HOUSE BILL REPORT
EHB 2254

As Passed House:
June 4, 2003

Title: An act relating to actuarial funding of the state retirement systems.

Brief Description: Funding the state retirement systems.

Sponsors: By Representatives Sommers, Fromhold and Moeller.

Brief History:
   First Special Session
   Floor Activity:
      Passed House: 6/4/03, 73-19.

Brief Summary of Engrossed Bill

·   Changes the method of determining the actuarial value of state retirement plan assets to one that recognizes the variation of a year's investment return from the long-term rate of investment return over a varying period based on the magnitude of deviation up to a maximum period for recognition of eight years

·   Makes no contributions during the 2003-2005 biennium towards the unfunded liabilities in PERS and TRS Plans 1.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority/Minority Report: None.

Staff: David Pringle (786-7310).

Background:

The choice of an actuarial funding method determines the way pension contributions will be allocated across members' working careers. The ultimate cost of a pension is determined by the actual benefits paid out less the returns on investment of fund assets. All standard actuarial funding methods are designed to completely fund a members' retirement benefits before retirement.

The current actuarial funding method used for Plans 2 and 3 of the Public Employees'

Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS) is the aggregate funding method. Under the aggregate method, normal or annual costs are equal to the difference between the present value of all future benefits to be paid out less current assets. This difference (the cost) is spread as a level percentage of members' future pay. The aggregate method therefore does not allow an unfunded liability to exist.

Pension fund assets are valued on an actuarial basis, rather than a market value basis, to reduce the instability in contribution rates year-to-year. The current actuarial method for determining the value of assets is to recognize changes to asset values that vary from the long-term investment rate of return assumption over a four year period. The long-term investment rate of return is 8 percent per year.

In addition to the calculation of costs using the aggregate method, additional employer contributions are calculated to amortize the unfunded liabilities in PERS and TRS Plans 1 by June 30, 2024. These additional employer contributions are made for employees in all PERS, SERS, and TRS plans, and the contributions directed towards the appropriate Plan 1 unfunded liability. No employee contributions are used to pay the costs of the unfunded liabilities in the Plans 1.

As of the 2001 Actuarial Valuation, PERS Plan 1 had $860 million of unfunded liability in comparison to about $11.0 billion in assets, and TRS Plan 1 had $400 million of unfunded liability in comparison to $9.3 billion in assets. Among the major sources of the unfunded liabilities are the granting of unfunded benefit increases granted to Plan 1 retirees in the 1970s and 1980s, benefit formula increases granted in 1972 and 1973, and prior years of underfunding.

Summary of Engrossed Bill:

A new method of determining the actuarial value of assets is adopted. The period used to recognize the variation of a year's investment return from the long-term rate of investment return will vary based on the magnitude of deviation up to a maximum period for recognition of eight years. During the 2003-2005 biennium, no contributions will be made towards the unfunded liabilities in PERS and TRS Plans 1.

The requirement that the Department of Retirement Systems notify employers 30 days in advance of a change in pension contribution rates is waived for purposes of the contribution rate changes provided in this act.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect July 1, 2003.

Testimony For: None.

Testimony Against: None.

Testified: None.