

SENATE BILL REPORT

SB 6668

As of March 2, 2016

Title: An act relating to merging the assets, liabilities, and membership of the law enforcement officers' and firefighters' retirement system plan 1 with the teachers' retirement system plan 1 and establishing a funding policy for the merged plan.

Brief Description: Merging the assets, liabilities, and membership of the law enforcement officers' and firefighters' retirement system plan 1 with the teachers' retirement system plan 1 and establishing a funding policy for the merged plan.

Sponsors: Senators Hill, Braun, Ericksen and Hewitt.

Brief History:

Committee Activity: Ways & Means: 3/02/16.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Steve Jones (786-7440)

Background: Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System. The Legislature established the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System in 1969 by consolidating various municipal police and fire fighter pension systems and transferring the members to the new state system. In 1977, the original LEOFF system (Plan 1) was closed to new members; subsequent employees became members of Plan 2.

The LEOFF Plan 1 retirement system is a defined benefit plan, whereby the plan benefits are guaranteed by statute and are not dependent on the level of employer/employee contributions or the market performance of the plan's investments. LEOFF Plan 1 has been funded by a combination of contributions from three parties: the employers (local governments), the employees, and the state (as the creator and sponsor of the plan). At the time LEOFF Plan 1 was created, the state assumed responsibility for approximately \$100 million of unfunded liabilities from the local government police and fire pension plans. As recently as 1980, less than 25 percent of the plan's liabilities had been funded. Because of contributions from the state and high investment returns, the assets of the Plan 1 retirement fund now significantly exceed the total actuarial liabilities of the system. All further contributions to the plan - state, employer, and employee - were suspended in June 2000.

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.

Based on the most recent valuation, Law Enforcement Officers' and Fire Fighters' Plan 1 (LEOFF 1) is 127 percent funded with a surplus of \$1.2 billion.

The historical contribution levels to the LEOFF Plan 1 fund reflect the financial obligation undertaken by the state to eliminate the previously unfunded liabilities: 77 percent of the fund is attributable to contributions from the state, 11.5 percent from employer contributions, and 11.5 percent from employee contributions.

LEOFF Plan 1 currently has approximately 7750 retirees and 120 active members.

Teachers' Retirement System (TRS)

The Legislature established the Teachers' Retirement System (TRS) in 1937 by dissolving various local pension systems and transferring the members to the new state system. In 1977, the original TRS system (Plan 1) was closed to new members; subsequent employees became members of Plan 2. Like the LEOFF Plan 1 retirement system, the TRS Plan 1 is a defined benefit plan.

Based on current actuarial studies, Teachers' Retirement System Plan 1 (TRS 1) is 69 percent funded with a \$2.9 billion unfunded liability.

TRS Plan 1 is funded by a combination of employer and employee contributions. For most members of TRS, the employer is a local school district, and the employer contributions are paid from state funds allocated to school districts for the support of the common school system. The employee contribution rate is set in statute at six percent of salary. Employer contributions are set by the Pension Funding Council, subject to revision by the Legislature. The rate charged to employers is calculated to defray the unfunded liability of the system; that special rate is set in statute at a minimum level of 5.75 percent until the system reaches 100 percent of the actuarial accrued liability. The rate currently being charged to employers is 6.23 percent, increasing to 7.2 percent in 2018. The unfunded liability is expected to be defrayed by year 2027.

TRS Plan 1 currently has approximately 34,800 retirees and 1025 active members.

Summary of Bill: The assets, liabilities, and membership of the LEOFF Plan 1 retirement system are merged into the TRS Plan 1 retirement system. The members' retirement benefits of the two systems remain unchanged.

The suspension of all LEOFF Plan 1 employee and employer contributions is continued. The TRS Plan 1 employer contribution is reduced to 4.24 percent. The TRS Plan 1 employee contribution rate is unchanged.

A one-time, lump-sum defined benefit of \$5,000 is provided to all retired LEOFF Plan 1 members, payable on January 3, 2017. Active LEOFF Plan 1 members will receive the lump-sum benefit, with interest, on their retirement date.

The reduction in the TRS Plan 1 employer contribution will result in \$75 million in state General Fund savings in the 2015-17 biennium, with an expected additional savings of

\$243.8 million in the 2017-19 biennium. The 25-year savings to the state General Fund is estimated at \$1.5 billion. School districts will also receive a fiscal benefit from the lower employer contribution rate for locally funded K-12 staff.

With the merger of the two systems, the unfunded liability of TRS Plan 1 is expected to be defrayed in 2024, approximately three years earlier than under current law.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on September 1, 2016.

Staff Summary of Public Testimony: CON: The LEOFF 1 Plan belongs to the members. Any change in these statutes will give cities and counties an opportunity to reduce medical benefits. Many retirees have duty-related health issues. They put their lives on the line every day to protect the public. The Legislature's failure to fund TRS is not retirees' fault. More public notice should have been given for this hearing. LEOFF 1 is a unique system; teachers have a completely different job. Public safety workers need to be respected. Taking the surplus in LEOFF Plan 1 is theft. Many retiree associations oppose this bill. The \$5,000 lump-sum benefit is a pay-off to keep quiet. The state overfunded LEOFF Plan 1 for several years. The Internal Revenue System has not ruled on this merger. The proposal needs more study; there are too many questions. Many people are completely dependent on these pensions. The purported surplus is only an estimate.

OTHER: Local governments have a role in the LEOFF retirement system. Medical benefits are funded entirely by cities, counties, and other local governments. Local governments have contributed to the fund and that needs to be recognized.

Persons Testifying: CON: Dick Warbrouck, Retired Fire Fighters of WA; Andy Wilson, LEOFF 1 Coalition; Glenn Teeter; Mathew Jackmond; Gail Hall; Keith Tipton; Bradd Reynolds; Jeff Caldwell; Jerry Taylor; Mark Curtis; Joyce Wilms; David Perry.

OTHER: Candice Bock, Assoc. of WA Cities; Josh Weiss, WA St. Assoc. of Counties.