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**SECOND SUBSTITUTE HOUSE BILL 1661**

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**State of Washington 66th Legislature 2020 Regular Session**

**By** House Appropriations (originally sponsored by Representatives Chandler and Ormsby)

AN ACT Relating to the higher education retirement plans; amending RCW 28B.10.423, 41.45.050, 41.45.060, and 41.50.075; adding a new section to chapter 41.50 RCW; creating a new section; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  It is the intent of the legislature to establish contribution rates for each separate higher education plan's supplemental benefit. The rates established in this act are subject to periodic revision by the pension funding council as experience and new actuarial analysis becomes available to maintain progress towards funding the actuarial liabilities that each institution has for these benefits. At such time that the council determines an institution has sufficient assets, as specified in RCW 28B.10.423(4)(g)(i) in the higher education retirement plan supplemental benefit fund, responsibility for administering and distributing all supplemental benefits for that institution will transition to the department of retirement systems and benefit payments will be made solely from that institution's portion of the higher education retirement plan supplemental benefit fund. Future contribution rates will represent the cost of paying on a combined prefunded and pay-as-you-go basis, as adopted by the council, with the goal of reducing the year-to-year changes in cost that the higher education retirement plan supplemental benefit has under current law.

**Sec.**  RCW 28B.10.423 and 2012 c 229 s 516 are each amended to read as follows:

(1) For employees who are first employed by an institution of higher education in a position eligible for participation in an old age annuities or retirement income plan under this chapter prior to July 1, 2011, it is the intent of RCW 28B.10.400, 28B.10.405, 28B.10.410, 28B.10.415, and 28B.10.420((~~,~~)) and ((~~28B.10.423~~)) this section that the retirement income resulting from the contributions described herein from the state of Washington and the employee shall be projected actuarially so that it shall not exceed sixty percent of the average of the highest two consecutive years salary. Periodic review of the retirement systems established pursuant to RCW 28B.10.400, 28B.10.405, 28B.10.410, 28B.10.415, and 28B.10.420((~~,~~)) and ((~~28B.10.423~~)) this section will be undertaken at such time and in such manner as determined by the committees on ways and means of the senate and of the house of representatives, the select committee on pension policy, and the pension funding council, and joint contribution rates will be adjusted if necessary to accomplish this intent.

(2) Beginning July 1, 2011, state funding for annuity or retirement income plans under RCW 28B.10.400 shall not exceed six percent of salary. The state board for community and technical colleges and the student achievement council are exempt from the provisions of this subsection (2).

(3) By June 30, 2013, and every two years thereafter, each institution of higher education that is responsible for payment of supplemental amounts under RCW 28B.10.400(1)(c) shall contract with the state actuary under chapter 41.44 RCW for an actuarial valuation of their supplemental benefit plan. By June 30, 2013, and at least once every six years thereafter, each institution shall also contract with the state actuary under chapter 41.44 RCW for an actuarial experience study of the mortality, service, compensation, and other experience of the annuity or retirement income plans created in this chapter, and into the financial condition of each system. At the discretion of the state actuary, the valuation or experience study may be performed by the state actuary or by an outside actuarial firm under contract to the office of the state actuary. Each institution of higher education is required to provide the data and information required for the performance of the valuation or experience study to the office of the state actuary or to the actuary performing the study on behalf of the state actuary. The state actuary may charge each institution for the actual cost of the valuation or experience study through an interagency agreement. Upon completion of the valuation or experience study, the state actuary shall provide copies of the study to the institution of higher education and to the select committee on pension policy and the pension funding council.

(4)(a) A higher education retirement plan supplemental benefit fund ((~~is~~)) was created in the custody of the state treasurer in this section for the purpose of funding future benefit obligations of higher education retirement plan supplemental benefits. The creation of the fund is moved to RCW 41.50.075, so that along with the other defined benefit funds of the state retirement systems, the fund may be administered and invested along with the other funds of the state retirement systems. The state investment board has the full power to invest, reinvest, manage, contract, sell, or exchange investment money in the fund.

(b) From January 1, 2012, through June 30, 2013, an employer contribution rate of one-quarter of one percent of salary is established to begin prefunding the unfunded future obligations of the supplemental benefit established in RCW 28B.10.400.

