Multiple Agency Fiscal Note Summary

Bill Number: 5357 E S SB AMH APP H2109.1	Title: Actuarial pension funding

Estimated Cash Receipts

NONE

Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Washington State Health Care Authority	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Retirement Systems	.0	0	0	0	.0	0	0	0	.0	0	0	0
State Investment Board	Fiscal note not available											
Actuarial Fiscal Note - State Actuary	.0	(335,900,000)	(335,900,000)	(453,500,000)	.0	(500,800,000)	(500,800,000)	(635,800,000)	.0	(42,000,000)	(42,000,000)	(51,300,000)
Total $	**0.0**	**(335,900,000)**	**(335,900,000)**	**(453,500,000)**	**0.0**	**(500,800,000)**	**(500,800,000)**	**(635,800,000)**	**0.0**	**(42,000,000)**	**(42,000,000)**	**(51,300,000)**

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Washington State Health Care Authority	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
State Investment Board	Fiscal note not available								
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

NONE

Prepared by: Bryce Andersen, OFM	Phone: (564) 999-0536	Date Published: Preliminary 4/14/2025

Individual State Agency Fiscal Note

Bill Number: 5357 E S SB AMH APP H2109.1	Title: Actuarial pension funding	Agency: 107-Washington State Health Care Authority

Part I: Estimates

- [X] **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- [ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- [ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- [ ] Capital budget impact, complete Part IV.
- [ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/09/2025
Agency Preparation:	Sandra DeFeo	Phone: (360) 725-0455	Date: 04/14/2025
Agency Approval:	Eric Fiedler	Phone: 360-725-0490	Date: 04/14/2025
OFM Review:	Bryce Andersen	Phone: (564) 999-0536	Date: 04/14/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

The contents of the bill are replaced with ones that reset the supplemental contribution rate for (Public Employee Retirement System (PERS) and Teachers Retirement System (TRS) Plan 1 benefit improvements enacted between 2018 and 2024 by re-amortizing them over a 15-year period, and during the 2025-27 and 2027-29 fiscal biennium.
This version of the bill adds several new sections to RCW 41.45.010, RCW 41.45.035, RCW 41.45.060 and RCW 41.45.070 as well as a completely new section, with temporary content in nature, to RCW 41.45 overall.
****

There are no sections of this substitute bill that create a fiscal impact for the Washington Health Care Authority (HCA).

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

No fiscal impact.

The Washington State Health Care Authority (HCA) does not oversee funding for pension systems; therefore, this bill would not change HCA's operations. HCA acknowledges that the intent of this bill is to reduce the pension benefit costs incurred by state agencies, including HCA. HCA assumes the overall fiscal impact to the state will be addressed more centrally.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5357 E S SB AMI APP H2109.1	Title: Actuarial pension funding	Agency: 124-Department of Retiremen Systems

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:
NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/09/2025
Agency Preparation:	Mike Ricchio	Phone: 360-664-7227	Date: 04/10/2025
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 04/10/2025
OFM Review:	Bryce Andersen	Phone: (564) 999-0536	Date: 04/14/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

This amended version of the bill changes specific employer and member contribution rates and increases the long-term investment rate (except for Plan 2 of the Law Enforcement Officers’ and Fire Fighters’ Retirement System) for the next biennium. These changes do not have a fiscal impact on the Department of Retirement Systems.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ADMINISTRATIVE ASSUMPTION?

- The new long-term investment rate of return will be effective July 1, 2025, to keep in line with the contribution rate updates.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5357 E S SB AMH APP H2109.1	Title: Actuarial pension funding	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

		FY 2026	FY 2027	2025-27	2027-29	2029-31
Account						
All Other Funds-State	000-1	(58,000,000)	(59,600,000)	(117,600,000)	(135,000,000)	(9,300,000)
General Fund-State	001-1	(153,700,000)	(182,200,000)	(335,900,000)	(500,800,000)	(42,000,000)
	Total $	(211,700,000)	(241,800,000)	(453,500,000)	(635,800,000)	(51,300,000)

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 04/09/2025
Agency Preparation:	Darren Painter	Phone: 360-786-6155	Date: 04/09/2025
Agency Approval:	Luke Masselink	Phone: 360-786-6154	Date: 04/09/2025
OFM Review:	Bryce Andersen	Phone: (564) 999-0536	Date: 04/14/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2026	FY 2027	2025-27	2027-29	2029-31
000-1	All Other Funds	State	(58,000,000)	(59,600,000)	(117,600,000)	(135,000,000)	(9,300,000)
001-1	General Fund	State	(153,700,000)	(182,200,000)	(335,900,000)	(500,800,000)	(42,000,000)
		Total $	(211,700,000)	(241,800,000)	(453,500,000)	(635,800,000)	(51,300,000)

III. B - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits	(211,700,000)	(241,800,000)	(453,500,000)	(635,800,000)	(51,300,000)
C-Professional Service Contracts					
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	(211,700,000)	(241,800,000)	(453,500,000)	(635,800,000)	(51,300,000)

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill increases the investment return assumption for funding the state retirement systems, modifies the PFC-adopted contribution rates for the 2025-27 Biennium, and changes the funding policy for PERS and TRS Plans 1.

