
HOUSE BILL 1661

State of Washington

66th Legislature

2019 Regular Session

By Representatives Chandler and Ormsby

Read first time 01/28/19. Referred to Committee on Appropriations.

1 AN ACT Relating to the higher education retirement plans;
2 amending RCW 28B.10.423, 41.45.050, 41.45.060, and 41.50.075; adding
3 a new section to chapter 41.50 RCW; creating a new section; providing
4 an effective date; and declaring an emergency.

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

6 NEW SECTION. **Sec. 1.** It is the intent of the legislature to
7 establish contribution rates for the supplemental benefits of the
8 higher education retirement plan that are specific to individual
9 higher education institutions. The rates established in this act are
10 subject to periodic revision by the pension funding council as
11 experience and new actuarial analysis becomes available to maintain
12 progress towards funding the actuarial liabilities that each
13 institution has for these benefits. At such time that the council
14 determines an institution has sufficient assets, as specified in RCW
15 28B.10.423(4)(g)(i) in the higher education retirement plan
16 supplemental benefit fund, responsibility for administering those
17 benefits will transition to the department of retirement systems and
18 benefit payments will commence from each institution's portion of the
19 higher education retirement plan supplemental benefit fund. Future
20 contribution rates will represent the cost of paying on a combined
21 prefunded and pay-as-you-go basis, as adopted by the council, with

1 the goal of reducing the year-to-year changes in cost that the higher
2 education retirement plan supplemental benefit has under current law.

3 **Sec. 2.** RCW 28B.10.423 and 2012 c 229 s 516 are each amended to
4 read as follows:

5 (1) For employees who are first employed by an institution of
6 higher education in a position eligible for participation in an old
7 age annuities or retirement income plan under this chapter prior to
8 July 1, 2011, it is the intent of RCW 28B.10.400, 28B.10.405,
9 28B.10.410, 28B.10.415, and 28B.10.420(~~(7)~~) and (~~(28B.10.423)~~) this
10 section that the retirement income resulting from the contributions
11 described herein from the state of Washington and the employee shall
12 be projected actuarially so that it shall not exceed sixty percent of
13 the average of the highest two consecutive years salary. Periodic
14 review of the retirement systems established pursuant to RCW
15 28B.10.400, 28B.10.405, 28B.10.410, 28B.10.415, and 28B.10.420(~~(7)~~)
16 and (~~(28B.10.423)~~) this section will be undertaken at such time and
17 in such manner as determined by the committees on ways and means of
18 the senate and of the house of representatives, the select committee
19 on pension policy, and the pension funding council, and joint
20 contribution rates will be adjusted if necessary to accomplish this
21 intent.

22 (2) Beginning July 1, 2011, state funding for annuity or
23 retirement income plans under RCW 28B.10.400 shall not exceed six
24 percent of salary. The state board for community and technical
25 colleges and the student achievement council are exempt from the
26 provisions of this subsection (2).

27 (3) By June 30, 2013, and every two years thereafter, each
28 institution of higher education that is responsible for payment of
29 supplemental amounts under RCW 28B.10.400(1)(c) shall contract with
30 the state actuary under chapter 41.44 RCW for an actuarial valuation
31 of their supplemental benefit plan. By June 30, 2013, and at least
32 once every six years thereafter, each institution shall also contract
33 with the state actuary under chapter 41.44 RCW for an actuarial
34 experience study of the mortality, service, compensation, and other
35 experience of the annuity or retirement income plans created in this
36 chapter, and into the financial condition of each system. At the
37 discretion of the state actuary, the valuation or experience study
38 may be performed by the state actuary or by an outside actuarial firm
39 under contract to the office of the state actuary. Each institution

1 of higher education is required to provide the data and information
2 required for the performance of the valuation or experience study to
3 the office of the state actuary or to the actuary performing the
4 study on behalf of the state actuary. The state actuary may charge
5 each institution for the actual cost of the valuation or experience
6 study through an interagency agreement. Upon completion of the
7 valuation or experience study, the state actuary shall provide copies
8 of the study to the institution of higher education and to the select
9 committee on pension policy and the pension funding council.

10 (4) (a) A higher education retirement plan supplemental benefit
11 fund is created in the custody of the state treasurer for the purpose
12 of funding future benefit obligations of higher education retirement
13 plan supplemental benefits. The state investment board has the full
14 power to invest, reinvest, manage, contract, sell, or exchange
15 investment money in the fund.

