

2025-27 Pension Rate Proposal

Presentation to: Pension Funding Council

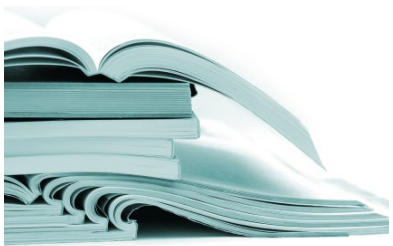
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Today's Presentation

- Overview of the *Preliminary [2023 Actuarial Valuation Report](#)* (2023 AVR)
- Refresher on past PFC actions
- Options for 2025-27 contribution rate adoption





Overview of Preliminary 2023 AVR



Purpose of 2023 Valuation

- Estimate future benefits to be paid from the retirement plans
- Rate-setting valuation
 - Calculate contribution rates that fund expected future benefits
 - Used to inform the 2025-27 Biennium contribution rate adoption
- Track funding progress
- Certify the underlying data, assumptions, and methods are reasonable and conform with current actuarial standards of practice

Valuation Highlights

- Updated asset values and census data as of June 30, 2023
- No changes to economic or demographic assumptions
- OSA methodology and pension law changes
- Actuarial report will include a new, required liability measure
 - Low-default-risk obligation measure
- Final AVR published this August
- Appendix to this presentation includes supporting information



2023 Asset Measures

■ Market Value of Assets (MVA)

■ Value of the assets at June 30, 2023, without adjustments

■ FY 2022 investment return of 0.22%

■ FY 2023 investment return of 6.96%

■ Expected annual return was 7.00%

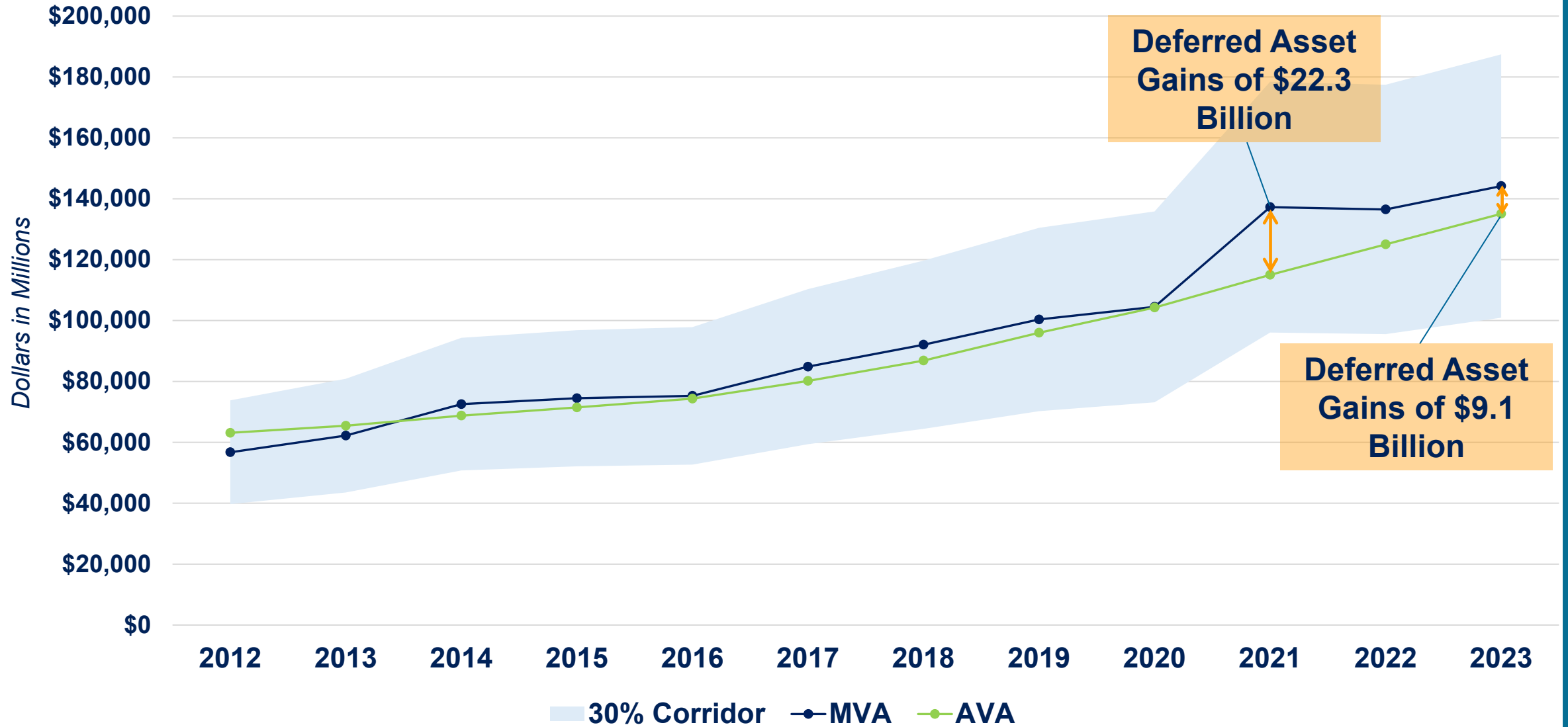
■ Actuarial Value of Assets (AVA)

