

Plans 1 UAAL Payment (SB 5999)

Issue

Should money be transferred from the Budget Stabilization Account (BSA) to the Teachers' Retirement System (TRS) Plan 1 trust fund for the purpose of reducing the TRS 1 Unfunded Actuarial Accrued Liability (UAAL)?

Background

A UAAL exists any time a plan does not have sufficient assets to cover earned pension liabilities. A closed plan with a UAAL may have enough assets to pay many years' worth of benefits, but without additional contributions may eventually exhaust its assets prematurely. In Washington, only the Public Employees' Retirement System (PERS) Plan 1 and TRS 1 currently have a UAAL.

Paying off the Plans 1 UAAL requires separate contributions in addition to the normal annual contributions to the plan. These additional contributions are made by employers only. The current payment plan requires additional contributions from PERS, TRS, the School Employees' Retirement System, and the Public Safety Employees' Retirement System, employers. The expected payoff date for the PERS 1 and TRS 1 UAAL is 2026 and 2028, respectively.

Senate Bill (SB) 5999 was introduced in the 2019 Legislative Session and would transfer approximately \$184 million from the BSA to the TRS 1 trust fund for the purpose of reducing the TRS 1 UAAL.

Highlights

- ❖ Additional money in the pension system will almost always be beneficial from a funding perspective.
 - ◇ Early payments to the UAAL would result in a savings by paying off the UAAL earlier than expected under current assumptions.
 - ◇ There may be other uses for the money now that can be weighed against future savings.
- ❖ If enacted, SB 5999 would have made an early payment to the TRS 1 UAAL from the BSA.
 - ◇ An early contribution to TRS 1 would result in the most General Fund-State (GF-S) savings since TRS is mainly funded through GF-S.

Committee Activity

The Select Committee on Pension Policy held a work session on this issue at the June 2019 meeting, and a public hearing at the September 2019 meeting. No action was taken.

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