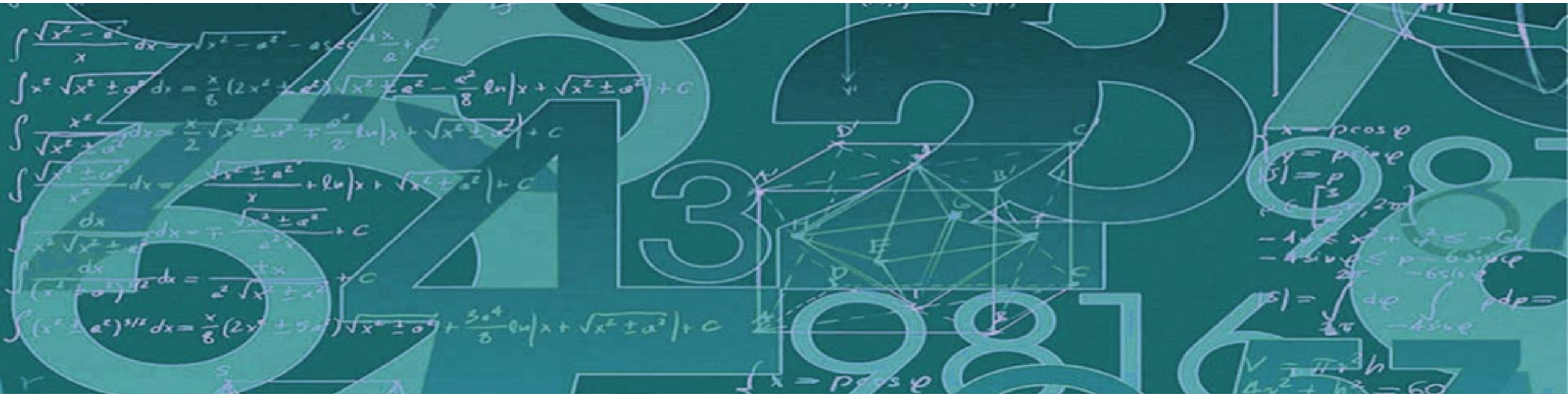


# Overview of State Pension Funding, Focus on Plans 1

*Presentation to: Senate Ways and Means*

*Lisa Won, ASA, FCA, MAAA, Deputy State Actuary*

*Sarah Baker, Senior Actuarial Analyst*



# Today's Presentation

- Background on Washington Pensions & Pension Funding
- Where Are We Today with Funding Progress?
- Where Are We Headed with Plans 1 Funding?
- Possible Changes to Plans 1 Funding



# Background on Washington Pensions

- A “pension” generally refers to a lifetime retirement payment provided to a member of a pension plan who earned benefits during employment
- A promise today to pay benefits in the future
- Washington State has both closed pension plans and open pension plans
  - Closed means no new members will join
  - The closed plans are Plans 1: PERS, TRS, LEOFF, and WSPRS

# How Do We Pay for These Benefits?

- Every year covered employees earn additional benefits that are funded through two primary sources
  - Employer and member contributions
  - Investment earnings
- All contributions go into a pension trust fund (CTF) that is invested by the WSIB
  - Assets must be used for the purpose of paying member pension benefits
  - Assets of one plan can't be used for another plan outside a qualified plan merger
- If contributions or investment earnings fall short, additional contributions are required to make up the difference



# What is Pension Funding?

- A process for determining the amount and timing of contributions to fund benefits payable in the future
- Actuaries use assumptions to determine future expected benefits
  - Key assumptions include expected investment returns, member longevity, retirement, and termination rates
  - Actual experience may be different than assumptions and plan funding requirements will vary accordingly
    - Favorable experience referred to as “gain”
    - Unfavorable experience referred to as “loss”

# Primary Pension Funding Goal

- Fully fund a member's retirement benefit with payroll contributions plus investment earnings over their working lifetime



