FINAL BILL REPORT
SSB 6161

C 561 L 09
Synopsis as Enacted

Brief Description: Addressing the actuarial funding of pension systems.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senator Prentice).

Senate Committee on Ways & Means
House Committee on Ways & Means

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 (WSPRS) and the Law Enforcement Officers' and Fire Fighters' (LEOFF) 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 July 31 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), 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. During the 2008 interim, the PFC adopted changes to the long-term economic assumptions is May 31, 2008. At this meeting, the PFC voted to reduce the total salary growth assumption from 4.5 percent to 4.25 percent and to adopt new mortality tables reflecting increased lifespans.

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.

The choice of an actuarial funding method determines the way pension contributions will be allocated across members' working careers. The portion of the present value of a pension that is allocated to a particular period of a member's career, most typically an annual period, is referred to in actuarial practice as the "normal cost." The total cost of a pension is determined by the benefits paid out less the returns on investment of fund assets. All standard actuarial funding methods are designed to completely fund a member's retirement benefit before retirement, though they may allocate different portions of the total cost to different periods of a member's career.

The current actuarial funding method used for Plans 2 and 3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS) and the Public Safety Employees' Retirement System (PSERS) 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 "entry age normal cost method" is another standard actuarial funding method that determines the cost of funding an individual member's benefit from the time of entry into the system, calculated to be a level percentage of pay throughout a member's career. The entry age normal cost method is used to determine minimum contribution rates for employers and employees in PERS, TRS, and SERS Plans 2 and 3. The minimum contribution rate for the normal cost portion of these plans, which goes into effect is set at 80 percent of employer or employee normal cost calculated under the entry age normal cost method. The entry age normal cost method is also used in the determination of total contribution rates in WSPRS, which are equal to 70 percent of the entry age normal cost, effective July 1, 2009.

The current funding method used for PERS and TRS Plan 1 is tailored to address amortization of the unfunded accrued actuarial liabilities (UAAL) of the Plans 1 by June 30, 2024, and to spread the cost of repaying the unfunded liabilities to all employers of members of PERS, TRS, SERS, and PSERS. Effective July 1, 2009, the contribution rates charged to amortize the UAALs of the Plans 1 is subject to minimum contribution rates of 2.68 percent for PERS, SERS, and PSERS and 4.71 percent for TRS. These minimum contribution rates remain in effect until the actuarial value of assets in either PERS Plan 1 or TRS Plan 1 equals 125 percent of actuarial liabilities or June 30, 2024, whichever comes first.

Summary: The total salary growth assumption used in the PERS, SERS, TRS, PSERS, WSPRS, and the LEOFF Plan 1 is reduced from the 4.25 percent per year adopted by the PFC to 4 percent per year. The adoption of revised mortality tables and minimum contribution rates for the same plans is delayed until after the 2009-11 fiscal biennium, except that WSPRS minimum rate reduced to 50 percent of the entry age normal cost rather than suspended for the biennium.

Between July 1, 2009, and June 30, 2011, the contributions collected for the amortization of the PERS Plan 1 UAAL are made at 1.13 percent of pay in PERS and PSERS. Between September 1, 2009, and August 31, 2011, the PERS 1 UAAL amortization rate for SERS is 1.13 percent. Between September 1, 2009, and August 31, 2011, contributions collected for the amortization of the TRS Plan 1 UAAL are made at 1.85 percent of pay in TRS. After these rates expire, the funding method used to pay off the Plan 1 UAAL is revised so that contributions are set at the level required to amortize the UAALs over a rolling 10-year period, subject to minimum contribution rates of 5.25 percent of pay in PERS, SERS, and PSERS and 8 percent of pay in TRS.

Votes on Final Passage:

Senate	30	17	
House	50	44	(House amended)
Senate	27	20	(Senate concurred)

Effective: July 1, 2009