(c) Beginning July 1, 2013, an employer contribution rate of one-half of one percent of salary is established to prefund the unfunded future obligations of the supplemental benefit established in RCW 28B.10.400.

(d)(i) Beginning July 1, 2020, the employer contribution rates for each state institution of higher education are 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

State board for community and technical colleges: 0.13 percent

(ii) The contribution rates established in this section may be changed by rates adopted by the pension funding council beginning July 1, 2021, consistent with (f) of this subsection.

(iii) For purposes of budgeting the cost of the contribution rates in this subsection (4), and as they may be changed by the pension funding council, the higher education retirement plan supplemental benefit contribution rates are subject to the limit established in subsection (2) of this section.

(e) Consistent with chapter 41.50 RCW, the department of retirement systems shall collect the employer contribution rates established in this section from each state institution of higher education, and deposit those contributions into the higher education retirement plan supplemental benefit fund. The contributions made by each employer into the higher education retirement plan supplemental benefit fund and the earnings on those contributions shall be accounted for separately within the fund.

((~~(e)~~)) (f) Following the completion and review of the ((~~initial~~)) most recent actuarial valuations and experience study conducted pursuant to subsection (3) of this section, the pension funding council may, by no later than July 31, 2020, and every two years thereafter:

(i) Adopt and make changes to the employer contribution rates established in this subsection consistent with the procedures established in chapter 41.45 RCW. If the actuarial valuations of the higher education retirement plans of each institution contributing to the higher education retirement plan supplemental benefit fund suggest that different contribution rates are appropriate for each institution, different rates may be adopted. Rates adopted by the pension funding council are subject to revision by the legislature;

(ii) Recommend legislation that will, upon accumulation of sufficient funding in the higher education retirement plan supplemental benefit fund, transfer the responsibility for making supplemental benefit payments to the department of retirement systems, and adjust employer contribution rates to reflect the transfer of responsibility.

(g)(i) The rates adopted by the pension funding council must be designed to keep the cost of the higher education retirement plan supplemental benefits at a more level percentage of pay than a pay-as-you-go method. This more level percentage of pay of costs means a combination of the cost of supplemental benefits paid by the institution directly or indirectly on a pay-as-you-go basis, plus the cost of contributions to the higher education retirement plan supplemental benefit fund, on an annual basis. Contributions shall continue until the projected value of the funds equals the projected cost of future benefits for the institution.

(ii) Funds are anticipated to be accumulated in the higher education retirement plan supplemental benefit fund, and not expended on benefits until approximately the year 2030.

(iii) The pension funding council, in consultation with the state actuary, may choose and occasionally revise, a funding method designed to achieve these objectives.

**Sec.**  RCW 41.45.050 and 2004 c 242 s 38 are each amended to read as follows:

(1) Employers of members of the public employees' retirement system, the teachers' retirement system, the school employees' retirement system, the public safety employees' retirement system, ((~~and~~)) the Washington state patrol retirement system, and the higher education retirement plans shall make contributions to those systems and plans based on the rates established in RCW 41.45.060 and 41.45.070.

(2) The state shall make contributions to the law enforcement officers' and firefighters' retirement system plan 2 based on the rates established in RCW 41.45.060 and 41.45.070. The state treasurer shall transfer the required contributions each month on the basis of salary data provided by the department.

(3) The department shall bill employers, and the state shall make contributions to the law enforcement officers' and firefighters' retirement system plan 2, using the combined rates established in RCW 41.45.060 and 41.45.070 regardless of the level of appropriation provided in the biennial budget. Any member of an affected retirement system may, by mandamus or other appropriate proceeding, require the transfer and payment of funds as directed in this section.

(4) The contributions received for the public employees' retirement system shall be allocated between the public employees' retirement system plan 1 fund and the public employees' retirement system combined plan 2 and plan 3 fund as follows: The contributions necessary to fully fund the public employees' retirement system combined plan 2 and plan 3 employer contribution shall first be deposited in the public employees' retirement system combined plan 2 and plan 3 fund. All remaining public employees' retirement system employer contributions shall be deposited in the public employees' retirement system plan 1 fund.

