
HOUSE BILL 2638

State of Washington

57th Legislature

2002 Regular Session

By Representative Sommers; by request of Office of Financial Management

Read first time 01/23/2002. Referred to Committee on Appropriations.

1 AN ACT Relating to the actuarial funding of the public employees'
2 retirement system, the teachers' retirement system, and the school
3 employees' retirement system; amending RCW 41.45.010, 41.45.050, and
4 41.45.053; reenacting and amending RCW 41.45.020, 41.45.060, and
5 41.45.070; creating a new section; and providing an effective date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** The legislature finds that in 2002 the
8 public employees' retirement system plan 2, the teachers' retirement
9 system plans 2 and 3, and the school employees' retirement system plans
10 2 and 3 are more than fully funded as defined in RCW 41.45.020. As a
11 result, the legislature declares that it is prudent to impose a full
12 funding limit on the employer contributions to these plans, and a full
13 funding limit to the employee contributions to the public employees'
14 retirement system plan 2, the teachers' retirement system plan 2, and
15 the school employees' retirement system plan 2. The legislature
16 further finds that given the fund balances in these plans, it is
17 appropriate to use another recognized actuarial method, the projected
18 unit credit method, by which to more prudently fund these plans in the
19 future.

1 **Sec. 2.** RCW 41.45.010 and 2001 2nd sp.s. c 11 s 2 are each amended
2 to read as follows:

3 It is the intent of the legislature to provide a dependable and
4 systematic process for funding the benefits provided to members and
5 retirees of the public employees' retirement system, chapter 41.40 RCW;
6 the teachers' retirement system, chapter 41.32 RCW; the law enforcement
7 officers' and fire fighters' retirement systems, chapters 41.26 and
8 41.26A RCW; the school employees' retirement system, chapter 41.35 RCW;
9 and the Washington state patrol retirement system, chapter 43.43 RCW.

10 The legislature finds that the funding status of the state
11 retirement systems has improved dramatically since 1989. Because of
12 the big reduction in unfunded pension liabilities, it is now prudent to
13 adjust the long-term economic assumptions that are used in the
14 actuarial studies conducted by the state actuary. The legislature
15 finds that it is reasonable to increase the salary growth assumption in
16 light of Initiative Measure No. 732, to increase the investment return
17 assumption in light of the asset allocation policies and historical
18 returns of the state investment board, and to reestablish June 30,
19 2024, as the target date to achieve full funding of all liabilities in
20 the public employees' retirement system plan 1 and the teachers'
21 retirement system plan 1.

22 The funding process established by this chapter is intended to
23 achieve the following goals:

24 (1) To continue to fully fund the public employees' retirement
25 system plans 2 and 3, the teachers' retirement system plans 2 and 3,
26 the school employees' retirement system plans 2 and 3, and the law
27 enforcement officers' and fire fighters' retirement system plan 2 as
28 provided by law;

29 (2) To fully amortize the total costs of the public employees'
30 retirement system plan 1 and the teachers' retirement system plan 1,
31 not later than June 30, 2024;

32 (3) To ensure the actuarial funding of the restated law enforcement
33 officers' and fire fighters' retirement system defined benefit plan,
34 and provide for additional state funding if unfunded liabilities accrue
35 in the future;

36 (4) To establish predictable long-term employer contribution rates
37 which will remain a relatively constant proportion of the future state
38 budgets, while allowing for adjustments to reflect changing economic,
39 demographic, and financial conditions; and

1 (5) To fund, to the extent feasible, benefit increases for plan 1
2 members and all benefits for plan 2 and 3 members over the working
3 lives of those members so that the cost of those benefits are paid by
4 the taxpayers who receive the benefit of those members' service.

5 **Sec. 3.** RCW 41.45.020 and 2001 2nd sp.s. c 11 s 4 and 2001 2nd
6 sp.s. c 11 s 3 are each reenacted and amended to read as follows:

7 As used in this chapter, the following terms have the meanings
8 indicated unless the context clearly requires otherwise.

9 (1) "Council" means the pension funding council created in RCW
10 41.45.100.

11 (2) "Department" means the department of retirement systems.

12 (3) "Law enforcement officers' and fire fighters' retirement system
13 plan 1" and "law enforcement officers' and fire fighters' retirement
14 system plan 2" means the benefits and funding provisions under chapter
15 41.26 RCW.

16 (4) (~~("Restated law enforcement officers' and fire fighters'~~
17 ~~retirement system defined benefit plan"~~ means the benefits and funding
18 ~~provisions under chapter 41.26A RCW.~~

19 ~~(5))~~ "Public employees' retirement system plan 1," "public
20 employees' retirement system plan 2," and "public employees' retirement
21 system plan 3" mean the benefits and funding provisions under chapter
22 41.40 RCW.