COST SUMMARY

For the 2025-2027 Biennium, this bill modifies the contribution rates paid by members and employers as detailed below.

Impact on Contribution Rates					
FYs 2026-2027 State Budget	**PERS**	**TRS**	**SERS**	**PSERS**	**WSPRS**
Employee (Plan 2 or WSPRS)	(0.77%)	(0.62%)	(0.72%)	(0.16%)	0.00%
Employer					
Normal Cost	(0.77%)	(0.62%)	(0.72%)	(0.16%)	(1.86%)
Plan 1 UAAL	(0.39%)	(0.79%)	(0.39%)	(0.39%)	0.00%
Total Employer	**(1.16%)**	**(1.41%)**	**(1.11%)**	**(0.55%)**	**(1.86%)**

Note: Changes effective September 1, 2025, for TRS/SERS and July 1, 2025, for all other systems. There are no changes to LEOFF contribution rates.

We estimate the following budget impacts as a result of this bill. Note that the impact associated with the investment return assumption change is only captured for the first two biennia, per our office's standard practice when calculating such assumption changes. See **Appendix A** for more information.

Budget Impacts			
(Dollars in Millions)	**2025-2027**	**2027-2029**	**15-Year**
General Fund-State	($335.9)	($500.8)	($195.8)
Local Government	($261.1)	($314.7)	($208.4)
Total Employer	**($714.6)**	**($950.5)**	**($517.6)**

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- For all plans except LEOFF 2, this bill increases the long-term investment return assumption from 7.00% to 7.25% and prescribes lower contribution rates for the 2025-27 Biennium.
  - This change lowers the expected short-term contribution requirements but increases the risk of higher contribution requirements in the future.
  - Long-term contribution requirements are based on actual long-term returns.
  - See the **Comments on Risk** and **How the Results Change When the Assumptions Change** sections for more information regarding the projected impact of future investment experience under this bill.
- This bill also changes the funding policy for Plan 1 benefit improvements such that the remaining unfunded liability will be re-amortized over the next 15 years.
  - This change creates a short-term budgetary savings but results in a long-term cost to the retirement systems.
  - See **Appendix B** for a 15-year outlook of the change in UAAL rates as well as separately identifying the budget impacts from this Plan 1 funding change.

See the remainder of this fiscal note for additional details on this summary and highlights.

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

This bill impacts the following systems:

- Public Employees' Retirement System (PERS).
- Teachers' Retirement System (TRS).
- School Employees' Retirement System (SERS).
- Public Safety Employees' Retirement System (PSERS).
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1.
- Washington State Patrol Retirement System (WSPRS).

This bill adopts a new long-term investment return assumption of 7.25% and codifies the long-term assumptions for growth in inflation, salaries, and system membership adopted by the Pension Funding Council (PFC).

This bill revises the PFC-adopted employer and Plan 2 member contribution rates for PERS, TRS, SERS, and PSERS in Fiscal Years (FY) 2026 and 2027. It also revises the PFC-adopted WSPRS employer contribution rates in FYs 2026 and 2027. Below is a summary of the newly prescribed contribution rates under this bill. For a comparison of these rates to the rates previously adopted by the PFC, see **Appendix B**.

2025-27 Prescribed Contribution Rates Under This Bill

Plan	Member FYs 2026-27	Employer FY 2026	Employer FY 2027
PERS 2/3	5.38%	7.04%	6.04%
TRS 2/3	7.54%	7.85%	7.85%
SERS 2/3	6.87%	8.53%	7.53%
PSERS 2	6.91%	8.57%	7.57%
WSPRS 1/2	8.75%	15.85%	15.85%

This bill changes the amortization method for the cost of past benefit improvements in PERS 1 and TRS 1. The remaining cost of benefit improvements effective from July 1, 2018, through June 30, 2025, are consolidated within each system and amortized over a fixed 15-year period based on the following schedule of rates:

- PERS, SERS, and PSERS rates are set at 0.16% from July 1, 2025, to June 20, 2029, and 0.31% on and after July 1, 2029.
- TRS rates are set at 0.31% from September 1, 2025, to August 31, 2029, and 0.61% on and after September 1, 2029.

This bill also amortizes PERS 1 and TRS 1 benefit improvements that become effective after June 30, 2025, over a 15-year period.

Effective Date: This bill has an emergency clause and is effective July 1, 2025.

In this summary, we only include the changes pertinent to our Actuarial Fiscal Note (AFN). See the legislative bill report for a complete summary of the bill.

HOW THE AMENDED SENATE BILL (H2109.1) DIFFERS FROM THE ENGROSSED SUBSTITUTE SENATE BILL

The following list includes only the changes in provisions that impact our pricing of the bill. For a complete list of changes to the current version of the bill, please refer to the bill reports prepared by legislative staff.

