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HOUSE BILL 2018

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State of Washington

63rd Legislature

2013 Regular Session

By Representative Hunter

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1 AN ACT Relating to additional contribution rates for contributions  
2 made after the date the service is rendered for individual employers of  
3 the Washington state retirement systems; amending RCW 41.45.010,  
4 41.45.050, and 41.45.060; creating a new section; and declaring an  
5 emergency.

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

7 NEW SECTION. **Sec. 1.** (1) The legislature affirms the findings of  
8 chapter 177, Laws of 1994, that whenever employer or member  
9 contributions are not made at the time service is rendered, the state  
10 retirement system trust funds lose investment income which is a major  
11 source of pension funding. In that act, the legislature granted broad  
12 authority to the department of retirement systems to charge employers  
13 interest to compensate for the losses such events cause to the trust  
14 funds.

15 (2) The legislature intends the grant of authority under RCW  
16 41.45.060(1)(d) as an additional means to ensure that the contributions  
17 collected from employers are sufficient to support the benefits  
18 credited to their employees, and not as a substitute for the existing

1 authority of the director to collect contributions due from employers,  
2 such as that provided in RCW 41.50.120.

3 **Sec. 2.** RCW 41.45.010 and 2009 c 561 s 1 are each amended to read  
4 as follows:

5 It is the intent of the legislature to provide a dependable and  
6 systematic process for funding the benefits provided to members and  
7 retirees of the public employees' retirement system, chapter 41.40 RCW;  
8 the teachers' retirement system, chapter 41.32 RCW; the law enforcement  
9 officers' and firefighters' retirement systems, chapter 41.26 RCW; the  
10 school employees' retirement system, chapter 41.35 RCW; the public  
11 safety employees' retirement system, chapter 41.37 RCW; and the  
12 Washington state patrol retirement system, chapter 43.43 RCW.

13 The funding process established by this chapter is intended to  
14 achieve the following goals:

15 (1) To fully fund the public employees' retirement system plans 2  
16 and 3, the teachers' retirement system plans 2 and 3, the school  
17 employees' retirement system plans 2 and 3, the public safety  
18 employees' retirement system plan 2, and the law enforcement officers'  
19 and firefighters' retirement system plan 2 as provided by law;

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

23 (3) To fully amortize the unfunded actuarial accrued liability in  
24 the public employees' retirement system plan 1 and the teachers'  
25 retirement system plan 1 within a rolling ten-year period, using  
26 methods and assumptions that balance needs for increased benefit  
27 security, decreased contribution rate volatility, and affordability of  
28 pension contribution rates;

29 (4) To establish long-term employer contribution rates which will  
30 remain a relatively predictable proportion of the future state budgets;  
31 ((and))

32 (5) To fund, to the extent feasible, all benefits for plan 2 and 3  
33 members over the working lives of those members so that the cost of  
34 those benefits are paid by the taxpayers who receive the benefit of  
35 those members' service; and

36 (6) To require, consistent with section 1, chapter 177, Laws of  
37 1994, individual employers to pay contributions that reflect the cost

1 of lost investment returns and interest when contributions are made  
2 after the date for which service is credited, rather than allowing the  
3 cost of lost investment returns to be passed on to other retirement  
4 system employers and employees.

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

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

35 (5) The contributions received for the teachers' retirement system  
36 shall be allocated between the plan 1 fund and the combined plan 2 and  
37 plan 3 fund as follows: The contributions necessary to fully fund the

1 combined plan 2 and plan 3 employer contribution shall first be  
2 deposited in the combined plan 2 and plan 3 fund. All remaining  
3 teachers' retirement system employer contributions shall be deposited  
4 in the plan 1 fund.

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

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

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

26 (9) The contributions received from an individual employer for a  
27 contribution rate adopted under RCW 41.45.060(2)(d) shall be deposited  
28 in the retirement system plan fund for which the rate was adopted, and  
29 shall be credited towards the employer in that retirement system or  
30 plan for contributions, interest, and lost investment returns.

31 **Sec. 4.** RCW 41.45.060 and 2009 c 561 s 3 are each amended to read  
32 as follows:

33 (1) The state actuary shall provide preliminary actuarial valuation  
34 results based on the economic assumptions and asset value smoothing  
35 technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or  
36 41.45.035.

1 (2) Not later than July 31, 2008, and every two years thereafter,  
2 consistent with the economic assumptions and asset value smoothing  
3 technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or  
4 41.45.035, the council shall adopt and may make changes to:

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

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

10 (c) Basic employer contribution rates for the school employees'  
11 retirement system and the public safety employees' retirement system  
12 for funding both those systems and the public employees' retirement  
13 system plan 1; and

14 (d) Additional individual employer contribution rates to compensate  
15 for lost investment returns and interest when member or employer  
16 contributions are paid other than immediately after service is  
17 rendered, and when the amounts contributed are so insufficient as to  
18 otherwise increase contribution rates for other employers or employees  
19 within a retirement system or plan. The additional individual employer  
20 contribution rates shall be sufficient to ensure that the cost of the  
21 lost investment returns or interest are not borne by other employers or  
22 employees through increases to the basic contribution rates adopted for  
23 each system or plan.

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

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

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

32 (b) To fully fund the public employees' retirement system plans 2  
33 and 3, the teachers' retirement system plans 2 and 3, the public safety  
34 employees' retirement system plan 2, and the school employees'  
35 retirement system plans 2 and 3 in accordance with RCW 41.45.061,  
36 41.45.067, and this section; and

37 (c) To fully fund the public employees' retirement system plan 1

1 and the teachers' retirement system plan 1 in accordance with RCW  
2 41.45.070, 41.45.150, and this section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

34 (11) The state actuary shall prepare final actuarial valuation  
35 results based on the economic assumptions, asset value smoothing  
36 technique, and contribution rates included in or adopted under RCW  
37 41.45.030, 41.45.035, and this section.

1        NEW SECTION.    **Sec. 5.**    This act is necessary for the immediate  
2    preservation of the public peace, health, or safety, or support of the  
3    state government and its existing public institutions, and takes effect  
4    immediately.

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