
Appropriations Committee

HB 1467

Brief Description: Concerning actuarial funding of pension systems.

Sponsors: Representatives Fitzgibbon, Wylie and Ormsby; by request of Office of Financial Management.

Brief Summary of Bill

- Changes the pension contribution rates for past benefit enhancements in the Public Employees' Retirement System and Teachers' Retirement System Plans 1 (PERS and TRS Plans 1), and amortizes the cost over a 15-year period.
- Provides that the cost of new benefit improvements in PERS and TRS Plans 1 be amortized over a 15-year period.
- Modifies the basic pension contribution rates set by the Pension Funding Council for the 2025-2027 fiscal biennium.

Hearing Date: 2/19/25

Staff: David Pringle (786-7310).

Background:

The Pension Funding Council (PFC) is responsible for setting basic pension contribution rates and various long-term economic assumptions for most of the state's open pension systems. In odd-numbered years, the PFC adopts long-term economic assumptions, such as the assumed rate of return, that are used to value liabilities and assets of the systems. In even-numbered years, the PFC adopts pension contribution rates for the subsequent fiscal biennium based on the adopted assumptions and updated actual experience. Pension contribution rates set by the PFC may be changed by the Legislature.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

The following rates were adopted by the PFC on July 17, 2024, for the 2025-2027 fiscal biennium. The employer unfunded actuarial accrued liability (UAAL) rates shown here are a combination of base UAAL rates that are specified in statute and supplemental rates for benefit improvements enacted prior to July 17, 2024.

Percent of Member Pay	Plan 2 Member	Employer Normal	Employer UAAL	Total Employer
<u>Effective July 1, 2025</u>				
Public Employees' Retirement System	6.15	6.15	2.05	8.20
Public Safety Employees' Retirement System	7.07	7.07	2.05	9.12
Washington State Patrol Retirement System	8.75	17.71	N/A	17.71
Law Enforcement Officers' and Firefighters' Retirement System Plan 1	0.00	0.00	N/A	0.00
<u>Effective September 1, 2025</u>				
Teachers' Retirement System	8.16	8.16	1.10	9.26
School Employees' Retirement System	7.59	7.59	2.05	9.64
<u>Effective July 1, 2026</u>				
Public Employees' Retirement System	6.15	6.15	1.05	7.20
Public Safety Employees' Retirement System	7.07	7.07	1.05	8.12
<u>Effective September 1, 2026</u>				
School Employees' Retirement System	7.59	7.59	1.05	8.64

The Public Employees' Retirement System Plan 1 (PERS Plan 1) and the Teachers' Retirement System Plan 1 (TRS Plan 1) closed to new members in 1977. When the PERS and TRS Plans 1 were closed, they were significantly underfunded. The unfunded portion of the funded status of PERS and TRS Plans 1 has been amortized over a rolling 10-year period through a UAAL rate paid by employers for all employees covered by PERS, TRS, the School Employees' Retirement System (SERS), and the Public Safety Employees' Retirement System (PSERS) Plans 2 and 3, as well as employees in PERS and TRS Plans 1.

PERS Plan 1 is projected to reach a nominal fully funded status at the end of fiscal year (FY)

2027, and Plans 2 and 3 employers will pay a UAAL rate of 1.5 percent in FY 2026 and 0.5 percent in FY 2027. TRS Plan 1 is projected to reach a nominally fully funded status at the end of FY 2025, and the UAAL rate for that system will be retired at that time.

When PERS and TRS Plans 1 benefit increases are enacted, the cost is paid through a supplemental pension contribution rate paid by employers for employees covered by PERS, TRS, SERS, and PSERS Plans 2 and 3 over a fixed 10-year period.

Five PERS Plan 1 and TRS Plan 1 benefit increases were enacted between 2018 and 2024, resulting in supplemental rate increases. The current supplemental benefit enhancement rate for PERS Plan 1 is 0.55 percent and for TRS Plan 1 is 1.1 percent. Both rates will start to decrease beginning in FY 2029 and be completely retired after FY 2034.

Summary of Bill:

The supplemental pension contribution rate for PERS and TRS Plans 1 benefit improvements enacted between 2009 and 2024 are reamortized over a 15-year period.

The cost of new PERS and TRS Plans 1 benefit improvements will be amortized over a fixed 15-year period instead of the current 10-year period.

The Plans 2 and 3 employer contribution rates adopted by the PFC on July 17, 2024, are modified as follows:

- for PERS, the total employer rate is 7.91 percent in FY 2026;
- for PSERS, the total employer rate is 9.16 percent in FY 2026;
- for SERS, the total employer rate is 9.29 percent in school year 2025-26;
- for TRS, the total employer rate 9.05 percent in school year 2025-26; and
- for the Washington State Patrol Retirement System, the total employer rate of 16.35 percent in FY 2026.

The Plans 2 member contribution rates for the 2025-27 biennium are modified as follows:

- for PERS, the rate is 5.86 percent;
- for PSERS, the rate is 7.11 percent;
- for SERS, the rate is 7.24 percent; and
- for TRS, the rate is 7.95 percent.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2025.