

HOUSE BILL REPORT

HB 2693

*As Reported By House Committee on:
Appropriations*

Title: An act relating to adjusting pension contribution rates to reflect the state actuary's 1990 valuations.

Brief Description: Adjusting pension contribution rates.

Sponsor(s): Representatives Locke, H. Sommers and Spanel; by request of Governor Gardner.

Brief History:

Reported by House Committee on:
Appropriations, February 10, 1992, DPS.

**HOUSE COMMITTEE ON
APPROPRIATIONS**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 17 members: Representatives Locke, Chair; Inslee, Vice Chair; Spanel, Vice Chair; Appelwick; Belcher; Braddock; Brekke; Dorn; Ebersole; Hine; Peery; Pruitt; Rust; H. Sommers; Sprenkle; Valle; and Wang.

Minority Report: *Do not pass.* Signed by 12 members: Representatives Silver, Ranking Minority Member; Morton, Assistant Ranking Minority Member; Bowman; Carlson; Ferguson; Fuhrman; Lisk; May; Mielke; Nealey; D. Sommers; and Vance.

Staff: Barbara McLain (786-7153).

Background: In 1989, the Legislature created a statutory funding mechanism that commits the state to pay the unfunded actuarial liability of the state's retirement systems by 2024. Every six years, the state actuary submits a report to the Economic and Revenue Forecast Council on the financial and actuarial condition of the pension funds. The council reviews and recommends changes in the pension contribution rates, which are then placed in statute by legislation.

The current contribution rates are based on valuations performed in 1989 and adopted during the 1990 session. They are as follows:

Public Employees' Retirement System:	7.47 percent
Teachers' Retirement System:	12.60 percent
Law Enforce. Officers' and Fire Fighters':	16.44 percent
Washington State Patrol Retirement System:	15.53 percent

In addition to the six-year valuations performed for the purpose of determining contribution rates, the actuary also performs annual valuations of the assets and liabilities of all retirement plans. Fluctuations in employment, salary, investment return, or retirements might affect the annual valuations.

The actuary's 1990 valuations for the retirement systems (published in November 1991) indicate that contribution rates could be lower than the rates currently in statute, while maintaining the amortization schedule to 2024. Based on the 1990 valuations, the contribution rates could be:

Public Employees' Retirement System:	7.33 percent
Teachers' Retirement System:	12.23 percent
Law Enforce. Officers' and Fire Fighters':	14.00 percent
Washington State Patrol Retirement System:	16.27 percent

If pension contribution rates were adjusted for the second year of the 1991-93 biennium to a level approximating the level of contributions needed over the entire biennium, the rates would be as follows:

Public Employees' Retirement System:	7.16 percent
Teachers' Retirement System:	11.79 percent
Law Enforce. Officers' and Fire Fighters':	11.07 percent
Washington State Patrol Retirement System:	17.16 percent

Summary of Substitute Bill: Beginning September 1, 1992, through June 30, 1993, the following pension contribution rates are in effect (to be paid by employers):

Public Employees' Retirement System:	7.16 percent
Teachers' Retirement System:	11.79 percent
Law Enforce. Officers' and Fire Fighters':	11.07 percent
Washington State Patrol Retirement System:	17.16 percent

Beginning July 1, 1993, the pension contributions will be:

Public Employees' Retirement System:	7.33 percent
Teachers' Retirement System:	12.23 percent
Law Enforce. Officers' and Fire Fighters':	14.00 percent
Washington State Patrol Retirement System:	16.27 percent

The Office of the State Actuary will submit a preliminary report to the fiscal committees of the Legislature by December 1, 1992, on the fiscal impact to state and local governments of the adjusted rates, as compared to the fiscal impact estimated in the 1992 supplemental operating budget. A final report will be submitted December 1, 1993.

Substitute Bill Compared to Original Bill: The correct rates for the Washington State Patrol Retirement System are 17.16 percent until June 30, 1993 and 16.27 percent beginning July 1, 1993. The Office of the State Actuary will submit reports comparing the actual fiscal impact of adjusting the rates to the fiscal impact estimated in the 1992 supplemental operating budget.

Fiscal Note: Available.

Effective Date of Substitute Bill: September 1, 1992.

Testimony For: None.

Testimony Against: Rates in the LEOFF system should not be reduced, but should stay high in order to pay for enhanced benefits for members. Plan I members are concerned about the unfunded liability of the Plan I retirement systems. Windfalls should accrue to the pension systems.

Witnesses: Howard Vietzke, Washington State Council of Fire Fighters; Sam Kinville, Washington State Council of County and City Employees; and Jerry Allard, State Actuary (information only).