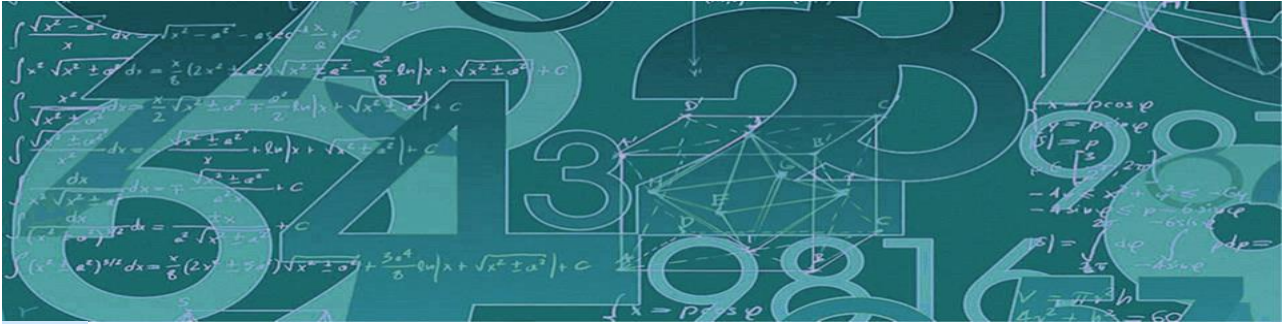


Actuarial Update on the Washington State Retirement Plans

Presentation to: DRS Advisory Committee

Michael T. Harbour, Actuary, ASA, MAAA

Frank Serra, Senior Actuarial Analyst



Office of the State Actuary
"Supporting financial security for generations."

November 10, 2022

What We'll Be Covering Today

- Highlights of [2021 Actuarial Valuation Report](#)
 - Changes to assumptions and plan provisions
 - Funded ratios
 - Contribution rates
- Looking Ahead
 - Projected metrics
 - Upcoming OSA projects
- Additional Resources



A Little about OSA

- Small agency within Legislative Branch
- We support many clients
 - DRS
 - Legislature
 - Pension Funding Council
 - Select Committee on Pension Policy
 - Office of Financial Management
 - Higher Education Institutions
 - LEOFF 2 and VFF Boards
 - WA 529 Committee (GET)
 - WA Cares Board
- With a variety of projects
 - Actuarial valuations
 - Fiscal notes and pricings
 - Experience studies
 - State financial reporting
 - Education and consulting

Actuarial Valuation

- Point-in-time measurement of plan health and funding progress
- Brings together membership data, assets, plan provisions, funding policy, assumptions, and methods
 - Collaboration amongst multiple agencies/parties
- Performed each year for DRS plans
 - Supports contribution rate process in even-numbered years
 - Applied in our pricings, projections, and financial reporting



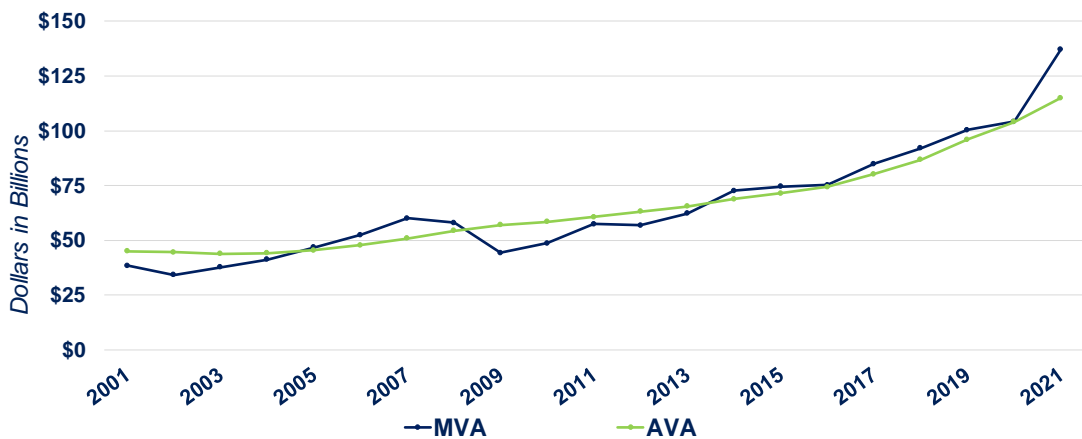
Updates for 2021 Valuation

- Assumption changes
 - Investment return assumption lowered from 7.5% to 7.0%
 - General salary growth assumption lowered from 3.50% to 3.25%
- Laws passed during the 2022 Legislative Session*
 - One-time COLA for PERS 1 and TRS 1 annuitants
 - Expansion of duty-related disability benefits for PSERS 2 members
 - Enhanced retirement benefits for LEOFF 1/2 members
- Reflects FY 2021 investment return of roughly 30%

*See Appendix for details.