- Adopts a 7.25% long-term investment return assumption.
- Establishes a set schedule of rates to amortize the remaining cost of past benefit improvements in PERS 1 and TRS 1 over a fixed 15-year period.
- Adopts different employer and Plan 2 member normal cost contribution rates for FY 2026 and FY 2027.

What Is the Current Situation?

Long-term economic assumptions are used for purposes of funding the state retirement systems. The current assumptions for all plans except for LEOFF 2 were adopted by the PFC in 2021 and left unchanged in 2023. These assumptions are 7.00% for investment returns, 2.75% for inflation, 3.25% for salary growth, and 1.0% for system membership growth.

Long-term economic assumptions and contribution rates for LEOFF Plan 2 are adopted by the LEOFF Plan 2 Retirement Board. Economic assumptions and contribution rates for all other retirement plans are adopted by the PFC. Last summer, the PFC adopted contribution rates for the 2025-27 Biennium.

The cost of Plan 1 benefit improvements enacted after 2009 are currently amortized over a fixed ten-year period. Each benefit improvement has a separate amortization schedule based on the session year it was enacted.

Any remaining UAAL in PERS 1 and TRS 1, referred to as the "Base UAAL," is funded through a rolling ten-year amortization period with minimum contribution rates effective in FY 2028. All TRS employers contribute to the TRS 1 UAAL, and all PERS, SERS, and PSERS employers contribute to the PERS 1 UAAL.

Who Is Impacted and How?

The prescribed increase to the investment return assumption will decrease short-term contribution rates for all employers and Plan 2 members of the impacted plans. This bill will not affect member contribution rates in PERS 1, TRS 1, or LEOFF 1, since they are fixed in statute. WSPRS member contribution rates do not change in the 2025-27 Biennium, since they are projected to remain at the WSPRS member rate maximum. Additionally, this bill will not affect member contribution rates in Plan 3, since Plan 3 members do not contribute to their employer-provided defined benefit.

The re-amortization of the remaining liabilities associated with past Plan 1 benefit improvements will impact all PERS, TRS, SERS, and PSERS employers through changes to the UAAL contribution rates.

WHY THIS BILL HAS A SAVINGS/COST AND WHO RECEIVES/PAYS FOR IT

Why This Bill Has a Savings/Cost

Under this bill, the increase to the investment return assumption would lower the Present Value of Future Benefit (PVFB) payments. This would decrease the amount of expected funding needed from employers and members, since a larger portion of pension costs would be assumed to come from investment earnings, resulting in a short-term savings.

However, actual investment returns will ultimately determine the long-term contribution requirements of the pension plans, all else being equal. For this reason, under current Office of the State Actuary (OSA) practices, we do not attribute long-term budget impacts to recommended or prescribed changes in investment return assumptions. See **Appendix A** for additional commentary about determining the expected cost of assumption changes.

This bill also re-amortizes the remaining liability associated with past Plan 1 benefit improvements over a new, fixed, 15-year period. Compared to current law, these UAAL rates will be lower through FY 2032, but higher from FY 2033-2040. This results in a short-term savings but a long-term cost. See the **Appendix B** for more information on these rates.

Who Will Receive/Pay for These Savings/Costs?

The short-term savings that result from the investment return assumption change will be divided between members and employers according to standard funding methods that vary by plan:

- Plan 1: 100% employer.
- Plan 2: 50% member and 50% employer.
- Plan 3: 100% employer.

For WSPRS, any change to contribution requirements from this bill would be divided according to the standard funding method of 50% member and 50% employer, subject to the member maximum contribution rate, which is currently 8.75%. Savings or costs experienced while members are at their maximum contribution rate are fully realized by the employer.

For LEOFF 1, this bill is not expected to impact contribution requirements due to the plan's current funding levels. As of the June 30, 2023, Actuarial Valuation Report (AVR), LEOFF 1 has a funded ratio of 149% using a 7.0% assumed rate of return. The June 30, 2023, funded status would improve using a 7.25% investment return assumption.

The short-term savings and long-term costs associated with the Plan 1 benefit improvement re-amortization will be realized by employers only. PERS, SERS, and PSERS employers will realize the impacts on the PERS 1 UAAL payments, whereas TRS employers will realize the impacts on the TRS 1 UAAL payments.

HOW WE VALUED THESE COSTS

We modeled the current law cost of the retirement systems using our most recent AVR – the 2023 AVR – as well as the assumptions and methods found on our Projections webpage. To analyze the impact of this bill, we then adjusted the following assumptions and methods.

- We increased the annual investment return assumption from its current law value of 7.00% to this bill's prescribed value of 7.25%.
- We re-amortized the remaining liability associated with past Plan 1 benefit improvements over a fixed, 15-year period, applying the contribution rates prescribed by this bill.
- In our Projections Model, we changed the member and employer contribution rates for the 2025-27 Biennium to reflect the rates prescribed by this bill. Our model previously assumed the 2025-27 rates would be consistent with those adopted by the Pension Funding Council in the Fall of 2024.

For more detail and additional information regarding the calculation of this bill's expected fiscal impact, please see **Appendix C**.

