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ENGROSSED SUBSTITUTE HOUSE BILL 1044

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State of Washington

59th Legislature

2005 Regular Session

By House Committee on Appropriations (originally sponsored by Representative Sommers; by request of Office of Financial Management)

READ FIRST TIME 04/19/05.

1 AN ACT Relating to pension funding methodology; amending RCW  
2 41.45.060, 41.45.010, and 41.45.010; reenacting and amending RCW  
3 41.45.060; adding a new section to chapter 41.45 RCW; decodifying RCW  
4 41.45.054; providing effective dates; providing an expiration date; and  
5 declaring an emergency.

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

7 **Sec. 1.** RCW 41.45.060 and 2003 c 294 s 10 and 2003 c 92 s 3 are  
8 each reenacted and amended to read as follows:

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

13 (2) Not later than September 30, 2002, and every two years  
14 thereafter, consistent with the economic assumptions and asset value  
15 smoothing technique included in RCW 41.45.035 or adopted under RCW  
16 41.45.030 or 41.45.035, the council shall adopt and may make changes  
17 to:

18 (a) A basic state contribution rate for the law enforcement  
19 officers' and fire fighters' retirement system plan 1;

1 (b) Basic employer contribution rates for the public employees'  
2 retirement system, the teachers' retirement system, and the Washington  
3 state patrol retirement system to be used in the ensuing biennial  
4 period; and

5 (c) A basic employer contribution rate for the school employees'  
6 retirement system for funding both that system and the public  
7 employees' retirement system plan 1.

8 The contribution rates adopted by the council shall be subject to  
9 revision by the legislature.

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

12 (a) To fully amortize the total costs of the public employees'  
13 retirement system plan 1, the teachers' retirement system plan 1, and  
14 the law enforcement officers' and fire fighters' retirement system plan  
15 1 not later than June 30, 2024; and

16 (b) To also continue to fully fund the public employees' retirement  
17 system plans 2 and 3, the teachers' retirement system plans 2 and 3,  
18 and the school employees' retirement system plans 2 and 3 in accordance  
19 with RCW 41.45.061, 41.45.067, and this section.

20 (4) The aggregate actuarial cost method shall be used to calculate  
21 a combined plan 2 and 3 employer contribution rate and a Washington  
22 state patrol retirement system contribution rate.

23 (5) The council shall immediately notify the directors of the  
24 office of financial management and department of retirement systems of  
25 the state and employer contribution rates adopted. The rates shall be  
26 effective for the ensuing biennial period, subject to any legislative  
27 modifications.

28 (6) The director of the department of retirement systems shall  
29 collect the rates established in RCW 41.45.053 through June 30, 2003.  
30 Thereafter, the director shall collect those rates adopted by the  
31 council. The rates established in (~~RCW 41.45.053~~) section 6 of this  
32 act, or by the council, shall be subject to revision by the council.

33 **Sec. 2.** RCW 41.45.060 and 2004 c 242 s 39 are each amended to read  
34 as follows:

35 (1) The state actuary shall provide actuarial valuation results  
36 based on the economic assumptions and asset value smoothing technique

1 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030  
2 or 41.45.035.

3 (2) Not later than September 30, 2002, and every two years  
4 thereafter, consistent with the economic assumptions and asset value  
5 smoothing technique included in RCW 41.45.035 or adopted under RCW  
6 41.45.030 or 41.45.035, the council shall adopt and may make changes  
7 to:

8 (a) A basic state contribution rate for the law enforcement  
9 officers' and fire fighters' retirement system plan 1;

10 (b) Basic employer contribution rates for the public employees'  
11 retirement system, the teachers' retirement system, and the Washington  
12 state patrol retirement system to be used in the ensuing biennial  
13 period; and

14 (c) A basic employer contribution rate for the school employees'  
15 retirement system and the public safety employees' retirement system  
16 for funding both those systems and the public employees' retirement  
17 system plan 1.

18 The contribution rates adopted by the council shall be subject to  
19 revision by the legislature.

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

22 (a) To fully amortize the total costs of the public employees'  
23 retirement system plan 1, the teachers' retirement system plan 1, and  
24 the law enforcement officers' and fire fighters' retirement system plan  
25 1 not later than June 30, 2024; and

26 (b) To fully fund the public employees' retirement system plans 2  
27 and 3, the teachers' retirement system plans 2 and 3, the public safety  
28 employees' retirement system plan 2, and the school employees'  
29 retirement system plans 2 and 3 in accordance with RCW 41.45.061,  
30 41.45.067, and this section.