■ Smoothed value of assets to limit impact of investment return volatility on contribution rates and funded status

■ AVA currently lower than MVA due to recent positive investment experience

■ Deferred investment gains available to offset any future investment experience losses

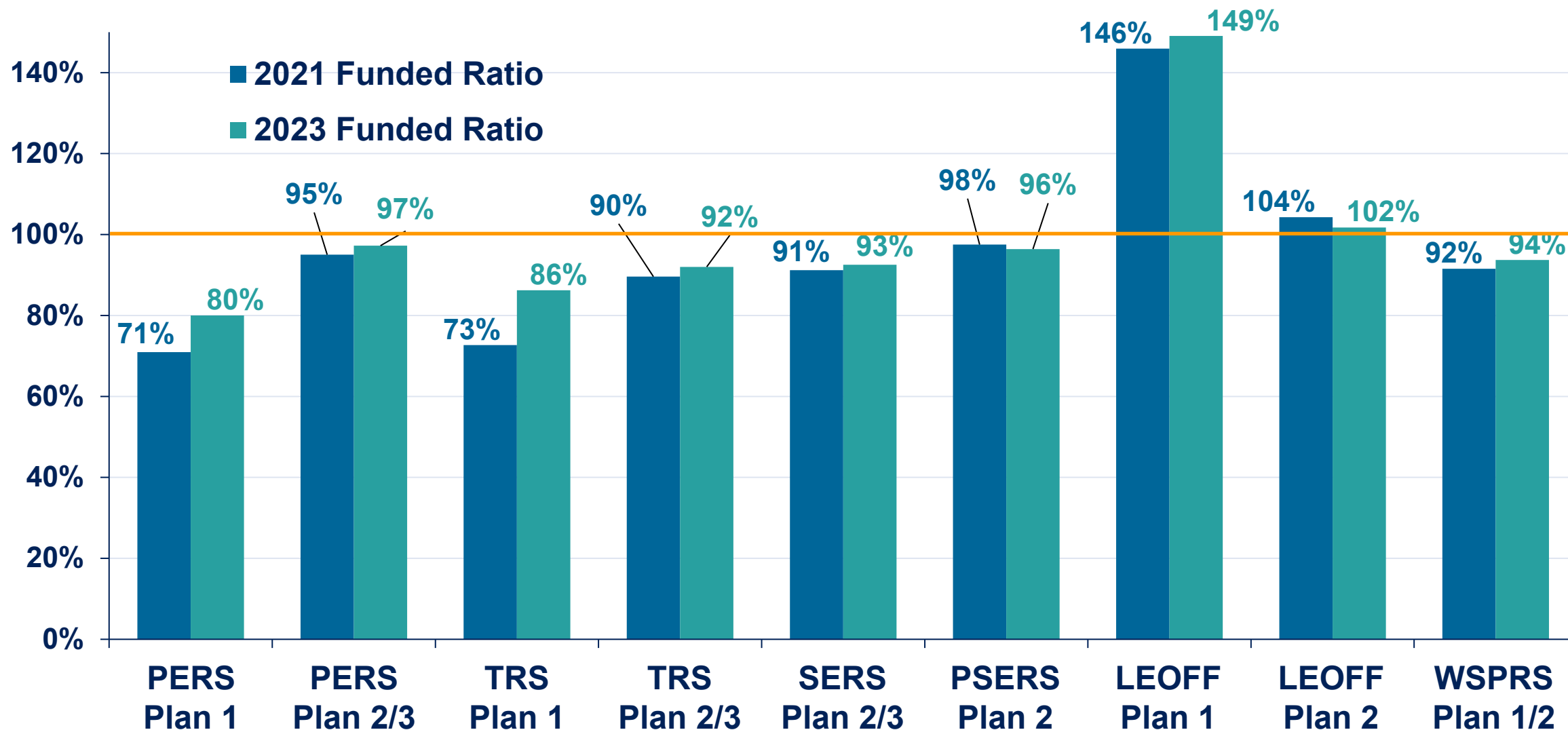
Market Value and Actuarial Value of Assets Comparison — All Retirement Systems



