Recommendation To PFC On Long-Term Economic Assumptions

Issue

The state actuary is recommending changes to long-term economic assumptions for the state's retirement systems. The recommendation to the Pension Funding Council (PFC) and SCPP came out of a biennial review of economic experience required by statute. The SCPP has a statutory duty to make its own recommendation to the PFC regarding changes to economic assumptions.

Background

Long-term economic assumptions are used for funding the state's retirement system and include investment return, salary growth, inflation, and membership growth. These assumptions are reviewed every two years according to a statutory cycle (RCW 41.45.030).

During odd-numbered years, the state actuary reviews economic assumptions and recommends any changes to the SCPP and PFC. The state actuary also reports on the financial condition of the state's retirement systems. Statue requires the SCPP to study any changes and make a recommendation on economic assumptions to the PFC (RCW 41.04.281). The PFC may adopt changes to economic assumptions subject to revision by the Legislature.

The current economic assumptions are provided in the next section. The annual investment return assumption is scheduled in statute to decrease by 0.10 percent a biennium until reaching 7.7 percent in the 2017-19 Biennium.

State Actuary's Recommendation To PFC

Assumption	Current	Recommended
Inflation	3.00%	3.00%
General salary growth	3.75%	3.75%
Annual investment return	7.90%	7.50%
Growth in system membership	0.80% (TRS) 0.95% (PERS)	0.80% (TRS) 0.95% (PERS)

Note: Excludes LEOFF 2. The LEOFF 2 Board adopts assumptions for LEOFF 2.

The state actuary further recommends lowering the assumption by extending the current statutory phase-in to the 2021-23 Biennium. Extending the phase-in would lower the assumption to 7.6 percent in the 2019-2021 Biennium and 7.5 percent in the 2021-23 Biennium.

More information on the state actuary's recommendation is provided in the *2013 Report on Financial Condition and Economic Experience Study*.

Options

- **Option 1**: No change to current assumptions.
- **Option 2:** Extend the current phase-in of the investment return assumption to the state actuary's recommended 7.5 percent.
- **Option 3:** Lower the investment return assumption to the state actuary's recommended 7.5 percent without further phase-in.

Committee Activity

The SCPP considered this at the September and October meetings. In September, the committee received a briefing on the state actuary's recommended changes to long-term economic assumptions. In October, the committee recommended Option 2 to the PFC.

Recommendation To PFC

Adopt the state actuary's recommended long-term investment return assumption of 7.5 percent by extending the current phase-in.

Staff Contact

Darren Painter
Policy and Research Services Manager
360.786.6155
darren.painter@leg.wa.gov

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