31 (4) The aggregate actuarial cost method shall be used to calculate  
32 a combined plan 2 and 3 employer contribution rate and a Washington  
33 state patrol retirement system contribution rate.

34 (5) The council shall immediately notify the directors of the  
35 office of financial management and department of retirement systems of  
36 the state and employer contribution rates adopted. The rates shall be  
37 effective for the ensuing biennial period, subject to any legislative  
38 modifications.

1 (6) The director shall collect those rates adopted by the council.  
2 The rates established in ((RCW 41.45.054)) section 6 of this act, or by  
3 the council, shall be subject to revision by the legislature.

4 **Sec. 3.** RCW 41.45.010 and 2002 c 26 s 3 are each amended to read  
5 as follows:

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

13 The legislature finds that the funding status of the state  
14 retirement systems has improved dramatically since 1989. Because of  
15 the big reduction in unfunded pension liabilities, it is now prudent to  
16 adjust the long-term economic assumptions that are used in the  
17 actuarial studies conducted by the state actuary. The legislature  
18 finds that it is reasonable to increase the salary growth assumption in  
19 light of Initiative Measure No. 732, to increase the investment return  
20 assumption in light of the asset allocation policies and historical  
21 returns of the state investment board, and to reestablish June 30,  
22 2024, as the target date to achieve full funding of all liabilities in  
23 the public employees' retirement system plan 1, the teachers'  
24 retirement system plan 1, and the law enforcement officers' and fire  
25 fighters' retirement system plan 1.

26 The funding process established by this chapter is intended to  
27 achieve the following goals:

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

33 (2) To fully amortize the total costs of the public employees'  
34 retirement system plan 1, the teachers' retirement system plan 1, and  
35 the law enforcement officers' and fire fighters' retirement system plan  
36 1, not later than June 30, 2024;

1 (3) To establish (~~predictable~~) long-term employer contribution  
2 rates which will remain a relatively (~~constant~~) predictable  
3 proportion of the future state budgets; and

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

8 **Sec. 4.** RCW 41.45.010 and 2004 c 242 s 36 are each amended to read  
9 as follows:

10 It is the intent of the legislature to provide a dependable and  
11 systematic process for funding the benefits provided to members and  
12 retirees of the public employees' retirement system, chapter 41.40 RCW;  
13 the teachers' retirement system, chapter 41.32 RCW; the law enforcement  
14 officers' and fire fighters' retirement systems, chapter 41.26 RCW; the  
15 school employees' retirement system, chapter 41.35 RCW; the public  
16 safety employees' retirement system, chapter 41.37 RCW; and the  
17 Washington state patrol retirement system, chapter 43.43 RCW.

18 The legislature finds that the funding status of the state  
19 retirement systems has improved dramatically since 1989. Because of  
20 the big reduction in unfunded pension liabilities, it is now prudent to  
21 adjust the long-term economic assumptions that are used in the  
22 actuarial studies conducted by the state actuary. The legislature  
23 finds that it is reasonable to increase the salary growth assumption in  
24 light of Initiative Measure No. 732, to increase the investment return  
25 assumption in light of the asset allocation policies and historical  
26 returns of the state investment board, and to reestablish June 30,  
27 2024, as the target date to achieve full funding of all liabilities in  
28 the public employees' retirement system plan 1, the teachers'  
29 retirement system plan 1, and the law enforcement officers' and fire  
30 fighters' retirement system plan 1.

31 The funding process established by this chapter is intended to  
32 achieve the following goals:

33 (1) To fully fund the public employees' retirement system plans 2  
34 and 3, the teachers' retirement system plans 2 and 3, the school  
35 employees' retirement system plans 2 and 3, the public safety  
36 employees' retirement system plan 2, and the law enforcement officers'  
37 and fire fighters' retirement system plan 2 as provided by law;

1 (2) To fully amortize the total costs of the public employees'  
2 retirement system plan 1, the teachers' retirement system plan 1, and  
3 the law enforcement officers' and fire fighters' retirement system plan  
4 1, not later than June 30, 2024;

5 (3) To establish (~~predictable~~) long-term employer contribution  
6 rates which will remain a relatively (~~constant~~) predictable  
7 proportion of the future state budgets; and

