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**SECOND SUBSTITUTE HOUSE BILL 1661**

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**State of Washington**

**66th Legislature**

**2020 Regular Session**

**By** House Appropriations (originally sponsored by Representatives Chandler and Ormsby)

1 AN ACT Relating to the higher education retirement plans;  
2 amending RCW 28B.10.423, 41.45.050, 41.45.060, and 41.50.075; adding  
3 a new section to chapter 41.50 RCW; creating a new section; providing  
4 an effective date; and declaring an emergency.

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

6 NEW SECTION. **Sec. 1.** It is the intent of the legislature to  
7 establish contribution rates for each separate higher education  
8 plan's supplemental benefit. The rates established in this act are  
9 subject to periodic revision by the pension funding council as  
10 experience and new actuarial analysis becomes available to maintain  
11 progress towards funding the actuarial liabilities that each  
12 institution has for these benefits. At such time that the council  
13 determines an institution has sufficient assets, as specified in RCW  
14 28B.10.423(4)(g)(i) in the higher education retirement plan  
15 supplemental benefit fund, responsibility for administering and  
16 distributing all supplemental benefits for that institution will  
17 transition to the department of retirement systems and benefit  
18 payments will be made solely from that institution's portion of the  
19 higher education retirement plan supplemental benefit fund. Future  
20 contribution rates will represent the cost of paying on a combined  
21 prefunded and pay-as-you-go basis, as adopted by the council, with

1 the goal of reducing the year-to-year changes in cost that the higher  
2 education retirement plan supplemental benefit has under current law.

3 **Sec. 2.** RCW 28B.10.423 and 2012 c 229 s 516 are each amended to  
4 read as follows:

5 (1) For employees who are first employed by an institution of  
6 higher education in a position eligible for participation in an old  
7 age annuities or retirement income plan under this chapter prior to  
8 July 1, 2011, it is the intent of RCW 28B.10.400, 28B.10.405,  
9 28B.10.410, 28B.10.415, and 28B.10.420(~~(7)~~) and (~~(28B.10.423)~~) this  
10 section that the retirement income resulting from the contributions  
11 described herein from the state of Washington and the employee shall  
12 be projected actuarially so that it shall not exceed sixty percent of  
13 the average of the highest two consecutive years salary. Periodic  
14 review of the retirement systems established pursuant to RCW  
15 28B.10.400, 28B.10.405, 28B.10.410, 28B.10.415, and 28B.10.420(~~(7)~~)  
16 and (~~(28B.10.423)~~) this section will be undertaken at such time and  
17 in such manner as determined by the committees on ways and means of  
18 the senate and of the house of representatives, the select committee  
19 on pension policy, and the pension funding council, and joint  
20 contribution rates will be adjusted if necessary to accomplish this  
21 intent.

22 (2) Beginning July 1, 2011, state funding for annuity or  
23 retirement income plans under RCW 28B.10.400 shall not exceed six  
24 percent of salary. The state board for community and technical  
25 colleges and the student achievement council are exempt from the  
26 provisions of this subsection (2).

27 (3) By June 30, 2013, and every two years thereafter, each  
28 institution of higher education that is responsible for payment of  
29 supplemental amounts under RCW 28B.10.400(1)(c) shall contract with  
30 the state actuary under chapter 41.44 RCW for an actuarial valuation  
31 of their supplemental benefit plan. By June 30, 2013, and at least  
32 once every six years thereafter, each institution shall also contract  
33 with the state actuary under chapter 41.44 RCW for an actuarial  
34 experience study of the mortality, service, compensation, and other  
35 experience of the annuity or retirement income plans created in this  
36 chapter, and into the financial condition of each system. At the  
37 discretion of the state actuary, the valuation or experience study  
38 may be performed by the state actuary or by an outside actuarial firm  
39 under contract to the office of the state actuary. Each institution

1 of higher education is required to provide the data and information  
2 required for the performance of the valuation or experience study to  
3 the office of the state actuary or to the actuary performing the  
4 study on behalf of the state actuary. The state actuary may charge  
5 each institution for the actual cost of the valuation or experience  
6 study through an interagency agreement. Upon completion of the  
7 valuation or experience study, the state actuary shall provide copies  
8 of the study to the institution of higher education and to the select  
9 committee on pension policy and the pension funding council.