ACTUARIAL RESULTS

This bill's change to the amortization method for Plan 1 benefit improvement funding impacts the timing and amount of future employer contributions, but it does not impact the plans' liability, current assets, or Present Value of Future Salaries. Any impacts to these measures displayed below are attributable to the investment return assumption change. Given the nature of this assumption change, readers should exercise caution when interpreting the below impacts. See **Appendix A** for additional information.

How the Liabilities Changed

Due to the change in the investment return assumption, this bill will impact the actuarial funding of all retirement plans, except for LEOFF 2, by decreasing the PVFB payable to the members. The impact of the decreasing PVFB payable for current members is shown below.

Impact on Pension Liability *(As of 6/30/2023)*			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits *(The Value of the Total Commitment to All Current Members)*			
PERS 1	$10,716	($185)	$10,531
PERS 2/3	73,765	(3,019)	70,745
TRS 1	7,810	(133)	7,677
TRS 2/3	35,071	(1,742)	33,329
SERS 2/3	12,198	(497)	11,700
PSERS 2	2,776	(151)	2,625
LEOFF 1	4,269	(80)	4,189
WSPRS 1/2	$2,049	($77)	$1,971
Unfunded Actuarial Accrued Liability *(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)**			
PERS 1	$566	($184)	$382
TRS 1	208	(132)	75
LEOFF 1	($2,095)	($80)	($2,176)
Unfunded Entry Age Accrued Liability *(The Value of the Total Commitment to All Current Members Attributable to Past Service that is Not Covered by Current Assets)*			
PERS 1	$2,140	($185)	$1,955
PERS 2/3	1,653	(1,944)	(291)
TRS 1	1,075	(132)	942
TRS 2/3	2,047	(918)	1,129
SERS 2/3	715	(299)	416
PSERS 2	51	(62)	(10)
LEOFF 1	(2,095)	(80)	(2,176)
WSPRS 1/2	$112	($56)	$56

Note: Totals may not agree due to rounding
**PERS 1 and TRS 1 are amortized over a ten-year period.*

How the Assets Changed

This bill does not change current asset values, so there is no impact on the actuarial funding of the affected plans due to asset changes.

How the Present Value of Future Salaries (PVFS) Changed

Due to the change in the investment return assumption, this bill will impact the actuarial funding of all retirement plans, except for LEOFF 2, by decreasing the PVFS of the members. The impact of the decreasing PVFS for current members is shown below.

Present Value of Future Salaries *(As of 6/30/2023)*			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Future Salaries *(The Value of the Future Salaries Expected to be Paid to Current Members)*			
PERS 2	$101,789	($1,896)	$99,893
PERS 3	29,288	(556)	28,732
PERS 2/3	131,077	(2,452)	128,625
TRS 2	36,416	(847)	35,569
TRS 3	59,397	(1,112)	58,285
TRS 2/3	95,813	(1,959)	93,854
SERS 2	14,993	(278)	14,716
SERS 3	12,160	(203)	11,956
SERS 2/3	27,153	(481)	26,672
PSERS 2	8,031	(155)	7,876
WSPRS 1/2	$1,221	($22)	$1,199

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The table below summarizes the change in rounded contribution rates for the 2025-27 Biennium as a result of this bill. For more details regarding contribution rates, including expected 2027-29 Biennium rates and a 15-year outlook of the UAAL rate changes attributable to the new 15-year Plan 1 benefit improvement amortization method, please see **Appendix B**.

Impact on Contribution Rates					
FYs 2026-2027 State Budget	PERS	TRS	SERS	PSERS	WSPRS
Employee (Plan 2 or WSPRS)	(0.77%)	(0.62%)	(0.72%)	(0.16%)	0.00%
Employer					
Normal Cost	(0.77%)	(0.62%)	(0.72%)	(0.16%)	(1.86%)
Plan 1 UAAL	(0.39%)	(0.79%)	(0.39%)	(0.39%)	0.00%
Total Employer	**(1.16%)**	**(1.41%)**	**(1.11%)**	**(0.55%)**	**(1.86%)**

