COMMENTS ON 2022 VALUATION RESULTS

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

CHANGES IN PLAN PROVISIONS

Laws passed during the 2023 Legislative Session that impacted the results in this report through benefit enhancements include the following:

- Substitute House Bill (SHB) 1007 – Provides fully subsidized interruptive military service credit to members of the state retirement systems who received an expeditionary medal during any armed conflict.
- House Bill 1055 – Expands PSERS eligibility to include public safety telecommunicators.
- SHB 1056 – Removes restrictions on returning to work with a DRS employer for "2008 Early Retirement Factor (ERF)" recipients and prospectively recalculates benefits for "2000 ERF" recipients who retired after September 1, 2008, in PERS, TRS, and SERS.
- Senate Bill 5350 – Provides a one-time, 3 percent Cost-Of-Living Adjustment (COLA) for eligible PERS 1 and TRS 1 retirees up to a maximum of $110 per month.

The laws noted above represent material changes to benefit plan provisions from the 2023 Legislative Session and are not meant to be exhaustive.

CHANGES IN FUNDING POLICY

Engrossed Substitute Senate Bill (ESSB) 5294 (Chapter 396, Laws of 2023) modified the funding policy for PERS 1 and TRS 1. This law included the following:

- Prescribes Base Unfunded Actuarial Accrued Liability (UAAL) contribution rates through Fiscal Year (FY) 2027.
  - Amortization of past benefit improvements are unchanged under this new funding policy.
- A reduction of minimum contribution rates to 0.50 percent, if required, beginning in FY 2028.
- An appropriation of $250 million to the TRS 1 trust scheduled for June 30, 2023.

Please see the **Funding Policy and Contribution-Rate Setting Process** section for more information.

CHANGES IN ASSUMPTIONS OR METHODS

- This valuation does not include any changes to economic or demographic assumptions since the prior valuation.
- We made adjustments to TRS 1 assets, LEOFF 2 assets, and LEOFF 2 participant data to reflect certain material changes occurring after the June 30, 2022, measurement date.

Please see the **Actuarial Assumptions and Methods** 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 0.22 percent for fiscal year ending June 30, 2022.
- All systems experienced a higher-than-expected number of terminations that exceeded prior valuation experience. This is reflective of the Great Resignation[1] that began in 2021 as well as impacts from the August 9, 2021 mandate by the Governor requiring vaccination for state executive and small cabinet agencies.
- The active population declined over FY 2022 for the public safety systems of PSERS, LEOFF, and WSPRS.
- Most systems experienced a larger number of new hires than in prior valuations (except for PSERS and WSPRS). In particular, SERS had very high levels of new hires with roughly 20 percent of the current active population hired during FY 2022.
- Salaries grew notably more than expected for members of SERS 2/3 and LEOFF 2.

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)	**2022**	**2021**
All Systems		
Present Value of Fully Projected Benefits	$160,589	$151,397
Actuarial Accrued Liability	$130,623	$123,621
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.

[1]*Maury Gittleman, "The 'Great Resignation' in perspective", Monthly Labor Review, U.S. Bureau of Labor Statistics, July 2022.*

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.

We develop an AVA to limit the volatility in the reported 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.

Assets		
(Dollars in Millions)	**2022**	**2021**
All Systems		
Market Value of Assets (MVA)	$136,492	$137,256
Actuarial Value of Assets (AVA)*	125,026	115,005
Member/Employer Contributions	4,246	4,590
Disbursements	(5,720)	(5,331)
Investment Return	273	32,879
Other Revenue	$202	$165
MVA Return**	0.22%	31.62%
AVA Return*	9.71%	10.45%

**The AVA is used in determining contribution rates and funded status.*

***Dollar-weighted rate of return on the MVA, net of expenses. Please note the dollar-weighted investment return may differ from the time-weighted investment return published by the WSIB for the same period.*

See the **Actuarial Exhibits** section of this report for a summary of assets by system and plan, and for the development of the AVA.

