SENATE BILL REPORT
SB 5900

As of March 21, 2017

Title: An act relating to making expenditures from the budget stabilization account for public employer unfunded actuarially accrued liabilities.

Brief Description: Making expenditures from the budget stabilization account for public employer unfunded actuarially accrued liabilities.

Sponsors: Senator Braun.

Brief History:
Committee Activity: Ways & Means: 3/21/17.

Brief Summary of Bill

- Appropriates $700 million from the Budget Stabilization Account to the Public Employees Retirement System Plan 1 Fund to reduce the plan's underfunded actuarially accrued liability (UAAL).
- Creates surcharge on all employers that make payments toward the plan's UAAL that is equal to the amount to which the UAAL rate will be reduced to reimburse the General Fund.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

Background: Based on current actuarial assumptions the Public Employees Retirement System (PERS) Plan 1 has actuarially accrued liabilities that are greater than the actuarially accrued assets by more than $5 billion. This is referred to as an underfunded actuarially accrued liability (UAAL).

The UAAL is funded by contribution rates that are in addition to normal pension contribution rates. UAAL rates are adjusted biennially to the level required to amortize the UAAL over a rolling ten-year period, subject to minimum contribution rate of 3.5 percent.

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.

UAAL rates for the PERS plan 1 are paid by PERS, School Employees Retirement System (SERS), and Public Safety Employee Retirement System (PSERS) employers as SERS and PSERS members used to be part of PERS. Employees do not pay UAAL contributions.

In 2007, the voters ratified a state constitutional amendment that established the Budget Stabilization Account (BSA). Each year, the State Treasurer must deposit 1 percent of general state revenues (GSR) into the BSA. The term GSR is defined in the constitution and is generally synonymous with the statutory state General Fund (GFS). In general, appropriations from the BSA require a three-fifths majority in each house of the Legislature, but in the case of a catastrophic event or low employment growth, the Legislature may appropriate monies from the BSA with a constitutional majority vote of each house.

Under legislation that was enacted in 2012 and is often referred to as the Four-Year Budget Outlook, the state operating budget must be balanced over four years. This means that the legislative budget for the current biennium must leave a positive ending fund balance in the GFS and related funds, and the projected maintenance level costs of that budget in the ensuing biennium must not exceed the estimated available fiscal resources for the ensuing biennium. However, the requirement to balance in the ensuing biennium does not apply in a fiscal biennium in which monies are appropriated from the BSA.

Summary of Bill: An appropriation of $700 million is made from the Budget Stabilization Account to the PERS Plan 1 Fund to reduce the PERS plan 1 UAAL. The Pension Funding Council is directed to adopt a supplemental UAAL rate for fiscal year 2019 that recognizes the payment. The appropriations do not suspend the requirements of the Four-Year Budget Outlook.

A surcharge is created on PERS, SERS, and PSERS employers that is set at an amount equal to the projected decreases in the UAAL based on the reduction to the UAAL. Collections from the surcharge are used to reimburse the state General Fund for savings that result from the payment. The surcharge amounts vary by biennia and are based on the expected reduction to the UAAL rates as follows:

Fiscal Year	Current Rate	Projected Rate	Difference/ Surcharge
2018	5.03%	5.03%	0.00%
2019	5.03%	4.61%	0.42%
2020	4.82%	4.19%	0.63%
2021	4.82%	4.19%	0.63%
2022	3.86%	3.50%	0.36%
2023	3.86%	3.50%	0.36%
2024	3.50%	3.50%	0.00%
2025	3.50%	3.50%	0.00%
2026	3.50%	3.50%	0.00%
2027	3.50%	3.50%	0.00%
2028	3.50%	3.00%	0.50%
2029	3.50%	0.00%	3.50%
2030	1.48%	0.00%	1.48%

Appropriation: $700,000,000 from the Budget Stabilization Account to the Public Employees Retirement System Plan 1 Fund.

Fiscal Note: Requested on March 21, 2017.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: OTHER: Paying off the unfunded pension liability is a good thing. Cities and counties need a little time to understand how this impacts them and would like to see the early payoff also benefit them locally.

Persons Testifying: OTHER: Josh Weiss, Washington State Association of Counties; Candice Bock, Association of Washington Cities; Brad Hendrickson, State Treasurer's Office.

Persons Signed In To Testify But Not Testifying: No one.