(5) The contributions received for the teachers' retirement system shall be allocated between the plan 1 fund and the combined plan 2 and plan 3 fund as follows: The contributions necessary to fully fund the combined plan 2 and plan 3 employer contribution shall first be deposited in the combined plan 2 and plan 3 fund. All remaining teachers' retirement system employer contributions shall be deposited in the plan 1 fund.

(6) The contributions received for the school employees' retirement system shall be allocated between the public employees' retirement system plan 1 fund and the school employees' retirement system combined plan 2 and plan 3 fund as follows: The contributions necessary to fully fund the combined plan 2 and plan 3 employer contribution shall first be deposited in the combined plan 2 and plan 3 fund. All remaining school employees' retirement system employer contributions shall be deposited in the public employees' retirement system plan 1 fund.

(7) The contributions received for the law enforcement officers' and firefighters' retirement system plan 2 shall be deposited in the law enforcement officers' and firefighters' retirement system plan 2 fund.

(8) The contributions received for the public safety employees' retirement system shall be allocated between the public employees' retirement system plan 1 fund and the public safety employees' retirement system plan 2 fund as follows: The contributions necessary to fully fund the plan 2 employer contribution shall first be deposited in the plan 2 fund. All remaining public safety employees' retirement system employer contributions shall be deposited in the public employees' retirement system plan 1 fund.

(9) The contributions received for the higher education retirement plan supplemental benefit fund shall be deposited in the fund and amounts received from each institution accounted for separately and shall only be used to make benefit payments to the beneficiaries of that institution's plan.

**Sec.**  RCW 41.45.060 and 2009 c 561 s 3 are each amended to read as follows:

(1) The state actuary shall provide preliminary actuarial valuation results based on the economic assumptions and asset value smoothing technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or 41.45.035.

(2) Not later than July 31, 2008, and every two years thereafter, consistent with the economic assumptions and asset value smoothing technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or 41.45.035, the council shall adopt and may make changes to:

(a) A basic state contribution rate for the law enforcement officers' and firefighters' retirement system plan 1;

(b) Basic employer contribution rates for the public employees' retirement system, the teachers' retirement system, and the Washington state patrol retirement system; and

(c) Basic employer contribution rates for the school employees' retirement system and the public safety employees' retirement system for funding both those systems and the public employees' retirement system plan 1.

The council may adopt annual rate changes for any plan for any rate-setting period. The contribution rates adopted by the council shall be subject to revision by the legislature.

(3) The employer and state contribution rates adopted by the council shall be the level percentages of pay that are needed:

(a) To fully amortize the total costs of the law enforcement officers' and firefighters' retirement system plan 1 not later than June 30, 2024;

(b) To fully fund the public employees' retirement system plans 2 and 3, the teachers' retirement system plans 2 and 3, the public safety employees' retirement system plan 2, and the school employees' retirement system plans 2 and 3 in accordance with RCW 41.45.061, 41.45.067, and this section; and

(c) To fully fund the public employees' retirement system plan 1 and the teachers' retirement system plan 1 in accordance with RCW 41.45.070, 41.45.150, and this section.

(4) The aggregate actuarial cost method shall be used to calculate a combined plan 2 and 3 normal cost, a Washington state patrol retirement system normal cost, and a public safety employees' retirement system normal cost.

(5) A modified entry age normal cost method, as set forth in this chapter, shall be used to calculate employer contributions to the public employees' retirement system plan 1 and the teachers' retirement system plan 1.

(6) The employer contribution rate for the public employees' retirement system and the school employees' retirement system shall equal the sum of:

(a) The amount required to pay the combined plan 2 and plan 3 normal cost for the system, subject to any minimum rates applied pursuant to RCW 41.45.155; plus

(b) The amount required to amortize the unfunded actuarial accrued liability in plan 1 of the public employees' retirement system over a rolling ten-year period using projected future salary growth and growth in system membership, and subject to any minimum or maximum rates applied pursuant to RCW 41.45.150; plus

(c) The amounts required to amortize the costs of any benefit improvements in plan 1 of the public employees' retirement system that become effective after June 30, 2009. The cost of each benefit improvement shall be amortized over a fixed ten-year period using projected future salary growth and growth in system membership. The amounts required under this subsection are not subject to, and are collected in addition to, any minimum or maximum rates applied pursuant to RCW 41.45.150.

