BILL ANALYSIS

Appropriations Committee

SHB 1661

Brief Description: Concerning the higher education retirement plans.

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

Brief Summary of Bill

- Establishes institution-specific contribution rates for the Higher Education Retirement Plan Supplemental Benefits (HERPSB) and provides for a biennial schedule for the rates to be revised by the Pension Funding Council (PFC).
- Authorizes the PFC to determine when an institution has accumulated sufficient assets, shifting responsibility for paying benefits from the institution to the Department of Retirement Systems.
- Adds language describing the HERPSB Fund as a dedicated fund, similar to the other state retirement system funds.

Hearing Date: 1/22/20

Staff: David Pringle (786-7310).

Background:

State institutions of higher education are authorized to offer the Higher Education Retirement Plan (HERP) to faculty and other employees whose positions are designated as eligible by their respective boards. The HERPs are administered by each institution, unlike the other state retirement systems that are administered by the Department of Retirement Systems. The HERPs provide defined contributions, typically 5 percent of pay from both the employer and the employee until age 35, 7.5 percent of pay from each until age 50, and the employer matching up to 10 percent of pay from age 50 until retirement.

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.

In 2011 the Legislature enacted changes to the 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). Pursuant to the legislation, since July 1, 2013, higher education institutions have been required to contribute 0.5 percent of pay as an employer contribution into a HERPSB Fund. The Pension Funding Council 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 the HERP benefits on a more level percentage-of-pay basis, with contribution rates and pay-as-you go benefit payments combined. A partial draft was reviewed by the PFC in 2018.

Summary of Bill:

The single 0.5-percent HERPSB contribution rate is replaced with institution-specific contribution rates. The HERPSB Fund is established as a dedicated fund, using similar language as for the funds of the other State Retirement Systems. The relationship between the new fund creation language and the HERPSB Fund created in 2011 is established, permitting investment of the HERPSB Fund along with the funds of the other retirement systems. The bill identifies a biennial schedule for the PFC to review and revise the institution-specific contribution rates based on future actuarial valuation results prepared by the Office of the State Actuary. Supplemental benefits will not be paid from an institution's HERPSB Fund until the PFC determines the fund has collected sufficient assets. Once the PFC makes that determination, administration of the HERPSB will transfer from the institution to the Department of Retirement Systems. The bill targets 2035 as the approximate year when the funds are expected to begin paying benefits.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.