Funded Ratio Compares Assets to Liabilities

- Component of plan health
- $\text{Funded Ratio} = \text{AVA} \div \text{Accrued Liability}$
- Point-in-time measurement
- Less than 100%
 - Less than \$1 of assets for every \$1 of earned benefits
 - Plan needs additional contributions to get back on track
- More than 100%
 - More than \$1 of assets for every \$1 of earned benefits
 - Plan may require lower contributions
 - Does not necessarily mean no future contributions are needed

Most Plans at 90 Percent Funded Ratio or Above



Preliminary Plan 2 Employee Contribution Rates

Employee Contribution Rates			
	2023-25 Calculated Rates	2023-25 Current Rates*	2025-27 Calculated Rates
PERS 2	7.20%	6.36%	6.57%
TRS 2	8.64%	8.06%	8.65%
SERS 2	8.47%	7.76%	7.92%
PSERS 2	7.46%	6.76%	7.71%
WSPRS 1/2	8.61%	8.75%	8.75%

Note: LEOFF 1 requires no contributions as of the measurement date.

**Includes supplemental rates from the 2024 Legislative Session that will be collected starting September 2024.*

- “2023-25 Calculated Rates” based on 2021 AVR
- “2023-25 Current Rates” based on 2019 AVR
- “2025-27 Calculated Rates” based on 2023 AVR

Preliminary Employer Contribution Rates

- Employers pay the Plans 2/3 Normal Cost (NC) rate but on all employee salaries including Plan 1

Employer Contribution Rates		
	2025-27 Calculated NC Rates	2025-27 UAAL Rates
PERS	6.57%	PERS 1 UAAL
TRS	8.72%	TRS 1 UAAL
SERS	7.92%	PERS 1 UAAL
PSERS	7.71%	PERS 1 UAAL
WSPRS	21.72%	N/A

- See next slide for UAAL rates

Preliminary Plan 1 UAAL Contribution Rates

PERS 1 and TRS 1 Prescribed Total UAAL Rates			
	FY 2025*	FY 2026	FY 2027
PERS 1			
Prescribed Base UAAL Rate	2.00%	1.50%	0.50%
Benefit Improvement Rate	0.55%	0.55%	0.55%
Prescribed Total UAAL Rate	2.55%	2.05%	1.05%
TRS 1			
Prescribed Base UAAL Rate	0.50%	0.00%	0.00%
Benefit Improvement Rate	1.10%	1.10%	1.10%
Prescribed Total UAAL Rate	1.60%	1.10%	1.10%

**Reflects FY 2025 prescribed base UAAL rates in statute and benefit improvement rates from the 2024 Legislative Session.*

- UAAL contribution rates are comprised of two components
 - “Base” UAAL rates for unfunded portion of original plan benefits
 - Benefit Improvement rates for any benefit improvement after 2009

