Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Appropriations Committee

HB 2674

Brief Description: Creating the pension stabilization account.

Sponsors: Representatives Sommers, Crouse, Fromhold, Conway, Kenney, McCoy, Dickerson, Clibborn, Roberts, Moeller, McIntire, Hudgins, Linville, Lantz and Upthegrove.

Brief Summary of Bill

- Creates the Pension Stabilization Account in the state treasury.
- Expenditures from the Pension Stabilization Account may only be spent to amortize the unfunded accrued actuarial liability in the state pension systems.
- Transfers from the State General Fund to the Pension Stabilization Account do not lower the state expenditure limit.

Hearing Date: 1/18/06

Staff: David Pringle (786-7310).

Background:

The Office of the State Actuary is responsible for recommending appropriate member and employer contribution rates for the Public Employees', Teachers', School Employees', and Washington State Patrol Retirement Systems (PERS, TRS, SERS, and the WSPRS) to the Pension Funding Council (PFC), which adopts the rates for each fiscal biennium. Included as part of the rates recommended by the State Actuary to the PFC for the 2005-07 biennium were pre-funding for the gain-sharing benefit in the Plans 1 and 3 and contributions towards paying off the unfunded liabilities in the Plans 1. Contributions are made by participating employees and by state government, local government, and school district employers and placed in the retirement fund for the systems and funded by those contributions.

While the state retirement plans currently open to new members (the Plans 2 and 3) are currently fully funded, unfunded accrued actuarial liabilities (UAALs) exist in both PERS 1 and TRS 1. This means that the value of the plan liabilities, in the form of members' earned benefits to date, exceed the value of the plan assets. As of the most recent actuarial valuation, the UAAL for PERS 1 is $2.6 billion and the UAAL for TRS 1 is $1.4 billion. The statutory funding policy for paying off the UAAL in the Plans 1 is codified as a goal within the actuarial funding chapter. Per statute, the funding process for the state retirement systems is intended to fully amortize the total Plan 1 costs by not later than June 30, 2024. The payments towards the UAAL are included in employer rates and are not shared by members. Under Chapter 11 of the Laws of 2003 (EHB 2254), the Legislature suspended the employer contributions towards the PERS 1 and TRS 1 unfunded liabilities for the duration of the 2003-05 biennium.

Substitute House Bill 1044, enacted by the 2005 Legislature, continued the suspension of the requirement to make contributions to amortize the PERS 1 and TRS 1 unfunded liabilities, as well as the commencement of collection of contribution rates towards the future cost of gain-sharing distributions in the PERS, TRS and SERS Plans 1 and 3. The suspension of the UAAL and gain-sharing contribution rates resulted in savings to the State General Fund of about $337 million for the 2005-07 biennium.

Under the provisions of Initiative 601 (and subsequent amendments), the state expenditure limit for the current fiscal year is equal to the actual expenditures from the prior fiscal year, increased by the fiscal growth factor plus any adjustments to the limit called for in statute. For example, cash transfers from the General Fund to another account result in a downward adjustment to the limit.

Summary of Bill:

The Pension Stabilization Account is created within the state treasury. Money from the account may be spent only after appropriation for amortizing the UAAL in the state pension systems. Transfers from the State General Fund to the Pension Stabilization Account do not lower the state expenditure limit.

Appropriation: None.

Fiscal Note: Requested on January 12, 2006.

Effective Date: This bill contains multiple effective dates.