16 (b) From January 1, 2012, through June 30, 2013, an employer
17 contribution rate of one-quarter of one percent of salary is
18 established to begin prefunding the unfunded future obligations of
19 the supplemental benefit established in RCW 28B.10.400.

20 (c) Beginning July 1, 2013, an employer contribution rate of one-
21 half of one percent of salary is established to prefund the unfunded
22 future obligations of the supplemental benefit established in RCW
23 28B.10.400.

24 (d) (i) Beginning July 1, 2019, the employer contribution rates
25 for each state institution of higher education are as follows:

26 University of Washington: 0.38 percent

27 Washington State University: 0.30 percent

28 Western Washington University: 0.21 percent

29 Eastern Washington University: 0.28 percent

30 Central Washington University: 0.28 percent

31 The Evergreen State College: 0.23 percent

32 State board for community and technical colleges: 0.13 percent

33 (ii) The contribution rates established in this section may be
34 changed by rates adopted by the pension funding council beginning
35 July 1, 2021, consistent with (f) of this subsection.

36 (iii) For purposes of budgeting the cost of the contribution
37 rates in this subsection (4), and as they may be changed by the
38 pension funding council, the higher education retirement plan
39 supplemental benefit contribution rates are subject to the limit
40 established in subsection (2) of this section.

1 (e) Consistent with chapter 41.50 RCW, the department of
2 retirement systems shall collect the employer contribution rates
3 established in this section from each state institution of higher
4 education, and deposit those contributions into the higher education
5 retirement plan supplemental benefit fund. The contributions made by
6 each employer into the higher education retirement plan supplemental
7 benefit fund and the earnings on those contributions shall be
8 accounted for separately within the fund.

9 ~~((e))~~ (f) Following the completion and review of the
10 ~~((initial))~~ most recent actuarial valuations and experience study
11 conducted pursuant to subsection (3) of this section, the pension
12 funding council may, by no later than July 31, 2020, and every two
13 years thereafter:

14 (i) Adopt and make changes to the employer contribution rates
15 established in this subsection consistent with the procedures
16 established in chapter 41.45 RCW. If the actuarial valuations of the
17 higher education retirement plans of each institution contributing to
18 the higher education retirement plan supplemental benefit fund
19 suggest that different contribution rates are appropriate for each
20 institution, different rates may be adopted. Rates adopted by the
21 pension funding council are subject to revision by the legislature;

22 (ii) Recommend legislation that will, upon accumulation of
23 sufficient funding in the higher education retirement plan
24 supplemental benefit fund, transfer the responsibility for making
25 supplemental benefit payments to the department of retirement
26 systems, and adjust employer contribution rates to reflect the
27 transfer of responsibility.

28 (g)(i) The rates adopted by the pension funding council must be
29 designed to keep the cost of the higher education retirement plan
30 supplemental benefits at a more level percentage of pay than a pay-
31 as-you-go method. This more level percentage of pay of costs means a
32 combination of the cost of supplemental benefits paid by the
33 institution directly or indirectly on a pay-as-you-go basis, plus the
34 cost of contributions to the higher education retirement plan
35 supplemental benefit fund, on an annual basis. Contributions shall
36 continue until the projected value of the funds equals the projected
37 cost of future benefits for the institution.

38 (ii) Funds are anticipated to be accumulated in the higher
39 education retirement plan supplemental benefit fund, and not expended
40 on benefits until approximately the year 2030.

1 (iii) The pension funding council, in consultation with the state
2 actuary, may choose and occasionally revise, a funding method
3 designed to achieve these objectives.

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

6 (1) Employers of members of the public employees' retirement
7 system, the teachers' retirement system, the school employees'
8 retirement system, the public safety employees' retirement system,
9 ~~((and))~~ the Washington state patrol retirement system, and the higher
10 education retirement plans shall make contributions to those systems
11 and plans 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
15 rates established in RCW 41.45.060 and 41.45.070. The state treasurer
16 shall transfer the required contributions each month on the basis of
17 salary 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'
26 retirement system shall be allocated between the public employees'
27 retirement system plan 1 fund and the public employees' retirement
28 system combined plan 2 and plan 3 fund as follows: The contributions
29 necessary to fully fund the public employees' retirement system
30 combined plan 2 and plan 3 employer contribution shall first be
31 deposited in the public employees' retirement system combined plan 2
32 and plan 3 fund. All remaining public employees' retirement system
33 employer contributions shall be deposited in the public employees'
34 retirement system plan 1 fund.

