
SUBSTITUTE HOUSE BILL 2018

State of Washington 63rd Legislature 2013 Regular Session

By House Appropriations (originally sponsored by Representative Hunter)

READ FIRST TIME 04/01/13.

1 AN ACT Relating to additional contribution rates for contributions
2 made after the date the service is rendered for individual employers of
3 the Washington state retirement systems; amending RCW 41.45.010,
4 41.45.050, and 41.45.060; creating a new section; and declaring an
5 emergency.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** (1) The legislature affirms the findings of
8 chapter 177, Laws of 1994, that whenever employer or member
9 contributions are not made at the time service is rendered, the state
10 retirement system trust funds lose investment income which is a major
11 source of pension funding. In that act, the legislature granted broad
12 authority to the department of retirement systems to charge employers
13 interest to compensate for the losses such events cause to the trust
14 funds.

15 (2) The legislature intends the grant of authority under RCW
16 41.45.060(2)(d) as an additional means to ensure that the contributions
17 collected from employers are sufficient to support the benefits
18 credited to their employees, and not as a substitute for the existing

1 authority of the director to collect contributions due from employers,
2 such as that provided in RCW 41.50.125.

3 **Sec. 2.** RCW 41.45.010 and 2009 c 561 s 1 are each amended to read
4 as follows:

5 It is the intent of the legislature to provide a dependable and
6 systematic process for funding the benefits provided to members and
7 retirees of the public employees' retirement system, chapter 41.40 RCW;
8 the teachers' retirement system, chapter 41.32 RCW; the law enforcement
9 officers' and firefighters' retirement systems, chapter 41.26 RCW; the
10 school employees' retirement system, chapter 41.35 RCW; the public
11 safety employees' retirement system, chapter 41.37 RCW; and the
12 Washington state patrol retirement system, chapter 43.43 RCW.

13 The funding process established by this chapter is intended to
14 achieve the following goals:

15 (1) To fully fund the public employees' retirement system plans 2
16 and 3, the teachers' retirement system plans 2 and 3, the school
17 employees' retirement system plans 2 and 3, the public safety
18 employees' retirement system plan 2, and the law enforcement officers'
19 and firefighters' retirement system plan 2 as provided by law;

20 (2) To fully amortize the total costs of the law enforcement
21 officers' and firefighters' retirement system plan 1, not later than
22 June 30, 2024;

23 (3) To fully amortize the unfunded actuarial accrued liability in
24 the public employees' retirement system plan 1 and the teachers'
25 retirement system plan 1 within a rolling ten-year period, using
26 methods and assumptions that balance needs for increased benefit
27 security, decreased contribution rate volatility, and affordability of
28 pension contribution rates;

29 (4) To establish long-term employer contribution rates which will
30 remain a relatively predictable proportion of the future state budgets;
31 ((and))

32 (5) To fund, to the extent feasible, all benefits for plan 2 and 3
33 members over the working lives of those members so that the cost of
34 those benefits are paid by the taxpayers who receive the benefit of
35 those members' service; and

36 (6) To require, consistent with section 1, chapter 177, Laws of
37 1994, individual employers to pay contributions that reflect the cost

1 of lost investment returns and interest when contributions are made
2 after the date for which service is credited, rather than allowing the
3 cost of lost investment returns to be passed on to other retirement
4 system employers and employees.

5 **Sec. 3.** RCW 41.45.050 and 2004 c 242 s 38 are each amended to read
6 as follows:

7 (1) Employers of members of the public employees' retirement
8 system, the teachers' retirement system, the school employees'
9 retirement system, the public safety employees' retirement system, and
10 the Washington state patrol retirement system shall make contributions
11 to those systems based on the rates established in RCW 41.45.060 and
12 41.45.070.

13 (2) The state shall make contributions to the law enforcement
14 officers' and firefighters' retirement system plan 2 based on the rates
15 established in RCW 41.45.060 and 41.45.070. The state treasurer shall
16 transfer the required contributions each month on the basis of salary
17 data provided by the department.

18 (3) The department shall bill employers, and the state shall make
19 contributions to the law enforcement officers' and firefighters'
20 retirement system plan 2, using the combined rates established in RCW
21 41.45.060 and 41.45.070 regardless of the level of appropriation
22 provided in the biennial budget. Any member of an affected retirement
23 system may, by mandamus or other appropriate proceeding, require the
24 transfer and payment of funds as directed in this section.