10 (4) (a) A higher education retirement plan supplemental benefit  
11 fund (~~(is)~~) was created in the custody of the state treasurer in this  
12 section for the purpose of funding future benefit obligations of  
13 higher education retirement plan supplemental benefits. The creation  
14 of the fund is moved to RCW 41.50.075, so that along with the other  
15 defined benefit funds of the state retirement systems, the fund may  
16 be administered and invested along with the other funds of the state  
17 retirement systems. The state investment board has the full power to  
18 invest, reinvest, manage, contract, sell, or exchange investment  
19 money in the fund.

20 (b) From January 1, 2012, through June 30, 2013, an employer  
21 contribution rate of one-quarter of one percent of salary is  
22 established to begin prefunding the unfunded future obligations of  
23 the supplemental benefit established in RCW 28B.10.400.

24 (c) Beginning July 1, 2013, an employer contribution rate of one-  
25 half of one percent of salary is established to prefund the unfunded  
26 future obligations of the supplemental benefit established in RCW  
27 28B.10.400.

28 (d) (i) Beginning July 1, 2020, the employer contribution rates  
29 for each state institution of higher education are as follows:

30 University of Washington: 0.38 percent

31 Washington State University: 0.30 percent

32 Western Washington University: 0.21 percent

33 Eastern Washington University: 0.28 percent

34 Central Washington University: 0.28 percent

35 The Evergreen State College: 0.23 percent

36 State board for community and technical colleges: 0.13 percent

37 (ii) The contribution rates established in this section may be  
38 changed by rates adopted by the pension funding council beginning  
39 July 1, 2021, consistent with (f) of this subsection.

1 (iii) For purposes of budgeting the cost of the contribution  
2 rates in this subsection (4), and as they may be changed by the  
3 pension funding council, the higher education retirement plan  
4 supplemental benefit contribution rates are subject to the limit  
5 established in subsection (2) of this section.

6 (e) Consistent with chapter 41.50 RCW, the department of  
7 retirement systems shall collect the employer contribution rates  
8 established in this section from each state institution of higher  
9 education, and deposit those contributions into the higher education  
10 retirement plan supplemental benefit fund. The contributions made by  
11 each employer into the higher education retirement plan supplemental  
12 benefit fund and the earnings on those contributions shall be  
13 accounted for separately within the fund.

14 ~~((e))~~ (f) Following the completion and review of the  
15 ~~((initial))~~ most recent actuarial valuations and experience study  
16 conducted pursuant to subsection (3) of this section, the pension  
17 funding council may, by no later than July 31, 2020, and every two  
18 years thereafter:

19 (i) Adopt and make changes to the employer contribution rates  
20 established in this subsection consistent with the procedures  
21 established in chapter 41.45 RCW. If the actuarial valuations of the  
22 higher education retirement plans of each institution contributing to  
23 the higher education retirement plan supplemental benefit fund  
24 suggest that different contribution rates are appropriate for each  
25 institution, different rates may be adopted. Rates adopted by the  
26 pension funding council are subject to revision by the legislature;

27 (ii) Recommend legislation that will, upon accumulation of  
28 sufficient funding in the higher education retirement plan  
29 supplemental benefit fund, transfer the responsibility for making  
30 supplemental benefit payments to the department of retirement  
31 systems, and adjust employer contribution rates to reflect the  
32 transfer of responsibility.

33 (g)(i) The rates adopted by the pension funding council must be  
34 designed to keep the cost of the higher education retirement plan  
35 supplemental benefits at a more level percentage of pay than a pay-  
36 as-you-go method. This more level percentage of pay of costs means a  
37 combination of the cost of supplemental benefits paid by the  
38 institution directly or indirectly on a pay-as-you-go basis, plus the  
39 cost of contributions to the higher education retirement plan  
40 supplemental benefit fund, on an annual basis. Contributions shall

1 continue until the projected value of the funds equals the projected  
2 cost of future benefits for the institution.

3 (ii) Funds are anticipated to be accumulated in the higher  
4 education retirement plan supplemental benefit fund, and not expended  
5 on benefits until approximately the year 2030.

