

SENATE BILL REPORT

SB 6029

As Passed Senate, April 14, 2003

Title: An act relating to actuarial funding of the public employees', teachers', and school employees' retirement systems.

Brief Description: Funding the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

Sponsors: Senators Rossi and Fairley; by request of Office of Financial Management.

Brief History:

Committee Activity: Ways & Means: 3/27/03, 4/1/03 [DP, DNP].

Passed Senate: 4/14/03, 32-17.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Fairley, Hale, Honeyford, Johnson, Parlette, Roach, Sheahan and Winsley.

Minority Report: Do not pass.

Signed by Senators Brown, Fraser, Poulsen, Regala and B. Sheldon.

Staff: Erik Sund (786-7454)

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 Plan 2 and Plan 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.

Summary of Bill: The projected united credit method (PUC) is adopted as the actuarial funding method for PERS, TRS, and SERS Plans 2 and 3. Under PUC, normal costs are equal to the estimated present value of members' projected benefits earned in the current year. An unfunded liability may exist using PUC. The switch from the aggregate method to PUC creates a negative unfunded liability which is amortized over a 15 year period and used to reduce the required employer and employee contributions. The 2003-2005 employer

contribution rates in PERS Plans 2 and 3, for example, are 1.21 percent under PUC as opposed to 2.05 percent under the aggregate method.

Although contribution rates are initially lower under PUC, they will eventually exceed those that would be experienced using the aggregate method.

Appropriation: None.

Fiscal Note: Available. See also fiscal note for HB 2254.

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

Testimony For: None.

Testimony Against: Switching to the projected unit credit method would cost employers and employees more in the long run. Pension funding policies should not be adjusted in order to balance the state budget. Pension funding methods should not be changed without the involvement of the Pension Funding Council. The goal of pension policies should be designed to stabilize contribution rates.

Testified: Cassandra de la Rosa, Retired Public Employees (con); Gene Forrester, Washington Senior Citizens' Lobby (con); Bev Hermanson, Washington Federation of State Employees (con); John Kvamme, Washington Association of School Administrators and Association of Washington School Principals (con); Lynn Maier, Washington Public Employees' Association (con); Leslie Main, Washington State School Retirees' Association (con); Ed Montermini, Retired Public Employees Council (con); Randy Parr, Washington Education Association (con).

House Amendment(s): A new asset smoothing method is adopted in Plans 2 and 3 of PERS, TRS, and SERS instead of the projected unit credit method of actuarial funding. Employer payments on the unfunded liability in PERS Plan 1 and TRS Plan 1 are suspended for the biennium. Employer and employee contribution rates for the 2003-2005 biennium are lower than under the current aggregate method, but higher than under the projected unit credit method.-