Preliminary Contribution Rates – Total Rates

Total Employer Rates				Employee Rates		
	FY 2025 Current Rates*	FY 2026 Calculated Rates	FY 2027 Calculated Rates		2023-25 Current Rates*	2025-27 Calculated Rates
PERS	8.91%	8.62%	7.62%	PERS 2	6.36%	6.57%
TRS	9.66%	9.82%	9.82%	TRS 2	8.06%	8.65%
SERS 2/3	10.31%	9.97%	8.97%	SERS 2	7.76%	7.92%
PSERS 2	9.31%	9.76%	8.76%	PSERS 2	6.76%	7.71%
LEOFF 1	0.00%	0.00%	0.00%	LEOFF 1	0.00%	0.00%
WSPRS 1/2	17.80%	21.72%	21.72%	WSPRS 1/2	8.75%	8.75%

Note: Rates exclude current administrative expense rate of 0.20%. LEOFF 1 requires no contributions as of the measurement date.

**Includes supplemental rates from the 2024 Legislative Session that will be collected starting September 2024 and Base UAAL rates prescribed for FY 2025.*

Where Are Contribution Rates Headed?

- We estimate calculated contribution rates will decrease in the 2027-29 Biennium
 - All plans projected to have a funded ratio of at least 100% within next 5 years
- We estimate the 2027-29 Biennium will be the final biennium for contributions to the base UAAL
 - We expect funding for Plan 1 benefit improvements enacted after 2009 to continue beyond the 2027-29 Biennium consistent with current funding policy
- Updated OSA projections available on our website later this year
- Actual results may vary from these projections

Estimated 2027-29 Contribution Rates

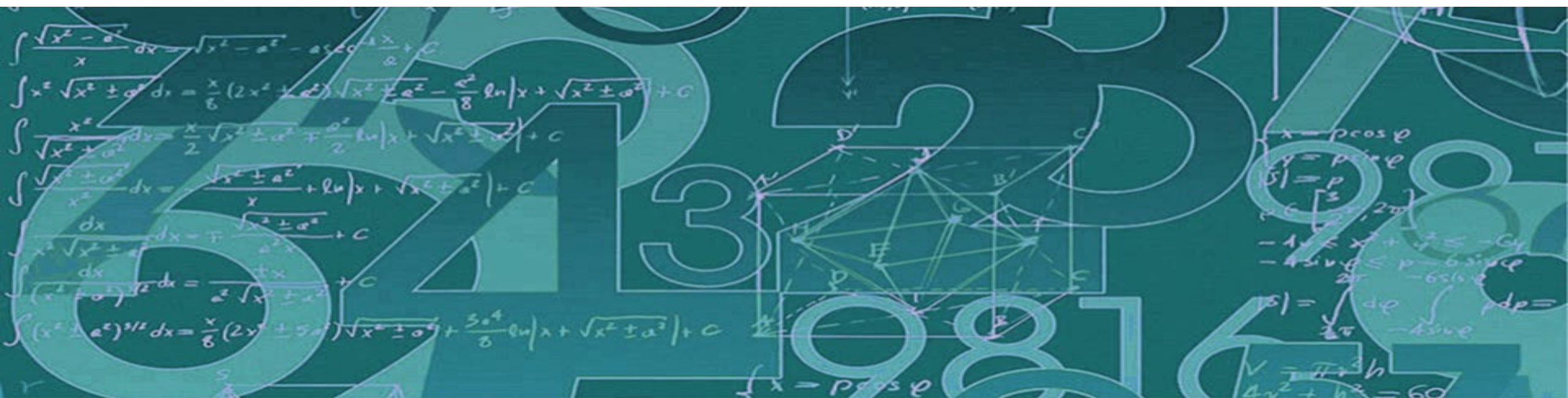
Estimated 2027-29 Contribution Rates		
	Employer Normal Cost Rates	Plan 2 Employee Rates
PERS 2/3	5.94%	5.94%
TRS 2/3	8.27%	8.27%
SERS 2/3	7.42%	7.42%
PSERS 2	7.54%	7.54%
LEOFF 1	0.00%	0.00%
WSPRS 1/2	17.76%	8.75%

Note: Rates exclude current administrative expense rate of 0.20%.

- Contribution rates for 2027-29 will rely on results of June 30, 2025, AVR which may vary from this estimate
- Estimated rates based on 2023 AVR, with recognition of the present value of two additional years of currently deferred investment gains. Otherwise, all data, assumptions, and methods are consistent with 2023 AVR.



