

# HOUSE BILL REPORT

## HB 2018

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### As Reported by House Committee On: Appropriations

**Title:** An act relating to additional contribution rates for contributions made after the date the service is rendered for individual employers of the Washington state retirement systems.

**Brief Description:** Regarding additional contribution rates for employers of the Washington state retirement systems.

**Sponsors:** Representative Hunter.

#### **Brief History:**

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

Appropriations: 3/25/13, 3/28/13 [DPS].

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

- Requires the Pension Funding Council to adopt employer-specific additional contribution rates where contributions are made other than immediately after service is rendered, or when the amounts are so insufficient as to otherwise increase contribution rates for other employers or employees within a retirement system.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 30 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Alexander, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Carlyle, Cody, Dahlquist, Dunshee, Fagan, Green, Haigh, Haler, Harris, Hudgins, Hunt, Jinkins, Kagi, Maxwell, Morrell, Pedersen, Pettigrew, Pike, Ross, Schmick, Seaquist, Springer, Sullivan and Taylor.

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

#### **Background:**

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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.*

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 is required to adopt the pension contribution rates for the upcoming fiscal biennium no later than July 31 of those even-numbered years.

The employer contribution rates adopted by the PFC for each of the retirement systems, referred to as the "basic" employer contributions rates, are adopted consistent with the overall results of the actuarial valuation results provided by the State Actuary. Basic employer contribution rates are calculated by the State Actuary for each system or plan and are charged as an equal percent of plan member-covered salary for all employers. In addition to the basic employer contribution rates, many of the retirement systems also include employer contribution rates to amortize the unfunded accrued actuarial liability (often referred to as simply the unfunded liability) in the Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1.

The Department of Retirement Systems (DRS) was created in 1976 to administer the various retirement systems that provide benefits for state and local government employees in Washington, collectively referred to as the Washington State Retirement Systems. The retirement systems include the Public Employees' Retirement System (PERS); the Teachers' Retirement System (TRS); the School Employees' Retirement System (SERS); the Law Enforcement Officers' and Fire Fighters' System (LEOFF); the Washington State Patrol Retirement System (WSPRS); and the Public Safety Employees' Retirement System (PSERS).

The DRS requires employers to determine the plan membership and the employer contributions that are due for members of the state retirement plans they employ. For each retirement system member, the employer must calculate those contribution amounts, report the amounts due to the DRS, and then submit payment to the DRS by the fifteenth of the month following the close of a reporting period. Payments received more than three business days after the fifteenth of the month are considered late and may be subject to interest at a rate of 1 percent per month on the outstanding balance.

In the event that member or employer contributions are made other than immediately after service is rendered, the DRS may also charge interest as determined by the Director of the DRS on member or employer contributions owed to the DRS. This DRS authority was enacted by the Legislature in 1994 with a finding that when contributions are not made at the

time service is rendered, the state retirement system trust funds lose investment income, which is a major source of pension funding.

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**Summary of Substitute Bill:**

The Pension Funding Council is required to adopt employer-specific additional contribution rates where contributions are made other than immediately after service is rendered, and when the amounts are so insufficient as to otherwise increase contribution rates for other employers or employees within a retirement system. The additional individual employer contribution rates shall be sufficient to ensure that the cost of lost investment returns or interest are not borne by other employers or employees.

**Substitute Bill Compared to Original Bill:**

The substitute bill contains several corrections to cross-referenced sections of law and a grammatical correction.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately.

**Staff Summary of Public Testimony:**

(In support) The state is happy to sell additional pension benefits to employers who lose a lawsuit and who are deemed to have employed people for decades in the past, but if they want to buy \$130 million in pension benefits, they need to pay \$130 million for those benefits. This would allow them to stretch the payments out, rather than have the state collect all the funds in the first year and this is a more balanced approach. This would also protect the other employers and employees that participate in the pension plan from paying for those benefits. The Department of Retirement Systems (DRS) is in support of the bill, offering some additional clarity in what we find to be complex circumstances, both administratively and legally. The bill protects the contribution rates of other Plan 2 members and employers that had no part in creating the additional liabilities. The bill does these things while reaffirming the existing authority of the DRS, which the DRS appreciates.

(Opposed) None.

**Persons Testifying:** Representative Hunter, prime sponsor; and Dave Nelson, Department of Retirement Systems.

**Persons Signed In To Testify But Not Testifying:** None.