
Appropriations Committee

HB 2503

Brief Description: Creating the pension funding stabilization account.

Sponsors: Representatives Sommers, Upthegrove, Ericks, Linville, Simpson, Green, McIntire, Hudgins and Kagi; by request of Office of Financial Management.

Brief Summary of Bill

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| <ul style="list-style-type: none">• Creates the Pension Funding Stabilization Account in the state treasury.• Expenditures from the Pension Funding Stabilization Account may be used only as employer contributions towards payment of unfunded liabilities in the Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1 in existence on July 1, 2005. |
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Hearing Date: 1/18/06

Staff: David Pringle (786-7310).

Background:

The Office of the State Actuary is responsible for recommending appropriate member and employer contribution rates for the Public Employees', Teachers', School Employees', and Washington State Patrol Retirement Systems (PERS, TRS, SERS, and the WSPRS) to the Pension Funding Council (PFC), which adopts the rates for each fiscal biennium. Included as part of the rates recommended by the State Actuary to the PFC for the 2005-07 biennium were pre-funding for the gain-sharing benefit in the Plans 1 and 3 and contributions towards paying off the unfunded liabilities in the Plans 1. Contributions are made by participating employees and by state government, local government, and school district employers and placed in the retirement fund for the systems and funded by those contributions.

While the state retirement plans currently open to new members (the Plans 2 and 3) are currently fully funded, unfunded accrued actuarial liabilities (UAALs) exist in both PERS 1 and TRS 1. This means that the value of the plan liabilities, in the form of members' earned benefits to date, exceed the value of the plan assets. As of the most recent actuarial valuation, the UAAL for PERS 1 is \$2.6 billion and the UAAL for TRS 1 is \$1.4 billion. The statutory funding policy for paying off the UAAL in the Plans 1 is codified as a goal within the actuarial funding chapter. Per statute, the funding process for the state retirement systems is intended to fully amortize the total Plan 1 costs by not later than June 30, 2024. The payments towards the UAAL are included in employer

rates and are not shared by members. Under Chapter 11 of the Laws of 2003 (EHB 2254), the Legislature suspended the employer contributions towards the PERS 1 and TRS 1 unfunded liabilities for the duration of the 2003-05 biennium.

Substitute House Bill 1044, enacted by the 2005 Legislature, continued the suspension of the requirement to make contributions to amortize the PERS 1 and TRS 1 unfunded liabilities, as well as the commencement of collection of contribution rates towards the future cost of gain-sharing distributions in the PERS, TRS and SERS Plans 1 and 3. The suspension of the UAAL and gain-sharing contribution rates resulted in savings to the State General Fund of about \$337 million for the 2005-07 biennium.

Summary of Bill:

The Pension Funding Stabilization Account is created in the state treasury. Money placed in the account may be spent only after appropriation towards the cost of employer contributions in payment of unfunded liabilities in PERS 1 and TRS 1 in existence as of July 1, 2005. The Pension Funding Stabilization Account may not be used to pay for any new benefit, or any benefit increase that takes effect after July 1, 2005, except for increases incident to a formula in existence before July 1, 2005.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.