



Office of the State Actuary

“Supporting financial security for generations.”

December 15, 2022

Mr. Marcus Ehrlander
Budget Assistant
Office of Financial Management

SUBJECT: 2023-25 BUDGET DISCLOSURES

Dear Marcus,

At your request and as per the [Revised Code of Washington \(RCW\) 43.88.030](#), we updated the 2023-25 Budget Disclosures for (1) Plans 1 Cost-Of-Living Adjustments (COLAs), and (2) Unfunded Actuarial Accrued Liability (UAAL).

The analysis provided in this letter is based on the participant and financial data, assumptions, and methods disclosed in the [June 30, 2021, Actuarial Valuation Report](#) (AVR). This analysis will be updated after our 2023 AVR; please replace this disclosure with the next update when available. These disclosures are based on current law and best estimate assumptions; actual results will vary with any changes to current law and to the extent actual experience differs from our assumptions.

We prepared this analysis to assist the Office of Financial Management with their budget requirements; use for other purposes may not be appropriate. Please read the analysis in this letter as a whole; distribution of, or reliance on, only parts of this communication could result in its misuse and may mislead others. We prepared this analysis and provided opinions in accordance with Washington State law and accepted Actuarial Standards of Practice as of the date of this letter; the undersigned meets the Qualification Standards of the American Academy of Actuaries to render these actuarial opinions.

Sincerely,

Michael T. Harbour, ASA, MAAA
Actuary

cc: Matthew M. Smith, EA, FCA, MAAA
State Actuary

Disclosure 1: RCW 43.88.030(1)(h)
Disclosure 2: RCW 43.88.030(2)(j)

Appendix: Statutory References, and
Assumptions and Methods

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1. RCW 43.88.030(1)(h) – PLANS 1 COST-OF-LIVING ADJUSTMENT

| Post-Retirement Adjustments Established after July 1, 1991 | | | |
|---|---------------|---------------|---------------|
| (Dollars in Millions) | 2019-21* | 2021-23** | 2023-25** |
| PERS 1 | \$40.7 | \$47.1 | \$21.1 |
| TRS 1 | \$22.8 | \$27.5 | \$5.6 |
| WSPRS 1/2 | \$3.8 | \$4.3 | \$4.7 |
| Total | \$67.3 | \$78.9 | \$31.4 |

*We did not update this historical biennium estimate from our prior letter.

Estimated based upon our 2021 AVR; see **Appendix for details.

Annuitants under the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1 may be eligible to receive the Basic Minimum COLA or the Alternate Minimum Benefit. Eligible annuitants under the Washington State Patrol Retirement System (WSPRS) Plans 1/2 receive a COLA based on the percentage change in the Seattle area Consumer Price Index, capped at 3 percent per year. We determined increases in COLA payments consistent with the amounts stated in current law. For your information, we provide a list of applicable statutory references in the **Appendix**.

We expect an increase in the PERS 1, TRS 1, and WSPRS 1/2 COLA payments due to an expected increase in the number of COLA-eligible annuitants as well as the statutory increase in annual COLAs. Furthermore, the relatively higher COLAs in the 2019-21 and 2021-23 Biennia for PERS 1 and TRS 1 is the result of legislation passed in the 2020 and 2022 Legislative Sessions granting 3 percent COLAs (subject to a maximum amount). These laws provided one-time COLAs to certain eligible member benefits on July 1, 2020, and July 1, 2022. Please see our associated actuarial fiscal notes for additional information, as well as the **Appendix** for more details on assumptions and methods used in the development of the Post-Retirement Adjustments table above.



2. RCW 43.88.030(2)(j) – UNFUNDED ACTUARIAL ACCRUED LIABILITY

The below PERS 1 and TRS 1 expected UAAL contributions are identical to those disclosed in our Six-Year Outlook of Pension Costs letter provided on November 7, 2022, except on a per-plan basis. Please refer to that document for the assumptions, methods, and data used to develop these estimates, along with our [Projections Model Assumptions and Methods](#) webpage for details.

PERS 1

PERS 1 has a UAAL of \$2,884 million as of the 2021 AVR. The Plan 1 funding method requires the UAAL to be amortized over a rolling ten-year period, as a level percentage of projected total system payroll¹, subject to minimum rates set in statute. The adopted PERS 1 UAAL rate for the 2023-25 Biennium is 3.85 percent. We expect employers to contribute \$1,359 million to the PERS 1 UAAL during the 2023-25 Biennium, of which \$704 million is State and \$382 million is General Fund-State (GF-S). These amounts will change based on any change in the UAAL contribution rate or associated funding policy.

TRS 1

TRS 1 has a UAAL of \$1,848 million as of the 2021 AVR. The Plan 1 funding method requires the UAAL to be amortized over a rolling ten-year period, as a level percentage of projected TRS payroll, subject to minimum rates set in statute. The adopted TRS 1 UAAL rate for the 2023-25 Biennium is 6.46 percent. We expect employers to contribute \$1,106 million to the TRS 1 UAAL during the 2023 25 Biennium, of which \$940 million is State (all GF-S). These amounts will change based on any change in the UAAL contribution rate or associated funding policy.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1

LEOFF 1 is fully funded and has no UAAL as of the 2021 AVR.

Plans 2/3 and WSPRS 1/2

Consistent with current law, we use the Aggregate actuarial cost method when calculating required contributions for PERS 2/3, TRS 2/3, the School Employees' Retirement System (SERS) Plans 2/3, the Public Safety Employees' Retirement System (PSERS) Plan 2, LEOFF 2, and WSPRS 1/2. This actuarial cost method does not develop a UAAL.

¹Including PERS, SERS, and PSERS.



APPENDIX

Statutory References

PERS and TRS Plans 1

- ❖ Chapter 345, Laws of 1995, Uniform COLA.
- ❖ Chapter 340, Laws of 1998, Gain-Sharing.
- ❖ Chapter 85, Laws of 2004, \$1,000 Minimum Benefit.
- ❖ Chapter 244, Laws of 2006, \$1,000 Minimum Benefit.
- ❖ Chapter 491, Laws of 2007, Repeal of Gain-Sharing.
- ❖ Chapter 362, Laws of 2011, Repeal of Uniform COLA.
- ❖ Chapter 151, Laws of 2018, One-Time 1.5 Percent COLA.
- ❖ Chapter 329, Laws of 2020, One-Time 3 Percent COLA.
- ❖ Chapter 52, Laws of 2022, One-Time 3 Percent COLA.

WSPRS

- ❖ Chapter 74, Laws of 1999, Uniform COLA added to the survivor benefit.
- ❖ Chapter 329, Laws of 2001, Compound COLA for all retirees.

Assumptions and Methods

We calculated the increase in COLA payments by estimating how much the COLA payments increase year-over-year as described below. We add the increases over two years for the total biennial increase.

To calculate the increase due to the Basic Minimum COLA and Alternate Minimum Benefit for PERS 1 and TRS 1, we compared projected benefit payments with and without the expected increases to the minimums each year. Likewise, to calculate the increase in COLA payments for WSPRS, we compared projected benefit payments with and without the expected COLA increases (currently assumed to be 2.75 percent per year). Lastly, we relied on the analysis in our actuarial fiscal note for [Senate Bill 5676](#) to estimate the impact of the 2022 PERS 1 and TRS 1 one-time 3 percent COLA.

Otherwise, for the 2021-23 and 2023-25 Biennia, projected benefit payments rely on assumptions and methods disclosed in the 2021 AVR. We believe these assumptions and methods are reasonable for the purposes of this calculation.