FINAL BILL REPORT
ESSB 5294

Brief Description: Concerning actuarial funding of state retirement systems.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Rolfes and Van De Wege; by request of Office of Financial Management).

Senate Committee on Ways & Means
House Committee on Appropriations

Background: The Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) closed to new members in 1997. 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.

After those plans closed, a system to fund the unfunded portion of the liabilities associated with PERS 1 and TRS 1 was developed and refined. The existing funding method, largely created in Chapter 561, Laws of 2009, established an unfunded actuarial accrued liability (UAAL) rate. This rate is set biennially based on a rolling 10-year period, subject to a minimum contribution rate of 3.5 percent for PERS 1 and 5.75 percent for TRS 1. This rate is collected in addition to the base funding rates and are only paid by employers for all employees in TRS for TRS 1, and by employers on all employees in PERS, the School Employees' Retirement System, and the Public Safety Employees' Retirement System for PERS 1. The law provides that these rates will be collected until the plan reaches a funded status of 100 percent.

The UAAL cost related to benefit enhancements enacted after 2009 are covered through a supplemental rate in excess of the UAAL rate minimums.

Total pension rates are set by the Pension Funding Council (PFC) in July of even numbered years for the subsequent biennia and in part are based on the most current actual valuation. Current estimates by the Office of the State Actuary (OSA) show that under the current rate setting methodology, the PERS 1 and TRS 1 may be significantly overfunded by 2027 and beyond. As a result, in July 2022, the PFC directed OSA to review the appropriateness of the current UAAL funding policy and consider options to reduce the risk of underfunding or overfunding and work to achieve employer rate and budget stability and predictability.

OSA reported its findings to the Legislature on January 13, 2023.

In the 2021-23 Biennial Operating Budget, $800 million was appropriated for deposit on June 30,2023, into the TRS 1 fund to increase the funded status of the plan. Based on current actuarial projections this amount is expected to exceed the total UAAL on that date.

Summary: The existing minimum UAAL rates end after fiscal year (FY) 23. The following UAAL contribution rates are established, for TRS 1:

TRS 1			
FY 2024	FY 2025	FY 2026	FY 2027
0.5%	0.5%	0.0%	0.0%

PERS 1			
FY 2024	FY 2025	FY 2026	FY 2027
2.5%	2.0%	1.5%	0.5%

Beginning July 1, 2027, a new minimum UAAL rate is established for both TRS 1 and PERS 1 of 0.5 percent.

The scheduled payment of $800 million into the TRS 1 fund is reduced to $250 million.

Votes on Final Passage:

Senate	48	0	
House	98	0	(House amended)
			(Senate refuses to concur in House amendments. Asks House to recede from amendments.)
House	97	0	(House concurred)

Effective: The bill contains an emergency clause and takes effect on June 30, 2023.