Refresher on Past PFC Actions



Recent PFC Activity

■ October 2021

- PFC adopted a change to the assumed long-term rate of return from 7.5% to 7.0%
- *“The resulting change to contributions rates be phased in over 6 years, and the 2023-2025 rates will not exceed the current 2021-2023 adopted rates.”*

■ July 2022

- PFC adopted rates for the 2023-25 Biennium, capped at the 2021-23 Biennium contribution rates
- This represented the first step of the planned contribution rate phase-in

■ July 2024

- Opportunity to adopt rates for the 2025-27 Biennium
- Action item for today's meeting



Options for 2025-27 Contribution Rate Adoption



Option 1 – Adopt Rates from 2023 AVR

- Actuarially required funding based on current funding policy and assumptions
- Supports plan solvency but may raise concerns with short-term affordability or rate volatility
- Effectively ends planned contribution rate phase-in of lower return assumption
- Note on terminology
 - Referred to as “2025-27 Calculated Rates” for employee rates
 - “FY 2026 Calculated Rates” or “FY 2027 Calculated Rates” for employer rates

Option 1 (2023 AVR Rates) — Contribution Rates

Total Employer Rates				Employee Rates		
	FY 2025 Current Rates*	FY 2026 Calculated Rates	FY 2027 Calculated Rates		2023-25 Current Rates*	2025-27 Calculated Rates
PERS	8.91%	8.62%	7.62%	PERS 2	6.36%	6.57%
TRS	9.66%	9.82%	9.82%	TRS 2	8.06%	8.65%
SERS 2/3	10.31%	9.97%	8.97%	SERS 2	7.76%	7.92%
PSERS 2	9.31%	9.76%	8.76%	PSERS 2	6.76%	7.71%
LEOFF 1	0.00%	0.00%	0.00%	LEOFF 1	0.00%	0.00%
WSPRS 1/2	17.80%	21.72%	21.72%	WSPRS 1/2	8.75%	8.75%

Note: Rates exclude current administrative expense rate of 0.20%. LEOFF 1 requires no contributions as of the measurement date.

**Includes supplemental rates from the 2024 Legislative Session that will be collected starting September 2024 and Base UAAL rates prescribed for FY 2025.*

Option 1 (2023 AVR Rates) — Budget Impacts

Estimated Budget Impacts Compared to FY 2025 Contribution Rates*						
(Dollars in Millions)	PERS	TRS	SERS	PSERS	WSPRS	Total
2025-2027						
General Fund	(\$53)	\$27	(\$35)	(\$1)	\$1	(\$61)
Non-General Fund	(80)	0	0	(0)	10	(70)
Total State	(\$133)	\$27	(\$35)	(\$1)	\$11	(\$131)
Local Government	(134)	5	(28)	(0)	0	(157)
Total Employer	(\$266)	\$31	(\$63)	(\$1)	\$11	(\$288)
Total Employee	\$54	\$40	\$6	\$19	\$0	\$119

Note: Totals may not agree due to rounding.

*Excludes LEOFF 2.

Option 2 – Continue Phase-In

- If the rates from Option 1 are unaffordable or there are concerns about future rate volatility under Option 1, continuing the contribution rate phase-in is an option

Background on Phase-Ins

- Under current funding policy, the increase in contribution rates from the lower assumed rate of return is spread over time
- If the resulting increase is deemed unaffordable in the short-term, you can take additional time to step into the full, required contribution levels
 - The resulting funding shortfall from a phase-in will increase future required contribution rates
- Desired goal of any phase-in
 - If a phase-in is necessary, manage short-term affordability without creating long-term affordability issues

Two Phase-In Options Identified

■ Option 2A – Contain Costs within Phase-in Period

- Funding shortfalls during the phase-in period are made up with interest during the period
- Asset values at the end of the phase-in period, on an expected basis, same as if phase-in had not occurred
- This option emphasizes plan solvency at the potential expense of introducing contribution rate volatility

■ Option 2B – Extend Costs beyond Phase-in Period

- Transition to lower expected rates by smoothing contribution rates between current rates and estimated 2027-29 rates
- This option emphasizes the management of rate volatility at the potential expense of weakened plan solvency

