

SENATE BILL REPORT

SB 5357

As of January 23, 2025

Title: An act relating to actuarial funding of pension systems.

Brief Description: Concerning actuarial funding of pension systems.

Sponsors: Senators Conway and Nobles; by request of Office of Financial Management.

Brief History:

Committee Activity: Ways & Means: 1/23/25.

Brief Summary of Bill

- Resets rates for past benefit enhancements and amortizes the cost over a 15-year period.
- Provides that cost of new Public Employees' Retirement System and Teachers' Retirement System Plan 1 benefit improvements be amortized over a 15-year period.
- Modifies rates set by the Pension Funding Council for the 2025-2027 fiscal biennium.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Amanda Cecil (786-7460)

Background: Pension Funding Council and Pension Rate Setting. 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, 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, PFC adopts pension contribution rates for the subsequent fiscal biennium based on the adopted assumptions and updated actual experience. Pension contribution rates set by PFC may be

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changed by the Legislature.

The following rates were adopted by the funding council 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% |

Unfunded Actuarial Accrued Liability Rates. 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 UAAL rate paid by employers for employees covered by PERS, TRS, School Employees' Retirement System (SERS), and the Public Safety Employees' Retirement System (PSERS) Plans 2 and 3.

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.

Benefit Enhancement Rates. 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, TRS, SERS, and PSERS Plans 2 and 3 over a fixed ten-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 fiscal year 2029 and be completely retired after fiscal year 2034.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): The current supplemental pension contribution rate for benefit improvements enacted between 2018 and 2024 reset and reamortized over a 15-year period as follows:

- the PERS Plan 1 rate is reduced from 0.55 percent to 0.26 percent; and
- the TRS Plan 1 rate is reduced from 1.1 percent to 0.51 percent.

The cost of new PERS Plan 1 and TRS Plan 1 benefit improvements will be amortized over a fixed 15-year period instead of the current ten-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 normal rate is reduced by 0.29 percent, for a new total employer rate of 7.62 percent in fiscal year 2026 and 6.62 percent in fiscal year 2027;
- for PSERS, the normal rate is increased by 0.04 percent, for a new total employer rate of 8.87 percent in fiscal year 2026 and 7.87 percent in fiscal year 2027;
- for SERS, the normal rate is reduced by 0.35 percent, for a new total employer rate of 9.00 percent in fiscal year 2026 and 8.00 percent in fiscal year 2027;
- for TRS, the normal rate is reduced by 0.21 percent, for a new total employer rate of 8.46 percent in fiscal years 2026 and 2027; and
- for the Washington State Patrol Retirement System, the normal rate is reduced by 1.36 percent, for a new total employer rate of 16.35 percent in fiscal years 2026 and 2027.

The Plans 2 member contribution rates are modified as follows:

- for PERS, the rate is reduced by 0.29 percent, for a new rate of 5.86 percent in fiscal year 2026 and fiscal year 2027;
- for PSERS, the rate is increased by 0.04 percent, for a new rate of 7.11 percent in fiscal year 2026 and fiscal year 2027;
- for SERS, the normal rate is reduced by 0.35 percent, for a new total employer rate of 7.24 percent in fiscal year 2026 and fiscal year 2027; and

- for TRS, the normal rate is reduced by 0.21 percent, for a new total employer rate of 7.95 percent in fiscal years 2026 and 2027.

Appropriation: None.

Fiscal Note: Available.

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

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

Staff Summary of Public Testimony On Proposed Substitute: PRO: The substitute aligns with what was funded in the Governor's budget. The amortization period accelerates the funding of future benefits and recognizes full funding of Plan 1 benefits. There has been an update of the state actuary and replaces the preliminary estimate.

CON: We oppose reamortizing without a COLA, it is a bad idea. This bill would take a cost saving measure of reamortization without restoring an ongoing COLA. This bill will make things look better than they are and will not allow an apples to apples comparison to prior periods. Manipulating the system in the way the bill does is fiscally irresponsible and deceptive.

Persons Testifying: PRO: Sheri Sawyer, Office of Financial Management; Marcus Ehrlander, Office of Financial Management.

CON: Emmett Mills, Washington State School Retirees' Association; Michael McKinley.

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