Select Committee on Pension Policy

Rate Recommendation to the PFC

Issue

The Select Committee on Pension Policy (SCPP) has an opportunity to make a recommendation to the Pension Funding Council (PFC) regarding contribution rates for the 2025-27 Biennium.

Background

Contribution rates for the state's retirement systems are based on the results of an actuarial valuation performed by the Office of the State Actuary (OSA). Actuarial valuations rely on assumptions about the future performance of the economy. These assumptions include long-term investment return, inflation, and salary growth.

Contribution rates and long-term economic assumptions are set every two years according to a statutory cycle. (See the Revised Code of Washington [RCW] 41.45.060.)

- In even-numbered years:
  - The OSA reports on the results of an actuarial valuation that calculates contribution rates for the upcoming biennium.
  - The PFC adopts contribution rates for the upcoming biennium.
- In odd-numbered years:
  - The OSA reports on a study of long-term economic assumptions and makes recommendations regarding changes to the assumptions.
  - The PFC adopts the long-term economic assumptions that will be used in subsequent actuarial valuations.

The SCPP has a statutory duty to make recommendations to the PFC regarding changes to contribution rates and assumptions. (See RCW 41.04.281.)

The PFC adoption of contribution rates directly impacts all Plan 2 members and employers except for those in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. Rates for LEOFF 2 are adopted by the LEOFF 2 Board.

Highlights

- In 2021, the PFC adopted the state actuary's recommended long-term economic assumptions, which included lowering the rate of return from 7.5% to 7%. The PFC also stated an intent to phase-in the resulting changes to contribution rates over six years. The planned six-year phase-in began with the 2023-25 rates and the remaining four years have not been defined.
- At the June 2024 meeting, the SCPP received a briefing from OSA staff on rates and the preliminary *2023 Actuarial Valuation Report*.

Darren Painter, Senior Policy Analyst
360.786.6155 | darren.painter@leg.wa.gov

- The current rate-setting environment is being impacted by some unusual circumstances.
  - The PFC is phasing-in the contribution rate impacts of lowering the investment return assumption in 2021.
  - The Legislature has prescribed the 2024-27 rates for the PERS 1 and TRS 1 Unfunded Actuarially Accrued Liability (UAAL). The prescribed rates step down as the base UAAL approaches pay-off.
  - There are about $9 billion in deferred asset gains that will be recognized in future valuations.
- Rates adopted by the PFC in 2024 are effective for the 2025-27 Biennium but are subject to revision by the Legislature.

Committee Activity

The SCPP received the preliminary results of the most recent actuarial valuation at the June meeting. At the July meeting, the SCPP made a recommendation to the PFC.

Recommendation to PFC

Adopt the state actuary's calculated rates for the 2025- 27 Biennium and consider further phase-in of the rate impacts.

O:\SCPP\2024\Recommendations\Rate.Rec.to PFC-Final.Exec.Sum.docx

Darren Painter, Senior Policy Analyst
360.786.6155 | darren.painter@leg.wa.gov