Rate Recommendation to the PFC

Overview/Executive Summary

Contribution rates for the state's retirement systems are set every two years according to a statutory cycle[1]. In even-numbered years, the Pension Funding Council (PFC) adopts contribution rates; in odd-numbered years, the long-term economic assumptions.

The law also requires the Select Committee on Pension Policy (SCPP) to make a recommendation to the PFC regarding contribution rates for the 2021-23 Biennium.[2]

What is before the Committee?

Recommend adopting the calculated rates from the *2019 Actuarial Valuation Report* using either:

- Option A: 7.5 percent assumed long-term rate of return.
- Option B: 7.4 percent assumed long-term rate of return.

Rate and budget impacts for each option will be provided at the meeting. Please note: Due to feedback from the on-going actuarial audit, contribution rates are expected to decrease slightly from what was presented last month. While the Committee is not required to limit its discussion to these two options, members may want to consult with the state actuary before pursuing other options.

How Did This Come before the Committee?

The SCPP received the preliminary results of the most recent actuarial valuation and demographic experience study at the June meeting.

Please note that demographic assumptions and the demographic experience study are not the same as long-term economic assumptions. Demographic assumptions are reviewed and updated by the state actuary every six years and do not follow a formal adoption process like the economic assumptions. The SCPP receives the results from the demographic experience study since those results help inform the SCPP's recommendation on contribution rates.

Who Does This Impact?

The adoption of contribution rates directly impacts all Plan 2 members and employers. To the extent employer contributions are paid by tax revenue, these changes also impact taxpayers.

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[1] *RCW 41.45.060.*
[2] *RCW 41.04.281.*

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Highlights

- ❖ In even-numbered years, the Office of the State Actuary reports on the results of an actuarial valuation that calculates contribution rates for the upcoming biennium. The valuation considers, among other things, asset returns, and the impacts of legislative changes.
- ❖ In odd-numbered years, the state actuary also makes a recommendation on long-term economic assumptions, including the assumed rate of investment return.
  - ◊ Option B is consistent with the state actuary's most recent recommendation of a 7.4 percent assumed rate of return.
- ❖ Rates adopted by the PFC in 2020 are effective for the 2021-23 Biennium, but are subject to revision by the Legislature.

Recommendation to the Pension Funding Council

Adopt the state actuary’s calculated rates for the 2021-23 Biennium, which are based on a 7.4 percent assumed long-term rate of return on pension investments.

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