

HOUSE BILL ANALYSIS

HB 2544

Brief Description: Funding the state retirement systems.

Background:

It is required by statute that **pension contribution rates** be set at the level percentage of pay needed to accomplish the following:

- To fully fund the Public Employees' Retirement System (PERS) Plan 1, the Teachers' Retirement System (TRS) Plan I, the Law Enforcement Officers' and Fire Fighters' (LEOFF) retirement system Plan I, and to pay off the unfunded liability in the Washington State Patrol Retirement System not later than June 30, 2024; and
- To continue to fully fund PERS, TRS and LEOFF Plan II, and TRS Plan III.

In addition to these requirements, the statutes state that the rate setting process is also intended to achieve the goal of establishing predictable long-term employer contribution rates which will remain a relatively constant proportion of future state budgets.

The Rate-Setting Process

- In odd-numbered years, the **Economic and Revenue Forecast Council** adopts the following **long-term economic assumptions**: growth in system membership; growth in salaries; growth in inflation; and investment rate of return.
- The **State Actuary** uses these long-term economic assumptions in conducting **actuarial valuations** of the pension systems.
- In even-numbered years, based on the results of the actuarial valuations, the **Economic and Revenue Forecast Council** adopts the **pension contribution rates** to be used in the ensuing biennium.

The **Economic and Revenue Forecast Council** is a six-member council consisting of four legislators, the director of the Office of Financial Management, and the director of the Department of Revenue.

The **State Actuary** is the executive head of the Office of the State Actuary, which is an office within the legislative branch. The State Actuary is appointed by the Joint Committee on Pension Policy.

The **Joint Committee on Pension Policy** (JCPP) is a statutorily created legislative committee consisting of eight members appointed by the President of the Senate, four from each party, and eight members appointed by the Speaker of the House of Representatives, four from

each party. The committee must establish an executive committee of four members, representing the majority and minority caucuses of each house.

Summary:

The **Pension Funding Council** is created and consists of the following members:

- The director of the Department of Retirement Systems;
- The director of the Office of Financial Management; and
- The executive members of the Joint Committee on Pension Policy.

Pension Funding Council responsibilities:

- Adopt changes to the following long-term economic assumptions: growth in system membership; growth in salaries; growth in inflation; and investment rate of return; and
- Adopt pension contribution rates in every even-numbered year to be used in the ensuing biennium.

A **pension funding work group** is created and consists of one staff person selected by the executive head or chairperson of the following agencies or committees:

- the Department of Retirement Systems;
- the Office of Financial Management;
- the State Investment Board;
- the Senate Ways and Means Committee;
- the House Appropriations Committee; and
- the Economic and Revenue Forecast Council.

The State Actuary provides all information related to economic assumptions and contribution rates to the work group.

Responsibilities of the work group:

- Provide support and recommendations to the Pension Funding Council;
- Develop contribution rate recommendations for the Pension Funding Council;
- Seek out recommendations from affected employee and employer groups and conduct open public meetings on their recommendations; and
- Responsible for soliciting and administering a concurrent actuarial audit of the State Actuary's actuarial valuations used for rate-setting purposes, and reviewing the results of the audit.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Fiscal Note: Requested on January 16, 1998.

