

HOUSE BILL REPORT

HB 2782

As Reported by House Committee On:
Appropriations

Title: An act relating to implementing the results of the 1995-2000 actuarial experience study.

Brief Description: Implementing the results of the 1995-2000 actuarial experience study.

Sponsors: Representatives Doumit and Sommers.

Brief History:

Committee Activity:

Appropriations: 2/4/02, 2/9/02 [DP].

Brief Summary of Bill

- Adopts new contribution rates for employer, state, and Plan 2 members of the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, and the Law Enforcement Officers' and Fire Fighters' Retirement System for the remainder of the 2001-2003 biennium.
- These rates are based on the 1995-2000 experience study and the 2000 actuarial valuation and take effect April 1, 2002.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 15 members: Representatives Sommers, Chair; Doumit, 1st Vice Chair; Fromhold, 2nd Vice Chair; Cody, Dunshee, Grant, Kagi, Kenney, Kessler, Linville, McIntire, Ruderman, Schual-Berke, Talcott and Tokuda.

Minority Report: Do not pass. Signed by 9 members: Representatives Sehlin, Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cox, Mastin, Pearson and Pflug.

Staff: Andrea Hardy (786-7349).

Background:

The Office of the State Actuary calculates required contribution rates for the state-run pension systems. As part of the monitoring process, the state actuary publishes an annual

actuarial valuation, producing an assessment of current assets and future liabilities of the respective retirement systems. The actuarial valuation results drive recommended changes in pension contribution rates.

The actuarial valuation is based on assumptions produced by the experience study performed by the state actuary every five years. The experience study analyzes rates of retirement, termination, and disability for retirement system members, as well as employee longevity and salary increases. Based on the findings of the experience study, the actuary may revise the assumptions used to perform the annual valuations of the pension funds.

Pension contribution rates have been revised in statute for a variety of reasons. In 1989 the Legislature established new processes to provide for the systematic funding of the various state-administered retirement plans, including Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Law Enforcement Officers' and Fire Fighters' (LEOFF), and the Washington State Patrol Retirement System (WSPRS). The 1989 pension funding bill established new employer contribution rates in statute, required the Economic and Revenue Forecast Council (ERFC) to adopt the economic assumptions to be used by the state actuary in conducting valuation studies of the state retirement systems, and required the ERFC to recommend changes in employer contribution rates every six years.

In 1992 the Legislature amended the funding statutes to lower the employer contribution rates, based on the most recent actuarial studies. In 1993 the Legislature amended the funding statutes to lower the employer contribution rates in light of updated actuarial valuation studies.

The Legislature amended the pension funding statutes in the 2000 supplemental budget to provide that the rates set by the Pension Funding Council (PFC), the authority responsible for adopting contribution rates and economic assumptions for the valuation process, would be used through April 2000, and new rates reflecting the most recent actuarial valuation studies would be implemented on May 1, 2000. In 2001 the Legislature passed legislation allowing the Legislature to revise contribution rates.

The most recent actuarial experience study, covering the period from 1995 to 2000, showed changes in rates of retirement, termination, and disability for retirement system members, as well as employee longevity and salary increases. The valuation published in 2001, which was based on 2000 pension fund data, in conjunction with the application of assumptions produced by the 1995-2000 experience study, show that the contribution rates set in statute in 2001 for PERS, SERS, TRS and LEOFF were higher than necessary to fully fund the systems, given current benefits and funding requirements.

Summary of Bill:

Beginning April 1, 2002, the basic state contribution rate for LEOFF and the basic employer contribution rate for PERS, TRS, and WSPRS are established by law based on the results of the most recent valuation using assumptions prescribed by the 1995-2000 experience study, and the new rates must be utilized in the 2002 Supplemental Operating Budget. New state contribution rates (expressed as a percentage of the total salary of the system's membership) will be 1.75 percent for LEOFF 2, 1.10 percent for PERS, 1.05 percent for TRS, and 0.96 percent for SERS.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on April 1, 2002.

Testimony For: None.

Testimony Against: Contribution rates have been adjusted down several times in the recent past. The contributions that employees have made to the retirement systems and interest earned on those contributions should be used for gain sharing and other benefit enhancement. They should not be used to reduce the cost of the retirement systems to the state.

Testified: (Opposed) Leslie Main and Pat Hogan, Washington State School Retirees Association.