

SENATE BILL REPORT

SB 5085

As Reported by Senate Committee On:
Ways & Means, February 13, 2025

Title: An act relating to three of Washington state's closed retirement plans.

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

Sponsors: Senator Robinson.

Brief History:

Committee Activity: Ways & Means: 1/23/25, 2/13/25 [DPS, w/oRec].

Brief Summary of First 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 in to 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.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5085 be substituted therefor, and the substitute bill do pass.

Signed by Senators Robinson, Chair; Stanford, Vice Chair, Operating; Trudeau, Vice Chair, Capital; Frame, Vice Chair, Finance; Cleveland, Dhingra, Hansen, Hasegawa, Kauffman, Pedersen, Riccelli, Saldaña, Wellman and Wilson, C..

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.

Minority Report: That it be referred without recommendation.

Signed by Senators Gildon, Ranking Member, Operating; Torres, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Dozier, Assistant Ranking Member, Capital; Boehnke, Conway, Muzzall, Wagoner and Warnick.

Staff: Amanda Cecil (786-7460)

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

LEOFF Plan 1 has been funded by a combination of contributions from three parties: 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 2023 Actuarial Valuation, LEOFF Plan 1 is 149 percent funded with surplus assets of just over \$2 billion, approximately 6154 annuitants, and 7 active members.

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 ten-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 2023 actuarial valuation of:

- 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.

PERS Plan 1 is projected to reach a nominal fully funded status at the end of fiscal year 2027 and Plan 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. 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 but since 1987 retirees had the option to take a reduced initial benefit and receive an annual COLA based on the Seattle-CPI, up to 3 percent annually.

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 ten-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 (First Substitute): Plans Merger. The assets, liabilities, and membership of the LEOFF Plan 1, TRS Plan 1 and PERS Plan 1 retirement systems are merged in to 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 ten-year period and paid through a UAAL rate that is imposed on PERS Plan 1, TRS Plan 1, 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.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Specifies that disability boards and benefits and medical benefits are unaffected by this bill.
- Corrects the name of the consumer price index for the Seattle area.
- Specifies that the PERS 1 and TRS 1 unfunded liability and benefit improvement rates remain at zero through Fiscal Year 2029.
- Removes the “earlier of” language associated with the determination letter and makes the merger date September 1, 2027.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: We are in support of a Plan 1 COLA. Many retirees are slowly in the process of going broke due to having no automatic COLA. This bill would have no cost to current employees. This bill does a great job of reinstating the PERS and TRS COLA benefit.

CON: Firefighters are concerned because the bill does not meet all of the ten principals in their merger principals. LEOFF 1 members are concerned about this merger as this bill does not adhere to all of the principals in their merger principals document. Law enforcement officers and police officers do not receive social security. Teachers deserve a COLA but not on the back of LEOFF 1 members. This bill has not been through the select committee and there is not yet an opinion on the legality of this bill. The actuarial analysis is not complete and is based on a lot of assumptions. Not all medical benefits are addressed.

OTHER: There are some concerns about the mechanisms that are being used and we think the approach being used in SB 5113 is the right approach. Workers in primarily female dominated professions like education would work and provide essential services to the people of the state at a reduced salary compared to jobs that require a similar education level or experience and in exchange they are promised a secure retirement. The value of this retirement has eroded over time. We support measures that eliminate unfunded programs but are concerned about potential downturns in the market that could lead to an unfunded liability.

Persons Testifying: PRO: Peter Diedrick, Washington State School Retirees' Association; Clair Olivers, Retired Public Employees Council of WA.

CON: Michael Duchemin, Retired Firefighters of Washington; Dennis Lawson, Washington State Council of Fire Fighters; Joyce Willms, LEOFF1 Coalition; Teresa Taylor, WACOPS - Washington Council of Police and Sheriffs; Michael McKinley.

OTHER: Jared Mason-Gere, Washington Education Association; Candice Bock, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: No one.