

HOUSE BILL REPORT

ESSB 5294

As Reported by House Committee On:
Appropriations

Title: An act relating to actuarial funding of state retirement systems.

Brief Description: Concerning actuarial funding of state retirement systems.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Rolfes and Van De Wege; by request of Office of Financial Management).

Brief History:

Committee Activity:

Appropriations: 3/9/23, 3/23/23 [DPA].

Brief Summary of Engrossed Substitute Bill
(As Amended By Committee)

- Reduces the minimum contribution rates for the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in the Public Employees' and Teachers' Retirement System Plans 1 (PERS 1 and TRS 1) to 0.25 percent.
- Sets UAAL rates for PERS 1 and TRS 1 for fiscal years 2024 through 2027.
- Reduces the scheduled payment of \$800 million into the TRS 1 fund to \$250 million.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. Signed by 31 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; Berg, Chandler, Chopp, Connors, Couture, Davis,

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.

Dye, Fitzgibbon, Hansen, Harris, Lekanoff, Pollet, Riccelli, Rude, Ryu, Sandlin, Schmick, Senn, Simmons, Slatter, Springer, Steele, Stonier and Tharinger.

Staff: David Pringle (786-7310).

Background:

The Public Employees' Retirement System (PERS) Plan 1 (PERS 1) and the Teachers' Retirement System (TRS) 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 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 on June 30, 2023. The effect of the deposit will 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 years 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 Amended Bill:

The minimum contribution rates for the UAAL in PERS 1 and TRS 1 are replaced with a

minimum rate of 0.25 percent, and UAAL rates are established for each plan for fiscal years 2024 through 2027 at the following amounts:

	PERS 1 UAAL Rate	TRS 1 UAAL Rate
FY 2024	2.50	1.00
FY 2025	2.00	0.50
FY 2026	1.50	0.00
FY 2027	1.00	0.00
FY 2028	0.50	0.00

The payment of \$800 million scheduled to be made on June 30, 2023, into the TRS 1 fund is reduced to \$250 million.

Amended Bill Compared to Engrossed Substitute Bill:

The amended bill reduces the long-term minimum contribution rates for PERS 1 and TRS 1 if unfunded liabilities reemerge in the future from 0.50 percent to 0.25 percent. The amended bill also makes the following changes in the PERS 1 and TRS 1 UAAL rates as follows:

	PERS 1 UAAL Rate		TRS 1 UAAL Rate	
	ESSB 5294	Amendment	ESSB 5294	Amendment
FY 2024	2.50	2.50	0.50	1.00
FY 2025	2.00	2.00	0.50	0.50
FY 2026	1.50	1.50	0.00	0.00
FY 2027	0.50	1.00	0.00	0.00
FY 2028	0.00	0.50	0.00	0.00

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Washington's pension systems are a source of pride because they are well-funded due to many years of sound decision-making. But it remains important that they are not overfunded. This bill strikes a good balance between funding the plans and not overfunding them. The repurposing of the \$800 million that was appropriated for TRS 1 during the current biennium was not as good as this plan. Eliminating the contribution rate more slowly seems prudent, and retaining the \$250 million direct payment towards the TRS 1 UAAL is a good idea. As the UAAL is nearly eliminated, it is good to finish the job in this more prudent manner.

(Opposed) This bill eliminates the current minimum contribution rates. The PERS 1 was only 71 percent funded a few years ago. In 2009 there were 8,000 working Plan 1 members, and now there are only a few hundred, so these minimum rates are the only source of funding entering the pension plan.

(Other) The retirees support a more gradual reduction of rates. This approach allows a balance of cost-of-living increases and reduced employer contribution rates to be considered together over time.

Persons Testifying: (In support) Mary Lindsey, Washington Education Association-Retired; Candice Bock, Association of Washington Cities; and Alan Burke, Washington State School Retirees Association.

(Opposed) Michael McKinley.

(Other) Emmett Mills, Retired Public Employees Council of Washington; and Lisa Won, Office of the State Actuary.

Persons Signed In To Testify But Not Testifying: None.