25 (4) The contributions received for the public employees' retirement
26 system shall be allocated between the public employees' retirement
27 system plan 1 fund and the public employees' retirement system combined
28 plan 2 and plan 3 fund as follows: The contributions necessary to
29 fully fund the public employees' retirement system combined plan 2 and
30 plan 3 employer contribution shall first be deposited in the public
31 employees' retirement system combined plan 2 and plan 3 fund. All
32 remaining public employees' retirement system employer contributions
33 shall be deposited in the public employees' retirement system plan 1
34 fund.

35 (5) The contributions received for the teachers' retirement system
36 shall be allocated between the plan 1 fund and the combined plan 2 and
37 plan 3 fund as follows: The contributions necessary to fully fund the

1 combined plan 2 and plan 3 employer contribution shall first be
2 deposited in the combined plan 2 and plan 3 fund. All remaining
3 teachers' retirement system employer contributions shall be deposited
4 in the plan 1 fund.

5 (6) The contributions received for the school employees' retirement
6 system shall be allocated between the public employees' retirement
7 system plan 1 fund and the school employees' retirement system combined
8 plan 2 and plan 3 fund as follows: The contributions necessary to
9 fully fund the combined plan 2 and plan 3 employer contribution shall
10 first be deposited in the combined plan 2 and plan 3 fund. All
11 remaining school employees' retirement system employer contributions
12 shall be deposited in the public employees' retirement system plan 1
13 fund.

14 (7) The contributions received for the law enforcement officers'
15 and firefighters' retirement system plan 2 shall be deposited in the
16 law enforcement officers' and firefighters' retirement system plan 2
17 fund.

18 (8) The contributions received for the public safety employees'
19 retirement system shall be allocated between the public employees'
20 retirement system plan 1 fund and the public safety employees'
21 retirement system plan 2 fund as follows: The contributions necessary
22 to fully fund the plan 2 employer contribution shall first be deposited
23 in the plan 2 fund. All remaining public safety employees' retirement
24 system employer contributions shall be deposited in the public
25 employees' retirement system plan 1 fund.

26 (9) The contributions received from an individual employer for a
27 contribution rate adopted under RCW 41.45.060(2)(d) shall be deposited
28 in the retirement system plan fund for which the rate was adopted, and
29 shall be credited towards the employer in that retirement system or
30 plan for contributions, interest, and lost investment returns.

31 **Sec. 4.** RCW 41.45.060 and 2009 c 561 s 3 are each amended to read
32 as follows:

33 (1) The state actuary shall provide preliminary actuarial valuation
34 results based on the economic assumptions and asset value smoothing
35 technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or
36 41.45.035.

1 (2) Not later than July 31, 2008, and every two years thereafter,
2 consistent with the economic assumptions and asset value smoothing
3 technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or
4 41.45.035, the council shall adopt and may make changes to:

5 (a) A basic state contribution rate for the law enforcement
6 officers' and firefighters' retirement system plan 1;

7 (b) Basic employer contribution rates for the public employees'
8 retirement system, the teachers' retirement system, and the Washington
9 state patrol retirement system; (~~and~~)

10 (c) Basic employer contribution rates for the school employees'
11 retirement system and the public safety employees' retirement system
12 for funding both those systems and the public employees' retirement
13 system plan 1; and

14 (d) Additional individual employer contribution rates to compensate
15 for lost investment returns and interest when member or employer
16 contributions are paid other than immediately after service is
17 rendered, or when the amounts contributed are so insufficient as to
18 otherwise increase contribution rates for other employers or employees
19 within a retirement system or plan. The additional individual employer
20 contribution rates shall be sufficient to ensure that the cost of the
21 lost investment returns or interest are not borne by other employers or
22 employees through increases to the basic contribution rates adopted for
23 each system or plan.

24 The council may adopt annual rate changes for any plan for any
25 rate-setting period. The contribution rates adopted by the council
26 shall be subject to revision by the legislature.

27 (3) The employer and state contribution rates adopted by the
28 council shall be the level percentages of pay that are needed:

29 (a) To fully amortize the total costs of the law enforcement
30 officers' and firefighters' retirement system plan 1 not later than
31 June 30, 2024;

32 (b) To fully fund the public employees' retirement system plans 2
33 and 3, the teachers' retirement system plans 2 and 3, the public safety
34 employees' retirement system plan 2, and the school employees'
35 retirement system plans 2 and 3 in accordance with RCW 41.45.061,
36 41.45.067, and this section; and

37 (c) To fully fund the public employees' retirement system plan 1

1 and the teachers' retirement system plan 1 in accordance with RCW
2 41.45.070, 41.45.150, and this section.

