

SENATE BILL REPORT

SB 5014

As Amended by House, April 3, 2007

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: Senator Pridemore; by request of Office of the State Actuary.

Brief History:

Committee Activity: Ways & Means: 1/31/07, 2/07/07 [DP].

Passed Senate: 3/13/07, 47-0.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Erik Sund (786-7454)

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 Systems (DRS).

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 and the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 to the PFC. The PFC holds 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.

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.

Prior to the adoption of contribution rates, the PFC submits the audited contribution rates to the Select Committee on Pension Policy (SCPP), which may 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 State Actuary conducts a study of the experience and financial condition of the retirement systems and submits the findings to the PFC for review. The PFC may adopt changes to the long-term economic assumptions used by the State Actuary and by the DRS. These assumptions include the long-term rate of investment return, the long-term rate wage growth, and inflation. The next scheduled date for the PFC to study and adopt changes to the long-term economic assumptions is May 31, 2008.

Summary of Bill: The timing of the PFC rate adoption process in even-numbered years is adjusted to require the adoption of rates by July 31, rather than September 30. At least 30 days prior to the adoption of rates by the PFC, the PFC must 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 must 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 must 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.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2007.

Staff Summary of Public Testimony: PRO: This legislation will improve the rate adoption process and help clarify existing practices.

Persons Testifying: PRO: Matt Smith, State Actuary.

House Amendment(s): The emergency clause is removed from the bill. The effective date becomes 90 days after adjournment of session rather than on July 1, 2007.