**Washington State**
**House of Representatives**
**Office of Program Research**

# BILL ANALYSIS

# Appropriations Committee

# SSB 5085

**Brief Description:** Concerning three of Washington state's closed retirement plans.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senator Robinson).

**Brief Summary of Substitute Bill**

- Merges the assets, liabilities, and membership of Law Enforcement Officers' and Firefighters' Retirement System Plan 1, Public Employees' Retirement System Plan 1 (PERS Plan 1), and the Teachers' Retirement System Plan 1 (TRS Plan 1) retirement systems into the new Legacy Retirement System.
- Creates an annual cost-of-living adjustment to the retirement benefits of retirees in the PERS Plan 1 and TRS Plan 1, of up to 3 percent.
- Eliminates the remaining unfunded actuarial accrued liability and benefit improvement rates.

**Hearing Date:** 3/13/25

**Staff:** David Pringle (786-7310).

**Background:**

Law Enforcement Officers' and Firefighters' Retirement System Plan 1.
The Law Enforcement Officers' and Firefighters' Retirement System Plan 1 (LEOFF Plan 1) provides defined retirement benefits to law enforcement officers and firefighters employed by the state, cities, counties, and special districts. The Legislature established LEOFF Plan 1 in 1969 by consolidating various municipal police and firefighter pension systems and transferring the members to the new state-sponsored system. In 1977 the original LEOFF System Plan 1 was

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closed to new members and subsequent employees became members of Plan 2. The LEOFF Plan 1 retirees receive an uncapped cost-of-living-adjustment (COLA) annually based on the Seattle Area Consumer Price Index (Seattle-CPI).

The LEOFF Plan 1 has been funded by a combination of contributions from the employers: local governments, the employees, and the state.

In June of 2000, as a result of the plan reaching a fully funded status, contributions to the plan by state, employer, and employee, were suspended.

As of the the 2023 Actuarial Valuation, LEOFF Plan 1 is 149 percent funded using an Actuarial Value of Assets, with approximately 6,154 annuitants, and 7 active members. On a Market Value of Assets basis, at the beginning of the 2025-27 fiscal biennium LEOFF Plan 1 is expected to have a surplus of about $3.1 billion and be 176 percent funded.

Public Employees' Retirement System and Teachers' Retirement System.
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. The plans were closed to address long-term financial stability of the system as the cost of providing benefits to new members was projected to be significantly higher than the contributions. The unfunded portion of the funded status of PERS Plan 1 and TRS Plan 1 has been amortized over a rolling 10-year period through an unfunded actuarial accrued liability (UAAL) rate paid by employers for employees covered by PERS, TRS, School Employees' Retirement System, and the Public Safety Employees' Retirement System Plans 2 and 3.

As of the 2023 Actuarial Valuation:
- PERS Plan 1 is 80 percent funded with a $2.1 billion unfunded liability with approximately 39,306 annuitants and 506 active members.
- TRS Plan 1 is 86 percent funded with a $1.1 billion unfunded liability with approximately 28,556 annuitants and 81 active members.

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

Public Employees' Retirement System and Teachers' Retirement System Cost-of-Living-Adjustment.
The basic retirement allowance for PERS Plan 1 and TRS Plan 1 does not include an annual cost-of -living adjustment like other state pension systems. However, since 1987 retirees have had the option to take a reduced initial benefit and receive an annual COLA of up to 3 percent based on the Seattle-CPI.

In addition to the optional COLA, between 1995 and 2011 PERS Plan 1 and TRS Plan 1 retirees' benefits could be eligible for an annual increase from a benefit generally referred to as the uniform cost-of-living adjustment (UCOLA). The UCOLA was enacted in 1995 to replace a number of prior COLAs and was a fixed dollar amount multiplied by the member's total years of service. The dollar amount of the UCOLA was about $1.88 per year of service, meaning that a member with 25 years of service would receive an additional $47 per month, and the UCOLA was increased by 3 percent per year. The UCOLA was repealed in 2011 for members not on a minimum benefit.

There are two minimum benefits, which are increased annually. The basic minimum benefit is a fixed dollar amount per month multiplied by the member's total years of service that increases annually by the UCOLA. As of July 1, 2024, the basic minimum benefit is $75.80 per year of service.

The alternate minimum benefit provides a fixed monthly benefit for members who have at least 25 years of service credit and have been retired for at least 20 years, or at least 20 years of service credit and have been retired for at least 25 years. The alternate minimum benefit is increased annually by 3 percent. As of July 1, 2024, the alternate minimum benefit is $2,268.87 per month.

There have been three Plan 1 benefit increases since the repeal of the UCOLA for members not on a minimum benefit:

- in 2018, a one-time increase of 1.5 percent, up to a maximum of $62.50 per month;
- in 2020, a one-time increase of 3 percent, up to a maximum of $62.50 per month;
- in 2021, a one-time increase of 3 percent, up to a maximum of $110.00 per month;
- in 2023, a one-time increase of 3 percent, up to a maximum of $110.00 per month; and
- in 2024, a one-time increase of 3 percent, up to a maximum of $110.00 per month.

When PERS Plan 1 and TRS Plan 1 benefit increases are enacted the cost is paid through a supplemental pension contribution rate paid by employers for employees covered by PERS Plan 1, TRS Plan 1, School Employees' Retirement System, and the Public Safety Employees' Retirement System Plans 2 and 3 over a 10-year period. 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 phase down and be retired after fiscal year 2034.

**Summary of Bill:**

Plans Merger.
The assets, liabilities, and membership of the LEOFF Plan 1, TRS Plan 1 and PERS Plan 1 retirement systems are merged into the new Legacy Retirement System. Members' retirement benefits of the three systems remain unchanged.

The Department of Retirement Systems must submit a request for a determination letter from the Internal Revenue Service (IRS) indicating the qualified status of the merged plan and must

request a private letter ruling indicating there are no tax consequences to any plan members from the merger.

Public Employees' Retirement System and Teachers' Retirement System Cost-of-Living-Adjustments.
On July 1, 2025, eligible PERS Plan 1 and TRS Plan 1 retirees will receive a one-time benefit increases of 3 percent. To be eligible for the increase the member must have been retired on or before July 1, 2023. This increase only applies for members that are not receiving a minimum benefit.

Beginning July 1, 2026, and every year thereafter, eligible PERS Plan 1 and TRS Plan 1 retirees will receive an annual COLA of up to 3 percent based on the Seattle-CPI. In years when inflation exceeds 3 percent the amount above 3 percent will be banked for future years. In years when inflation is less than 3 percent any banked amount will be used to supplement the increase up to 3 percent.

To be eligible, the retiree must have been retired for at least one year and not receiving a minimum benefit.

Retirees who opted to receive the optional annual COLA will receive the compounded value of both increases.

If the IRS issues a determination letter stating that the merger conflicts with the plan qualification requirements for governmental plans, that cannot be resolved through administrative action or statutory changes, the permanent PERS Plan 1 and TRS Plan 1 COLAs are repealed.

Pension Contribution Rates.
Beginning July 1, 2025, the UAAL rates and the supplemental benefit enhancement rate are eliminated at least through June 30, 2029. Beginning July 1, 2029, any UAAL of the Legacy Retirement System will be amortized over a rolling 10-year period and paid through a UAAL rate that is imposed on PERS, TRS, School Employees' Retirement System, and the Public Safety Employees' Retirement System Plans 2 and 3. At no time would contribution rates be imposed on LEOFF Plan 1 employees or employers.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains multiple effective dates. Please see the bill.