

SENATE BILL REPORT

2SHB 1661

As of February 28, 2020

Title: An act relating to the higher education retirement plans.

Brief Description: Concerning the higher education retirement plans.

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

Brief History: Passed House: 2/13/20, 97-0.

Committee Activity: Ways & Means: 2/26/20.

Brief Summary of Bill

- Establishes institution-specific contribution rates for the Higher Education Retirement Plan Supplemental Benefits (HERPSB).
- Establishes a timeframe for when HERPSB will be paid from the newly created HERPSB Fund.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

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. HERPs 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. HERPs 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

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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. HERPSB 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 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.

For members that joined before July 1, 2011, the HERPs also have a guaranteed defined benefit, called the HERP Supplemental Benefit (HERPSB), which pays 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. The HERPSB costs are paid out of institution operating budgets and are largely not pre-funded.

Summary of Bill: 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

A dedicated HERPSB fund, with institution specific accounts, is established. The fund is administered by DRS and invested by the State Investment Board.

Beginning July 1, 2021, the PFC may review and revise the institution-specific contribution rates. Rates must be sufficient to fund a portion of the projected cost of the supplemental retirement benefits for the institution beginning in 2035.

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

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2020.

Staff Summary of Public Testimony: PRO: This creates a framework and timeline to allow these funds to be invested and used for paying benefits. Central Washington University plan was closed in 1997 and they would like to see their rate amended to reflect the actuarial study, like it was by this committee last year.

Persons Testifying: PRO: John Boesesberg, State Board for Community and Technical Colleges; Steve DuPont, Central Washington University.

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