How This Impacts Budgets and Employees

Budget Impacts						
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**WSPRS**	**Total**
2025-2027						
General Fund	($74.8)	($213.5)	($40.5)	($6.7)	($0.4)	($335.9)
Non-General Fund	(112.2)	0.0	0.0	(0.9)	(4.5)	(117.6)
Total State	**($187.0)**	**($213.5)**	**($40.5)**	**($7.6)**	**($4.9)**	**($453.5)**
Local Government	(187.0)	(37.7)	(33.1)	(3.3)	0.0	(261.1)
Total Employer	**($374.0)**	**($251.2)**	**($73.6)**	**($10.9)**	**($4.9)**	**($714.6)**
Total Employee	**($192.5)**	**($38.8)**	**($26.1)**	**($3.2)**	**$0.0**	**($260.5)**
2027-2029						
General Fund	($77.8)	($341.4)	($63.1)	($17.0)	($1.4)	($500.8)
Non-General Fund	(116.7)	0.0	0.0	(2.2)	(16.0)	(135.0)
Total State	**($194.6)**	**($341.4)**	**($63.1)**	**($19.2)**	**($17.4)**	**($635.8)**
Local Government	(194.6)	(60.2)	(51.7)	(8.2)	0.0	(314.7)
Total Employer	**($389.1)**	**($401.6)**	**($114.8)**	**($27.4)**	**($17.4)**	**($950.5)**
Total Employee	**($210.9)**	**($97.1)**	**($49.6)**	**($19.9)**	**($0.1)**	**($377.6)**
2025-2040						
General Fund	($61.9)	($84.9)	($47.5)	$0.2	($1.8)	($195.8)
Non-General Fund	(92.8)	0.0	0.0	0.0	(20.6)	(113.3)
Total State	**($154.6)**	**($84.9)**	**($47.5)**	**$0.2**	**($22.4)**	**($309.2)**
Local Government	(154.6)	(15.0)	(38.9)	0.1	0.0	(208.4)
Total Employer	**($309.3)**	**($99.8)**	**($86.4)**	**$0.3**	**($22.4)**	**($517.6)**
Total Employee	**($403.4)**	**($135.9)**	**($75.7)**	**($23.0)**	**($0.1)**	**($638.1)**

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

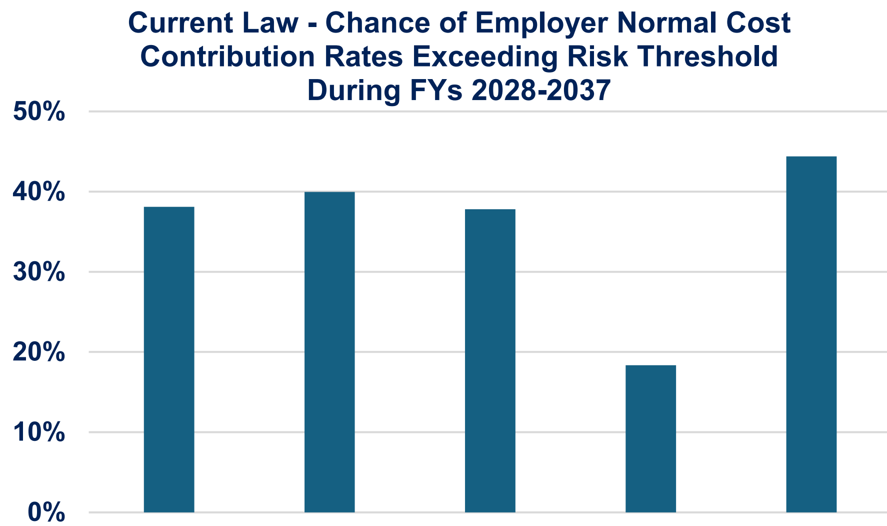
The above table shows the combined estimated budget impacts for the investment return assumption change through FY 2029 and the Plan 1 benefit improvement amortization change through FY 2040. For separate impacts by component, please see **Appendix B**.

Please note: The analysis of this bill does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

Comments on Risk

This AFN estimates pension plan funding impacts if future experience occurs as expected. To examine the potential effect of unexpected experience, we perform risk analysis. One metric we reviewed considered the impact of different investment return scenarios on normal cost contribution rates, which are paid by employers and Plan 2 members. Please note, normal cost rates do not include the Plan 1 UAAL contribution rates paid by employers. We will first look at the results under current law and then discuss how they would change under this bill.

The following table appears in our Risk Assessment and shows the current law probability of the normal cost contribution rates exceeding certain risk thresholds at any time during the ten-year period of FY 2028-2037. We estimate contribution rates above these risk thresholds could create challenging affordability environments for the state pension systems.



	PERS 2/3	TRS 2/3	SERS 2/3	PSERS 2	WSPRS 1/2
PFC Adopted 25-27 Normal Cost Rates	6.15%	8.16%	7.59%	7.07%	17.71%
Risk Threshold	7.60%	9.20%	8.20%	9.50%	18.80%

Please see our Risk Assessment webpage for background and details on risk measures.

We prepared the above graph by relying on 2,000 economic scenarios, which were simulated using the expected likelihood of various annual investment returns under the current law asset allocation. This bill increases the assumed investment return, but there is no corresponding change in the actual asset allocation of the pension trust. Therefore, there would be no change to the simulated future investment returns.

While we did not update this risk model to reflect the provisions of this bill, we recognize that lowering contribution rates below the PFC-adopted level, without any long-term expectation that investment returns would improve from current law, will increase the likelihoods that future contribution rates exceed the above risk thresholds. Put another way, a reduction in short-term pension funding means the retirement systems will have fewer assets to weather negative economic environments in the future. Limiting the period, and amount, of contributions made below actuarially required levels in the future reduces this risk.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The budget impacts identified on page 1 of this fiscal note can vary under a different set of assumptions. Below, we evaluate the 2027-29 budget impacts if actual investment returns leading up to that biennium are different than what is assumed. Contribution rates for the 2027-29 Biennium will be based on the June 30, 2025, AVR. We therefore tested the impact of a FY 2025 investment return of 11.50% and 3.00%, which represents returns that are 4.25% higher and lower, respectively, than the 7.25% return prescribed under this bill.

