
Appropriations Committee

HB 1201

Brief Description: Concerning actuarial funding of state retirement systems.

Sponsors: Representatives Ormsby, Macri and Morgan; by request of Office of Financial Management.

Brief Summary of Bill

- Eliminates the minimum contribution rates for amortizing the unfunded liabilities in the Teachers' Retirement System Plan 1 (TRS 1), beginning August 31, 2024, and for the Public Employees' Retirement System Plan 1 (PERS 1), beginning June 30, 2025.
- Fixes the employer contribution rate for the unfunded liabilities in PERS 1 and TRS 1 at zero until 2029, excluding amounts to amortize benefit improvements made after June 30, 2009.
- Repeals the scheduled payment of \$800 million into the TRS 1 fund scheduled for June 30, 2023.

Hearing Date: 1/18/23

Staff: David Pringle (786-7310).

Background:

The Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) closed to new members in 1997. After those plans closed, a system to fund the unfunded portion of the liabilities associated with PERS 1 and TRS 1 was developed and refined.

Currently, the PERS 1 and TRS 1 plans have two components: the unfunded accrued actuarial

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liability (UAAL) of each plan is amortized over a rolling 10-year period, which every two years is used to set contribution rates for the subsequent fiscal biennium. This contribution rate is paid only by employers on all employees in TRS for TRS 1, and by employers on all employees in PERS, the School Employees' Retirement System, and the Public Safety Employees' Retirement System for PERS 1. If a UAAL remains in PERS 1 or TRS 1, a minimum UAAL contribution rate also applies: 3.50 percent for PERS 1 and 5.75 percent for TRS 1. If the plans reach a fully funded status, the minimum rates do not apply. If a UAAL reemerges, the minimum rates would resume at the 3.50 percent and 5.75 percent levels.

In the 2021-23 Biennial Operating Budget, \$800 million was appropriated for deposit into the TRS 1 fund. The effect of the deposit will be to increase the funded status of the plan.

A contribution rate for the expected cost of benefit improvements to PERS 1 or TRS 1 enacted after June 30, 2009 is calculated separately and amortized over a fixed 10-year period. These benefit improvement rates are collected in addition to the base UAAL rates.

The strong investment returns in Fiscal Year 2021 improved the funding position of PERS 1 and TRS 1. Because of the lag in contribution rate setting through the Pension Funding Council process, the minimum UAAL rates are expected to continue to be paid until Fiscal Year 2025 for TRS 1 and Fiscal Year 2029 for PERS 1, despite the plans now being expected to have fully amortized their unfunded liabilities by Fiscal Year 2023 and 2026, respectively. As a result, the State Actuary expects that PERS 1 and TRS 1 will be significantly overfunded in 2027 and beyond if economic assumptions about the coming years are realized.

Summary of Bill:

The minimum contribution rates for amortizing the unfunded liabilities are eliminated in the Teachers' Retirement System Plan 1 (TRS 1), beginning August 31, 2024, and for the Public Employees' Retirement System Plan 1 (PERS 1), beginning June 30, 2025.

The employer contribution rates for the unfunded liabilities in PERS 1 and TRS 1 are fixed at zero until 2029, excluding amounts to amortize benefit improvements made after June 30, 2009.

The scheduled payment of \$800 million into the TRS 1 fund scheduled for June 30, 2023 is repealed.

Appropriation: None.

Fiscal Note: Requested on January 12, 2023.

Effective Date: The bill contains an emergency clause and takes effect on June 30, 2023.