I. SUMMARY OF KEY RESULTS

INTENDED USE

The purpose of this report is to develop contribution rates required to fund the Washington State retirement systems for the 2025-27 Biennium based on a June 30, 2023, measurement date, the funding policy described in this section, and any legislatively prescribed contribution rates. Throughout this report, we refer to those rates as "calculated contribution rates."

This report provides information on the funding progress and developments in the plans over the past year and changes in calculated contribution rates from the prior rate-setting valuation. This report also discloses the data, assumptions, and methods we used to develop the contribution rates. This report is not intended to satisfy the accounting requirements under the Governmental Accounting Standards Board (GASB) rules.

Similarly, this actuarial valuation is not intended to report on the overall health or financial condition of the pension system. Such information can be found in the *2023 Report on Financial Condition* (RFC), which we issue every two years. The key measures we use in the RFC to assess the health of a pension plan include affordability and solvency of the retirement plans.

CONTRIBUTION RATES

We determine the member and employer contribution rates as a percentage of salary. The following summary table shows contribution rates based on the 2023 valuation. The **Actuarial Exhibits** section of this report shows how we developed the contribution rates for 2023.

2023 Calculated Contribution Rates

		Plan 1	Plans 2/3
PERS	Member*	6.00%	6.57%
	Total Employer	8.62%	8.62%
TRS	Member*	6.00%	8.65%
	Total Employer	9.82%	9.82%
SERS	Member*	N/A	7.92%
	Total Employer	N/A	9.97%
PSERS	Member	N/A	7.71%
	Total Employer	N/A	9.76%
LEOFF	Member	0.00%	9.43%
	Employer	0.00%	5.66%
	State	0.00%	3.77%
WSPRS	Member	8.75%	8.75%
	Employer (State)	21.72%	21.72%

Note: Employer rates exclude administrative expense rate.

**Plan 3 members do not contribute to the defined benefit plan.*

The calculated contribution rates for 2023 reflect the modifications to the funding policy for PERS 1 and TRS 1 under Engrossed Substitute Senate Bill (ESSB) 5294 (Chapter 396, Laws of 2023) and the 7% Rate of Investment Return assumption adopted by the Pension Funding Council (PFC). The calculated rates do not include the PFC October 2021 action to phase-in the rate impacts from changes in the Rate of Investment Return assumption. The PFC action calls for a six-year contribution rate phase-in ending in the 2027-29 Biennium. The 2025-27 adopted contribution rates reflect a continuation of the six-year phase-in.

For more information, please refer to the contribution rate development in the **Actuarial Exhibits** section.

No member or employer or state contributions are required for LEOFF Plan 1, as the plan remains fully funded; see RCW 41.26.080(2). The LEOFF 2 calculated contribution rates for 2023 reflect the modified minimum contribution rate funding policy under Substitute House Bill (SHB) 1701, including an offset to the minimum rates for the 2025-27 Biennium.

PROJECTED CONTRIBUTION RATES

In addition to calculating contribution rates in this report, we also estimate contribution rates for future biennia based upon projected assets and liabilities. These projected rates can be found on our website and will be updated in the fall of 2024 to reflect the results from this *2023 Actuarial Valuation Report* (AVR). Please note that these projected rates may vary from rates calculated in future AVRs based on modifications to plan provisions, assumptions, and the actual experience of the systems.

CONTRIBUTION RATE-SETTING CYCLE

Under current Washington State law, in July of even-numbered years, the PFC reviews, and may adopt, the basic contribution rates that we calculate. These rates are based on an actuarial valuation performed on asset, participant, and plan information compiled in odd-numbered valuation years. In calculating basic contribution rates, we apply the statutory funding policies described in this section.

The basic rates adopted by the PFC will remain in place for the ensuing biennium, subject to revision by the Legislature. The LEOFF Plan 2 Retirement Board performs these duties for LEOFF 2 under the same cycle.

RCW 41.45.070 requires that a temporary and supplemental contribution rate increase be charged to fund the cost of benefit enhancements enacted following the adoption of the basic rates. Supplemental contribution rates are included in the basic rates at the beginning of the next contribution rate-setting cycle.

For reference, the following table compares the member and total employer contribution rates that were adopted by the PFC and the LEOFF Plan 2 Retirement Board against the rates that were calculated by the Office of the State Actuary (OSA).

2025-27 Contribution Rates			
		Calculated[1]	Adopted[2]
PERS 1	Member	6.00%	6.00%
	Total Employer	8.62%	8.20%
PERS 2/3	Member[3]	6.57%	6.15%
	Total Employer	8.62%	8.20%
TRS 1	Member	6.00%	6.00%
	Total Employer	9.82%	9.26%
TRS 2/3	Member[3]	8.65%	8.16%
	Total Employer	9.82%	9.26%
SERS 2/3	Member[3]	7.92%	7.59%
	Total Employer	9.97%	9.64%
PSERS 2	Member	7.71%	7.07%
	Total Employer	9.76%	9.12%
LEOFF 1	Member	0.00%	0.00%
	Employer	0.00%	0.00%
	State	0.00%	0.00%
LEOFF 2[4]	Member	9.43%	8.53%
	Employer	5.66%	5.12%
	State	3.77%	3.41%
WSPRS 1/2	Member	8.75%	8.75%
	Employer (State)	21.72%	17.71%

Note: Employer rates exclude administrative expense rate.

