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**HOUSE BILL 1459**

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**State of Washington 68th Legislature 2023 Regular Session**

**By** Representatives Stokesbary, Ormsby, Santos, Robertson, Bergquist, Steele, Volz, Maycumber, Graham, Kloba, Chambers, Jacobsen, Eslick, Gregerson, Macri, and Bateman

AN ACT Relating to providing an annual adjustment in the public employees' retirement system and teachers' retirement system plan 1 benefits capped at $110 per month by adjusting the long-term investment rate of return assumption; amending RCW 41.45.035; adding a new section to chapter 41.32 RCW; adding a new section to chapter 41.40 RCW; creating new sections; providing an effective date; and declaring an emergency.

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

NEW SECTION. **Sec.**  The legislature finds that beneficiaries receiving a monthly benefit from the public employees' retirement system plan 1 and the teachers' retirement system plan 1 have experienced a loss of purchasing power due to rising inflation. Certain beneficiaries do not receive annual increases; providing an ongoing limited cost-of-living adjustment helps address beneficiaries' loss of purchasing power. In recent years these plans have benefited from extraordinary investment return, and are projected to be more than fully funded in the years ahead. In 2021, the pension funding council recommended lowering the long-term rate of investment return from 7.5 to 7.0 percent, consistent with the state investment's board's recommendations about future returns, but in contrast with the state investment board's historical performance which has continued to climb to above nine percent since the management of the pension funds began. The legislature determines that lowering the investment rate of return was prudent, but the pension funding council's recommendation does not need to be fully implemented at this time. As the council will continue to review the rates of return every two years, as required by current law, additional adjustments may be needed in future years. Therefore, it is the intent of the legislature to align both monthly benefit adjustments and the long-term investment rate of return assumptions more closely in line with actual economic and financial experience. The changes to expectations about investment return and future benefit increases in this act are part of an integrated decision by the legislature in balancing the future funding of the public employees' and teachers' retirement system plans 1, and should, consistent with the plain language of this act, be considered nonseverable.

NEW SECTION. **Sec.**  A new section is added to chapter 41.32 RCW to read as follows:

(1) Beginning July 1, 2023, and July 1st each year thereafter, the department shall determine the following information for each plan 1 retired member or beneficiary whose retirement allowance has been in effect for at least one year:

(a) The original dollar amount of the retirement allowance as of June 30, 2023, or the effective date of retirement, whichever is later;

(b) The index for the calendar year prior to July 1, 2022, or the effective date of the retirement allowance, whichever is later, to be known as "index A";

(c) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(d) The ratio obtained when index B is divided by index A.

(2) The value of the ratio obtained is the annual adjustment to the original retirement allowance and must be applied beginning with the July payment. In no event, however, may the annual adjustment:

(a) Produce a retirement allowance which is lower than the original retirement allowance;

(b) Exceed three percent in the initial annual adjustment;

(c) Differ from the previous year's annual adjustment by more than three percent; or

(d) Increase the beneficiaries' monthly benefit by more than $110 from the previous year's monthly benefit.

(3) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index, Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(4) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

NEW SECTION. **Sec.**  A new section is added to chapter 41.40 RCW to read as follows:

(1) Beginning July 1, 2023, and July 1st each year thereafter, the department shall determine the following information for each plan 1 retired member or beneficiary whose retirement allowance has been in effect for at least one year:

(a) The original dollar amount of the retirement allowance as of June 30, 2023, or the effective date of retirement, whichever is later;

(b) The index for the calendar year prior to July 1, 2022, or the effective date of the retirement allowance, whichever is later, to be known as "index A";

(c) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(d) The ratio obtained when index B is divided by index A.

(2) The value of the ratio obtained is the annual adjustment to the original retirement allowance and must be applied beginning with the July payment. In no event, however, may the annual adjustment:

(a) Produce a retirement allowance which is lower than the original retirement allowance;

(b) Exceed three percent in the initial annual adjustment;

(c) Differ from the previous year's annual adjustment by more than three percent; or

(d) Increase the beneficiaries' monthly benefit by more than $110 from the previous year's monthly benefit.

(3) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index, Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(4) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

**Sec.**  RCW 41.45.035 and 2016 sp.s. c 36 s 922 are each amended to read as follows:

(1) Beginning July 1, 2001, the following long-term economic assumptions shall be used by the state actuary for the purposes of RCW 41.45.030:

(a) The growth in inflation assumption shall be 3.5 percent;

(b) The growth in salaries assumption, exclusive of merit or longevity increases, shall be 4.5 percent;

(c) The investment rate of return assumption shall be 8 percent;

(d) The growth in system membership assumption shall be 1.25 percent for the public employees' retirement system, the public safety employees' retirement system, the school employees' retirement system, and the law enforcement officers' and firefighters' retirement system. The assumption shall be .90 percent for the teachers' retirement system; and

(e) From July 1, 2016, until July 1, 2017, the growth in system membership for the teachers' retirement system shall be 1.25 percent. It is the intent of the legislature to continue this growth rate assumption in the 2017-2019 fiscal biennium.

(2) Beginning July 1, 2009, the growth in salaries assumption for the public employees' retirement system, the public safety employees' retirement system, the teachers' retirement system, the school employees' retirement system, plan 1 of the law enforcement officers' and firefighters' retirement system, and the Washington state patrol retirement system, exclusive of merit or longevity increases, shall be the sum of:

(a) The growth in inflation assumption in subsection (1)(a) of this section; and

(b) The productivity growth assumption of 0.5 percent.

(3) The following investment rate of return assumptions for the public employees' retirement system, the public safety employees' retirement system, the teachers' retirement system, the school employees' retirement system, plan 1 of the law enforcement officers' and firefighters' retirement system, and the Washington state patrol retirement system, shall be used by the state actuary for the purposes of RCW 41.45.030:

(a) Beginning July 1, 2013, the investment rate of return assumption shall be 7.9 percent.

(b) Beginning July 1, 2015, the investment rate of return assumption shall be 7.8 percent.

(c) Beginning July 1, 2017, the investment rate of return assumption shall be 7.7 percent.

(d) Beginning July 1, 2023, the investment rate of return assumption shall be 7.2 percent.

(e) For valuation purposes, the state actuary shall only use the assumptions in (a) through ((~~(c)~~)) (d) of this subsection after the effective date in (a) through ((~~(c)~~)) (d) of this subsection.

((~~(e)~~)) (f) By June 1, 2017, the state actuary shall submit to the council information regarding the experience and financial condition of each state retirement system, and make recommendations regarding the long-term investment rate of return assumptions set forth in this subsection. The council shall review this and such other information as it may require.

(4)(a) Beginning with actuarial studies done after July 1, 2003, changes to plan asset values that vary from the long-term investment rate of return assumption shall be recognized in the actuarial value of assets over a period that varies up to eight years depending on the magnitude of the deviation of each year's investment rate of return relative to the long-term rate of return assumption. Beginning with actuarial studies performed after July 1, 2004, the actuarial value of assets shall not be greater than one hundred thirty percent of the market value of assets as of the valuation date or less than seventy percent of the market value of assets as of the valuation date. Beginning April 1, 2004, the council, by affirmative vote of four councilmembers, may adopt changes to this asset value smoothing technique. Any changes adopted by the council shall be subject to revision by the legislature.

(b) The state actuary shall periodically review the appropriateness of the asset smoothing method in this section and recommend changes to the council as necessary. Any changes adopted by the council shall be subject to revision by the legislature.

NEW SECTION. **Sec.**  If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the entire act and the application of the provision to other persons or circumstances is invalid and of no further force and effect.

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, 2023.

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