Sensitivity - 2027-2029 Biennium Employer Budget Impacts			
(Dollars in Millions)	High Sensitivity	Prescribed Rate	Low Sensitivity
FY 2025 Investment Return Assumption	11.50%	7.25%	3.00%
2027-29 General Fund Impacts	($540)	($501)	($463)
2027-29 Total Employer Impacts	($1,004)	($950)	($897)

The actual 2027-29 Biennium savings of this bill may fall outside the range of savings identified above. If future investment experience is different than assumed, there will also be budget impacts beyond the 2027-29 biennium, however the focus of this section is on how the short-term budget impacts could be different than what is shown on page 1. As noted earlier, we do not attribute long-term budget impacts to changes in investment return assumptions.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, and data used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods, and data may also be reasonable and might produce different results.
2. Unless noted otherwise in this AFN, the disclosures included in the 2023 AVR regarding the methods used to determine a plan's actuarially determined contribution, and the expected outcome of those methods, apply to this pricing exercise and remain unchanged.
3. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment. We believe that the assumptions, methods, and data used in our risk assessment model are reasonable for the purposes of this pricing exercise. However, the use of another set of assumptions, methods, and data could also be reasonable and could produce different results.
4. The models used are appropriate for the purpose of this pricing. We are not aware of any known weaknesses or limitations of the models that have a material impact on the results.
5. We prepared this AFN based on our current understanding of the bill as of the date shown in the footer. If the bill or our understanding of the bill changes, the results of a future AFN based on those changes may vary. Additionally, the results presented here may change after our next annual update of the underlying actuarial measurements.
6. We prepared this AFN and provided opinions in accordance with Washington State law and accepted Actuarial Standards of Practice as of the date shown in the footer.

We prepared this AFN to support legislative deliberations during the 2025 Legislative Session and it may not be appropriate for other purposes. We advise readers of this AFN to seek professional guidance as to its content and interpretation, and not to rely on this communication without such guidance. Please read the analysis shown in this AFN as a whole; distribution of, or reliance on, only parts of this AFN could result in its misuse and may mislead others.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this AFN is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Luke Masselink, ASA, EA, MAAA
Senior Actuary

O:\Legislature\Session\2025\FiscalNotes\5357.S.E.AMH.APP.H2109.1.docx

APPENDIX A
Determining the Expected Costs of Assumption Changes

Determining the change to actuarial measurements, and the associated budget impacts, due to an assumption change requires careful consideration of many factors. To name a few, the applicable law for AFNs, the intended use and users of the fiscal note, applicable Actuarial Standards of Practice (ASOPs), and the Code of Professional Conduct (the Code) that applies to actuaries.

Current Law

RCW 44.44.040 sets the requirements for AFNs. Two items of note include a requirement to provide actuarially determined contribution requirements and increased requirements due to the cost of "increased benefits" over biennial periods including a 25-year period.

We don't consider assumption changes to be a source of increased benefits unless the underlying benefit provisions are tied to an assumption.

Furthermore, the determination of actuarially required contributions requires the professional actuarial services of an actuary. Those services are subject to applicable ASOPs and the Code. ASOPs and the Code impact how an actuary would interpret and apply the requirements of RCW 44.44.040.

Assumptions in Relation to Actual Costs

Assumptions are necessary for actuaries to estimate future benefit payments and expenses as well as future returns on invested contributions. They impact the timing and amount of contributions, but don't determine the actual long-term cost of a pension plan. Actual long-term experience determines the long-term cost of a pension plan.

As a result, current OSA practices attribute the impact of most assumption changes to short-term periods only. There may be cases when, given the nature of a particular assumption, a long-term attribution may be appropriate.

Current OSA Practices

Under current OSA practices for evaluating the budgetary impacts from recommended or prescribed assumption changes, OSA shows the budgetary impacts from a recommended or prescribed assumption change for the first four fiscal years only. This approach recognizes the short-term budgetary impacts of assumption changes but attributes the long-term budgetary impacts to the actual sources. We applied this practice to the investment return assumption prescribed under this bill.

A period longer than four years could also be appropriate. For example, the use of six years (for consistency with the Six Year Budget Outlook) or eight years (for consistency with the maximum deferral of an annual investment gain/loss under the current asset smoothing method) may also be appropriate. However, we are not recommending a change to this practice and have not evaluated, at this time, the reasonability of extending this period.

When we first implemented this method during the 2011-13 Biennium, we selected a four-year period based on input from our clients (including the PFC workgroup) on the desired length of the period. The current period also now aligns with the four-year balanced budget requirement.

Other Considerations Specific to this Bill

This bill prescribes an increase to the investment return assumption. Expected returns are based, in part, on the expected performance of the Commingled Trust Fund (CTF) in the future. The asset allocation of the CTF is a key factor in estimating future returns. Higher returning asset classes (with higher risk) are generally expected to return more than lower returning asset classes (with lower risk). A professionally managed portfolio, like the CTF, has access to a broad range of asset classes and can implement a portfolio that benefits from cross asset-class correlation and diversification benefits.

