

# SENATE BILL REPORT

## SHB 2018

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As Reported by Senate Committee On:  
Ways & Means, March 3, 2014

**Title:** An act relating to additional contribution rates for contributions made after the date the service is rendered for individual employers of the Washington state retirement systems.

**Brief Description:** Regarding additional contribution rates for employers of the Washington state retirement systems.

**Sponsors:** House Committee on Appropriations (originally sponsored by Representative Hunter).

**Brief History:** Passed House: 4/16/13, 96-0; 2/12/14, 98-0.

**Committee Activity:** Ways & Means: 4/24/13, 2/27/14, 3/03/14 [DP, DNP, w/oRec].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Assistant Ranking Member on the Operating Budget; Bailey, Becker, Billig, Braun, Conway, Dammeier, Hewitt, Padden, Parlette, Rivers, Schoesler and Tom.

**Minority Report:** Do not pass.

Signed by Senator Frockt.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Hasegawa.

**Staff:** Pete Cutler (786-7474)

**Background:** The Pension Funding Council (PFC) was created by the Legislature in 1998 to adopt the long-term economic assumptions and employer contribution rates for most state retirement systems. The PFC membership consists of the chair and ranking minority members of the Senate Ways and Means Committee and the House Appropriations Committee, and the directors of the Office of Financial Management and the Department of Retirement Services (DRS).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

The Office of the State Actuary (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 as well as the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 to the PFC. The PFC must adopt the pension contribution rates for the upcoming fiscal biennium no later than July 31 of even-numbered years.

The employer contribution rates adopted by the PFC for each of the retirement systems, referred to as the basic employer contributions rates, are adopted consistent with the overall results of the actuarial valuation results provided by the State Actuary. Basic employer contribution rates are calculated by the State Actuary for each system or plan and are charged as an equal percent of member-covered salaries for all employers in the retirement plan. In addition to the basic employer contribution rates, many of the retirement systems also include employer contribution rates to amortize the unfunded accrued actuarial liability, often referred to as simply the unfunded liability, in the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1.

DRS was created in 1976 to administer the retirement systems for state and local government employees in Washington. These retirement systems include PERS; TRS; the School Employees' Retirement System; LEOFF; the Washington State Patrol Retirement System; and the Public Safety Employees' Retirement System.

DRS requires employers to determine the state retirement plan membership and employer and member contributions due for their employees. For each state retirement plan member, the employer must calculate those contribution amounts, report the amounts due to DRS, and then submit payment to DRS by the 15th of the month following the close of a reporting period. Payments received more than three business days after the 15th of the month are considered late and may be subject to interest at a rate of 1 percent per month on the outstanding balance.

In the event that member or employer contributions are made other than immediately after service is rendered, DRS may also charge interest as determined by the Director of DRS on member or employer contributions owed to the state retirement plan. This DRS authority was enacted by the Legislature in 1994 with a finding that when contributions are not made at the time service is rendered, the state retirement system trust funds lose investment income, which is a major source of pension funding.

**Summary of Bill:** The PFC must adopt employer-specific additional contribution rates in situations where contributions are made other than immediately after service is rendered, and when the amounts contributed for the periods of service are so insufficient that they cause an increase in contribution rates for other employers or employees within a retirement system. The additional individual employer contribution rates must be sufficient to ensure that the cost of lost investment returns or interest resulting from delayed employer contributions is not borne by other employers or employees.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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

**Staff Summary of Public Testimony:** PRO: This bill affirms and compliments the authority granted to DRS in 1994 to deal with these kinds of situations.

CON: This is a speculative bill, there is no hard actuarial data from the state. King County is going to pay the employer contribution share; this bill is about the interest. The bill would be a major change in pension policy that you should take very seriously. We want to move forward with the settlement of the *Dolan* case. The bill sets a dangerous precedent of converting retirement systems from general systems with pooled rates to employer-specific rates. State retirement system employers have always paid the same rates, regardless of the differences in their employment practices. Several arguments for different kinds of employer-specific rates could be made. The bill could result in higher rates for an employer whose employees received larger benefits, for whatever reason. The bill would open this can of worms. The problem the bill is intended to address is greatly exaggerated. The fiscal note is based on hypothetical analysis. The Pierce County Superior Court has determined the impact of the *Dolan* decision on the pension fund would be miniscule. The bill could only affect large employers. The bill is unnecessary, not supported by specific analysis, and sets a dangerous precedent. A \$130 million estimate was generated by plaintiffs' attorneys in the *Dolan* case to support claims for attorney fees; the calculation of that number has been rejected by two different courts. We think the number is about \$35 million. That would be a miniscule impact on the PERS fund but a big impact on King County. The bill has significant implications for many counties; large employers, such as the state, large counties, and large cities, would have an increased share of risk.

**Persons Testifying:** PRO: Dave Nelsen, DRS.

CON: Genesee Adkins, King County, Director of Government Relations; Rhonda Berry, King County Chief of Operations; Patrick Hamacher, King County Council, Lead Legislative Analyst; Brian Enslow, WA State Assn. of Counties.