[1]Figures reflect calculated contribution rates for FY 2026. Total Employer rates for PERS, SERS, and PSERS are calculated to be 1.00% lower in FY 2027.

[2]Figures reflect adopted contribution rates for FY 2026. Total Employer rates for PERS, SERS, and PSERS are 1.00% lower in FY 2027.

[3]Plan 3 members do not contribute to the defined benefit plan.

[4]The LEOFF 2 Board adopts contribution rates for LEOFF 2. Please see the 2023 LEOFF 2 Actuarial Valuation Report for more information.

FUNDING POLICY

Washington State relies on systematic actuarial funding to finance the ongoing cost of the state retirement systems. Under this financing approach, we reduce the cost of future pension payments by the expected long-term return on invested contributions. The investment of these contributions is under the direction of the Washington State Investment Board (WSIB). RCW 43.33A.110 requires WSIB to maximize investment returns at a prudent level of risk.

The state's funding policy is found in Chapter 41.45 RCW — Actuarial Funding of State Retirement Systems. Under this funding policy, if all actuarial assumptions are realized and all future contributions required under this funding policy are made, we expect the funding policy to accumulate sufficient assets to provide for all future benefits for current members when due.

Funding policy includes the following goals:

- ❖ Provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State retirement systems.
- ❖ Fully fund the retirement system Plans 2 and 3, and WSPRS, as provided by law.
- ❖ Fully amortize the total cost of LEOFF Plan 1 not later than June 30, 2024.
- ❖ Fully amortize the Unfunded Actuarial Accrued Liability (UAAL) in PERS Plan 1 and TRS Plan 1 within a rolling ten-year period using methods and assumptions that balance needs for increased benefit security, decreased contribution rate volatility, and affordability of pension contribution rates.
- ❖ Establish long-term employer contribution rates that will remain a relatively predictable proportion of future state budgets.
- ❖ Fund, to the extent feasible, all benefits for Plans 2 and 3 members over the working lives of those members so that the taxpayers who receive the services of those members pay the cost of their benefits.
- ❖ Based on the funding policy, the same contribution rate is charged to employers within each system regardless of the plan in which employees hold membership (except for LEOFF). In addition, all benefit increases that become effective after June 30, 2009, for PERS Plan 1 and TRS Plan 1 members, are funded solely from employer contributions over a fixed ten-year period.

Based on the funding policy, the same contribution rate is charged to employers within each system regardless of the plan in which employees hold membership (except for LEOFF). In addition, all benefit increases that become effective after June 30, 2009, for PERS Plan 1 and TRS Plan 1 members, are funded solely from employer contributions over a fixed ten-year period.

COMMENTS ON 2023 VALUATION RESULTS

Many factors influence actuarial valuation results from one measurement date to the next. These factors include changes in the plan provisions or funding policy, changes in assumptions or methods, and covered population and plan experience that varies from our expectations.

CHANGES IN PLAN PROVISIONS OR FUNDING POLICY

The Department of Retirement Systems (DRS) holds authority over certain sections of the Washington Administrative Code (WAC) which govern aspects of the state retirement system. Consistent with their authority, DRS lowered the saving fund regular interest from 5.5% to 2.75%, effective July 1, 2022. The Washington Administrative Code 415-02-150 provides information on regular interest credited to Plan 1 and Plan 2 individual accounts and the current savings fund interest rate can be found on the DRS website.

Laws passed during the 2024 Legislative Session that impacted the results in this report through benefit enhancements include the following:

- ❖ Second Substitute House Bill 2014 – Expands access to fully subsidized Interruptive Military Service Credit (IMSC) by broadening the definition of veteran to include certain qualifying discharges.
- ❖ Substitute Senate Bill (SSB) 6106 – Expands PSERS eligibility to include members who work at facilities serving residents who are civilly committed, or patients considered not guilty by reason of insanity.
- ❖ SHB 1985 – Provides a one-time, 3% Cost-Of-Living Adjustment (COLA) for eligible PERS 1 and TRS 1 retirees up to a maximum of $110 per month.
- ❖ SSB 6197 – Enacts four changes to the LEOFF Plan 2 Retirement System related to death benefits, the definition of "firefighter," managing overpayments, and disability benefits.

The laws noted above represent material changes to benefit plan provisions from the 2024 Legislative Session and are not meant to be exhaustive.

