

FINAL BILL REPORT

2SHB 1661

C 103 L 20
Synopsis as Enacted

Brief Description: Concerning the higher education retirement plans.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Chandler and Ormsby).

House Committee on Appropriations
Senate Committee on Ways & Means

Background:

Generally, state employees, including those employed by a higher education institution, are covered by one of the state retirement systems, such as the Public Employees Retirement System (PERS). State higher education institutions, however, may offer a Higher Education Retirement Plan (HERP) to faculty and other employees exempt from civil service in lieu of membership in PERS. Higher Education Retirement Plans provide defined contributions, typically 5 percent of pay from each of the employer and employee until age 35, 7.5 percent until age 50, and the employer matching up to 10 percent of pay from age 50 until retirement. Higher Education Retirement Plans are administered by each institution, unlike the other state retirement systems that are administered by the Department of Retirement Systems (DRS).

For members that joined before July 1, 2011, HERPs also include a guaranteed defined benefit component, called the HERP Supplemental Benefit (HERPSB), which guarantees a monthly supplemental allowance to ensure that the HERP member receives a total benefit worth about 50 percent of the average of the member's highest two consecutive years of salary. The value of the member's defined contributions, calculated as if they had been invested in a model portfolio, are subtracted from any HERPSB obligation. Higher Education Retirement Plan Supplemental Benefit costs are paid out of institution operating budgets and are largely not pre-funded.

In 2011 the Legislature enacted changes to HERPs, including closing the HERPSB to new members, bringing the plans under the review of the Select Committee on Pension Policy, and instituting regular analysis of the funding status of the supplemental benefits by the Pension Funding Council (PFC). Additionally, beginning in 2013, higher education

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institutions have been required to contribute 0.5 percent of pay as an employer contribution into a HERPSB fund.

The PFC is authorized to make changes to the 0.5 percent contribution rate and to recommend legislation that, upon accumulation of sufficient funding in the HERPSB fund, would transfer responsibility for benefit payments from the higher education institutions to the HERPSB fund. In 2016 the Office of the State Actuary completed the first actuarial valuation of the HERPSB, and the PFC passed a resolution to develop options for funding methods that finance HERP benefits on a more level percentage-of-pay basis, with contribution rates and pay-as-you go benefit payments combined. A partial draft plan was reviewed by the PFC in 2018.

Summary:

Beginning July 1, 2020, the 0.5 percent HERPSB contribution rate is replaced with institution-specific contribution rates as follows:

- University of Washington – 0.38 percent;
- Washington State University – 0.30 percent;
- Western Washington University – 0.21 percent;
- Eastern Washington University – 0.28 percent;
- Central Washington University – 0.28 percent;
- The Evergreen State College – 0.23 percent; and
- State Board for Community and Technical Colleges – 0.13 percent

The Office of Financial Management is directed to create institution specific accounts in the HERPSB fund. Money in the fund must be accounted for separately and attributed to the paying institution and may only be used to make benefit payments to the beneficiaries of that institution's plan.

Beginning July 31, 2020, the PFC may review and revise the institution-specific contribution rates. Rates must be designed to keep the total cost at a more level percentage than a pay-as-you-go method. Funds will accumulate in each account and allow a portion of the cost of the institutions supplemental benefits to be paid from those funds beginning in approximately 2035.

When the HERPSB fund has collected sufficient assets to begin making supplemental benefit payments, administration of the HERPSB will transfer from the institution to the DRS.

Votes on Final Passage:

House	98	0	
House	97	0	
Senate	48	0	(Senate amended)
House			(House refused to concur)
Senate	48	0	(Senate receded/amended)
House	97	0	(House concurred)

Effective: July 1, 2020