23 (~~(6))~~ (5) "Teachers' retirement system plan 1," "teachers'
24 retirement system plan 2," and "teachers' retirement system plan 3"
25 mean the benefits and funding provisions under chapter 41.32 RCW.

26 (~~(7))~~ (6) "School employees' retirement system plan 2" and
27 "school employees' retirement system plan 3" mean the benefits and
28 funding provisions under chapter 41.35 RCW.

29 (~~(8))~~ (7) "Washington state patrol retirement system" means the
30 retirement benefits provided under chapter 43.43 RCW.

31 (~~(9))~~ (8) "Unfunded liability" means the unfunded actuarial
32 accrued liability of a retirement system.

33 (~~(10))~~ (9) "Actuary" or "state actuary" means the state actuary
34 employed under chapter 44.44 RCW.

35 (~~(11))~~ (10) "State retirement systems" means the retirement
36 systems listed in RCW 41.50.030.

1 (~~(12)~~) (11) "Classified employee" means a member of the
2 Washington school employees' retirement system plan 2 or plan 3 as
3 defined in RCW 41.35.010.

4 (~~(13)~~) (12) "Teacher" means a member of the teachers' retirement
5 system as defined in RCW 41.32.010(15).

6 (13) "Fully funded" or "to fully fund" means the plan has no
7 unfunded liabilities according to the actuarial method specified by
8 statute.

9 (14) "Full funding limit" means that a plan is fully funded and
10 that it will remain fully funded at the end of the rate adoption period
11 in RCW 41.45.060 without employer contributions during that rate
12 adoption period.

13 **Sec. 4.** RCW 41.45.050 and 2001 2nd sp.s. c 11 s 8 are each amended
14 to read as follows:

15 (1) Employers of members of the public employees' retirement
16 system, the teachers' retirement system, the school employees'
17 retirement system, and the Washington state patrol retirement system
18 shall make contributions to those systems based on the rates
19 established in RCW 41.45.060, 41.45.053, and 41.45.070.

20 (2) The state shall make contributions to the law enforcement
21 officers' and fire fighters' retirement system plan 2 based on the
22 rates established in RCW 41.45.060, 41.45.053, and 41.45.070. The
23 state treasurer shall transfer the required contributions each month on
24 the basis of salary data provided by the department.

25 (~~(3) (The state shall ensure the systematic actuarial funding of~~
26 ~~the restated law enforcement officers' and fire fighters' retirement~~
27 ~~system defined benefit plan in the manner provided by chapter 41.26A~~
28 ~~RCW.~~

29 (~~(4)~~) The department shall bill employers, and the state shall make
30 contributions to the law enforcement officers' and fire fighters'
31 retirement system plan 2, using the combined rates established in RCW
32 41.45.060, 41.45.053, and 41.45.070 regardless of the level of
33 appropriation provided in the biennial budget. Any member of an
34 affected retirement system may, by mandamus or other appropriate
35 proceeding, require the transfer and payment of funds as directed in
36 this section.

37 (~~(5)~~) (4) The contributions received for the public employees'
38 retirement system shall be allocated between the public employees'

1 retirement system plan 1 fund and the public employees' retirement
2 system combined plan 2 and plan 3 fund as follows: The contributions
3 necessary to fully fund the public employees' retirement system
4 combined plan 2 and plan 3 employer contribution shall first be
5 deposited in the public employees' retirement system combined plan 2
6 and plan 3 fund unless a full funding limit is in effect. All
7 remaining public employees' retirement system employer contributions
8 shall be deposited in the public employees' retirement system plan 1
9 fund.

10 ((+6)) (5) The contributions received for the teachers' retirement
11 system shall be allocated between the plan 1 fund and the combined plan
12 2 and plan 3 fund as follows: The contributions necessary to fully
13 fund the combined plan 2 and plan 3 employer contribution shall first
14 be deposited in the combined plan 2 and plan 3 fund unless a full
15 funding limit is in effect. All remaining teachers' retirement system
16 employer contributions shall be deposited in the plan 1 fund.

17 ((+7)) (6) The contributions received for the school employees'
18 retirement system shall be allocated between the public employees'
19 retirement system plan 1 fund and the school employees' retirement
20 system combined plan 2 and plan 3 fund as follows: The contributions
21 necessary to fully fund the combined plan 2 and plan 3 employer
22 contribution shall first be deposited in the combined plan 2 and plan
23 3 fund unless a full funding limit is in effect. All remaining school
24 employees' retirement system employer contributions shall be deposited
25 in the public employees' retirement system plan 1 fund.