# Unfunded Actuarial Accrued Liability (UAAL)

■ Accumulated assets fall short of the amount needed to pay all benefits

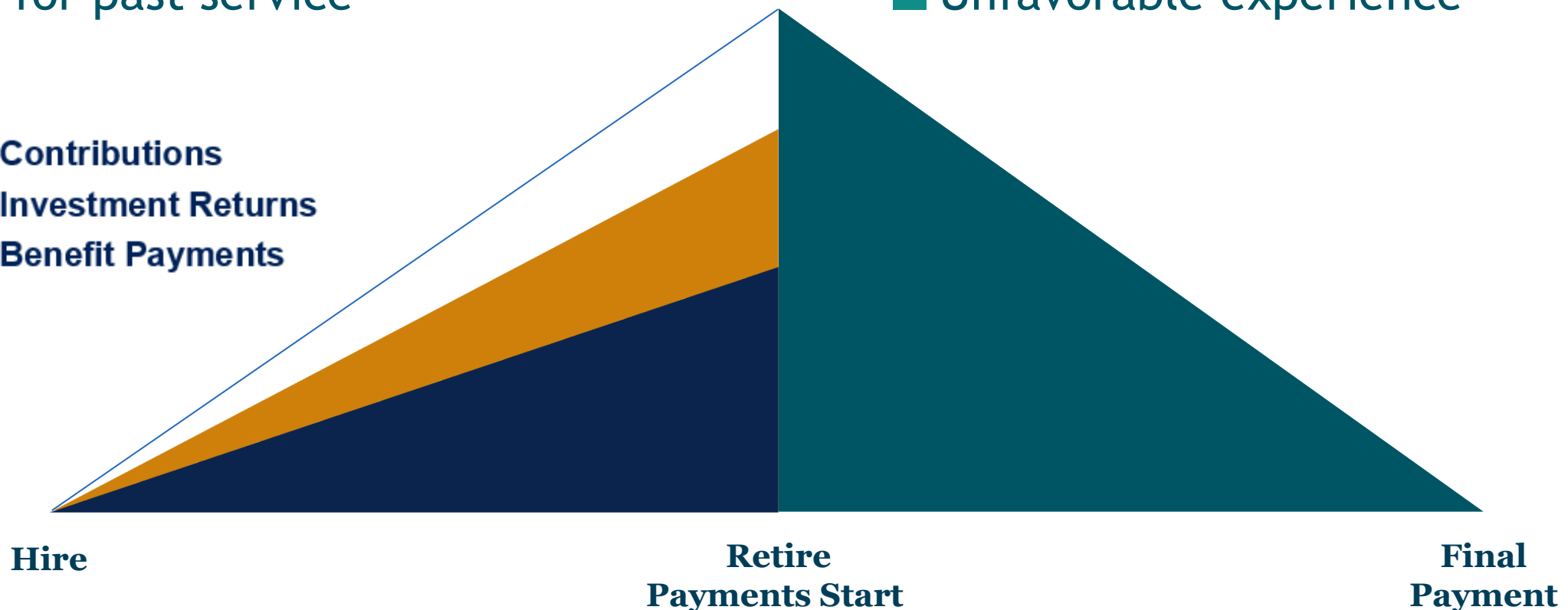
■ Insufficient contributions

■ Adding benefit improvements for past service

■ Assumption changes that increase costs

■ Unfavorable experience

■ Contributions  
■ Investment Returns  
■ Benefit Payments



# Where Are We Today with Funding Progress?

- Open plans (Plans 2 & 3), LEOFF 1, and WSPRS 1 are well funded
- Closed plans (PERS 1 & TRS 1) have UAAL
  - Not enough assets to pay for benefits members have earned (or accrued)
  - Total UAAL (PERS + TRS) = \$4.7 Billion at last measurement, June 30, 2021
  - Employers currently contribute additional UAAL rate to fund the asset shortfall
    - \$2.3 Billion in expected employer contributions to the PERS 1 and TRS 1 UAAL during 2021-23 Biennium
  - Additionally, \$800 million appropriation to the TRS 1 UAAL scheduled on June 30, 2023

# Current Employer Contribution Rates

2021-23 Current Employer Rates			
	Normal Cost Rates	UAAL Rates	Total Rates
<b>PERS</b>	6.36%	3.85%	10.21%
<b>TRS</b>	8.05%	6.46%	14.51%
<b>SERS</b>	7.76%	3.85%	11.61%
<b>PSERS</b>	6.60%	3.85%	10.45%

*Note: Rates exclude current administrative expense rate of 0.18%.*

- Total employer rate = Normal Cost Rate plus UAAL Rate
  - Normal Cost Rate funds expected cost of benefits for each future year of service
- UAAL Rates (for unfunded past service) have two components
  - Base UAAL Rates for the unfunded portion of most plan benefits
    - 3.50% in PERS and 5.75% in TRS (Minimum Rates)
  - Funding of Past Benefit Improvements enacted after 2009
    - 0.35% in PERS and 0.71% in TRS

# Where Are We Headed with Plans 1 Funding?

PERS Projections									
Fiscal Year	2023	2024	2025	2026	2027	2028	2029	2030	2031
Base UAAL Rates	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	0.00%	0.00%
Funded Status	85%	91%	99%	108%	120%	133%	146%	152%	160%

TRS Projections									
Fiscal Year	2023	2024	2025	2026	2027	2028	2029	2030	2031
Base UAAL Rates	5.75%	5.75%	5.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Funded Status	101%	111%	122%	126%	131%	137%	142%	147%	153%

*Note: Contribution rates and funded status figures exclude separately amortized benefit improvements. TRS projections include \$800 million appropriation.*

- A funded status of 100% means there is \$1 of assets for every \$1 of earned benefits
- Based on the 2021 AVR, current law benefits, investment returns through FY 2022, and assuming actual experience matches assumptions
- Actual results will vary from these projections

# Current Law Projection – Lower Investment Return Scenario

PERS Projections – Lower ROR Scenario									
Fiscal Year	2023	2024	2025	2026	2027	2028	2029	2030	2031
Base UAAL Rates	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	0.00%	0.00%
Funded Status	84%	89%	95%	103%	112%	123%	135%	139%	144%

TRS Projections – Lower ROR Scenario									
Fiscal Year	2023	2024	2025	2026	2027	2028	2029	2030	2031
Base UAAL Rates	5.75%	5.75%	5.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Funded Status	100%	108%	118%	120%	123%	127%	129%	133%	137%

