

HOUSE BILL REPORT

2SHB 1661

As Passed Legislature

Title: An act relating to the higher education retirement plans.

Brief Description: Concerning the higher education retirement plans.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Chandler and Ormsby).

Brief History:

Committee Activity:

Appropriations: 2/7/19, 2/25/19 [DPS], 1/22/20, 1/30/20 [DP2S].

Floor Activity:

Passed House: 3/12/19, 98-0.

Passed House: 2/13/20, 97-0.

Senate Amended.

Passed Senate: 3/6/20, 48-0.

House Refused to Concur.

Senate Receded.

Senate Amended.

Passed Senate: 3/11/20, 48-0.

House Concurred.

Passed House: 3/12/20, 97-0.

Passed Legislature.

Brief Summary of Second Substitute Bill

- Establishes institution-specific contribution rates for the Higher Education Retirement Plan Supplemental Benefits (HERPSB).
- Establishes a timeframe for when the HERPSB will be paid from the newly created HERPSB Fund.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 32 members: Representatives Ormsby, Chair; Robinson, 1st Vice Chair; Bergquist, 2nd Vice Chair; Stokesbary, Ranking Minority Member; Rude,

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Assistant Ranking Minority Member; Caldier, Chandler, Chopp, Cody, Corry, Dolan, Dye, Fitzgibbon, Hansen, Hoff, Hudgins, Kilduff, Kraft, Macri, Mosbrucker, Pettigrew, Pollet, Ryu, Schmick, Senn, Springer, Steele, Sullivan, Sutherland, Tarleton, Tharinger and Ybarra.

Staff: David Pringle (786-7310).

Background:

Generally, state employees, including those employed by a higher education institution, are covered by one of the state retirement systems, such as the Public Employees Retirement System (PERS). State higher education institutions, however, may offer a Higher Education Retirement Plan (HERP) to faculty and other employees exempt from civil service in lieu of membership in PERS. Higher Education Retirement Plans provide defined contributions, typically 5 percent of pay from each of the employer and employee until age 35, 7.5 percent until age 50, and the employer matching up to 10 percent of pay from age 50 until retirement. Higher Education Retirement Plans are administered by each institution, unlike the other state retirement systems that are administered by the Department of Retirement Systems (DRS).

For members that joined before July 1, 2011, HERPs also include a guaranteed defined benefit component, called the HERP Supplemental Benefit (HERPSB), which guarantees a monthly supplemental allowance to ensure that the HERP member receives a total benefit worth about 50 percent of the average of the member's highest two consecutive years of salary. The value of the member's defined contributions, calculated as if they had been invested in a model portfolio, are subtracted from any HERPSB obligation. Higher Education Retirement Plan Supplemental Benefit costs are paid out of institution operating budgets and are largely not pre-funded.

In 2011 the Legislature enacted changes to HERPs, including closing the HERPSB to new members, bringing the plans under the review of the Select Committee on Pension Policy, and instituting regular analysis of the funding status of the supplemental benefits by the Pension Funding Council (PFC). Additionally, beginning in 2013, higher education institutions have been required to contribute 0.5 percent of pay as an employer contribution into a HERPSB fund.

The PFC is authorized to make changes to the 0.5 percent contribution rate and to recommend legislation that, upon accumulation of sufficient funding in the HERPSB fund, would transfer responsibility for benefit payments from the higher education institutions to the HERPSB fund. In 2016 the Office of the State Actuary completed the first actuarial valuation of the HERPSB, and the PFC passed a resolution to develop options for funding methods that finance HERP benefits on a more level percentage-of-pay basis, with contribution rates and pay-as-you go benefit payments combined. A partial draft plan was reviewed by the PFC in 2018.

Summary of Second Substitute Bill:

Beginning July 1, 2020, the 0.5 percent HERPSB contribution rate is replaced with institution-specific contribution rates as follows:

- University of Washington – 0.38 percent;
- Washington State University – 0.30 percent;
- Western Washington University – 0.21 percent;
- Eastern Washington University – 0.28 percent;
- Central Washington University – 0.28 percent;
- The Evergreen State College – 0.23 percent; and
- State Board for Community and Technical Colleges – 0.13 percent

The Office of Financial Management is directed to create institution specific accounts in the HERPSB fund. Money in the fund must be accounted for separately and attributed to the paying institution and may only be used to make benefit payments to the beneficiaries of that institution's plan.

Beginning July 31, 2020, the PFC may review and revise the institution-specific contribution rates. Rates must be designed to keep the total cost at a more level percentage than a pay-as-you-go method. Funds will accumulate in the fund and allow the a portion of the projected cost of the supplemental retirement benefits for the institution beginning in 2035.

When the HERPSB fund has collected sufficient assets to begin making supplemental benefit payments, administration of the HERPSB will transfer from the institution to the DRS.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2020.

Staff Summary of Public Testimony:

(In support) This is a good bill. The University of Washington has some clarifying language that it would like to see added relating to the separate funds from each institution. There is a difference between the State Actuary's work and the rates in the bill. Central Washington University closed their supplemental benefit in 1997, so sufficient funds have already been contributed.

(Opposed) None.

Persons Testifying: Joe Dacca, University of Washington; and Steve DuPont, Central Washington University.

Persons Signed In To Testify But Not Testifying: None.