Option 2A (Contain Costs) – Contribution Rates

Total Employer Rates				Employee Rates		
	FY 2025 Current Rates*	FY 2026 Rates	FY 2027 Rates		2023-25 Current Rates*	2025-27 Rates
PERS	8.91%	8.72%	7.72%	PERS 2	6.36%	6.67%
TRS	9.66%	10.22%	10.22%	TRS 2	8.06%	8.65%
SERS 2/3	10.31%	10.07%	9.07%	SERS 2	7.76%	8.02%
PSERS 2	9.31%	9.76%	8.76%	PSERS 2	6.76%	7.71%
LEOFF 1	0.00%	0.00%	0.00%	LEOFF 1	0.00%	0.00%
WSPRS 1/2	17.80%	21.92%	21.92%	WSPRS 1/2	8.75%	8.75%

Note: Rates exclude current administrative expense rate of 0.20%. LEOFF 1 requires no contributions as of the measurement date.

**Includes supplemental rates from the 2024 Legislative Session that will be collected starting September 2024 and Base UAAL rates prescribed for FY 2025.*

Option 2A (Contain Costs) – Budget Impacts

Estimated Budget Impacts Compared to FY 2025 Contribution Rates*						
(Dollars in Millions)	PERS	TRS	SERS	PSERS	WSPRS	Total
2025-2027						
General Fund	(\$47)	\$93	(\$31)	(\$1)	\$1	\$16
Non-General Fund	(\$70)	\$0	\$0	(\$0)	\$10	(\$60)
Total State	(\$116)	\$93	(\$31)	(\$1)	\$11	(\$43)
Local Government	(\$116)	\$16	(\$25)	(\$0)	\$0	(\$125)
Total Employer	(\$233)	\$110	(\$56)	(\$1)	\$11	(\$169)
Total Employee	\$80	\$40	\$10	\$19	\$0	\$149

Note: Totals may not agree due to rounding.

*Excludes LEOFF 2.

Option 2B (Extend Costs) – Contribution Rates

Total Employer Rates				Employee Rates		
	FY 2025 Current Rates*	FY 2026 Rates	FY 2027 Rates		2023-25 Current Rates*	2025-27 Rates
PERS	8.91%	8.20%	7.20%	PERS 2	6.36%	6.15%
TRS	9.66%	9.26%	9.26%	TRS 2	8.06%	8.16%
SERS 2/3	10.31%	9.64%	8.64%	SERS 2	7.76%	7.59%
PSERS 2	9.31%	9.12%	8.12%	PSERS 2	6.76%	7.07%
LEOFF 1	0.00%	0.00%	0.00%	LEOFF 1	0.00%	0.00%
WSPRS 1/2	17.80%	17.71%	17.71%	WSPRS 1/2	8.75%	8.75%

Note: Rates exclude current administrative expense rate of 0.20%. LEOFF 1 requires no contributions as of the measurement date.

**Includes supplemental rates from the 2024 Legislative Session that will be collected starting September 2024 and Base UAAL rates prescribed for FY 2025.*

Option 2B (Extend Costs) – Budget Impacts

Estimated Budget Impacts Compared to FY 2025 Contribution Rates*						
(Dollars in Millions)	PERS	TRS	SERS	PSERS	WSPRS	Total
2025-2027						
General Fund	(\$81)	(\$67)	(\$48)	(\$9)	(\$0)	(\$205)
Non-General Fund	(\$122)	\$0	\$0	(\$1)	(\$0)	(\$123)
Total State	(\$203)	(\$67)	(\$48)	(\$10)	(\$0)	(\$328)
Local Government	(\$203)	(\$12)	(\$39)	(\$4)	\$0	(\$258)
Total Employer	(\$405)	(\$78)	(\$88)	(\$14)	(\$0)	(\$586)
Total Employee	(\$54)	\$7	(\$7)	\$6	\$0	(\$48)

Note: Totals may not agree due to rounding.

*Excludes LEOFF 2.