(7) The employer contribution rate for the public safety employees' retirement system shall equal the sum of:

(a) The amount required to pay the normal cost for the system, subject to any minimum rates applied pursuant to RCW 41.45.155; plus

(b) The amount required to amortize the unfunded actuarial accrued liability in plan 1 of the public employees' retirement system over a rolling ten-year period using projected future salary growth and growth in system membership, and subject to any minimum or maximum rates applied pursuant to RCW 41.45.150; plus

(c) The amounts required to amortize the costs of any benefit improvements in plan 1 of the public employees' retirement system that become effective after June 30, 2009. The cost of each benefit improvement shall be amortized over a fixed ten-year period using projected future salary growth and growth in system membership. The amounts required under this subsection are not subject to, and are collected in addition to, any minimum or maximum rates applied pursuant to RCW 41.45.150.

(8) The employer contribution rate for the teachers' retirement system shall equal the sum of:

(a) The amount required to pay the combined plan 2 and plan 3 normal cost for the system, subject to any minimum rates applied pursuant to RCW 41.45.155; plus

(b) The amount required to amortize the unfunded actuarial accrued liability in plan 1 of the teachers' retirement system over a rolling ten-year period using projected future salary growth and growth in system membership, and subject to any minimum or maximum rates applied pursuant to RCW 41.45.150; plus

(c) The amounts required to amortize the costs of any benefit improvements in plan 1 of the teachers' retirement system that become effective after June 30, 2009. The cost of each benefit improvement shall be amortized over a fixed ten-year period using projected future salary growth and growth in system membership. The amounts required under this subsection are not subject to, and are collected in addition to, any minimum or maximum rates applied pursuant to RCW 41.45.150.

(9) The employer contribution rate for each of the institutions of higher education for the higher education supplemental retirement benefits must be sufficient to fund, as a reasonably level percentage of pay, a portion of the projected cost of the supplemental retirement benefits for the institution beginning in 2035, with the other portion supported on a pay-as-you-go basis, either as direct payments by each institution to retirees, or as contributions to the higher education retirement plan supplemental benefit fund. Contributions must continue until the council determines that the institution for higher education supplemental retirement benefit liabilities are satisfied.

(10) The council shall immediately notify the directors of the office of financial management and department of retirement systems of the state and employer contribution rates adopted. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

((~~(10)~~)) (11) The director shall collect those rates adopted by the council. The rates established in RCW 41.45.062, or by the council, shall be subject to revision by the legislature.

((~~(11)~~)) (12) The state actuary shall prepare final actuarial valuation results based on the economic assumptions, asset value smoothing technique, and contribution rates included in or adopted under RCW 41.45.030, 41.45.035, and this section.

**Sec.**  RCW 41.50.075 and 2004 c 242 s 44 are each amended to read as follows:

(1) Two funds are hereby created and established in the state treasury to be known as the Washington law enforcement officers' and firefighters' system plan 1 retirement fund, and the Washington law enforcement officers' and firefighters' system plan 2 retirement fund which shall consist of all moneys paid into them in accordance with the provisions of this chapter and chapter 41.26 RCW, whether such moneys take the form of cash, securities, or other assets. The plan 1 fund shall consist of all moneys paid to finance the benefits provided to members of the law enforcement officers' and firefighters' retirement system plan 1, and the plan 2 fund shall consist of all moneys paid to finance the benefits provided to members of the law enforcement officers' and firefighters' retirement system plan 2.

(2) All of the assets of the Washington state teachers' retirement system shall be credited according to the purposes for which they are held, to two funds to be maintained in the state treasury, namely, the teachers' retirement system plan 1 fund and the teachers' retirement system combined plan 2 and 3 fund. The plan 1 fund shall consist of all moneys paid to finance the benefits provided to members of the Washington state teachers' retirement system plan 1, and the combined plan 2 and 3 fund shall consist of all moneys paid to finance the benefits provided to members of the Washington state teachers' retirement system plan 2 and 3.

