23 Biennium	2023-25 Biennium	2025-27 Biennium	2027-29 Biennium	2029-31 Biennium	2031-33 Biennium
System	Collected	Collected	Adopted	Projected	Projected	Projected
PERS 2 ¹	6.36%	6.36%	5.38%	4.71%	4.56%	4.55%
TRS 2 ¹	8.05%	8.06%	7.54%	6.79%	6.14%	5.85%
SERS 2 ¹	7.76%	7.76%	6.87%	5.85%	5.02%	4.90%
PSERS 2	6.54%	6.73%	6.91%	6.87%	6.63%	6.49%
LEOFF 2 ²	8.53%	8.53%	8.53%	8.73%	9.32%	9.35%
WSPRS 1/2 ³	8.61%	8.73%	8.75%	8.75%	8.75%	8.36%

¹Plan 1 members' contribution rate is statutorily set at 6.0%. Members in Plan 3 do not make contributions to their defined benefit.

²Displayed the average L2 adopted rate for the 2027-29 Biennium.

³WSPRS member contribution rate limited to the plan's employee maximum rate for years 2021-2031.

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Disclosure on Projections Model

- Unless noted otherwise, we relied on data, assumptions, methods from our [Preliminary 2024 Valuation Projections Model](#) to project plan health
 - FY 2025 returns not finalized
 - The final model will reflect known asset returns through June 30, 2025
- To model the stress test, we assumed a -5% return in FY 2026. Every other year we assumed a 7.25% return for each plan (7.00% for LEOFF 2).

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Actuary's Certification of the 2025 RFC

This presentation summarizes the results of OSA's analysis on the financial condition of the Washington State retirement systems, pursuant to [RCW 41.45.030](#). The primary purpose of this presentation is to assist the PFC in evaluating whether to adopt changes to the long-term economic assumptions identified in [RCW 41.45.035](#). This RFC may not be appropriate for other purposes. Please replace this presentation with our next RFC when available.

We relied on information gathered from our 2023 Valuation Projections Model, 2024 AVR, and preliminary 2024 Valuation Projections Model to prepare this presentation. We believe that this information, along with the assumptions and methods used to conduct our analysis, is reasonable and appropriate for the primary purpose stated above. The use of another set of data, assumptions, and methods, however, could also be reasonable and could produce materially different results. In our opinion, all methods, assumptions, and calculations are in conformity with generally accepted actuarial principles and applicable standards of practice as of the date of this presentation.

Kyle Stineman (ASA, MAAA) and Luke Masselink (ASA, EA, MAAA) served as the reviewing and responsible actuaries for this RFC. They meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein and are available to offer extra advice and explanation as needed.

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