26 ((+8)) (7) The contributions received for the law enforcement
27 officers' and fire fighters' retirement system plan 2 shall be
28 deposited in the law enforcement officers' and fire fighters'
29 retirement system plan 2 fund.

30 **Sec. 5.** RCW 41.45.053 and 2001 2nd sp.s. c 11 s 9 are each amended
31 to read as follows:

32 (1) The basic employer and state contribution rates, and plan 2
33 member contribution rates, are changed to reflect the 1999 combined
34 actuarial valuation studies conducted by the office of the state
35 actuary, adjusted solely for the changes in the long-term economic
36 assumptions contained in RCW 41.45.035, ((and)) for the reestablishment
37 of the June 30, 2024, target date for funding all plan 1 liabilities,
38 and to reflect changes in actuarial methods, including full funding

1 limits and the projected unit credit method adopted by the 2002
2 legislature.

3 Beginning July 1, ~~((2001))~~ 2002, the following employer
4 contribution rates shall be charged:

5 (a) ~~((1.54))~~ 0.70 percent for the public employees' retirement
6 system; and

7 (b) 2.70 percent for the law enforcement officers' and fire
8 fighters' retirement system plan 2.

9 (2) Beginning July 1, 2001, the basic state contribution rate for
10 the law enforcement officers' and fire fighters' retirement system plan
11 2 shall be 1.80 percent.

12 (3) Beginning September 1, ~~((2001))~~ 2002, the following employer
13 contribution rates shall be charged:

14 (a) ~~((1.54))~~ 0.70 percent for the school employees' retirement
15 system; and

16 (b) ~~((2.75))~~ 0.80 percent for the teachers' retirement system.

17 (4) Beginning July 1, ~~((2001))~~ 2002, the following member
18 contribution rates shall be charged:

19 (a) ~~((0.88))~~ 0 percent for the public employees' retirement system
20 plan 2; and

21 (b) 4.50 percent for the law enforcement officers' and fire
22 fighters' retirement system plan 2.

23 (5) Beginning September 1, ~~((2001))~~ 2002, the following member
24 contribution rates shall be charged:

25 (a) ~~((0.88))~~ 0 percent for the school employees' retirement system
26 plan 2; and

27 (b) ~~((1.23))~~ 0 percent for the teachers' retirement system plan 2.

28 ~~((6) The contribution rates in this section shall be collected~~
29 ~~through June 30, 2003.))~~

30 **Sec. 6.** RCW 41.45.060 and 2001 2nd sp.s. c 11 s 10 and 2001 c 329
31 s 10 are each reenacted and amended to read as follows:

32 (1) The state actuary shall provide actuarial valuation results
33 based on the economic assumptions and asset value smoothing technique
34 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030
35 or 41.45.035.

36 (2) Not later than September 30, 2002, and every two years
37 thereafter, consistent with the economic assumptions and asset value
38 smoothing technique included in RCW 41.45.035 or adopted under RCW

1 41.45.030 or 41.45.035, the council shall adopt and may make changes
2 to:

3 (a) A basic state contribution rate for the law enforcement
4 officers' and fire fighters' retirement system;

5 (b) Basic employer contribution rates for the public employees'
6 retirement system, the teachers' retirement system, and the Washington
7 state patrol retirement system to be used in the ensuing biennial
8 period; and

9 (c) A basic employer contribution rate for the school employees'
10 retirement system for funding both that system and the public
11 employees' retirement system plan 1.

12 The contribution rates adopted by the council shall be subject to
13 revision by the legislature.

14 (3) The employer and state contribution rates adopted by the
15 council shall be the level percentages of pay that are needed:

16 (a) To fully amortize the total costs of the public employees'
17 retirement system plan 1, the teachers' retirement system plan 1, and
18 the law enforcement officers' and fire fighters' retirement system plan
19 1 not later than June 30, 2024, except as provided in subsection
20 ~~((+5))~~ (7) of this section. The net contribution rate developed in
21 subsection (4) of this section shall be used as the normal cost;

22 (b) To also continue to fully fund the public employees' retirement
23 system plans 2 and 3, the teachers' retirement system plans 2 and 3,
24 the school employees' retirement system plans 2 and 3, and the law
25 enforcement officers' and fire fighters' retirement system plan 2 in
26 accordance with RCW 41.45.061, 41.45.067, and this section; and

27 (c) For the law enforcement officers' and fire fighters' system
28 plan 2 the rate charged to employers, except as provided in RCW
29 41.26.450, shall be thirty percent of the cost of the retirement system
30 and the rate charged to the state shall be twenty percent of the cost
31 of the retirement system.

32 (4) ~~The ((aggregate actuarial cost))~~ projected unit credit method
33 with a fifteen-year amortization of unfunded liabilities shall be used
34 to calculate a combined plan 2 and 3 employer contribution rate ((and
35 a)). The aggregate actuarial cost method shall be used to calculate
36 the Washington state patrol retirement system contribution rate.