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

1 remaining teachers' retirement system employer contributions shall be
2 deposited in the plan 1 fund.

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

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

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

24 (9) The contributions received for the higher education
25 retirement plan supplemental benefit fund shall be deposited in the
26 fund and amounts received from each institution accounted for
27 separately.

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.

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

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

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

16 (b) To fully fund the public employees' retirement system plans 2
17 and 3, the teachers' retirement system plans 2 and 3, the public
18 safety employees' retirement system plan 2, and the school employees'
19 retirement system plans 2 and 3 in accordance with RCW 41.45.061,
20 41.45.067, and this section; and

21 (c) To fully fund the public employees' retirement system plan 1
22 and the teachers' retirement system plan 1 in accordance with RCW
23 41.45.070, 41.45.150, and this section.

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

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

32 (6) The employer contribution rate for the public employees'
33 retirement system and the school employees' retirement system shall
34 equal the sum of:

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

38 (b) The amount required to amortize the unfunded actuarial
39 accrued liability in plan 1 of the public employees' retirement
40 system over a rolling ten-year period using projected future salary

1 growth and growth in system membership, and subject to any minimum or
2 maximum rates applied pursuant to RCW 41.45.150; plus

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

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

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

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

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

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

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

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

38 (c) The amounts required to amortize the costs of any benefit
39 improvements in plan 1 of the teachers' retirement system that become
40 effective after June 30, 2009. The cost of each benefit improvement

1 shall be amortized over a fixed ten-year period using projected
2 future salary growth and growth in system membership. The amounts
3 required under this subsection are not subject to, and are collected
4 in addition to, any minimum or maximum rates applied pursuant to RCW
5 41.45.150.

6 (9) The employer contribution rate for each of the institutions
7 of higher education for the higher education supplemental retirement
8 benefits must be sufficient to fund, as a reasonably level percentage
9 of pay, a portion of the projected cost of the supplemental
10 retirement benefits for the institution beginning in 2035, with the
11 other portion supported on a pay-as-you-go basis, either as direct
12 payments by each institution to retirees, or as contributions to the
13 higher education retirement plan supplemental benefit fund.
14 Contributions must continue until the council determines that the
15 institution for higher education supplemental retirement benefit
16 liabilities are satisfied.

17 (10) 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))~~ (11) The director shall collect those rates adopted by
23 the council. The rates established in RCW 41.45.062, or by the
24 council, shall be subject to revision by the legislature.

25 ~~((11))~~ (12) The state actuary shall prepare final actuarial
26 valuation results based on the economic assumptions, asset value
27 smoothing technique, and contribution rates included in or adopted
28 under RCW 41.45.030, 41.45.035, and this section.

29 **Sec. 5.** RCW 41.50.075 and 2004 c 242 s 44 are each amended to
30 read as follows:

31 (1) Two funds are hereby created and established in the state
32 treasury to be known as the Washington law enforcement officers' and
33 firefighters' system plan 1 retirement fund, and the Washington law
34 enforcement officers' and firefighters' system plan 2 retirement fund
35 which shall consist of all moneys paid into them in accordance with
36 the provisions of this chapter and chapter 41.26 RCW, whether such
37 moneys take the form of cash, securities, or other assets. The plan 1
38 fund shall consist of all moneys paid to finance the benefits
39 provided to members of the law enforcement officers' and

1 firefighters' retirement system plan 1, and the plan 2 fund shall
2 consist of all moneys paid to finance the benefits provided to
3 members of the law enforcement officers' and firefighters' retirement
4 system plan 2.

5 (2) All of the assets of the Washington state teachers'
6 retirement system shall be credited according to the purposes for
7 which they are held, to two funds to be maintained in the state
8 treasury, namely, the teachers' retirement system plan 1 fund and the
9 teachers' retirement system combined plan 2 and 3 fund. The plan 1
10 fund shall consist of all moneys paid to finance the benefits
11 provided to members of the Washington state teachers' retirement
12 system plan 1, and the combined plan 2 and 3 fund shall consist of
13 all moneys paid to finance the benefits provided to members of the
14 Washington state teachers' retirement system plan 2 and 3.

