



# Economic Assumptions Adoption

November 17, 2021

# Issue

- The Board is tasked with adopting economic assumptions every 2 years
  - Any changes subject to revision by the Legislature
- No change to economic assumptions in 2019
- The last adopted changes to economic assumptions occurred in 2017
  - Inflation 3.00% to 2.75% (0.25%)
  - Salary Growth 3.75% to 3.50% (0.25%)
  - Annual Investment Return 7.50% to 7.40% (0.10%)

# Economic Assumptions Change Recommendations

<b>Assumption</b>	<b>Current</b>	<b>Recommended</b>
<b>Inflation</b>	<b>2.75%</b>	<b>2.75%</b>
<b>General Salary Growth</b>	<b>3.50%</b>	<b>3.25%</b>
<b>Assumed Investment Return</b>	<b>7.40%</b>	<b>7.00%</b>

# Options

- 1. Adopt all the recommended assumption changes**
- 2. Adopt only recommended assumed investment return change**
- 3. Do not adopt assumptions changes**

# Impacts of Change to All Assumptions

## Change in Funded Ratio (FR)—Preliminary

	As of June 30, 2019	As of June 30, 2021	As of June 30, 2023	As of June 30, 2025
<b>Baseline Projection</b>	<b>111%</b>	<b>113%</b>	<b>113%</b>	<b>113%</b>
FY 2021 Return (a)	0%	3%	10%	17%
New Assumptions (b)	(6%)	(6%)	(7%)	(7%)
<b>Total Change (a + b)</b>	<b>(6%)</b>	<b>(3%)</b>	<b>4%</b>	<b>9%</b>
<b>New Projected FR</b>	<b>105%</b>	<b>110%</b>	<b>117%</b>	<b>123%</b>

*Note: Preliminary values subject to change. Actual results may also vary from these preliminary values. Baseline Projection under current assumptions and returns*

## Change in Total Employer Projected Contribution Rates—Preliminary

	2021-23 Biennium	2023-25 Biennium	2025-27 Biennium
<b>Baseline Projection</b>	<b>8.53%</b>	<b>8.53%</b>	<b>7.74%*</b>
90% Minimum rate		7.71%	7.74%
100% Minimum rate		8.57%	8.60%
<b>New Projected Rate</b>	<b>8.53%</b>	<b>8.53%</b>	<b>8.30%*</b>
90% Minimum rate		8.27%	8.30%
100% Minimum rate		9.18%	9.23%

*Note: Rates through 2023-25 adopted by the Board and assumed to remain unchanged. Preliminary values subject to change. Actual results may also vary from these preliminary values. Baseline Projection under current assumptions. New Projected Rate under recommended assumptions.*

*\*Represents a minimum contribution rate at 90% of the Entry Age Normal Cost rate.*

# Impact of Change to Only Investment Return

Change in Funded Ratio (FR)—Preliminary				
	As of June 30, 2019	As of June 30, 2021	As of June 30, 2023	As of June 30, 2025
Baseline Projection	111%	113%	113%	113%
FY 2021 Return (a)	0%	3%	10%	17%
7% Interest Rate Assumption (b)	-6%	-7%	-8%	-9%
<b>Total Change (a + b)</b>	<b>-6%</b>	<b>-4%</b>	<b>2%</b>	<b>8%</b>
<b>New Projected FR</b>	<b>105%</b>	<b>109%</b>	<b>116%</b>	<b>121%</b>

Note: Totals may not agree due to rounding. Preliminary values subject to change. Actual results may also vary from these preliminary values. Baseline Projection under current assumptions and returns through June 30, 2020.

Potential Changes to Economi...

Change in Total Employer Projected Contribution Rates—Preliminary			
	2021-23 Biennium	2023-25 Biennium	2025-27 Biennium
Baseline Projection	8.53%	8.53%	7.74%*
90% Minimum rate		7.71%	7.74%
100% Minimum rate		8.57%	8.60%
<b>New Projected Rate**</b>	<b>8.53%</b>	<b>8.53%</b>	<b>8.56%*</b>
90% Minimum rate		8.52%	8.56%
100% Minimum rate		9.47%	9.51%

Note: Rates through 2023-25 adopted by the Board and assumed to remain unchanged. Preliminary values subject to change. Actual results may also vary from these preliminary values. Baseline Projection under current assumptions. New Projected Rate under 7% investment rate of return assumption.

\* Represents a minimum contribution rate at 90% of the Entry Age Normal Cost rate.

\*\* Excludes OSA's recommended change in General Salary Growth assumption.

# Questions?

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