

SENATE BILL REPORT

SJR 8214

As of February 23, 2011

Brief Description: Addressing the state's long-term pension obligations.

Sponsors: Senators Conway, Schoesler, Murray, Zarelli, Hewitt and Pridemore; by request of State Treasurer.

Brief History:

Committee Activity: Ways & Means: 2/22/11.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Erik Sund (786-7454)

Background: Washington State provides the employees of the state government, school districts, and local governments retirement benefits through a variety of defined benefit, defined contribution, and mixed state retirement plans. Generally, the benefits are organized by system, each of which covers general employees, the Public Employees' Retirement System (PERS), or specific types of employees. Among the largest plans are PERS, the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), the Higher Education Employees' Retirement Plans, and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). Each system is divided into different plans, which generally correspond to different benefit formulas that are offered to employees. Most of the Plans 1, including PERS Plan 1, TRS Plan 1, and LEOFF Plan 1 were closed to new entrants in 1977, and the Plans 2 were offered to new employees after that time. As of the 2009 Actuarial Valuation, PERS Plan 1 and TRS Plan 1 had a combined Unfunded Accrued Actuarial Liability of about \$7 billion. In total, the plans cover about 510,000 active members and retirees.

The Legislature is responsible for determining the benefit formulas and the ultimate funding decisions for each of the systems and plans, though various responsibilities related to this task have been delegated to various agencies and committees. Several of these entities have responsibilities related to the funding of the plans.

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. PFC also administers audits of the actuarial analysis produced for PFC by the State Actuary. The membership of PFC consists of the chair and ranking minority

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.

members of the Senate Ways and Means Committee and the House Appropriations Committee, and the directors of the Office of Financial Management 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 PERS, TRS, SERS, Washington State Patrol Retirement Systems, and LEOFF Plan 1 to PFC. 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, PFC submits the audited contribution rates to the Select Committee on Pension Policy, which may make recommendations on changes to assumptions or rates. The contribution rates adopted by 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 PFC for review. PFC may adopt changes to the long-term economic assumptions used by the State Actuary and by DRS. These assumptions include the long-term rate of investment return, the long-term rate wage growth, and inflation.

Summary of Bill: The State Constitution is amended as follows:

The retirement benefits under each of the retirement plans administered by the State of Washington should, to the maximum extent possible, be funded over the working lives of plan members. The contributions for plans open to new entrants that are less than fully funded must represent at least 80 percent of normal cost calculated under the entry age normal cost method.

Employer contribution rates for amortizing the unfunded liabilities in PERS Plan 1 must be no less than 5.25 percent of pay, and for TRS Plan 1 no less than 8 percent of pay until the plans are at least 100 percent funded. The Legislature is required to adopt policies that reasonably ensure unfunded liabilities neither re-emerge in the plans closed to new members, nor emerge in the open plans.

The effective date of legislative changes to actuarial methods or economic assumptions that reduce long-term annual pension costs is delayed until the later of two years following the date of enactment or the beginning of the next fiscal biennium.

The terms of the amendment apply to any defined benefit plan provision except the Judges Retirement System, the Judicial Retirement System, LEOFF Plan 1, and the Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund.

Appropriation: None.

Fiscal Note: Requested on February 18, 2011.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony: PRO: The state's pension funding obligations are much like debt service obligations, and properly funding the retirement systems up front will maximize investment returns, reducing long-run costs substantially. Putting these requirements in the Constitution would increase the certainty and transparency of pension funding. This resolution wouldn't preclude plan changes in the future. We appreciate that the focus of this measure is on ensuring the adequacy of pension funding rather than on benefit reductions. Contribution rates for the pension systems have been manipulated consistently over the last decade.

OTHER: Requiring that 100 percent of the normal cost of open plans be paid would be better than requiring 80 percent of normal costs. The four year delay in applying minimum contribution rates for payments towards the unfunded liabilities in Plan 1 is kicking the can down the road again.

Persons Testifying: PRO: Leslie Main, Washington State School Retirees' Association; Jim McIntire, State Treasurer.

OTHER: Randy Parr, Washington Education Association.