3 (4) The aggregate actuarial cost method shall be used to calculate
4 a combined plan 2 and 3 normal cost, a Washington state patrol
5 retirement system normal cost, and a public safety employees'
6 retirement system normal cost.

7 (5) A modified entry age normal cost method, as set forth in this
8 chapter, shall be used to calculate employer contributions to the
9 public employees' retirement system plan 1 and the teachers' retirement
10 system plan 1.

11 (6) The employer contribution rate for the public employees'
12 retirement system and the school employees' retirement system shall
13 equal the sum of:

14 (a) The amount required to pay the combined plan 2 and plan 3
15 normal cost for the system, subject to any minimum rates applied
16 pursuant to RCW 41.45.155; plus

17 (b) The amount required to amortize the unfunded actuarial accrued
18 liability in plan 1 of the public employees' retirement system over a
19 rolling ten-year period using projected future salary growth and growth
20 in system membership, and subject to any minimum or maximum rates
21 applied pursuant to RCW 41.45.150; plus

22 (c) The amounts required to amortize the costs of any benefit
23 improvements in plan 1 of the public employees' retirement system that
24 become effective after June 30, 2009. The cost of each benefit
25 improvement shall be amortized over a fixed ten-year period using
26 projected future salary growth and growth in system membership. The
27 amounts required under this subsection are not subject to, and are
28 collected in addition to, any minimum or maximum rates applied pursuant
29 to RCW 41.45.150.

30 (7) The employer contribution rate for the public safety employees'
31 retirement system shall equal the sum of:

32 (a) The amount required to pay the normal cost for the system,
33 subject to any minimum rates applied pursuant to RCW 41.45.155; plus

34 (b) The amount required to amortize the unfunded actuarial accrued
35 liability in plan 1 of the public employees' retirement system over a
36 rolling ten-year period using projected future salary growth and growth
37 in system membership, and subject to any minimum or maximum rates
38 applied pursuant to RCW 41.45.150; plus

1 (c) The amounts required to amortize the costs of any benefit
2 improvements in plan 1 of the public employees' retirement system that
3 become effective after June 30, 2009. The cost of each benefit
4 improvement shall be amortized over a fixed ten-year period using
5 projected future salary growth and growth in system membership. The
6 amounts required under this subsection are not subject to, and are
7 collected in addition to, any minimum or maximum rates applied pursuant
8 to RCW 41.45.150.

9 (8) The employer contribution rate for the teachers' retirement
10 system shall equal the sum of:

11 (a) The amount required to pay the combined plan 2 and plan 3
12 normal cost for the system, subject to any minimum rates applied
13 pursuant to RCW 41.45.155; plus

14 (b) The amount required to amortize the unfunded actuarial accrued
15 liability in plan 1 of the teachers' retirement system over a rolling
16 ten-year period using projected future salary growth and growth in
17 system membership, and subject to any minimum or maximum rates applied
18 pursuant to RCW 41.45.150; plus

19 (c) The amounts required to amortize the costs of any benefit
20 improvements in plan 1 of the teachers' retirement system that become
21 effective after June 30, 2009. The cost of each benefit improvement
22 shall be amortized over a fixed ten-year period using projected future
23 salary growth and growth in system membership. The amounts required
24 under this subsection are not subject to, and are collected in addition
25 to, any minimum or maximum rates applied pursuant to RCW 41.45.150.

26 (9) The council shall immediately notify the directors of the
27 office of financial management and department of retirement systems of
28 the state and employer contribution rates adopted. The rates shall be
29 effective for the ensuing biennial period, subject to any legislative
30 modifications.

31 (10) The director shall collect those rates adopted by the council.
32 The rates established in RCW 41.45.062, or by the council, shall be
33 subject to revision by the legislature.

34 (11) The state actuary shall prepare final actuarial valuation
35 results based on the economic assumptions, asset value smoothing
36 technique, and contribution rates included in or adopted under RCW
37 41.45.030, 41.45.035, and this section.

1 NEW SECTION. **Sec. 5.** This act is necessary for the immediate
2 preservation of the public peace, health, or safety, or support of the
3 state government and its existing public institutions, and takes effect
4 immediately.

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