
HOUSE BILL 1459

State of Washington

68th Legislature

2023 Regular Session

By Representatives Stokesbary and Ormsby

1 AN ACT Relating to providing an annual adjustment in the public
2 employees' retirement system and teachers' retirement system plan 1
3 benefits capped at \$110 per month by adjusting the long-term
4 investment rate of return assumption; amending RCW 41.45.035; adding
5 a new section to chapter 41.32 RCW; adding a new section to chapter
6 41.40 RCW; creating new sections; providing an effective date; and
7 declaring an emergency.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

9 NEW SECTION. **Sec. 1.** The legislature finds that beneficiaries
10 receiving a monthly benefit from the public employees' retirement
11 system plan 1 and the teachers' retirement system plan 1 have
12 experienced a loss of purchasing power due to rising inflation.
13 Certain beneficiaries do not receive annual increases; providing an
14 ongoing limited cost-of-living adjustment helps address
15 beneficiaries' loss of purchasing power. In recent years these plans
16 have benefited from extraordinary investment return, and are
17 projected to be more than fully funded in the years ahead. In 2021,
18 the pension funding council recommended lowering the long-term rate
19 of investment return from 7.5 to 7.0 percent, consistent with the
20 state investment's board's recommendations about future returns, but
21 in contrast with the state investment board's historical performance

1 which has continued to climb to above nine percent since the
2 management of the pension funds began. The legislature determines
3 that lowering the investment rate of return was prudent, but the
4 pension funding council's recommendation does not need to be fully
5 implemented at this time. As the council will continue to review the
6 rates of return every two years, as required by current law,
7 additional adjustments may be needed in future years. Therefore, it
8 is the intent of the legislature to align both monthly benefit
9 adjustments and the long-term investment rate of return assumptions
10 more closely in line with actual economic and financial experience.
11 The changes to expectations about investment return and future
12 benefit increases in this act are part of an integrated decision by
13 the legislature in balancing the future funding of the public
14 employees' and teachers' retirement system plans 1, and should,
15 consistent with the plain language of this act, be considered
16 nonseverable.

17 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32
18 RCW to read as follows:

19 (1) Beginning July 1, 2023, and July 1st each year thereafter,
20 the department shall determine the following information for each
21 plan 1 retired member or beneficiary whose retirement allowance has
22 been in effect for at least one year:

23 (a) The original dollar amount of the retirement allowance as of
24 June 30, 2023, or the effective date of retirement, whichever is
25 later;

26 (b) The index for the calendar year prior to July 1, 2022, or the
27 effective date of the retirement allowance, whichever is later, to be
28 known as "index A";

29 (c) The index for the calendar year prior to the date of
30 determination, to be known as "index B"; and

31 (d) The ratio obtained when index B is divided by index A.

32 (2) The value of the ratio obtained is the annual adjustment to
33 the original retirement allowance and must be applied beginning with
34 the July payment. In no event, however, may the annual adjustment:

35 (a) Produce a retirement allowance which is lower than the
36 original retirement allowance;

37 (b) Exceed three percent in the initial annual adjustment;

38 (c) Differ from the previous year's annual adjustment by more
39 than three percent; or

1 (d) Increase the beneficiaries' monthly benefit by more than \$110
2 from the previous year's monthly benefit.

3 (3) For the purposes of this section, "index" means, for any
4 calendar year, that year's average consumer price index, Seattle,
5 Washington area for urban wage earners and clerical workers, all
6 items, compiled by the bureau of labor statistics, United States
7 department of labor.

8 (4) The legislature reserves the right to amend or repeal this
9 section in the future and no member or beneficiary has a contractual
10 right to receive this postretirement adjustment not granted prior to
11 that time.

12 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40
13 RCW to read as follows:

14 (1) Beginning July 1, 2023, and July 1st each year thereafter,
15 the department shall determine the following information for each
16 plan 1 retired member or beneficiary whose retirement allowance has
17 been in effect for at least one year:

18 (a) The original dollar amount of the retirement allowance as of
19 June 30, 2023, or the effective date of retirement, whichever is
20 later;

21 (b) The index for the calendar year prior to July 1, 2022, or the
22 effective date of the retirement allowance, whichever is later, to be
23 known as "index A";

24 (c) The index for the calendar year prior to the date of
25 determination, to be known as "index B"; and

26 (d) The ratio obtained when index B is divided by index A.

27 (2) The value of the ratio obtained is the annual adjustment to
28 the original retirement allowance and must be applied beginning with
29 the July payment. In no event, however, may the annual adjustment:

30 (a) Produce a retirement allowance which is lower than the
31 original retirement allowance;

32 (b) Exceed three percent in the initial annual adjustment;

33 (c) Differ from the previous year's annual adjustment by more
34 than three percent; or

35 (d) Increase the beneficiaries' monthly benefit by more than \$110
36 from the previous year's monthly benefit.