15 (3) There is hereby established in the state treasury two
16 separate funds, namely the public employees' retirement system plan 1
17 fund and the public employees' retirement system combined plan 2 and
18 plan 3 fund. The plan 1 fund shall consist of all moneys paid to
19 finance the benefits provided to members of the public employees'
20 retirement system plan 1, and the combined plan 2 and plan 3 fund
21 shall consist of all moneys paid to finance the benefits provided to
22 members of the public employees' retirement system plans 2 and 3.

23 (4) There is hereby established in the state treasury the school
24 employees' retirement system combined plan 2 and 3 fund. The combined
25 plan 2 and 3 fund shall consist of all moneys paid to finance the
26 benefits provided to members of the school employees' retirement
27 system plan 2 and plan 3.

28 (5) There is hereby established in the state treasury the public
29 safety employees' retirement system plan 2 fund. The plan 2 fund
30 shall consist of all moneys paid to finance the benefits provided to
31 members of the public safety employees' retirement system plan 2.

32 (6) There is hereby established in the state treasury the higher
33 education retirement plan supplemental benefit fund. The higher
34 education retirement plan supplemental benefit fund shall consist of
35 all moneys paid to finance the benefits provided to members of the
36 higher education retirement plan.

37 NEW SECTION. Sec. 6. A new section is added to chapter 41.50
38 RCW to read as follows:

1 (1) On the July 1st of the fiscal year following a determination
2 by the pension funding council that a higher education institution
3 has sufficiently funded the liabilities of that institution through
4 contributions to the higher education retirement plan supplemental
5 benefit fund, the department shall assume responsibility for making
6 benefit payments to higher education retirement plan supplemental
7 beneficiaries for that institution from the portion of the higher
8 education retirement plan supplemental benefit fund attributed to the
9 individual institution.

10 (2) Immediately following the determination by the pension
11 funding council under RCW 41.45.060(9) that an institution
12 participating in the higher education retirement plan supplemental
13 benefits has sufficiently funded the benefits of the plan that higher
14 education institution:

15 (a) Must provide any data and assistance requested by the
16 department to facilitate the transition of responsibility for making
17 benefit payments to higher education retirement plan members eligible
18 for supplemental benefit payments; and

19 (b) Is governed by the provisions of RCW 41.50.110.

20 (3) No later than upon the department's assumption of
21 responsibility for benefit payments under subsection (1) of this
22 section, the department shall assess contributions to the department
23 of retirement systems' expense fund under RCW 41.50.110(3) for active
24 participants in the higher education retirement plan. Contributions
25 to the expense fund for higher education retirement plan members must
26 end when there are no longer retirees or beneficiaries from an
27 institution receiving payments administered by the department.

28 (4)(a) Each month following the department's assumption of
29 responsibility for making benefit payments to an institution's higher
30 education retirement plan supplemental beneficiaries, the institution
31 shall submit to the department information on any new retirees
32 covered by the higher education retirement plan supplemental benefit.
33 The submission shall include all data relevant to the calculation of
34 a supplemental benefit for each retiree, and the benefit that the
35 institution determines the individual qualifies to receive. No later
36 than January 1st, following the funding determination in RCW
37 41.45.060(9) that begins the transition of responsibility for benefit
38 payments to the department, the department shall provide the
39 institution with a notice of what data will be required to determine

1 higher education retirement plan supplemental benefit determinations
2 for future retirees.

3 (b) The department shall review the information provided by the
4 institution for each retiring higher education retirement plan member
5 eligible for the supplemental benefit and determine the supplemental
6 benefit amount the member is eligible to receive, if any.

7 (c) In the event that the department is not provided with all
8 data required by the notice in (a) of this subsection, the
9 institution of higher education will remain responsible for payment
10 of higher education retirement plan supplemental benefits to that
11 member. In addition, the collection of overpayments and error
12 correction provisions of this chapter apply in the event that the
13 department makes supplemental benefit payments based on incomplete or
14 inaccurate data provided by an institution.

15 NEW SECTION. **Sec. 7.** This act is necessary for the immediate
16 preservation of the public peace, health, or safety, or support of
17 the state government and its existing public institutions, and takes
18 effect July 1, 2019.

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