
HOUSE BILL 1288

State of Washington 65th Legislature 2017 Regular Session

By Representatives Chandler, Manweller, MacEwen, and Stokesbary

Read first time 01/16/17. Referred to Committee on Appropriations.

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

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

7 NEW SECTION. **Sec. 1.** (1) The legislature affirms the findings
8 of 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
17 contributions collected from employers are sufficient to support the
18 benefits credited to their employees, and not as a substitute for the
19 existing authority of the director to collect contributions due from
20 employers, such as that provided in RCW 41.50.125.

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

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

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

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

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

32 (5) To fund, to the extent feasible, all benefits for plan 2 and
33 3 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
38 of lost investment returns and interest when contributions are made
39 after the date for which service is credited, rather than allowing

1 the cost of lost investment returns to be passed on to other
2 retirement system employers and employees.

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

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

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

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

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

33 (5) The contributions received for the teachers' retirement
34 system shall be allocated between the plan 1 fund and the combined
35 plan 2 and plan 3 fund as follows: The contributions necessary to
36 fully fund the combined plan 2 and plan 3 employer contribution shall
37 first be deposited in the combined plan 2 and plan 3 fund. All
38 remaining teachers' retirement system employer contributions shall be
39 deposited in the plan 1 fund.

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

10 (7) The contributions received for the law enforcement officers'
11 and firefighters' retirement system plan 2 shall be deposited in the
12 law enforcement officers' and firefighters' retirement system plan 2
13 fund.

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

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

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

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

34 (2) Not later than July 31, 2008, and every two years thereafter,
35 consistent with the economic assumptions and asset value smoothing
36 technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or
37 41.45.035, the council shall adopt and may make changes to:

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

1 (b) Basic employer contribution rates for the public employees'
2 retirement system, the teachers' retirement system, and the
3 Washington state patrol retirement system; (~~and~~)

4 (c) Basic employer contribution rates for the school employees'
5 retirement system and the public safety employees' retirement system
6 for funding both those systems and the public employees' retirement
7 system plan 1; and

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

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

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

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

26 (b) To fully fund the public employees' retirement system plans 2
27 and 3, the teachers' retirement system plans 2 and 3, the public
28 safety employees' retirement system plan 2, and the school employees'
29 retirement system plans 2 and 3 in accordance with RCW 41.45.061,
30 41.45.067, and this section; and

31 (c) To fully fund the public employees' retirement system plan 1
32 and the teachers' retirement system plan 1 in accordance with RCW
33 41.45.070, 41.45.150, and this section.

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

38 (5) A modified entry age normal cost method, as set forth in this
39 chapter, shall be used to calculate employer contributions to the

1 public employees' retirement system plan 1 and the teachers'
2 retirement system plan 1.

3 (6) The employer contribution rate for the public employees'
4 retirement system and the school employees' retirement system shall
5 equal the sum of:

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

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

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

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

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

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

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

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

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

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

9 (c) The amounts required to amortize the costs of any benefit
10 improvements in plan 1 of the teachers' retirement system that become
11 effective after June 30, 2009. The cost of each benefit improvement
12 shall be amortized over a fixed ten-year period using projected
13 future salary growth and growth in system membership. The amounts
14 required under this subsection are not subject to, and are collected
15 in addition to, any minimum or maximum rates applied pursuant to RCW
16 41.45.150.

17 (9) The council shall immediately notify the directors of the
18 office of financial management and department of retirement systems
19 of the state and employer contribution rates adopted. The rates shall
20 be effective for the ensuing biennial period, subject to any
21 legislative modifications.

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

25 (11) The state actuary shall prepare final actuarial valuation
26 results based on the economic assumptions, asset value smoothing
27 technique, and contribution rates included in or adopted under RCW
28 41.45.030, 41.45.035, and this section.

29 NEW SECTION. **Sec. 5.** This act is necessary for the immediate
30 preservation of the public peace, health, or safety, or support of
31 the state government and its existing public institutions, and takes
32 effect immediately.

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