6 (iii) The pension funding council, in consultation with the state  
7 actuary, may choose and occasionally revise, a funding method  
8 designed to achieve these objectives.

9 **Sec. 3.** RCW 41.45.050 and 2004 c 242 s 38 are each amended to  
10 read as follows:

11 (1) Employers of members of the public employees' retirement  
12 system, the teachers' retirement system, the school employees'  
13 retirement system, the public safety employees' retirement system,  
14 (~~and~~) the Washington state patrol retirement system, and the higher  
15 education retirement plans shall make contributions to those systems  
16 and plans based on the rates established in RCW 41.45.060 and  
17 41.45.070.

18 (2) The state shall make contributions to the law enforcement  
19 officers' and firefighters' retirement system plan 2 based on the  
20 rates established in RCW 41.45.060 and 41.45.070. The state treasurer  
21 shall transfer the required contributions each month on the basis of  
22 salary data provided by the department.

23 (3) The department shall bill employers, and the state shall make  
24 contributions to the law enforcement officers' and firefighters'  
25 retirement system plan 2, using the combined rates established in RCW  
26 41.45.060 and 41.45.070 regardless of the level of appropriation  
27 provided in the biennial budget. Any member of an affected retirement  
28 system may, by mandamus or other appropriate proceeding, require the  
29 transfer and payment of funds as directed in this section.

30 (4) The contributions received for the public employees'  
31 retirement system shall be allocated between the public employees'  
32 retirement system plan 1 fund and the public employees' retirement  
33 system combined plan 2 and plan 3 fund as follows: The contributions  
34 necessary to fully fund the public employees' retirement system  
35 combined plan 2 and plan 3 employer contribution shall first be  
36 deposited in the public employees' retirement system combined plan 2  
37 and plan 3 fund. All remaining public employees' retirement system  
38 employer contributions shall be deposited in the public employees'  
39 retirement system plan 1 fund.

1 (5) The contributions received for the teachers' retirement  
2 system shall be allocated between the plan 1 fund and the combined  
3 plan 2 and plan 3 fund as follows: The contributions necessary to  
4 fully fund the combined plan 2 and plan 3 employer contribution shall  
5 first be deposited in the combined plan 2 and plan 3 fund. All  
6 remaining teachers' retirement system employer contributions shall be  
7 deposited in the plan 1 fund.

8 (6) The contributions received for the school employees'  
9 retirement system shall be allocated between the public employees'  
10 retirement system plan 1 fund and the school employees' retirement  
11 system combined plan 2 and plan 3 fund as follows: The contributions  
12 necessary to fully fund the combined plan 2 and plan 3 employer  
13 contribution shall first be deposited in the combined plan 2 and plan  
14 3 fund. All remaining school employees' retirement system employer  
15 contributions shall be deposited in the public employees' retirement  
16 system plan 1 fund.

17 (7) The contributions received for the law enforcement officers'  
18 and firefighters' retirement system plan 2 shall be deposited in the  
19 law enforcement officers' and firefighters' retirement system plan 2  
20 fund.

21 (8) The contributions received for the public safety employees'  
22 retirement system shall be allocated between the public employees'  
23 retirement system plan 1 fund and the public safety employees'  
24 retirement system plan 2 fund as follows: The contributions necessary  
25 to fully fund the plan 2 employer contribution shall first be  
26 deposited in the plan 2 fund. All remaining public safety employees'  
27 retirement system employer contributions shall be deposited in the  
28 public employees' retirement system plan 1 fund.

29 (9) The contributions received for the higher education  
30 retirement plan supplemental benefit fund shall be deposited in the  
31 fund and amounts received from each institution accounted for  
32 separately and shall only be used to make benefit payments to the  
33 beneficiaries of that institution's plan.

34 **Sec. 4.** RCW 41.45.060 and 2009 c 561 s 3 are each amended to  
35 read as follows:

36 (1) The state actuary shall provide preliminary actuarial  
37 valuation results based on the economic assumptions and asset value  
38 smoothing technique included in RCW 41.45.035 or adopted under RCW  
39 41.45.030 or 41.45.035.

