

Multiple Agency Fiscal Note Summary

Bill Number: 5085 SB	Title: Closed retirement plans
-----------------------------	---------------------------------------

Estimated Cash Receipts

NONE

Agency Name	2025-27		2027-29		2029-31	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	No fiscal impact					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Office of State Treasurer	Fiscal note not available											
Washington State Health Care Authority	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Retirement Systems	3.0	0	0	1,206,000	1.0	0	0	210,000	1.0	0	0	210,000
State Investment Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	(361,000,000)	(361,000,000)	(512,700,000)	.0	(237,400,000)	(237,400,000)	(289,500,000)	.0	(37,600,000)	(37,600,000)	(25,900,000)
Total \$	3.0	(361,000,000)	(361,000,000)	(511,494,000)	1.0	(237,400,000)	(237,400,000)	(289,290,000)	1.0	(37,600,000)	(37,600,000)	(25,690,000)

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Office of State Treasurer	Fiscal note not available								
Washington State Health Care Authority	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
State Investment Board	.0	0	0	.0	0	0	.0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Breakout

NONE

Prepared by: Marcus Ehrlander, OFM	Phone: (360) 489-4327	Date Published: Revised 2/ 3/2025
---	---------------------------------	---

Individual State Agency Fiscal Note

Bill Number: 5085 SB	Title: Closed retirement plans	Agency: 107-Washington State Health Care Authority
-----------------------------	---------------------------------------	---

Part I: Estimates

☒ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/11/2025
Agency Preparation: Kodi Campbell	Phone: 360-725-0000	Date: 01/15/2025
Agency Approval: Tanya Deuel	Phone: 360-725-0908	Date: 01/15/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/16/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

See attached narrative.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

See attached narrative

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

See attached narrative

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

The PEBB program would need to update their retiree rules in WAC 182-12-171 that refer to the LEOFF plan 1, PERS plan 1, and TRS plan 1. Will also need to update publications to include the new plan. This can be done during our existing rules and communications processes.

HCA Fiscal Note

Bill Number: **SB 5085**

HCA Request #: 25-013

Title: **Closed Retirement Plans**

Part I: Estimates

☒ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

HCA Fiscal Note

Bill Number: **SB 5085**

HCA Request #: 25-013

Title: **Closed Retirement Plans**

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Bill proposes merging retirement Plan 1 participants for PEB, SEB, Law enforcement, and firefighters into one retirement plan called the Legacy Retirement System.

Section 606 of this bill would allow the new legacy retirement system to participate in the salary reduction plan with HCA.

‘*****’

II. B - Cash Receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

NONE

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Section 606 of this bill would allow the new legacy retirement system to participate in the salary reduction plan with HCA. All three groups are currently allowed to participate in the salary reduction plan and therefore there is no fiscal impact to HCA.

Part III: Expenditure Detail

III. A - Operating Budget Expenditure

NONE

HCA Fiscal Note

Bill Number: **SB 5085**

HCA Request #: 25-013

Title: **Closed Retirement Plans**

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout: Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

The PEBB program would need to update our retiree rules in WAC 182-12-171 that refer to the LEOFF plan 1, PERS plan 1, and TRS plan 1. We will also need to update publications to include the new plan. This can be done during our existing rules and communications processes.

Individual State Agency Fiscal Note

Bill Number: 5085 SB	Title: Closed retirement plans	Agency: 124-Department of Retirement Systems
-----------------------------	---------------------------------------	---

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	3.4	2.5	3.0	1.0	1.0
Account					
Department of Retirement Systems	694,000	512,000	1,206,000	210,000	210,000
Expense Account-State 600-1					
Total \$	694,000	512,000	1,206,000	210,000	210,000

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/11/2025
Agency Preparation: Amy McMahan	Phone: 360-664-7307	Date: 01/15/2025
Agency Approval: Tracy Guerin	Phone: 360-664-7312	Date: 01/15/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/16/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

This bill amends a number of sections within various RCWs related to three of Washington State's closed retirement plans: the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 1, Teachers' Retirement System (TRS) Plan 1, and Public Employees' Retirement System (PERS) Plan 1.

