SENATE BILL REPORT
SB 5294

As of January 23, 2023

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

Brief Description: Concerning actuarial funding of state retirement systems.

Sponsors: Senators Rolfes and Van De Wege; by request of Office of Financial Management.

Brief History:
Committee Activity: Ways & Means: 1/23/23.

Brief Summary of Bill

- Modifies the unfunded liability portion of the employer contribution rates plans 1 of the Teachers' Retirement and Public Employees' Retirement Systems.
- Repeals an $800 million transfer to the Teachers' Retirement System Plan 1 fund scheduled for June 30, 2023.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

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. The plans were closed to address long-term financial stability of the system, as the cost of providing benefits to new members was projected to be significantly higher than the contributions.

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. The existing funding method, largely created in Chapter 561, Laws of 2009, established an unfunded actuarial accrued liability (UAAL) rate. This rate is set biennially based on a rolling 10-year period, subject to a

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minimum contribution rate of 3.5 percent for PERS 1 and 5.75 percent for TRS 1. This rate is collected in addition to the base funding rates and are only paid by employers for 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. The law provides that these rates will be collected until the plan reaches a funded status of 100 percent.

The UAAL cost related to benefit enhancements enacted after 2009 are covered through a supplemental rate in excess of the UAAL rate minimums.

Total pension rates are set by the Pension Funding Council (PFC) in July of even numbered years for the subsequent biennia and in part are based on the most current actual valuation. Current estimates by the Office of the State Actuary (OSA) show that under the current rate setting methodology, the PERS 1 and TRS 1 may be significantly overfunded by 2027 and beyond. As a result, in July 2022, the PFC directed OSA to review the appropriateness of the current UAAL funding policy and consider options to reduce the risk of underfunding or overfunding and work to achieve employer rate and budget stability and predictability. OSA reported its findings to the Legislature on January 13, 2023.

In the 2021-23 Biennial Operating Budget, $800 million was appropriated for deposit on June 30,2023, into the TRS 1 fund to increase the funded status of the plan. Based on current actuarial projections this amount is expected to exceed the total UAAL on that date.

Summary of Bill: The minimum UAAL contribution rates are eliminated, for TRS 1 beginning August 31, 2024, and PERS 1, beginning June 30, 2025.

The employer contribution rates for the unfunded liabilities in PERS 1 and TRS 1 are set to 0 percent until 2029.

OSA is directed to review the appropriateness of establishing, removing, or adjusting minimum rates in the future.

The scheduled payment of $800 million into the TRS 1 fund is repealed.

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 June 30, 2023.

Staff Summary of Public Testimony: PRO: Significant overfunding of the PERS1 and

TRS1 retirement systems is now anticipated with the plans projected to be near 150 percent by the end of the decade under current OSA assumptions. This bill proposes to keep the state on a path to reach full funding of both plans within the next four years while balancing affordability for employer rates and budgets. This bill sets end dates that by the best currently available information sets both plans on course to attain full funding without additional contributions using standard assumptions of the office of the state actuary. Washington can be proud of its pension systems. It has made responsible and sustainable decisions. This is an appropriate next step concerning unfunded liability.

CON: Do not change the current retirement law. The pension has never been consistently funded. OFM claims it will be fully funded by 2025. This does not make sense. OFM wants to prematurely eliminate the guaranteed contributions to these two retirement plans. Do not let them do this. Kill this bill in committee. Protect long term financial solvency. This will affect the lives of almost 73,000 people. There is a pathway to solving the unfunded liability problem that has been around for over 20 years. The full funding policy review has several paths to glide down employer rates to ensure it will be ok.

OTHER: The Legislature has an opportunity to restore a recurring COLA for retirees vested in these plans who are among the oldest in the state, are largely women who held lower paying jobs when they were employed and receive among the lowest pension benefits. RPEC favors a glide path or gradual decline in contribution rates. The Office of the State Actuary included this policy idea in a recent report to the pension funding council. This path will afford members of the select committee on pension policy and Office of the State Actuary time to identify funding options for a recurring COLA including potentially extending minimal contribution rates over time to accomplish this goal.

Persons Testifying: PRO: K.D. Chapman-See, Office of Financial Management; Marcus Ehrlander, Office of Financial Management; Candice Bock, Association of Washington Cities.

CON: Alan Burke, WSSRA; Michael McKinley.

OTHER: Laurie Weidner, Retired Public Employees Council of Washington.

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