Assets

- Actuarial Value of Assets smooths investment gains/losses
 - Reduces plan funding volatility



Liabilities

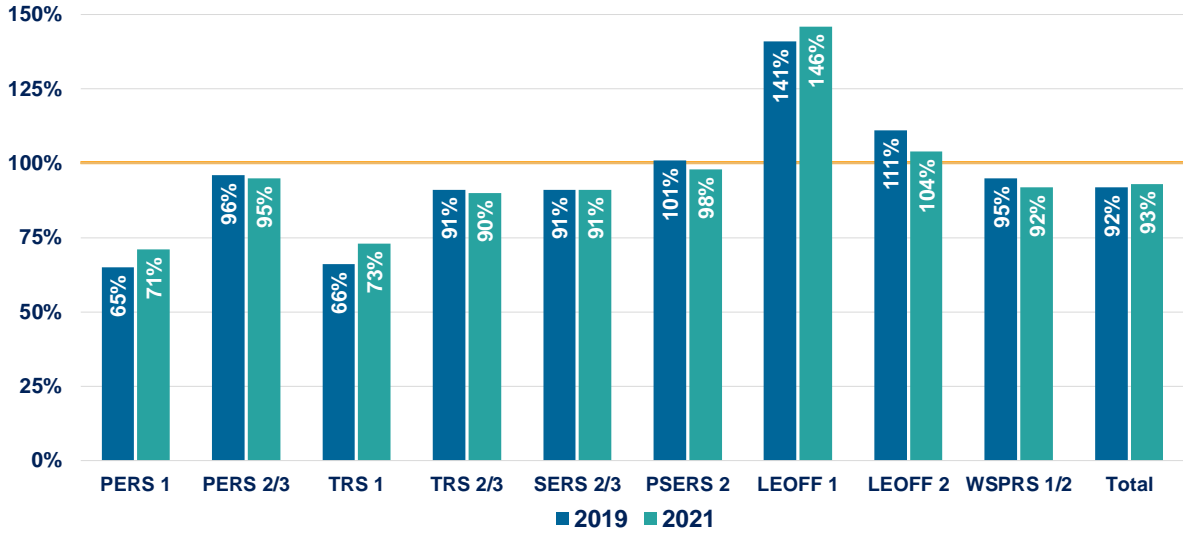
- Present Value of Future Benefits (PVFB)
 - Today's value of all future expected benefit payments for current members
- Accrued Liability
 - Today's value of all future expected benefit payments for current members that have been "earned" as of the measurement date

| Actuarial Liabilities | | |
|--|---------|---------|
| (Dollars in Billions) | 2021 | 2019 |
| All Systems | | |
| Future Value of Fully Projected Benefits | \$839.0 | \$767.7 |
| Present Value of Fully Projected Benefits | \$151.4 | \$126.0 |
| Accrued Liability | \$123.6 | \$104.0 |

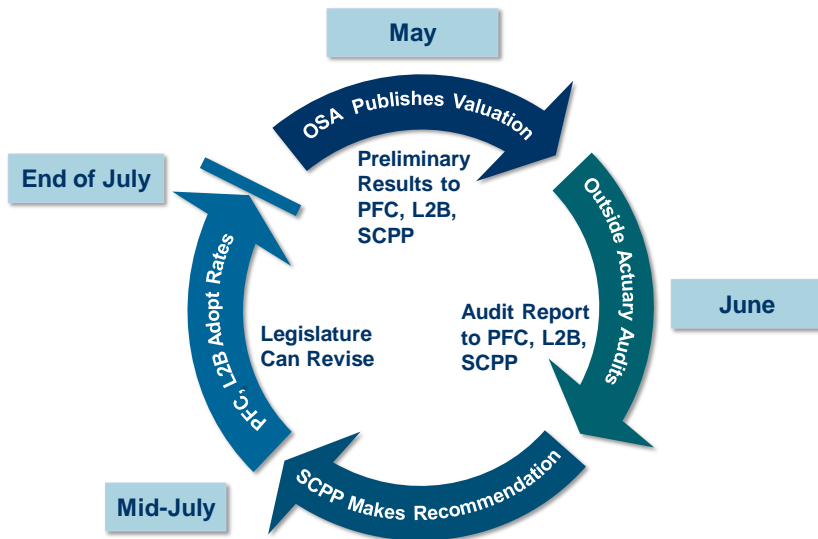
Funded Ratio

- Funded ratio = **Actuarial Value of Assets** ÷ **Accrued Liability**
 - Provides measure of plan health
- Funded ratio > 100%
 - Plan has more assets than *earned* benefits
 - On track with systematic actuarial funding plan
 - Plan may still require regular contributions to stay on track
- Funded ratio < 100%
 - Plan needs additional assets to get it back on track to full funding

Funded Ratio Comparison



Contribution Rate Adoption Process Occurs in Even Years



Plan 2 Member Contribution Rates

| System | Current 2021-23 | Calculated from AVR | Adopted 2023-25 |
|---------|--------------------|------------------------|--------------------|
| PERS* | 6.36% | 7.20% | 6.36% |
| TRS* | 8.05% | 8.64% | 8.05% |
| SERS* | 7.76% | 8.47% | 7.76% |
| PSERS | 6.60% | 7.46% | 6.60% |
| LEOFF** | 8.53% | 9.94% | 8.53% |
| WSPRS | 8.61% | 8.61% | 8.61% |

*Plan 1 members' contribution rate is statutorily set at 6.0%.

