Select Committee on Pension Policy

Recommendation to the PFC on Long-Term Economic Assumptions

Issue

The state actuary has recommended changes to the long-term economic assumptions used by the state's retirement systems. These recommendations are an outgrowth of the Report on Financial Condition (RFC) and Economic Experience Study (EES) that are prepared by the state actuary every two years. The state actuary makes a recommendation to both the Select Committee on Pension Policy (SCPP) and the Pension Funding Council (PFC), then the SCPP makes its recommendation to the PFC. The PFC then adopts assumptions, or, if no action is taken, the existing assumptions remain in effect.

Background

The long-term economic assumptions that are used for funding the state's retirement system include investment return, salary growth, inflation, and membership growth. These assumptions are reviewed every two years according to a statutory cycle (Revised Code of Washington [RCW] 41.45.030). While the process varies a bit from year to year, the typical order of operations is as follows:

- The state actuary makes a recommendation to the SCPP and the PFC on long-term economic assumptions as required in RCW 41.45.030.
- The SCPP makes its own recommendation to the PFC as per RCW 41.04.281.
- The PFC adopts long-term economic assumptions. If no action is taken, then the existing assumptions remain in effect.

Long-term economic assumptions are also subject to revision by the Legislature.

Summary of Economic Recommendations		
Assumption	**Current**	**Recommended**
Total Inflation	2.75%	2.75%
General Salary Growth	3.50%	3.25%
Investment Rate of Return	7.40% LEOFF 2 7.50% Other Plans	7.00%
Membership Growth for Plan 1 Funding*	1.25% TRS 0.95% PERS	1.00%

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

Committee Activity

The Committee received briefings on the latest RFC and EES at their September meeting. At the October meeting, the Committee adopted a recommendation.

Recommendation to the PFC

Adopt the long-term economic assumptions as recommended by the state actuary, including the reduction of the rate of return from 7.5 percent to 7.0 percent. Phase in the budget impacts by capping contribution rates for the 2023-2025 Biennium at the 2021-2023 adopted rates.

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Aaron Gutierrez, Senior Policy Analyst
360.786.6152 | Aaron.Gutierrez@leg.wa.gov