

# HOUSE BILL REPORT

## HB 1044

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### As Reported by House Committee On: Appropriations

**Title:** An act relating to the process for adopting contribution rates for the actuarial funding of the state retirement systems.

**Brief Description:** Amending the process for adopting contribution rates for the state retirement systems.

**Sponsors:** Representatives Fromhold, Conway, Sommers and Moeller; by request of Office of the State Actuary.

#### **Brief History:**

##### **Committee Activity:**

Appropriations: 1/23/07, 1/29/07 [DPS].

#### **Brief Summary of Substitute Bill**

- Requires the Pension Funding Council (PFC) to adopt contribution rates by July 31 of even numbered years.
- Requires the contribution rates that the State Actuary submits to the PFC be considered preliminary prior to PFC action, and that the final valuation and rates be submitted by the State Actuary incorporating any actions taken by the PFC.
- Requires the PFC to submit preliminary actuarial audit results to the Select Committee on Pension Policy at least 30 days prior to taking action on contribution rates.
- Permits the PFC to adopt annual contribution rate changes, rather than only a single set of rates for the upcoming biennium.
- Experience and long-term economic assumptions used by the State Actuary and the Department of Retirement System (DRS) would be evaluated and reviewed by the PFC in the fall of odd-numbered years beginning in 2007.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 33 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Anderson, Buri, Chandler, Cody, Conway, Darneille, Dunn, Ericks, Fromhold, Grant, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Kretz, Linville, McDermott, McDonald, McIntire, Morrell, Pettigrew, Priest, Schual-Berke, Seaquist and Walsh.

**Staff:** David Pringle (786-7310).

### **Background:**

The Pension Funding Council (PFC) was created by the Legislature in 1998 to adopt the long-term economic assumptions and employer contribution rates for most of the state's retirement systems. The PFC also administers audits of the actuarial analysis produced for the PFC by the State Actuary.

The membership of the PFC consists of the chair and ranking minority members of the Senate Ways and Means Committee and the House Appropriations Committee, and the directors of the Office of Financial Management (OFM) and the Department of Retirement Services (DRS).

The Office of the State Actuary (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 and the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 to the PFC. The PFC typically holds several meetings during the summer of even numbered years, and is required to adopt the pension contribution rates for the upcoming fiscal biennium no later than September 30 of those even-numbered years.

Prior to the adoption of contribution rates, the PFC submits the audited contribution rates to the Select Committee on Pension Policy (SCPP). The SCPP is required to study the audited contribution rates received from the PFC and make recommendations on changes to assumptions or rates. The contribution rates adopted by the PFC are subject to revision by the Legislature.

Every four years the PFC studies and may adopt changes to the long-term economic assumptions used by the State Actuary in conducting all actuarial studies of the state retirement systems, and by the DRS for the administration of benefits. The State Actuary conducts a study of the experience and financial condition of the retirement systems for the PFC economic assumption review process. The long-term assumptions used in analyzing the Washington retirement system assets and liabilities include the long-term rate of investment return, the long-term rate of growth in wages, and inflation. The next scheduled date for the PFC to study and adopt changes to the long-term economic assumptions is May 31, 2008.

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**Summary of Substitute Bill:**

The timing of the PFC rate adoption process in even-numbered years is moved from requiring the adoption of rates by September 30, to requiring the adoption of rates by July 31. At least 30 days prior to the adoption of rates by the PFC, the PFC would submit the preliminary actuarial audit results to the SCPP for review and recommendations. The PFC may adopt annual, rather than biennial, contribution rates for any rate-setting period.

The State Actuary will submit preliminary contribution rates before the PFC based on current mandates, and following the actions of the PFC, prepare final actuarial valuation results and contribution rates. The final valuation and contribution rates will also be audited by the PFC.

The PFC shall study the experience and long-term economic assumptions of the retirement systems during the fall of odd-numbered years, rather than during the summer every four years. The State Actuary shall submit information and make recommendations regarding the condition of each retirement system by September 1 of odd-numbered years, beginning in 2007. The PFC may adopt changes to the long-term economic assumptions by October 1, 2007, and by October 1 of each odd-numbered year thereafter.

**Substitute Bill Compared to Original Bill:**

The substitute bill takes effect 90 days after adjournment of session in which bill is passed, while the original bill contained an emergency clause that brought the bill into effect July 1, 2007.

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**Appropriation:** None.**Fiscal Note:** Available.**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.**Staff Summary of Public Testimony:**

(In support) This is request legislation from the Office of the State Actuary that will improve on current practices and is also endorsed by the LEOFF 2 Board and the Select Committee on Pension Policy. The LEOFF 2 Board has been partnering with the Pension Funding Council to keep the rate adoption process consistent, and supports these changes to the process.

(Opposed) None.

**Persons Testifying:** Matt Smith, State Actuary; and Steve Nelson, Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board.**Persons Signed In To Testify But Not Testifying:** None.