37 (3) For the purposes of this section, "index" means, for any
38 calendar year, that year's average consumer price index, Seattle,
39 Washington area for urban wage earners and clerical workers, all

1 items, compiled by the bureau of labor statistics, United States
2 department of labor.

3 (4) The legislature reserves the right to amend or repeal this
4 section in the future and no member or beneficiary has a contractual
5 right to receive this postretirement adjustment not granted prior to
6 that time.

7 **Sec. 4.** RCW 41.45.035 and 2016 sp.s. c 36 s 922 are each amended
8 to read as follows:

9 (1) Beginning July 1, 2001, the following long-term economic
10 assumptions shall be used by the state actuary for the purposes of
11 RCW 41.45.030:

12 (a) The growth in inflation assumption shall be 3.5 percent;

13 (b) The growth in salaries assumption, exclusive of merit or
14 longevity increases, shall be 4.5 percent;

15 (c) The investment rate of return assumption shall be 8 percent;

16 (d) The growth in system membership assumption shall be 1.25
17 percent for the public employees' retirement system, the public
18 safety employees' retirement system, the school employees' retirement
19 system, and the law enforcement officers' and firefighters'
20 retirement system. The assumption shall be .90 percent for the
21 teachers' retirement system; and

22 (e) From July 1, 2016, until July 1, 2017, the growth in system
23 membership for the teachers' retirement system shall be 1.25 percent.
24 It is the intent of the legislature to continue this growth rate
25 assumption in the 2017-2019 fiscal biennium.

26 (2) Beginning July 1, 2009, the growth in salaries assumption for
27 the public employees' retirement system, the public safety employees'
28 retirement system, the teachers' retirement system, the school
29 employees' retirement system, plan 1 of the law enforcement officers'
30 and firefighters' retirement system, and the Washington state patrol
31 retirement system, exclusive of merit or longevity increases, shall
32 be the sum of:

33 (a) The growth in inflation assumption in subsection (1)(a) of
34 this section; and

35 (b) The productivity growth assumption of 0.5 percent.

36 (3) The following investment rate of return assumptions for the
37 public employees' retirement system, the public safety employees'
38 retirement system, the teachers' retirement system, the school
39 employees' retirement system, plan 1 of the law enforcement officers'

1 and firefighters' retirement system, and the Washington state patrol
2 retirement system, shall be used by the state actuary for the
3 purposes of RCW 41.45.030:

4 (a) Beginning July 1, 2013, the investment rate of return
5 assumption shall be 7.9 percent.

6 (b) Beginning July 1, 2015, the investment rate of return
7 assumption shall be 7.8 percent.

8 (c) Beginning July 1, 2017, the investment rate of return
9 assumption shall be 7.7 percent.

10 (d) Beginning July 1, 2023, the investment rate of return
11 assumption shall be 7.2 percent.

12 (e) For valuation purposes, the state actuary shall only use the
13 assumptions in (a) through (~~(e)~~) (d) of this subsection after the
14 effective date in (a) through (~~(e)~~) (d) of this subsection.

15 (~~(e)~~) (f) By June 1, 2017, the state actuary shall submit to
16 the council information regarding the experience and financial
17 condition of each state retirement system, and make recommendations
18 regarding the long-term investment rate of return assumptions set
19 forth in this subsection. The council shall review this and such
20 other information as it may require.

21 (4)(a) Beginning with actuarial studies done after July 1, 2003,
22 changes to plan asset values that vary from the long-term investment
23 rate of return assumption shall be recognized in the actuarial value
24 of assets over a period that varies up to eight years depending on
25 the magnitude of the deviation of each year's investment rate of
26 return relative to the long-term rate of return assumption. Beginning
27 with actuarial studies performed after July 1, 2004, the actuarial
28 value of assets shall not be greater than one hundred thirty percent
29 of the market value of assets as of the valuation date or less than
30 seventy percent of the market value of assets as of the valuation
31 date. Beginning April 1, 2004, the council, by affirmative vote of
32 four councilmembers, may adopt changes to this asset value smoothing
33 technique. Any changes adopted by the council shall be subject to
34 revision by the legislature.

35 (b) The state actuary shall periodically review the
36 appropriateness of the asset smoothing method in this section and
37 recommend changes to the council as necessary. Any changes adopted by
38 the council shall be subject to revision by the legislature.

1 NEW SECTION. **Sec. 5.** If any provision of this act or its
2 application to any person or circumstance is held invalid, the
3 remainder of the entire act and the application of the provision to
4 other persons or circumstances is invalid and of no further force and
5 effect.

6 NEW SECTION. **Sec. 6.** This act is necessary for the immediate
7 preservation of the public peace, health, or safety, or support of
8 the state government and its existing public institutions, and takes
9 effect July 1, 2023.

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