Summary of Budget Impacts

Estimated 2025-27 Budget Impacts Compared to FY 2025 Contribution Rates*						
(Dollars in Millions)	PERS	TRS	SERS	PSERS	WSPRS	Total
Option 1 (2023 AVR Rates)						
General Fund	(\$53)	\$27	(\$35)	(\$1)	\$1	(\$61)
Total Employer	(\$266)	\$31	(\$63)	(\$1)	\$11	(\$288)
Total Employee	\$54	\$40	\$6	\$19	\$0	\$119
Option 2A (Contain Costs)						
General Fund	(\$47)	\$93	(\$31)	(\$1)	\$1	\$16
Total Employer	(\$233)	\$110	(\$56)	(\$1)	\$11	(\$169)
Total Employee	\$80	\$40	\$10	\$19	\$0	\$149
Option 2B (Extend Costs)						
General Fund	(\$81)	(\$67)	(\$48)	(\$9)	(\$0)	(\$205)
Total Employer	(\$405)	(\$78)	(\$88)	(\$14)	(\$0)	(\$586)
Total Employee	(\$54)	\$7	(\$7)	\$6	\$0	(\$48)

Note: Totals may not agree due to rounding.

*Excludes LEOFF 2.

Questions?



Questions? Please Contact: The Office of the State Actuary

leg.wa.gov/OSA; state.actuary@leg.wa.gov

360-786-6140, PO Box 40914, Olympia, WA 98504

Matthew M. Smith and Graham Dyer

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Thank You



Disclosure

- This presentation is intended to inform the PFC's adoption of contribution rates for the 2025-27 Biennium and may not be appropriate for other purposes.
- Please see the Preliminary 2023 AVR posted on our website for disclosure of assumptions, methods, and data used to produce the results that were summarized in this presentation.
- Actual contribution rates for 2027-29 may vary from the estimated rates included in this presentation. Updated estimated rates for 2027-29 will be available this fall.
- Matthew M. Smith, FCA, EA, MAAA served as the reviewing and responsible actuary for this presentation
- Kyle Stineman, ASA, MAAA, served as the reviewing and responsible actuary for the budget impacts included in this presentation.

Pension Law Changes in June 30, 2023, Valuation

■ 2023 Legislation

- Interruptive Military Service Credit Expansion ([SHB 1007](#))
- PSERS eligibility expansion ([HB 1055](#))
- PERS, TRS, and SERS retire-rehire rule change ([SHB 1056](#))
- PERS and TRS 1 Funding Policy ([ESSB 5294](#))
- PERS and TRS Plans 1 COLA ([SB 5350](#))

■ 2024 Legislation

- PERS and TRS Plans 1 COLA ([SHB 1985](#))
- Interruptive Military Service Credit Expansion ([2SHB 2014](#))
- PSERS eligibility expansion ([SSB 6106](#))
- LEOFF 2 Omnibus ([SSB 6197](#))

PERS 1 and TRS 1 Information

PERS 1 (As of June 30, 2023)

- \$566 million UAAL for original “base” benefits
- \$598 million UAAL for past benefit improvements
- \$123 million UAAL for 2024 Legislation
- \$664 million in deferred asset gains

TRS 1 (As of June 30, 2023)

- \$208 million UAAL for original “base” benefits
- \$580 million UAAL for past benefit improvements
- \$119 million UAAL for 2024 Legislation
- \$493 million in deferred asset gains

- As of our June 30, 2022, projections, PERS and TRS were expected to pay off the original “base” benefits UAAL by the end of the 2027-2029 Biennium
 - Updated projections will be available this fall

2023 Participant Data

Participant Data			
All Systems	2023	2021	Difference
Active Members			
Number	352,278	334,165	18,113
Average Annual Salary	\$83,812	\$75,933	\$7,879
Average Attained Age	45.8	46.4	(0.7)
Average Service	10.3	11.1	(0.8)
Retirees and Beneficiaries			
Number	224,021	207,844	16,177
Average Annual Benefit	\$26,742	\$25,105	\$1,636