(3) There is hereby established in the state treasury two separate funds, namely the public employees' retirement system plan 1 fund and the public employees' retirement system combined plan 2 and plan 3 fund. The plan 1 fund shall consist of all moneys paid to finance the benefits provided to members of the public employees' retirement system plan 1, and the combined plan 2 and plan 3 fund shall consist of all moneys paid to finance the benefits provided to members of the public employees' retirement system plans 2 and 3.

(4) There is hereby established in the state treasury the school employees' retirement system combined plan 2 and 3 fund. The combined plan 2 and 3 fund shall consist of all moneys paid to finance the benefits provided to members of the school employees' retirement system plan 2 and plan 3.

(5) There is hereby established in the state treasury the public safety employees' retirement system plan 2 fund. The plan 2 fund shall consist of all moneys paid to finance the benefits provided to members of the public safety employees' retirement system plan 2.

(6) There is hereby established in the state treasury the higher education retirement plan supplemental benefit fund. The higher education retirement plan supplemental benefit fund shall consist of all moneys paid to finance the benefits provided to members of each of the higher education retirement plans.

(7) The office of financial management must create individual accounts for each institution of higher education within the higher education retirement plan supplemental budget fund. For fiscal year 2020 the office of financial management must transfer all the assets of the higher education retirement plan supplemental benefit fund into the individual accounts for each institution that will be used to manage the accounting for each benefit plan. The higher education retirement plan supplemental fund will include all the amounts in the individual accounts created in this subsection.

NEW SECTION. **Sec.**  A new section is added to chapter 41.50 RCW to read as follows:

(1) On the July 1st of the fiscal year following a determination by the pension funding council that a higher education institution has sufficiently funded the liabilities of that institution through contributions to the higher education retirement plan supplemental benefit fund, the department shall assume responsibility for making benefit payments to higher education retirement plan supplemental beneficiaries for that institution from the portion of the higher education retirement plan supplemental benefit fund attributed to the individual institution.

(2) Immediately following the determination by the pension funding council under RCW 41.45.060(9) that an institution participating in the higher education retirement plan supplemental benefits has sufficiently funded the benefits of the plan that higher education institution:

(a) Must provide any data and assistance requested by the department to facilitate the transition of responsibility for making benefit payments to higher education retirement plan members eligible for supplemental benefit payments; and

(b) Is governed by the provisions of RCW 41.50.110.

(3) No later than upon the department's assumption of responsibility for benefit payments under subsection (1) of this section, the department shall assess contributions to the department of retirement systems' expense fund under RCW 41.50.110(3) for active participants in the higher education retirement plan. Contributions to the expense fund for higher education retirement plan members must end when there are no longer retirees or beneficiaries from an institution receiving payments administered by the department.

(4)(a) Upon the department's assumption of responsibility for making benefit payments from an institution's higher education retirement plan, the institution shall submit to the department the benefit level for current higher education retirement plan supplemental beneficiaries, and each month following the department's assumption of responsibility for making benefit payments to an institution's higher education retirement plan supplemental beneficiaries, the institution shall submit to the department information on any new retirees covered by the higher education retirement plan supplemental benefit. The submission shall include all data relevant to the calculation of a supplemental benefit for each retiree, and the benefit that the institution determines the individual qualifies to receive. No later than January 1st, following the funding determination in RCW 41.45.060(9) that begins the transition of responsibility for benefit payments to the department, the department shall provide the institution with a notice of what data will be required to determine higher education retirement plan supplemental benefit determinations for future retirees.

(b) The department shall review the information provided by the institution for each retiring higher education retirement plan member eligible for the supplemental benefit and determine the supplemental benefit amount the member is eligible to receive, if any.

(c) In the event that the department is not provided with all data required by the notice in (a) of this subsection, the institution of higher education will remain responsible for payment of higher education retirement plan supplemental benefits to that member. In addition, the collection of overpayments and error correction provisions of this chapter apply in the event that the department makes supplemental benefit payments based on incomplete or inaccurate data provided by an institution.

NEW SECTION. **Sec.**  This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2020.

**--- END ---**