The Washington State Investment Board (WSIB) plans to update their Capital Market Assumptions (CMAs) later this year. OSA will review the economic assumptions, including assumed returns, and make recommendations to the PFC this summer. As of our most recent Economic Experience Study, OSA recommends an investment return assumption of 7.0%.

The higher prescribed rate of return in this bill does not appear to be attributed to any change in the asset allocation of the CTF, change to WSIB's CMAs, or recommendations from OSA. As such, we believe the higher assumed returns under this bill are solely the result of legislative prescription.

Professional Considerations

Actuaries are professionally responsible for their work products and must take reasonable steps to ensure their work products are not used to mislead other parties. This work product, an AFN, is a public document used by many stakeholders including, for example, legislators, legislative staff, the Department of Retirement Systems, the Office of Financial Management, employers, plan members, organizations that represent plan members, and the public. OSA takes extra care to consider how our work products may be used and intend for them to inform decision making.

AFNs typically inform the affordability and level of risk of enacting changes to the pension systems. The 25-year budget impact requirement serves as a reminder that pension plans are long-term financial security systems that provide, in most cases, contractual lifetime payments.

APPENDIX B
Pricing Details

Below are the expected changes in normal cost and UAAL contribution rates over the next several years.

The first table displays the projected normal cost rate changes over the next four years, which are attributable to the investment return assumption change. With the exception of WSPRS, whose members are at their maximum contribution rate, these normal cost rates are the same for employers and Plan 2 members.

Projected Normal Cost Contribution Rates									
	PERS			TRS			SERS		
FY	Current Law	Bill	Change	Current Law	Bill	Change	Current Law	Bill	Change
2026	6.15%	5.38%	(0.77%)	8.16%	7.54%	(0.62%)	7.59%	6.87%	(0.72%)
2027	6.15%	5.38%	(0.77%)	8.16%	7.54%	(0.62%)	7.59%	6.87%	(0.72%)
2028	5.36%	4.56%	(0.80%)	7.84%	6.59%	(1.25%)	6.72%	5.56%	(1.16%)
2029	5.36%	4.56%	(0.80%)	7.84%	6.59%	(1.25%)	6.72%	5.56%	(1.16%)
	PSERS			WSPRS Members			WSPRS Employers		
FY	Current Law	Bill	Change	Current Law	Bill	Change	Current Law	Bill	Change
2026	7.07%	6.91%	(0.16%)	8.75%	8.75%	0.00%	17.71%	15.85%	(1.86%)
2027	7.07%	6.91%	(0.16%)	8.75%	8.75%	0.00%	17.71%	15.85%	(1.86%)
2028	7.45%	6.56%	(0.89%)	8.75%	8.72%	(0.03%)	14.89%	8.72%	(6.17%)
2029	7.45%	6.56%	(0.89%)	8.75%	8.72%	(0.03%)	14.89%	8.72%	(6.17%)

The second table displays the projected Plan 1 UAAL rate changes over the next 15 years, which are attributable to the benefit improvement liability re-amortization. PERS, SERS, and PSERS employers pay PERS 1 UAAL rates, whereas TRS employers pay TRS 1 UAAL rate.

Projected UAAL Contribution Rates						
	PERS Plan 1			TRS Plan 1		
FY	Current Law	Bill	Change	Current Law	Bill	Change
2026	2.05%*	1.66%*	(0.39%)	1.10%	0.31%	(0.79%)
2027	1.05%*	0.66%*	(0.39%)	1.10%	0.31%	(0.79%)
2028	0.55%	0.16%	(0.39%)	1.10%	0.31%	(0.79%)
2029	0.45%	0.16%	(0.29%)	0.89%	0.31%	(0.58%)
2030	0.45%	0.31%	(0.14%)	0.89%	0.61%	(0.28%)
2031	0.34%	0.31%	(0.03%)	0.66%	0.61%	(0.05%)
2032	0.34%	0.31%	(0.03%)	0.66%	0.61%	(0.05%)
2033	0.20%	0.31%	0.11%	0.39%	0.61%	0.22%
2034	0.08%	0.31%	0.23%	0.16%	0.61%	0.45%
2035-2040	0.00%	0.31%	0.31%	0.00%	0.61%	0.61%

**Reflects a base UAAL rate of 1.50% in FY 2026 and 0.50% in FY 2027. TRS 1 has no base UAAL rate in the 2025-27 biennium.*

Under current law, the estimated present value of future contributions for past Plan 1 benefit improvements are $657 million for PERS 1 and $600 million for TRS 1 under a 7.00% annual rate of return assumption. These values are measured as of June 30, 2025, using our 2023 AVR. The 15-year contribution rate schedule prescribed by this bill results in a similar present value of future contributions under a 7.25% annual rate of return assumption. For purposes of projecting future payroll, we assume annual salary growth of 3.25% and annual system growth of 1.00%, consistent with current law assumptions for Plan 1 funding.