Assets by Plan

Calculation of Actuarial Value of Assets

Calculation of Actuarial Value of Assets											
(Dollars in Millions)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	SERS 2/3	PSERS 2	LEOFF 1	LEOFF 2	WSPRS 1/2	Total	
Investment Gains and (Losses) for Fiscal Year											
a. Market Value (MV) at 6/30/2023	\$9,226	\$62,501	\$7,225	\$25,061	\$9,427	\$1,449	\$6,874	\$20,617	\$1,795	\$144,174	
b. Expected 7.0% Return*	\$620	\$4,104	\$468	\$1,630	\$615	\$92	\$470	\$1,346	\$119	\$9,462	
c. Actual Return	\$609	\$4,096	\$460	\$1,635	\$615	\$93	\$457	\$1,327	\$118	\$9,411	
Investment Gain/(Loss) (c - b)	(\$11)	(\$8)	(\$8)	\$5	\$0	\$1	(\$12)	(\$19)	(\$1)	(\$51)	
Actual Rate of Return	6.88%	6.99%	6.89%	7.02%	7.00%	7.10%	6.82%	6.90%	6.94%	6.96%	
Smoothing Period	1	1	1	1	1	1	1	1	1	1	
Deferred Gains and (Losses)											
Plan Year Ending	Smoothing Period	Years Remaining									
6/30/2023	1	0	0	0	0	0	0	0	0	0	0
6/30/2022	7	5	(\$448)	(\$2,854)	(\$336)	(\$1,110)	(\$421)	(60)	(345)	(927)	(85)
6/30/2021	8	5	1,112	6,763	829	2,602	990	133	855	2,202	204
d. Total Deferral	\$664	\$3,909	\$493	\$1,492	\$569	\$73	\$509	\$1,276	\$120	\$9,104	
Market Value less Deferral (a - d)	\$8,561	\$58,592	\$6,732	\$23,569	\$8,858	\$1,376	\$6,365	\$19,342	\$1,675	\$135,070	
70% of Market Value of Assets	\$6,458	\$43,751	\$5,058	\$17,542	\$6,599	1,014	4,812	14,432	1,256	100,922	
130% of Market Value of Assets	\$11,993	\$81,251	\$9,393	\$32,579	\$12,255	1,883	8,936	26,802	2,333	187,426	
Actuarial Value of Assets**	\$8,561	\$58,592	\$6,732	\$23,569	\$8,858	\$1,376	\$6,365	\$19,342	\$1,675	\$135,070	
Ratio (AV / MV)	93%	94%	93%	94%	94%	95%	93%	94%	93%	94%	

Note: Totals may not agree due to rounding. The gain/(loss) for plan years not shown has been fully recognized.

*Dollar weighted rate of return assuming cashflows occur mid-year excluding the \$250 million appropriation to the TRS 1 trust on June 30, 2023, under ESSB 5294 (Chapter 396, Laws of 2023).

**Actuarial Value of Assets can never be less than 70% or greater than 130% of the Market Value of Assets.

Funded Status by Plan

Funded Status on an Actuarial Value Basis*

(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
	Plan 1	Plans 2/3	Plan 1	Plans 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2	Plans 1/2	
Accrued Liability	\$10,701	\$60,245	\$7,807	\$25,616	\$9,574	\$1,427	\$4,269	\$19,011	\$1,787	\$140,437
Valuation Assets	\$8,561	\$58,592	\$6,732	\$23,569	\$8,858	\$1,376	\$6,365	\$19,342	\$1,675	\$135,070
Unfunded Liability	\$2,140	\$1,653	\$1,075	\$2,047	\$715	\$51	(\$2,095)	(\$331)	\$112	\$5,368
Funded Ratio										
2023	80%	97%	86%	92%	93%	96%	149%	102%	94%	96%
2022	75%	97%	80%	92%	92%	101%	152%	104%	94%	96%
2021	71%	95%	73%	90%	91%	98%	146%	104%	92%	93%
2020	69%	98%	71%	93%	93%	101%	148%	113%	97%	95%
2019	65%	96%	66%	91%	91%	101%	141%	111%	95%	92%
2018	60%	91%	63%	90%	89%	96%	135%	108%	93%	89%
2017	57%	89%	60%	91%	88%	95%	131%	109%	92%	86%
2016	56%	87%	61%	89%	87%	94%	126%	105%	91%	84%

Note: Totals may not agree due to rounding.

*Liabilities valued using the EAN cost method at an interest rate of 7.0%. All assets have been valued under the actuarial asset method.