CHANGES IN ASSUMPTIONS OR METHODS

- This valuation does not include any changes to economic or demographic assumptions since the prior valuation.
- We adjusted our methods for calculating UAAL contribution rates in PERS 1 and TRS 1 to reflect the delay between the measurement date of calculated Plan 1 rates and when the rates are collected.
- We made an adjustment to our model to reflect past inflation experience when modeling future COLAs for current annuitants in all plans except PERS 1 and TRS 1

Please see the **Appendix** section of this report for more information and further method and assumption changes since the last valuation

CHANGES IN COVERED POPULATION AND PLAN EXPERIENCE

- The actual rate of investment return on the Market Value of Assets (MVA), for all plans, was 6.96% for Fiscal Year (FY) ending June 30, 2023.
- Salaries increases were notably higher-than-expected, particularly in the public safety plans.

Detailed gain and loss information by system can be found in the **Actuarial Exhibits** section of this report.

ACTUARIAL LIABILITIES

The following table summarizes key measures of actuarial liability along with the liabilities from last year's valuation. The Present Value of Fully Projected Benefits (PVFB) represents the total expected value of all future benefits payments for current members when discounted at the valuation interest rate. The Actuarial Accrued Liability identifies the portion of the PVFB that has been accrued or "earned" as of the valuation date based on the Entry Age Normal (EAN) actuarial cost method.

Actuarial Liabilities		
(Dollars in Millions)	**2023**	**2022**
All Systems		
Present Value of Fully Projected Benefits	$174,065	$160,589
Actuarial Accrued Liability	$140,437	$130,623
Valuation Interest Rate	7.00%	7.00%

See the **Actuarial Exhibits** section of this report for a summary of actuarial liabilities by system and plan. For projected benefit payments by year for each system and plan, please visit our Interactive Reports webpage. Also, see the Glossary on our website for brief explanations of the actuarial terms.

ASSETS

The following table shows the combined MVA and Actuarial Value of Assets (AVA) along with the approximate rates of investment returns for all the systems combined.

An AVA is used to limit the volatility in contribution rates and funded status due to annual investment earnings. We smooth (or defer recognition of) the difference between actual and expected annual investment returns over a specific period not to exceed eight years.

Funded status is one of several measures that helps explain the health of a pension plan. The funded status represents the portion of the actuarial accrued liabilities covered by today's actuarial assets. This means a plan with 100% funded status has one dollar in actuarial assets for each dollar of accrued liabilities at the valuation date. A plan with funded status around 100% is generally considered to be on target with funding. However, funded status above/below 100% is not automatically considered over-funded/at-risk. The funded statuses presented in this report are not sufficient to determine whether a plan has enough assets to terminate or settle the plan obligations. Furthermore, a plan with a funded status above 100% may still require ongoing contributions.

COMMENTARY ON RISK

Actuarial Standards of Practice (ASOP) guide actuaries when performing and communicating their work. ASOP No. 51 – *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions* is specific to communicating risk in defined benefit pension plans, particularly in how actual future measurements may differ significantly from expected future measurements.

In the course of developing our actuarial valuation we make hundreds of assumptions, such as the level of returns on future investments, rates of retirement and mortality, and the future salary growth for active members. In some cases, small changes in these assumptions or unexpected plan experience can lead to significant changes in measurements, like the calculation of a plan's contribution rates or the projection of a plan's funded status. This can affect plan risk, and these sensitivities can evolve as the plans grow and mature over time. The Legislature's response to these changes and their action governing the state's pension system also affects plan risk. To help readers better understand some of these risks and their potential impacts, we have a Commentary on Risk webpage which can be found on our website.

In the **Actuarial Exhibits** section of this report, we have also included the impact to the total retirement systems' funded status from changes in assumed rates of investment return and mortality. One such illustration shows the change to plan liabilities if the Commingled Trust Fund portfolio was invested in low-default-risk fixed income securities.

SUMMARY OF PARTICIPANT DATA

The following table summarizes participant data used in the actuarial valuation for the plan year ending June 30, 2023, along with information from the 2022 AVR. See the **Participant Data** section of this report for participant data summarized by system and plan.

Participant Data		
All Systems	**2023**	**2022**
Active Members		
Number	352,278	339,636
Average Annual Salary	$83,812	$78,865
Average Attained Age	45.8	46.1
Average Service	10.3	10.6
Retirees and Beneficiaries		
Number	224,021	216,729
Average Annual Benefit	$26,742	$25,741
Terminated Members		
Number Vested	71,888	70,302
Number Non-Vested*	172,849	168,695

**Members who terminated without a vested lifetime benefit but are eligible for a refund of their employee contributions with interest that currently reside in the trust.*

KEY ECONOMIC ASSUMPTIONS

This table shows key economic assumptions used in this actuarial valuation. There were no changes in these assumptions from our prior year's valuation. Please see our *2023 Economic Experience Study* (EES) for information on the development of these assumptions and the asset allocation policy.

Key Assumptions	
All Systems	
Valuation Interest Rate	7.00%
General Salary Growth	3.25%
Inflation	2.75%