Members in Plan 3 do not make contributions to their defined benefit.

**No contributions required for LEOFF 1 when plan is fully funded.

Total Employer Contribution Rates

| System | Current 2021-23 | Calculated from AVR | Adopted 2023-25 |
|---------|--------------------|------------------------|--------------------|
| PERS* | 10.21% | 11.05% | 10.21% |
| TRS* | 14.51% | 16.16% | 14.51% |
| SERS* | 11.61% | 12.32% | 11.61% |
| PSERS* | 10.45% | 11.31% | 10.45% |
| LEOFF** | 8.53% | 9.94% | 8.53% |
| WSPRS | 17.66% | 24.10% | 17.66% |

Note: Excludes DRS administrative expense fee of 0.18%.

*UAAL rates are 3.85% for PERS 1 and 6.46% for TRS 1.

**No contributions required for LEOFF 1 when plan is fully funded.

Looking Ahead

- Recently updated our Projections
 - Incorporates lower FY 22 investment returns, among other changes
 - Still anticipate contribution rates to decline from current level
- Expect to reach 100% Funded Ratio by
 - Fiscal Year End (FYE) 2026 for PERS 1, and FYE 2023 for TRS 1
 - Based on biennial approach to contribution rate setting, UAAL minimum contribution rates may continue after that point
- See our [website](#) for actuarial disclosures

Upcoming OSA Projects

- *2023 Report on Financial Condition and Economic Experience Study*
 - Long-term assumptions for inflation, salary growth, and investment return
 - Affordability and solvency of the state retirement systems
- Risk Assessment Study
 - Assumptions and model for on-going risk metrics
 - [Commentary on Risk](#)



Recap

- DRS pension plans health generally improving
- Contribution rates remain stable
- Monitoring overall economy, including inflation and investments
- Expect further updates from OSA next year

Additional Resources

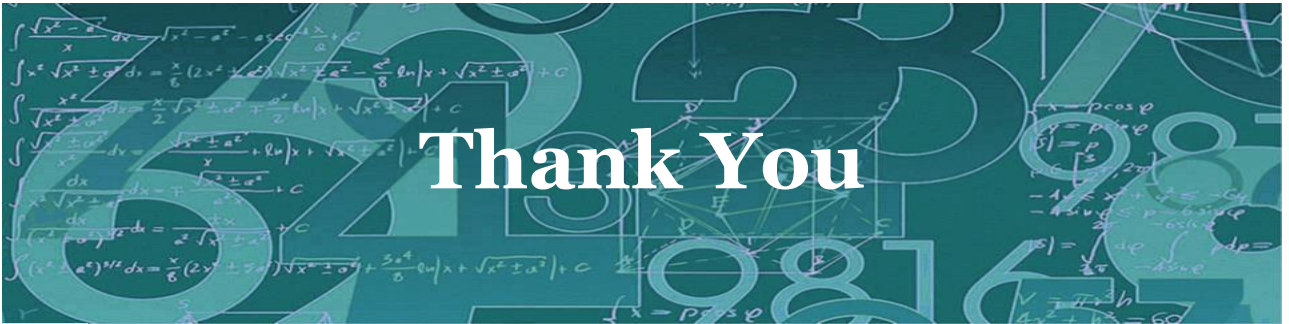
- [Education Webpage](#)
- [Interactive Reports](#)
 - Funded Status
 - Projected Benefit Payments
 - Contribution Rates
- LIVE Demo



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

Michael T. Harbour and Frank Serra

O:\DRS\2022\Actuarial.Update.Washington.Retirement.Plans.pptx



Office of the State Actuary
 "Supporting financial security for generations."

November 10, 2022

Appendix – 2022 Passed Laws

- [Senate Bill 5676](#)
 - PERS 1 & TRS 1 – Granted a one-time COLA for eligible annuitants
- [House Bill 1669](#)
 - PSERS 2 – Expanded duty-related disability benefits
- [Substitute Senate Bill 5791](#)
 - LEOFF 1 – Provided a lump sum benefit payment to members and beneficiaries
- [Substitute House Bill 1701](#)
 - LEOFF 2 – Modified funding policy, and improved retirement benefits primarily through a higher per year-of-service multiplier