1 (2) Not later than July 31, 2008, and every two years thereafter,  
2 consistent with the economic assumptions and asset value smoothing  
3 technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or  
4 41.45.035, the council shall adopt and may make changes to:

5 (a) A basic state contribution rate for the law enforcement  
6 officers' and firefighters' retirement system plan 1;

7 (b) Basic employer contribution rates for the public employees'  
8 retirement system, the teachers' retirement system, and the  
9 Washington state patrol retirement system; and

10 (c) Basic employer contribution rates for the school employees'  
11 retirement system and the public safety employees' retirement system  
12 for funding both those systems and the public employees' retirement  
13 system plan 1.

14 The council may adopt annual rate changes for any plan for any  
15 rate-setting period. The contribution rates adopted by the council  
16 shall be subject to revision by the legislature.

17 (3) The employer and state contribution rates adopted by the  
18 council shall be the level percentages of pay that are needed:

19 (a) To fully amortize the total costs of the law enforcement  
20 officers' and firefighters' retirement system plan 1 not later than  
21 June 30, 2024;

22 (b) To fully fund the public employees' retirement system plans 2  
23 and 3, the teachers' retirement system plans 2 and 3, the public  
24 safety employees' retirement system plan 2, and the school employees'  
25 retirement system plans 2 and 3 in accordance with RCW 41.45.061,  
26 41.45.067, and this section; and

27 (c) To fully fund the public employees' retirement system plan 1  
28 and the teachers' retirement system plan 1 in accordance with RCW  
29 41.45.070, 41.45.150, and this section.

30 (4) The aggregate actuarial cost method shall be used to  
31 calculate a combined plan 2 and 3 normal cost, a Washington state  
32 patrol retirement system normal cost, and a public safety employees'  
33 retirement system normal cost.

34 (5) A modified entry age normal cost method, as set forth in this  
35 chapter, shall be used to calculate employer contributions to the  
36 public employees' retirement system plan 1 and the teachers'  
37 retirement system plan 1.

38 (6) The employer contribution rate for the public employees'  
39 retirement system and the school employees' retirement system shall  
40 equal the sum of:

1 (a) The amount required to pay the combined plan 2 and plan 3  
2 normal cost for the system, subject to any minimum rates applied  
3 pursuant to RCW 41.45.155; plus

4 (b) The amount required to amortize the unfunded actuarial  
5 accrued liability in plan 1 of the public employees' retirement  
6 system over a rolling ten-year period using projected future salary  
7 growth and growth in system membership, and subject to any minimum or  
8 maximum rates applied pursuant to RCW 41.45.150; plus

9 (c) The amounts required to amortize the costs of any benefit  
10 improvements in plan 1 of the public employees' retirement system  
11 that become effective after June 30, 2009. The cost of each benefit  
12 improvement shall be amortized over a fixed ten-year period using  
13 projected future salary growth and growth in system membership. The  
14 amounts required under this subsection are not subject to, and are  
15 collected in addition to, any minimum or maximum rates applied  
16 pursuant to RCW 41.45.150.

17 (7) The employer contribution rate for the public safety  
18 employees' retirement system shall equal the sum of:

19 (a) The amount required to pay the normal cost for the system,  
20 subject to any minimum rates applied pursuant to RCW 41.45.155; plus

21 (b) The amount required to amortize the unfunded actuarial  
22 accrued liability in plan 1 of the public employees' retirement  
23 system over a rolling ten-year period using projected future salary  
24 growth and growth in system membership, and subject to any minimum or  
25 maximum rates applied pursuant to RCW 41.45.150; plus

26 (c) The amounts required to amortize the costs of any benefit  
27 improvements in plan 1 of the public employees' retirement system  
28 that become effective after June 30, 2009. The cost of each benefit  
29 improvement shall be amortized over a fixed ten-year period using  
30 projected future salary growth and growth in system membership. The  
31 amounts required under this subsection are not subject to, and are  
32 collected in addition to, any minimum or maximum rates applied  
33 pursuant to RCW 41.45.150.

