

HOUSE BILL REPORT

2SHB 1661

As Amended by the Senate

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 [DNP, w/oRec, DPS], 1/22/20, 1/30/20 [DP2S].

Floor Activity:

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

Floor Activity:

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

Senate Amended.

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

Brief Summary of Second Substitute Bill

- Establishes institution-specific contribution rates for the Higher Education Retirement Plan Supplemental Benefits (HERPSB), and provides for a biennial schedule for the rates to be revised by the Pension Funding Council (PFC).
- Authorizes the PFC to determine when an institution has accumulated sufficient assets, shifting responsibility for paying benefits from the institution to the Department of Retirement Systems.
- Adds language describing the HERPSB fund as a dedicated fund, similar to the other state retirement system funds.

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, Assistant Ranking Minority Member; Caldier, Chandler, Chopp, Cody, Corry, Dolan, Dye, Fitzgibbon, Hansen, Hoff, Hudgins, Kilduff, Kraft, Macri, Mosbrucker, Pettigrew, Pollet,

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Ryu, Schmick, Senn, Springer, Steele, Sullivan, Sutherland, Tarleton, Tharinger and Ybarra.

Staff: David Pringle (786-7310) and David Pringle (786-7310)

Background: State institutions of higher education are authorized to offer the Higher Education Retirement Plan (HERP) to faculty and other employees whose positions are designated as eligible by their respective boards. The HERPs are administered by each institution, unlike the other state retirement systems that are administered by the Department of Retirement Systems. The HERP plans provide defined contributions, typically 5 percent of pay from each of the employer and employee until age 35, 7.5 percent of pay from each until age 50, and the employer matching up to 10 percent of pay from age 50 until retirement.

For members that joined before July 1, 2011, the HERP plans also have a guaranteed defined benefit, called the HERP Supplemental Benefit, which pays a monthly supplemental allowance to insure that the HERP member receives a total benefit worth about 50 percent of the average of a 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 HERP Supplemental Benefit obligation. The HERP Supplemental Benefit costs are paid out of institution operating budgets, and are largely not pre-funded.

In 2011 the Legislature enacted changes to the HERP plans, including closing the Supplemental Benefit 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. Pursuant to the legislation, since July 1, 2013, higher education institutions have been required to contribute a 0.5 percent of pay employer contribution into a HERP Supplemental Benefit fund. The Pension Funding Council is authorized to make changes to the 0.5 percent contribution rate, and to recommend legislation that, upon accumulation of sufficient funding in the HERP Supplemental Benefit Fund, would transfer responsibility for benefit payments from the higher education institutions to the HERP Supplemental Benefit Fund.

In 2016 the Office of the State Actuary completed the first actuarial valuation of the HERP Supplemental Benefits, and the Pension Funding Council passed a resolution to develop options for funding methods that finance the HERP benefits on a more level percentage of pay basis, with contribution rates and pay-as-you go benefit payments combined. A partial draft was reviewed by the Pension Funding Council in 2018.

Summary of Second Substitute Bill:

The single 0.50 percent Higher Education Retirement Plan Supplemental Benefit (HERPSB) contribution rate is replaced with institution-specific contribution rates. The HERPSB fund is established as a dedicated fund, using similar language as for the funds of the other State Retirement Systems. The bill identifies a biennial schedule for the Pension Funding Council (PFC) to review and revise the institution-specific contribution rates based on future actuarial valuation results prepared by the Office of the State Actuary. Supplemental benefits will not be paid from an institution's HERPSB fund until the PFC determines the fund has collected sufficient assets. Once the PFC makes that determination, administration of the HERPSB will transfer from the institution to the Department of Retirement Systems. The bill targets 2035 as the approximate year when the funds are expected to begin paying benefits.

EFFECT OF SENATE AMENDMENT(S):

The Senate amendment modifies the contribution rate for Central Washington University from 0.28 percent to 0.00 percent. It also makes corrections to dates and the name of the fund. Duplicative provisions are removed, and the amendment provides that interest earned is retained rather than transferred to the General Fund. Removes the emergency clause. The intent section is modified.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and 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: (In support) Steve DuPont, Central Washington University; Steve DuPont, Central Washington University; Joe Dacca, University of Washington.

Persons Signed In To Testify But Not Testifying: None.