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

12 NEW SECTION. Sec. 5. RCW 41.45.054 is decodified, effective  
13 September 1, 2005.

14 NEW SECTION. Sec. 6. A new section is added to chapter 41.45 RCW  
15 to read as follows:

16 The basic employer and state contribution rates and required plan  
17 2 member contribution rates are changed to reflect the 2003 actuarial  
18 valuation and actuarial projections of the 2005 actuarial valuation,  
19 both of which incorporate the 2002 actuarial experience study conducted  
20 by the office of the state actuary for 1995-2000. This contribution  
21 rate schedule departs from the normal biennial process for setting  
22 contribution rates by requiring annual increases in rates during the  
23 2005-2007 biennium, and by requiring annual rates to be adopted by the  
24 pension funding council for the 2007-2009 biennium. The rates are  
25 lower in the 2005-2007 biennium than required by the 2003 actuarial  
26 valuation and will be higher in the 2007-2009 biennium than required by  
27 the projected 2005 actuarial valuation.

28 Upon completion of the 2005 actuarial valuation, the pension  
29 funding council and the state actuary shall review the appropriateness  
30 of the contribution rates for 2007-2008 and 2008-2009 and by September  
31 30, 2006, the pension funding council shall adopt contribution rates to  
32 complete the four-year phase-in schedule, adjusted for any material  
33 changes in benefits or actuarial assumptions, methods, or experience.  
34 This contribution rate schedule also requires a departure from the  
35 allocation formula for contributions in RCW 41.45.050, suspension of  
36 payments on the unfunded liability in the public employees' retirement

1 system and the teachers' retirement system during the 2005-2007  
2 biennium, and a delay in the recognition of the cost of future gain-  
3 sharing benefits until the 2007-2009 biennium.

4 (1) Beginning July 1, 2005, the following employer contribution  
5 rate shall be charged: 2.25 percent for the public employees'  
6 retirement system.

7 (2) Beginning September 1, 2005, the following employer  
8 contribution rates shall be charged:

- 9 (a) 2.75 percent for the school employees' retirement system; and
- 10 (b) 2.73 percent for the teachers' retirement system.

11 (3) Beginning July 1, 2005, the following member contribution rate  
12 shall be charged: 2.25 percent for the public employees' retirement  
13 system plan 2.

14 (4) Beginning September 1, 2005, the following member contribution  
15 rates shall be charged:

- 16 (a) 2.75 percent for the school employees' retirement system plan  
17 2; and

- 18 (b) 2.48 percent for the teachers' retirement system plan 2.

19 (5) The contribution rates in subsections (1) through (4) of this  
20 section shall be collected through June 30, 2006, for the public  
21 employees' retirement system, and August 31, 2006, for the school  
22 employees' retirement system and the teachers' retirement system.

23 (6) Beginning July 1, 2006, the following employer contribution  
24 rate shall be charged: 3.50 percent for the public employees'  
25 retirement system.

26 (7) Beginning September 1, 2006, the following employer  
27 contribution rates shall be charged:

- 28 (a) 3.75 percent for the school employees' retirement system; and
- 29 (b) 3.25 percent for the teachers' retirement system.

30 (8) Beginning July 1, 2006, the following member contribution rate  
31 shall be charged: 3.50 percent for the public employees' retirement  
32 system plan 2.

33 (9) Beginning September 1, 2006, the following member contribution  
34 rates shall be charged:

- 35 (a) 3.75 percent for the school employees' retirement system plan  
36 2; and

- 37 (b) 3.00 percent for the teachers' retirement system plan 2.

1           (10) During the 2005 interim, the select committee on pension  
2 policy shall study the options available to the legislature for  
3 addressing the liability associated with future gain-sharing benefits.  
4 These options may include, but shall not be limited to, repealing,  
5 delaying, or suspending the gain-sharing provisions in law; making  
6 gain-sharing discretionary; or replacing gain-sharing benefits with  
7 other benefits such as plan choice, employer defined contributions,  
8 retirement eligibility enhancements, and postretirement adjustments.  
9 The select committee on pension policy shall report the findings and  
10 recommendations of its study to the legislative fiscal committees by no  
11 later than December 15, 2005.

12           NEW SECTION.   **Sec. 7.** Sections 1, 3, and 6 of this act are  
13 necessary for the immediate preservation of the public peace, health,  
14 or safety, or support of the state government and its existing public  
15 institutions, and take effect July 1, 2005.

16           NEW SECTION.   **Sec. 8.** Sections 2 and 4 of this act take effect  
17 July 1, 2006.

18           NEW SECTION.   **Sec. 9.** Sections 1 and 3 of this act expire July 1,  
19 2006.

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