34 (8) The employer contribution rate for the teachers' retirement  
35 system shall equal the sum of:

36 (a) The amount required to pay the combined plan 2 and plan 3  
37 normal cost for the system, subject to any minimum rates applied  
38 pursuant to RCW 41.45.155; plus

39 (b) The amount required to amortize the unfunded actuarial  
40 accrued liability in plan 1 of the teachers' retirement system over a

1 rolling ten-year period using projected future salary growth and  
2 growth in system membership, and subject to any minimum or maximum  
3 rates applied pursuant to RCW 41.45.150; plus

4 (c) The amounts required to amortize the costs of any benefit  
5 improvements in plan 1 of the teachers' retirement system that become  
6 effective after June 30, 2009. The cost of each benefit improvement  
7 shall be amortized over a fixed ten-year period using projected  
8 future salary growth and growth in system membership. The amounts  
9 required under this subsection are not subject to, and are collected  
10 in addition to, any minimum or maximum rates applied pursuant to RCW  
11 41.45.150.

12 (9) The employer contribution rate for each of the institutions  
13 of higher education for the higher education supplemental retirement  
14 benefits must be sufficient to fund, as a reasonably level percentage  
15 of pay, a portion of the projected cost of the supplemental  
16 retirement benefits for the institution beginning in 2035, with the  
17 other portion supported on a pay-as-you-go basis, either as direct  
18 payments by each institution to retirees, or as contributions to the  
19 higher education retirement plan supplemental benefit fund.  
20 Contributions must continue until the council determines that the  
21 institution for higher education supplemental retirement benefit  
22 liabilities are satisfied.

23 (10) The council shall immediately notify the directors of the  
24 office of financial management and department of retirement systems  
25 of the state and employer contribution rates adopted. The rates shall  
26 be effective for the ensuing biennial period, subject to any  
27 legislative modifications.

28 ~~((10))~~ (11) The director shall collect those rates adopted by  
29 the council. The rates established in RCW 41.45.062, or by the  
30 council, shall be subject to revision by the legislature.

31 ~~((11))~~ (12) The state actuary shall prepare final actuarial  
32 valuation results based on the economic assumptions, asset value  
33 smoothing technique, and contribution rates included in or adopted  
34 under RCW 41.45.030, 41.45.035, and this section.

35 **Sec. 5.** RCW 41.50.075 and 2004 c 242 s 44 are each amended to  
36 read as follows:

37 (1) Two funds are hereby created and established in the state  
38 treasury to be known as the Washington law enforcement officers' and  
39 firefighters' system plan 1 retirement fund, and the Washington law

1 enforcement officers' and firefighters' system plan 2 retirement fund  
2 which shall consist of all moneys paid into them in accordance with  
3 the provisions of this chapter and chapter 41.26 RCW, whether such  
4 moneys take the form of cash, securities, or other assets. The plan 1  
5 fund shall consist of all moneys paid to finance the benefits  
6 provided to members of the law enforcement officers' and  
7 firefighters' retirement system plan 1, and the plan 2 fund shall  
8 consist of all moneys paid to finance the benefits provided to  
9 members of the law enforcement officers' and firefighters' retirement  
10 system plan 2.

11 (2) All of the assets of the Washington state teachers'  
12 retirement system shall be credited according to the purposes for  
13 which they are held, to two funds to be maintained in the state  
14 treasury, namely, the teachers' retirement system plan 1 fund and the  
15 teachers' retirement system combined plan 2 and 3 fund. The plan 1  
16 fund shall consist of all moneys paid to finance the benefits  
17 provided to members of the Washington state teachers' retirement  
18 system plan 1, and the combined plan 2 and 3 fund shall consist of  
19 all moneys paid to finance the benefits provided to members of the  
20 Washington state teachers' retirement system plan 2 and 3.

21 (3) There is hereby established in the state treasury two  
22 separate funds, namely the public employees' retirement system plan 1  
23 fund and the public employees' retirement system combined plan 2 and  
24 plan 3 fund. The plan 1 fund shall consist of all moneys paid to  
25 finance the benefits provided to members of the public employees'  
26 retirement system plan 1, and the combined plan 2 and plan 3 fund  
27 shall consist of all moneys paid to finance the benefits provided to  
28 members of the public employees' retirement system plans 2 and 3.

29 (4) There is hereby established in the state treasury the school  
30 employees' retirement system combined plan 2 and 3 fund. The combined  
31 plan 2 and 3 fund shall consist of all moneys paid to finance the  
32 benefits provided to members of the school employees' retirement  
33 system plan 2 and plan 3.