*Note: Contribution rates and funded status figures exclude separately amortized benefit improvements. TRS projections include \$800 million appropriation.*

- Investment return scenario: Assume FY 2023 returns match FY 2022 returns
- Current fiscal year-to-date (July through September) return on the CTF, as reported by WSIB, is (3.3) percent

# Plans 1 Funding Review

- PFC requested OSA to
  - Review the appropriateness of the UAAL funding policy
  - Provide possible policy changes
  - Consider modifications to Minimum Rates
  - Consider when UAAL rates cease and would be reinstated
- OSA assessed current law and alternative policies based on the balance between three goals
  - **Affordability** – Minimize state and local employer dollars allocated to Plans 1
  - **Plan Solvency** – Fully fund the plans and reduce chance of future UAAL
  - **Budget Stability** – Limit contribution rate cliffs before and after full funding

# OSA's Assessment of the Current Plans 1 Funding Method

- Positive attributes of current law
  - Expected to fully fund plan benefits
  - Reduces the risk of future UAAL
  - Fully funds expected cost of benefit improvements over a fixed time period
- Potential downside of current law
  - Expected to result in overfunding, under current assumptions, that may run counter to the goal of affordability
  - Contains “rate cliffs” that may run counter to the goal of budget stability



# Options to Modify Plans 1 Funding Method

- The [\*Plans 1 Funding Policy Review\*](#) provides approaches that balance goals of affordability, solvency, and budget stability
  - Glide path rates
  - Remove minimum rates
- Governor's budget bill, [\*SB 5294\*](#)
  - Repeal \$800 million payment to TRS 1 on June 30, 2023
  - Shut off Base UAAL contribution rates earlier than under current law
  - Remove minimum rates
- Other options could be developed that meet other policy goals

*Note: Please see the Plans 1 Funding Policy Review for information on policy options for funding benefit improvements and recourse in the event of a future UAAL reemergence under adverse experience.*

# Questions?



**Questions? Please Contact: The Office of the State Actuary**

**[leg.wa.gov/OSA](http://leg.wa.gov/OSA); [state.actuary@leg.wa.gov](mailto:state.actuary@leg.wa.gov)**

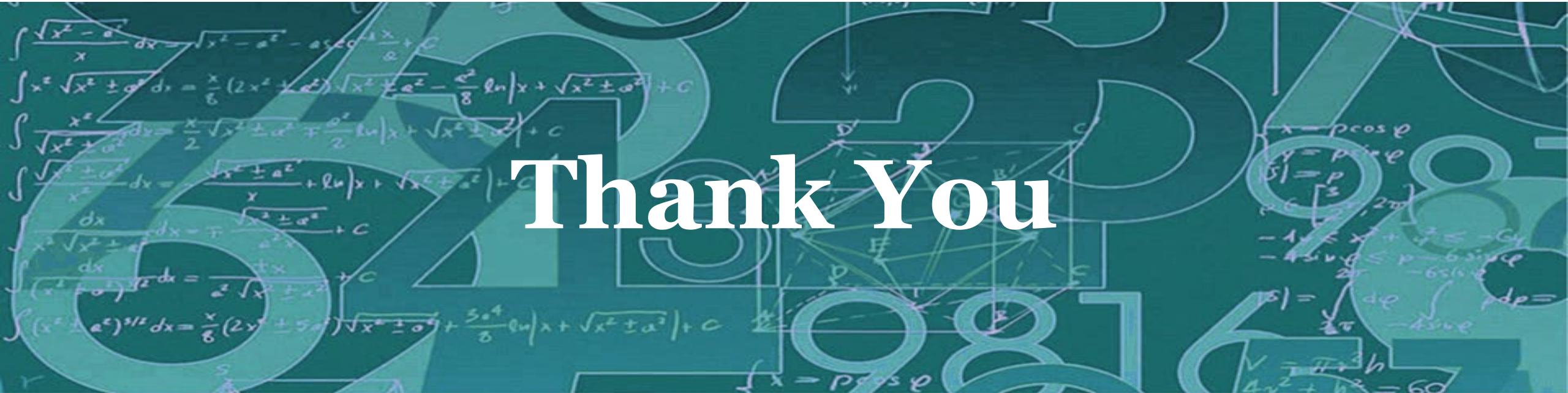
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**Thank You**



## Appendix –Disclosures

- Lisa Won, ASA, FCA, MAAA served as the reviewing and responsible actuary for the analysis in this presentation
- Unless otherwise noted, we prepared the UAAL contribution rates, funded ratios, and estimated contributions based on the data, assumptions, and methods disclosed in the following communications
  - [Plans 1 Funding Policy Review](#)
  - [2021 Actuarial Valuation Report](#)
  - [2021 Projections Model Assumptions and Methods](#)
- This presentation was prepared to support the Senate Ways & Means Committee during the 2023 Legislative Session and may not be appropriate for other purposes
- The analysis contained in this presentation is based on assumptions about uncertain future events, actual results will differ to the extent that future experience differs from assumptions