

SENATE BILL REPORT

HB 2681

As Reported By Senate Committee On:
Ways & Means, February 27, 2006

Title: An act relating to minimum contribution rates for the public employees' retirement system, the public safety employees' retirement system, the school employees' retirement system, and the teachers' retirement system.

Brief Description: Establishing minimum contribution rates for the public employees' retirement system, the public safety employees' retirement system, the school employees' retirement system, and the teachers' retirement system.

Sponsors: Representatives Conway, Fromhold, Lovick, Green, Sells, Kenney, Quall, Simpson, Moeller and Morrell; by request of Select Committee on Pension Policy.

Brief History: Passed House: 2/11/06, 97-0.

Committee Activity: Ways & Means: 2/27/06 [DP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Kohl-Welles, Parlette, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

Minority Report: That it be referred without recommendation.

Signed by Senator Pflug.

Staff: Erik Sund (786-7454)

Background: Payments to amortize the unfunded accrued actuarial liability (UAAL) in Plan 1 of the Public Employees' and Teachers' Retirement Systems are normally collected as a component of employer contribution rates. According to current funding policy, unfunded liability for the Plan 1 is spread among all employers in the Public Employees', Teachers', School Employees', and Public Safety Employees' Retirement Systems (PERS, TRS, SERS, and PSERS). The unfunded liability is also spread over time. Current funding policy requires that the UAAL be fully amortized by June 30, 2024. Payments for the Plan 1 UAAL have been suspended for the current biennium, and were suspended in the previous biennium. Regular payments are scheduled to resume July 1, 2007.

The Plans 2/3 normal cost, which is the cost of plan benefits allocated to a given year, is not currently subject to minimum contribution rates. It is collected as a component of Plans 2 and 3 employer contribution rates and Plan 2 member contribution rates.

Summary of Bill: Minimum employer contribution rates are established for amortizing the UAAL beginning July 1, 2009, for PERS Plan 1 at 2.68 percent, and beginning September 1,

2009, for TRS Plan 1 at 4.71 percent. These minimum contribution rates remain in effect until the actuarial value of assets in either PERS Plan 1 or TRS Plan 1 equal 125 percent of actuarial liabilities, or June 30, 2024, whichever comes first.

A process for determining minimum contribution rates for employers and employees in PERS, TRS, and SERS Plans 2 and 3 is established. The contribution rate for the normal cost portion of these Plans 2 and 3 is set at 80 percent of employer or employee normal cost calculated under the entry age normal cost method.

Upon completion of each biennial actuarial valuation, the State Actuary shall review the appropriateness of the minimum contribution rates and recommend changes to the Legislature, if needed.

The term "normal cost" is defined as the portion of the cost of benefits allocated to a period of time under the actuarial method, typically twelve months.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2009.

Testimony For: None.

Testimony Against: None.

Who Testified: No one.