34 (5) There is hereby established in the state treasury the public  
35 safety employees' retirement system plan 2 fund. The plan 2 fund  
36 shall consist of all moneys paid to finance the benefits provided to  
37 members of the public safety employees' retirement system plan 2.

38 (6) There is hereby established in the state treasury the higher  
39 education retirement plan supplemental benefit fund. The higher  
40 education retirement plan supplemental benefit fund shall consist of

1 all moneys paid to finance the benefits provided to members of each  
2 of the higher education retirement plans.

3 (7) The office of financial management must create individual  
4 accounts for each institution of higher education within the higher  
5 education retirement plan supplemental budget fund. For fiscal year  
6 2020 the office of financial management must transfer all the assets  
7 of the higher education retirement plan supplemental benefit fund  
8 into the individual accounts for each institution that will be used  
9 to manage the accounting for each benefit plan. The higher education  
10 retirement plan supplemental fund will include all the amounts in the  
11 individual accounts created in this subsection.

12 NEW SECTION. Sec. 6. A new section is added to chapter 41.50  
13 RCW to read as follows:

14 (1) On the July 1st of the fiscal year following a determination  
15 by the pension funding council that a higher education institution  
16 has sufficiently funded the liabilities of that institution through  
17 contributions to the higher education retirement plan supplemental  
18 benefit fund, the department shall assume responsibility for making  
19 benefit payments to higher education retirement plan supplemental  
20 beneficiaries for that institution from the portion of the higher  
21 education retirement plan supplemental benefit fund attributed to the  
22 individual institution.

23 (2) Immediately following the determination by the pension  
24 funding council under RCW 41.45.060(9) that an institution  
25 participating in the higher education retirement plan supplemental  
26 benefits has sufficiently funded the benefits of the plan that higher  
27 education institution:

28 (a) Must provide any data and assistance requested by the  
29 department to facilitate the transition of responsibility for making  
30 benefit payments to higher education retirement plan members eligible  
31 for supplemental benefit payments; and

32 (b) Is governed by the provisions of RCW 41.50.110.

33 (3) No later than upon the department's assumption of  
34 responsibility for benefit payments under subsection (1) of this  
35 section, the department shall assess contributions to the department  
36 of retirement systems' expense fund under RCW 41.50.110(3) for active  
37 participants in the higher education retirement plan. Contributions  
38 to the expense fund for higher education retirement plan members must

1 end when there are no longer retirees or beneficiaries from an  
2 institution receiving payments administered by the department.

3 (4) (a) Upon the department's assumption of responsibility for  
4 making benefit payments from an institution's higher education  
5 retirement plan, the institution shall submit to the department the  
6 benefit level for current higher education retirement plan  
7 supplemental beneficiaries, and each month following the department's  
8 assumption of responsibility for making benefit payments to an  
9 institution's higher education retirement plan supplemental  
10 beneficiaries, the institution shall submit to the department  
11 information on any new retirees covered by the higher education  
12 retirement plan supplemental benefit. The submission shall include  
13 all data relevant to the calculation of a supplemental benefit for  
14 each retiree, and the benefit that the institution determines the  
15 individual qualifies to receive. No later than January 1st, following  
16 the funding determination in RCW 41.45.060(9) that begins the  
17 transition of responsibility for benefit payments to the department,  
18 the department shall provide the institution with a notice of what  
19 data will be required to determine higher education retirement plan  
20 supplemental benefit determinations for future retirees.

21 (b) The department shall review the information provided by the  
22 institution for each retiring higher education retirement plan member  
23 eligible for the supplemental benefit and determine the supplemental  
24 benefit amount the member is eligible to receive, if any.

25 (c) In the event that the department is not provided with all  
26 data required by the notice in (a) of this subsection, the  
27 institution of higher education will remain responsible for payment  
28 of higher education retirement plan supplemental benefits to that  
29 member. In addition, the collection of overpayments and error  
30 correction provisions of this chapter apply in the event that the  
31 department makes supplemental benefit payments based on incomplete or  
32 inaccurate data provided by an institution.

33 NEW SECTION. **Sec. 7.** This act is necessary for the immediate  
34 preservation of the public peace, health, or safety, or support of  
35 the state government and its existing public institutions, and takes  
36 effect July 1, 2020.

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