The budget impact tables which follow contain the estimated budget impacts for (1) the investment return assumption change over the next two biennia and (2) the 15-year re-amortization of past Plan 1 benefit improvements. The total budget impacts for this bill are the sum of these two components, as found in the **Actuarial Results** section.

As mentioned in the body of this fiscal note, under our current practices, we do not attribute long-term budget impacts to recommended or prescribed changes in investment return assumptions.

Budget Impacts (Due to Investment Return Assumption Change)						
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**WSPRS**	**Total**
2025-2027						
General Fund	($49.7)	($93.9)	($26.3)	($2.0)	($0.4)	($172.2)
Non-General Fund	($74.5)	$0.0	$0.0	($0.3)	($4.5)	($79.3)
Total State	**($124.1)**	**($93.9)**	**($26.3)**	**($2.2)**	**($4.9)**	**($251.4)**
Local Government	($124.1)	($16.6)	($21.5)	($0.9)	$0.0	($163.1)
Total Employer	**($248.3)**	**($110.4)**	**($47.8)**	**($3.2)**	**($4.9)**	**($414.6)**
Total Employee	**($192.5)**	**($38.8)**	**($26.1)**	**($3.2)**	**$0.0**	**($260.5)**
2027-2029						
General Fund	($54.7)	($220.7)	($48.9)	($12.3)	($1.4)	($338.0)
Non-General Fund	($82.0)	$0.0	$0.0	($1.6)	($16.0)	($99.6)
Total State	**($136.6)**	**($220.7)**	**($48.9)**	**($13.9)**	**($17.4)**	**($437.6)**
Local Government	($136.6)	($39.0)	($40.0)	($6.0)	$0.0	($221.5)
Total Employer	**($273.3)**	**($259.7)**	**($88.8)**	**($19.9)**	**($17.4)**	**($659.1)**
Total Employee	**($210.9)**	**($97.1)**	**($49.6)**	**($19.9)**	**($0.1)**	**($377.6)**
2025-2040						
General Fund	($104.4)	($314.6)	($75.2)	($14.3)	($1.8)	($510.2)
Non-General Fund	($156.5)	$0.0	$0.0	($1.9)	($20.5)	($178.9)
Total State	**($260.7)**	**($314.6)**	**($75.2)**	**($16.1)**	**($22.3)**	**($689.0)**
Local Government	($260.7)	($55.6)	($61.5)	($6.9)	$0.0	($384.6)
Total Employer	**($521.6)**	**($370.1)**	**($136.6)**	**($23.1)**	**($22.3)**	**($1,073.7)**
Total Employee	**($403.4)**	**($135.9)**	**($75.7)**	**($23.1)**	**($0.1)**	**($638.1)**

Budget Impacts (Due to Benefit Improvement Re-Amortization Change)					
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
		2025-2027			
General Fund	($25.1)	($119.6)	($14.2)	($4.8)	($163.8)
Non-General Fund	(37.7)	0.0	0.0	(0.6)	(38.3)
Total State	**($62.9)**	**($119.6)**	**($14.2)**	**($5.4)**	**($202.1)**
Local Government	(62.9)	(21.1)	(11.6)	(2.3)	(97.9)
Total Employer	**($125.7)**	**($140.7)**	**($25.9)**	**($7.7)**	**($300.0)**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
		2027-2029			
General Fund	($23.2)	($120.7)	($14.3)	($4.7)	($162.8)
Non-General Fund	(34.8)	0.0	0.0	(0.6)	(35.4)
Total State	**($57.9)**	**($120.7)**	**($14.3)**	**($5.3)**	**($198.2)**
Local Government	(57.9)	(21.3)	(11.7)	(2.3)	(93.2)
Total Employer	**($115.9)**	**($141.9)**	**($26.0)**	**($7.6)**	**($291.4)**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
		2025-2040			
General Fund	$42.5	$229.7	$27.6	$14.5	$314.3
Non-General Fund	63.7	0.0	0.0	1.9	65.5
Total State	**$106.1**	**$229.7**	**$27.6**	**$16.4**	**$379.8**
Local Government	106.1	40.5	22.6	7.0	176.3
Total Employer	**$212.3**	**$270.3**	**$50.2**	**$23.4**	**$556.1**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

APPENDIX C
How We Applied These Assumptions

We estimated the fiscal impact of this bill by comparing projected pension contributions under this bill to contributions under current law. The projected pension contributions reflect contributions from the current members as well as assumed future hires.

- ❖ To determine the projected contributions under current law, or the "base", we relied on projection system output. Projected pension contributions equal contributions rates from future AVRs multiplied by future payroll.
- ❖ To determine the projected costs under this bill, we modified the base to reflect the provisions of the bill as outlined in the **How We Valued These Costs** section. We then multiplied the respective new contribution rates reflecting these changes by future payroll.

We determined these projected pension contributions using a Microsoft Excel model we developed. This model uses projected salary data from our valuation model in ProVal to calculate contribution rate and budget impacts based on the change in liabilities between current law and the provisions of this bill. We assessed the reasonableness of this model as part of our annual update, and we compared the results of this model to simplified estimates made by hand as part of individual pricings.