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**ENGROSSED SUBSTITUTE HOUSE BILL 1057**

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**State of Washington 68th Legislature 2023 Regular Session**

**By** House Appropriations (originally sponsored by Representatives Stokesbary, Fitzgibbon, Leavitt, Simmons, Rude, Bateman, Pollet, Street, Goodman, Robertson, Macri, Donaghy, Bronoske, Paul, Bergquist, Wylie, Kloba, and Ormsby; by request of Select Committee on Pension Policy)

AN ACT Relating to providing a benefit increase to certain retirees of the public employees' retirement system plan 1 and the teachers' retirement system plan 1; amending RCW 41.32.4992, 41.40.1987, 41.45.060, and 41.45.070; creating new sections; providing an effective date; and declaring an emergency.

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

NEW SECTION. **Sec.**  The legislature finds that beneficiaries receiving a monthly benefit from the public employees' retirement system plan 1 and the teachers' retirement system plan 1 have experienced a loss of purchasing power due to rising inflation. Certain beneficiaries do not receive annual increases; providing a one-time cost-of-living adjustment helps address beneficiaries' loss of purchasing power. An ongoing cost-of-living adjustment would provide additional protection against further loss of purchasing power, however this policy may not be affordable until required employer contribution rates towards the unfunded accrued actuarial liability are reduced or no longer required.

NEW SECTION. **Sec.**  During the 2023-2025 fiscal biennium, the select committee on pension policy will study and recommend an ongoing cost-of-living adjustment for beneficiaries of the public employees' retirement system plan 1 and the teachers' retirement system plan 1. Any recommendation must consider employer contribution rate stability and coordinate the effective date of an ongoing cost-of-living adjustment with the reduction or elimination of the unfunded accrued actuarial liability.

**Sec.**  RCW 41.32.4992 and 2022 c 52 s 1 are each amended to read as follows:

(1) Beneficiaries who are receiving a monthly benefit from the teachers' retirement system plan 1 on July 1, 2017, shall receive, effective July 1, 2018, an increase to their monthly benefit of one and one-half percent multiplied by the beneficiaries' monthly benefit, not to exceed ((~~sixty-two dollars and fifty cents~~)) $62.50.

(2) Beneficiaries who are receiving a monthly benefit from the teachers' retirement system plan 1 on July 1, 2019, shall receive, effective July 1, 2020, an increase to their monthly benefit of three percent multiplied by the beneficiaries' monthly benefit, not to exceed ((~~sixty-two dollars and fifty cents~~)) $62.50.

(3) Beneficiaries who are receiving a monthly benefit from the teachers' retirement system plan 1 on July 1, 2021, shall receive, effective July 1, 2022, an increase to their monthly benefit of three percent multiplied by the beneficiaries' monthly benefit, not to exceed ((~~one hundred ten dollars and zero cents~~)) $110.00.

(4) Beneficiaries who are receiving a monthly benefit from the teachers' retirement system plan 1 on July 1, 2022, shall receive, effective July 1, 2023, an increase to their monthly benefit of three percent multiplied by the beneficiaries' monthly benefit, not to exceed $110.00.

(5) This section does not apply to those receiving benefits pursuant to RCW 41.32.489 or 41.32.540.

**Sec.**  RCW 41.40.1987 and 2022 c 52 s 2 are each amended to read as follows:

(1) Beneficiaries who are receiving a monthly benefit from the public employees' retirement system plan 1 on July 1, 2017, shall receive, effective July 1, 2018, an increase to their monthly benefit of one and one-half percent multiplied by the beneficiaries' monthly benefit, not to exceed ((~~sixty-two dollars and fifty cents~~)) $62.50.

(2) Beneficiaries who are receiving a monthly benefit from the public employees' retirement system plan 1 on July 1, 2019, shall receive, effective July 1, 2020, an increase to their monthly benefit of three percent multiplied by the beneficiaries' monthly benefit, not to exceed ((~~sixty-two dollars and fifty cents~~)) $62.50.

(3) Beneficiaries who are receiving a monthly benefit from the public employees' retirement system plan 1 on July 1, 2021, shall receive, effective July 1, 2022, an increase to their monthly benefit of three percent multiplied by the beneficiaries' monthly benefit, not to exceed ((~~one hundred ten dollars and zero cents~~)) $110.00.

(4) Beneficiaries who are receiving a monthly benefit from the public employees' retirement system plan 1 on July 1, 2022, shall receive, effective July 1, 2023, an increase to their monthly benefit of three percent multiplied by the beneficiaries' monthly benefit, not to exceed $110.00.

(5) This section does not apply to those receiving benefits pursuant to RCW 41.40.1984.

**Sec.**  RCW 41.45.060 and 2020 c 103 s 4 are each amended to read as follows:

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

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

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

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

(c) Basic employer contribution rates for the school employees' retirement system and the public safety employees' retirement system for funding both those systems and the public employees' retirement system plan 1.

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

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

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

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

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

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

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

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

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

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

(c) The amounts required to amortize the costs of any benefit improvements in plan 1 of the public employees' retirement system that become effective after June 30, 2009. The cost of each benefit improvement shall be amortized over a fixed ten-year period using projected future salary growth and growth in system membership. The amounts required under this subsection are not subject to, and are collected in addition to, any minimum or maximum rates applied pursuant to RCW 41.45.150. The rate for benefit improvements that became effective after June 30, 2009, shall not include a rate for the improvements in this act until July 1, 2027.