37 (5) The state actuary shall apply the full funding limit to the
38 public employees' retirement systems, the teachers' retirement systems,
39 and the school employees' retirement systems. For any plans that meet

1 the full funding limit, additional employer contributions or plan 2
2 employee contributions shall not be included.

3 (6) The full funding limit shall not remove the requirement for a
4 contribution rate to fund the cost of any benefit increases adopted
5 after the effective date of this section, except for those benefit
6 increases granted to members under chapter 41.31 or 41.31A RCW.

7 (7) The council shall immediately notify the directors of the
8 office of financial management and department of retirement systems of
9 the state and employer contribution rates adopted. The rates shall be
10 effective for the ensuing biennial period, subject to any legislative
11 modifications.

12 ~~((+6+))~~ (8) The director of the department of retirement systems
13 shall collect the rates established in RCW 41.45.053 through June 30,
14 2003. Thereafter, the director shall collect those rates adopted by
15 the council and approved or amended by the legislature. The rates
16 established in RCW 41.45.053, or by the council, shall be subject to
17 revision by the council.

18 **Sec. 7.** RCW 41.45.070 and 2001 2nd sp.s. c 11 s 16 and 2001 2nd
19 sp.s. c 11 s 15 are each reenacted and amended to read as follows:

20 (1) In addition to the basic employer contribution rate established
21 in RCW 41.45.060 or 41.45.053, the department shall also charge
22 employers of public employees' retirement system, teachers' retirement
23 system, school employees' retirement system, or Washington state patrol
24 retirement system members an additional supplemental rate to pay for
25 the cost of additional benefits, if any, granted to members of those
26 systems after the effective date of this section. Except as provided
27 in subsections (6) and (7) of this section, the supplemental
28 contribution rates required by this section shall be calculated by the
29 state actuary, shall not be subject to a full funding limit for the
30 affected plan, and shall be charged regardless of language to the
31 contrary contained in the statute which authorizes additional benefits.

32 (2) In addition to the basic state contribution rate established in
33 RCW 41.45.060 or 41.45.053 for the law enforcement officers' and fire
34 fighters' retirement system plan 2, the department shall also establish
35 a supplemental rate to pay for the cost of additional benefits, if any,
36 granted to members of the law enforcement officers' and fire fighters'
37 retirement system plan 2. Except as provided in subsection (6) of this
38 section, this supplemental rate shall be calculated by the state

1 actuary and the state treasurer shall transfer the additional required
2 contributions regardless of language to the contrary contained in the
3 statute which authorizes the additional benefits.

4 (3) The supplemental rate charged under this section to fund
5 benefit increases provided to active members of the public employees'
6 retirement system plan 1, the teachers' retirement system plan 1, and
7 Washington state patrol retirement system, shall be calculated as the
8 level percentage of all members' pay needed to fund the cost of the
9 benefit not later than June 30, 2024.

10 (4) The supplemental rate charged under this section to fund
11 benefit increases provided to active and retired members of the public
12 employees' retirement system plan 2 and plan 3, the teachers'
13 retirement system plan 2 and plan 3, and the school employees'
14 retirement system plan 2 and plan 3((~~or~~)) shall be sufficient to
15 amortize the cost of the benefit over a fifteen-year period. The
16 supplemental rate charged under this section to fund benefit increases
17 provided to the law enforcement officers' and fire fighters' retirement
18 system plan 2, shall be calculated as the level percentage of all
19 members' pay needed to fund the cost of the benefit, as calculated
20 under RCW 41.45.060, 41.45.061, or 41.45.067.

21 (5) The supplemental rate charged under this section to fund
22 postretirement adjustments which are provided on a nonautomatic basis
23 to current retirees shall be calculated as the percentage of pay needed
24 to fund the adjustments as they are paid to the retirees. The
25 supplemental rate charged under this section to fund automatic
26 postretirement adjustments for active or retired members of the public
27 employees' retirement system plan 1 and the teachers' retirement system
28 plan 1 shall be calculated as the level percentage of pay needed to
29 fund the cost of the automatic adjustments not later than June 30,
30 2024.

31 (6) A supplemental rate shall not be charged to pay for the cost of
32 additional benefits granted to members pursuant to chapter 340, Laws of
33 1998.

34 (7) A supplemental rate shall not be charged to pay for the cost of
35 additional benefits granted to members pursuant to chapter 41.31A RCW;
36 section 309, chapter 341, Laws of 1998; or section 701, chapter 341,
37 Laws of 1998.

1 NEW SECTION. **Sec. 8.** This act takes effect July 1, 2002.

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