HOUSE BILL REPORT
HB 1201

As Reported by House Committee On:
Appropriations

Title: An act relating to actuarial funding of state retirement systems.

Brief Description: Concerning actuarial funding of state retirement systems.

Sponsors: Representatives Ormsby, Macri and Morgan; by request of Office of Financial Management.

Brief History:
Committee Activity:
Appropriations: 1/18/23, 2/23/23 [DP].

Brief Summary of Bill

- Eliminates the minimum contribution rates for amortizing the unfunded liabilities in the Teachers' Retirement System Plan 1 (TRS 1), beginning August 31, 2024, and for the Public Employees' Retirement System Plan 1 (PERS 1), beginning June 30, 2025.
- Fixes the employer contribution rate for the unfunded liabilities in PERS 1 and TRS 1 at zero until 2029, excluding amounts to amortize benefit improvements made after June 30, 2009.
- Repeals the scheduled payment of $800 million into the TRS 1 fund scheduled for June 30, 2023.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 22 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Berg, Chopp, Couture, Davis, Fitzgibbon, Hansen, Lekanoff, Pollet, Riccelli, Ryu, Schmick, Senn, Simmons, Slatter, Springer, Stonier and Tharinger.

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

Minority Report: Do not pass. Signed by 1 member: Representative Rude.

Minority Report: Without recommendation. Signed by 8 members: Representatives Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; Chandler, Connors, Dye, Harris, Sandlin and Steele.

Staff: David Pringle (786-7310).

Background:

The Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) closed to new members in 1997. After those plans closed, a system to fund the unfunded portion of the liabilities associated with PERS 1 and TRS 1 was developed and refined.

Currently, the PERS 1 and TRS 1 plans have two components: the unfunded accrued actuarial liability (UAAL) of each plan is amortized over a rolling 10-year period, which every two years is used to set contribution rates for the subsequent fiscal biennium. This contribution rate is paid only by employers on all employees in TRS for TRS 1, and by employers on all employees in PERS, the School Employees' Retirement System, and the Public Safety Employees' Retirement System for PERS 1. If a UAAL remains in PERS 1 or TRS 1, a minimum UAAL contribution rate also applies: 3.50 percent for PERS 1 and 5.75 percent for TRS 1. If the plans reach a fully funded status, the minimum rates do not apply. If a UAAL reemerges, the minimum rates would resume at the 3.50 percent and 5.75 percent levels.

In the 2021-23 Biennial Operating Budget, $800 million was appropriated for deposit into the TRS 1 fund. The effect of the deposit will be to increase the funded status of the plan.

A contribution rate for the expected cost of benefit improvements to PERS 1 or TRS 1 enacted after June 30, 2009, is calculated separately and amortized over a fixed 10-year period. These benefit improvement rates are collected in addition to the base UAAL rates.

The strong investment returns in fiscal year 2021 improved the funding position of PERS 1 and TRS 1. Because of the lag in contribution rate setting through the Pension Funding Council process, the minimum UAAL rates are expected to continue to be paid until fiscal year 2025 for TRS 1 and fiscal year 2029 for PERS 1, despite the plans now being expected to have fully amortized their unfunded liabilities by fiscal years 2023 and 2026, respectively. As a result, the State Actuary expects that PERS 1 and TRS 1 will be significantly overfunded in 2027 and beyond if economic assumptions about the coming years are realized.

Summary of Bill:

The minimum contribution rates for amortizing the unfunded liabilities are eliminated in the Teachers' Retirement System Plan 1 (TRS 1), beginning August 31, 2024, and for the Public Employees' Retirement System Plan 1 (PERS 1), beginning June 30, 2025.

The employer contribution rates for the unfunded liabilities in PERS 1 and TRS 1 are fixed at zero until 2029, excluding amounts to amortize benefit improvements made after June 30, 2009.

The scheduled payment of $800 million into the TRS 1 fund scheduled for June 30, 2023 is repealed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on June 30, 2023.

Staff Summary of Public Testimony:

(In support) Washington cities care about the impact of this bill on Public Employees' Retirement System (PERS) contribution rates. This bill uses a reasonable timeframe, and continues the state's responsible approach to pension funding. The bill allows local governments to plan ahead and devote limited resources to other needs. Under current law the unfunded liability in both of these retirement plans is expected to be eliminated in the near future. Significant overfunding is now expected, and the plan in this bill keeps the state on track to fully fund the plans. The Pension Funding Council directed the State Actuary to study strategies to address the unfunded liability contribution rate methods. The goal of this bill is to stay on a full funding path, with more reasonable funding status in the future. The unfunded liability rates would continue to be paid for years after the plans reach full funding under current law.

(Opposed) This change to the funding method could jeopardize the pension plans. The bill trades certainty for uncertainty. For a decade, only about half the needed contributions were made to PERS and Teachers' Retirement System Plans 1, which contributed to the creation of the unfunded liability. The 15-year effort to reduce the unfunded liabilities is greatly appreciated. Future investment returns are uncertain, and no-one knows what kind of returns will be earned in the coming months. The current assumption of 7 percent might not be realistic. The idea in this bill should be deferred for at least one more biennium. A permanent annual cost-of-living adjustment (COLA) is part of this conversation. By not funding the pension plans better, an ongoing COLA is harder to support.

(Other) The Retired Public Employees Council is thankful to the Legislature for the commitment to pay down these liabilities, but a more gradual reduction of the unfunded liability rates and the funding of an automatic COLA should be considered. The recent ad hoc COLAs are appreciated, but only an ongoing COLA provides long-term security for retirees.

Persons Testifying: (In support) Candice Bock, Association of Washington Cities; and K.D. Chapman-See and Marcus Ehrlander, Office of Financial Management.

(Opposed) Michael McKinley; and Timothy Knopf.

(Other) Alan Burke, Washington State School Retirees Association; and Laurie Weidner, Retired Public Employees Council of Washington.

Persons Signed In To Testify But Not Testifying: None.