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

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

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

(c) The amounts required to amortize the costs of any benefit improvements in plan 1 of the public employees' retirement system that become effective after June 30, 2009. The cost of each benefit improvement shall be amortized over a fixed ten-year period using projected future salary growth and growth in system membership. The amounts required under this subsection are not subject to, and are collected in addition to, any minimum or maximum rates applied pursuant to RCW 41.45.150. The rate for benefit improvements that became effective after June 30, 2009, shall not include a rate for the improvements in this act until July 1, 2027.

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

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

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

(c) The amounts required to amortize the costs of any benefit improvements in plan 1 of the teachers' retirement system that become effective after June 30, 2009. The cost of each benefit improvement shall be amortized over a fixed ten-year period using projected future salary growth and growth in system membership. The amounts required under this subsection are not subject to, and are collected in addition to, any minimum or maximum rates applied pursuant to RCW 41.45.150. The rate for benefit improvements that became effective after June 30, 2009, shall not include a rate for the improvements in this act until July 1, 2027.

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

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

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

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

**Sec.**  RCW 41.45.070 and 2009 c 561 s 4 are each amended to read as follows:

(1) In addition to the basic employer contribution rate established in RCW 41.45.060 or 41.45.054, the department shall also charge employers of public employees' retirement system, teachers' retirement system, school employees' retirement system, public safety employees' retirement system, or Washington state patrol retirement system members an additional supplemental rate to pay for the cost of additional benefits, if any, granted to members of those systems. Except as provided in subsections (6), (7), and (9) of this section, the supplemental contribution rates required by this section shall be calculated by the state actuary and shall be charged regardless of language to the contrary contained in the statute which authorizes additional benefits.

(2) In addition to the basic member, employer, and state contribution rate established in RCW 41.45.0604 for the law enforcement officers' and firefighters' retirement system plan 2, the department shall also establish supplemental rates to pay for the cost of additional benefits, if any, granted to members of the law enforcement officers' and firefighters' retirement system plan 2. Except as provided in subsection (6) of this section, these supplemental rates shall be calculated by the actuary retained by the law enforcement officers' and firefighters' board and the state actuary through the process provided in RCW 41.26.720(1)(a) and the state treasurer shall transfer the additional required contributions regardless of language to the contrary contained in the statute which authorizes the additional benefits.

(3) Beginning July 1, 2009, the supplemental rate charged under this section to fund benefit increases provided to active members of the public employees' retirement system plan 1 and the teachers' retirement system plan 1 shall be calculated as the level percentage of all system pay needed to fund the cost of the benefit over a fixed ten-year period, using projected future salary growth and growth in system membership. The supplemental rate to fund benefit increases provided to active members of the public employees' retirement system plan 1 shall be charged to all system employers in the public employees' retirement system, the school employees' retirement system, and the public safety employees' retirement system. The supplemental rate to fund benefit increases provided to active members of the teachers' retirement system plan 1 shall be charged to all system employers in the teachers' retirement system.

(4) The supplemental rate charged under this section to fund benefit increases provided to active and retired members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, the public safety employees' retirement system plan 2, the school employees' retirement system plan 2 and plan 3, or the Washington state patrol retirement system shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit, as calculated under RCW 41.45.060, 41.45.061, 41.45.0631, or 41.45.067.

(5) The supplemental rate charged under this section to fund postretirement adjustments which are provided on a nonautomatic basis to current retirees shall be calculated as the percentage of pay needed to fund the adjustments as they are paid to the retirees. Beginning July 1, 2009, the supplemental rate charged under this section to fund increases in the automatic postretirement adjustments for active or retired members of the public employees' retirement system plan 1 and the teachers' retirement system plan 1 shall be calculated as the level percentage of pay needed to fund the cost of the automatic adjustments over a fixed ten-year period, using projected future salary growth and growth in system membership. The supplemental rate to fund increases in the automatic postretirement adjustments for active members or retired members of the public employees' retirement system plan 1 shall be charged to all system employers in the public employees' retirement system, the school employees' retirement system, and the public safety employees' retirement system. The supplemental rate to fund increases in automatic postretirement adjustments for active members or retired members of the teachers' retirement system plan 1 shall be charged to all system employers in the teachers' retirement system.

(6) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to chapter 340, Laws of 1998.

(7) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to chapter 41.31A RCW; section 309, chapter 341, Laws of 1998; or section 701, chapter 341, Laws of 1998.

(8) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members and survivors pursuant to chapter 94, Laws of 2006.

(9) A supplemental rate shall not be charged to pay for the cost of the additional benefits granted to members of the teachers' retirement system and the school employees' retirement system plans 2 and 3 in sections 2, 4, 6, and 8, chapter 491, Laws of 2007 until September 1, 2008. A supplemental rate shall not be charged to pay for the cost of the additional benefits granted to members of the public employees' retirement system plans 2 and 3 under sections 9 and 10, chapter 491, Laws of 2007 until July 1, 2008.

(10) A supplemental rate shall not be charged to pay for the cost of the additional benefits granted to members of the teachers' retirement system and the public employees' retirement system plans 1 in this act.

NEW SECTION. **Sec.**  This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2023.

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