

Recommendation on Long-Term Economic Assumptions

Issue

The state actuary has recommended making changes to the long-term economic assumptions used by the state's retirement systems. The Select Committee on Pension Policy (SCPP) may also make a recommendation to the Pension Funding Council (PFC) regarding the adoption of long-term economic assumptions.

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 rate of 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](#) & [41.45.030](#).)

- ❖ 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 and assumptions 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 and assumptions for LEOFF 2 are adopted by the LEOFF 2 Board.

Highlights

Summary of Long-Term Economic Assumptions		
Assumption	Current	State Actuary Recommended
Total Inflation	2.75%	3.00%
General Salary Growth	3.25%	3.50%
Investment Rate of Return	7.25%	7.25%
Membership Growth for Plan 1 Funding*	1.00%	1.00%

*Applies to the amortization of PERS 1 and TRS 1 UAAL.

- ❖ In 2025, the Legislature adopted long-term economic assumptions—including increasing the Investment Rate of Return from 7.0% to 7.25%. This change, along with other changes to pension funding, was implemented in [Engrossed Substitute Senate Bill 5357](#).
- ❖ Per statute, the PFC may adopt changes to economic assumptions by October 31. Newly adopted assumptions become effective for the *2025 Actuarial Valuation Report*, which serves as the basis for contribution rates collected during the 2027-29 Biennium. Changes made by the PFC are subject to revision by the Legislature.
- ❖ Options for possible recommendations to PFC:
 - No change to current assumptions.
 - Adopt the state actuary’s recommended assumptions.

Committee Activity

The SCPP received a briefing at the September meeting on OSA’s most recent [Economic Experience Study](#) and the state actuary’s recommendation regarding long-term economic assumptions. The Committee then made a recommendation to the PFC.

Recommendation to PFC

Adopt the state actuary’s recommended long-term economic assumptions.

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