FUNDED STATUS

The following table displays a summary of combined funded status across all retirement systems included in this report. Please see the **Actuarial Exhibits** section for information on individual systems and plans.

Funded Status		
(Dollars in Millions)	**2022**	**2021**
All Systems		
a. Accrued Liability*	$130,623	$123,621
b. Market Value of Assets	136,492	137,256
c. Deferred Gains/(Losses)	11,466	22,251
d. Actuarial Value of Assets (b - c)	125,026	115,005
Unfunded Liability (a - d)	**$5,597**	**$8,616**
Funded Ratio (d / a)	**96%**	**93%**

Note: Totals may not agree due to rounding.

**Liabilities valued using Entry Age Normal cost method.*

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 percent 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 percent is generally considered to be on target with funding. However, funded status above/below 100 percent 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 percent may still require ongoing contributions. See the 2021 Actuarial Valuation Report (AVR) (the last "rate-setting valuation") for additional details.

SUMMARY OF PARTICIPANT DATA

The following table summarizes participant data used in the actuarial valuation for the plan year ending June 30, 2022, along with information from the 2021 valuation. See the **Participant Data** section of this report for participant data summarized by system and plan.

Participant Data		
All Systems	**2022**	**2021**
Active Members		
Number	339,636	334,165
Average Annual Salary	$78,865	$75,933
Average Attained Age	46.1	46.4
Average Service	10.6	11.1
Retirees and Beneficiaries		
Number	216,729	207,844
Average Annual Benefit	$25,741	$25,096
Terminated Members		
Number Vested	70,302	65,657
Number Non-Vested*	168,695	159,398

**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 2021 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%

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.

FUNDING POLICY AND CONTRIBUTION-RATE SETTING PROCESS

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 state's funding policy is found in Chapter 41.45 Revised Code of Washington (RCW) – Actuarial Funding of State Retirement Systems. If all actuarial assumptions are realized and all future contributions required under the funding policy are made, we expect the funding policy to accumulate sufficient assets to provide for all future benefits for current members when due.

Under current Washington State law, the PFC reviews, and may adopt, contribution rates developed in odd-numbered year valuations. During their July 2022 meeting, the PFC considered calculated contribution rates from the 2021 AVR and adopted rates for the 2023-25 Biennium. The Legislature may revise those rates through subsequent actions. Furthermore, newly enacted benefit improvements may result in additional supplemental rates effective on September 1. The following table shows key information for the contribution rate-setting process in the current and subsequent biennia.

Contribution Rate-Setting Process			
	Contribution Rate Collection Period*		
	2023-25 Biennium	2025-27 Biennium	2027-29 Biennium
Actuarial Valuation Date	June 30, 2021	June 30, 2023	June 30, 2025
Asset Returns Included	Returns through June 30, 2021	Returns through June 30, 2023	Returns through June 30, 2025
Rates Adopted During	Summer of 2022	Summer of 2024	Summer of 2026

**PFC-adopted contribution rates are subject to change by the Legislature.*

We did not calculate contribution rates as part of this non-rate setting valuation.

PROJECTED CONTRIBUTION RATES

In addition to calculating contribution rates in the 2021 AVR, 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 available in the fall of 2023.

Please note that these projected rates are subject to change based on modifications to plan provisions, assumptions, and the actual experience of the systems.

SUMMARY OF PLAN PROVISIONS

Please see the plan provisions section of the prior valuation for a list of key plan provisions that change frequently. Our website contains information on COLAs and a Summary on Plan Provisions that infrequently change.

Not reflected in this report is the reduction of interest applied to Plans 1 and 2 employee contributions to the defined benefit plans from 5.5 percent to 2.75 percent, effective July 1, 2022. This change will primarily impact members who elect to receive a return of contributions upon termination from employment and will first be reflected in the 2023 AVR. Otherwise, no significant plan provisions were excluded from this valuation.