Section 101 describes the legislature's findings related to the history of LEOFF Plan 1, TRS Plan 1, and PERS Plan 1, and how each plan's funding became unstable.

Section 102 captures the legislature's intention to "immediately improve the funded status" of PERS Plan 1 and TRS Plan 1 and continue its dedication to ongoing funding for LEOFF Plan 1 by merging each plan's assets, liabilities, and membership together. Within this merged plan, there will be three tiers of benefits that represent each of the individual plans, which will be implemented in a way that does not negatively impact the benefit provided. To ensure the protection of the benefits associated with each plan, subsection 102(1) through (4) outline that each plan will maintain the same benefits from the merged plan as they have been as a separate plan, any cost-of-living adjustments received act as an additional benefit improvement granted with any already existing adjustments and are intended to not serve as a trade-off that negatively impacts their benefit, and the new merged plan will be administered according to plan qualification requirements as per the Internal Revenue Service (IRS).

Subsection 201(1) declares the aforementioned merged plan to be known as the legacy retirement system. This section also mentions that all liabilities of TRS Plan 1 (201(2)(a)), LEOFF Plan 1 (201(3)(a)), and PERS Plan 1 (201(4)(a)) would be made liabilities of the legacy retirement system, save for LEOFF Plan 1 medical benefit liabilities (201(3)(b)), as these would remain with employers as defined in RCW 41.26.030(14)(a). This is repeated in sections 616, 617, 618, 619, and 620, which adds this language to impacted RCWs. Additionally, all benefits payable to members, their beneficiaries and survivors in TRS Plan 1 (201(2)(b)), LEOFF Plan 1 (201(3)(c)), and PERS Plan 1 (201(4)(b)) are to be disbursed from the legacy retirement system account.

Section 202 reiterates the three tiers of the legacy retirement system. Subsections 202(1) through (3) state that the LEOFF Plan 1 tier will consist of benefits and funding provisions as provided in their current respective RCWs.

Section 203 states that the legacy retirement system's creation does not impact the disability boards that were established by RCW 41.26.110, nor does it impact any official action taken by these boards.

Section 204 declares that, except as described in sections 401 and 404 of this bill, it is the legislature's intention to bring no alteration of any benefit as incurred by any amended or repeal sections in this language. Should there be any impacts to benefits as a result, it is considered unintentional and such impacts should be avoided. To further iterate this, subsection 301(1) instructs the agency director to administer the provisions of this bill in such a way that does not negatively impact member and survivor benefits of the merged plans. Furthermore, subsection 301(2) directs the agency director to submit a request for a determination letter, as well as a private letter ruling (301(3)), from the IRS to confirm the qualified status of the legacy retirement system and that there would be no tax consequences to any plan members from this merger.

Subsection 302(7) declares that the Department of Retirement Systems (DRS) will administer the legacy retirement system.

Subsections 303(1)(b), (2)(b) and (3)(b) declare LEOFF Plan 1, TRS Plan 1, and PERS Plan 1 respectively closed and that their assets are transferred to the new legacy retirement system. Additionally, section 303(6) establishes the legacy retirement system account within the state treasury, and this account will consist of all monies paid to fund the benefits provided to members of each impacted tier.

Subsections 401(6) and 402(6) provide an increase of 3% multiplied by their monthly benefit to retirees and survivors who are receiving a monthly benefit from TRS Plan 1 and PERS Plan 1 as of July 1, 2024, effective July 1, 2025.

Sections 403 and 404 provide a new ongoing cost-of-living-adjustment (COLA) for TRS Plan 1 and PERS Plan 1 retirees and their survivors beginning July 1, 2026, so long as their retirement allowance has been in effect for at least one year. Subsections (1) through (3) outline the formula used for calculating this COLA, with subsection (4) declaring members or beneficiaries that are receiving benefits as per RCWs 41.32.489, 41.32.540, and 41.40.1984 would not receive this new ongoing COLA.

Subsection 502(17) creates a new chapter dedicated to the benefits and funding provisions of the new legacy retirement system, which is outlined in section 701 of this act.

Subsection 505(13) calls out the contribution rate for the legacy retirement system to be charged to employers of the PERS, TRS, SERS and PSERS in the sum of (as per (505)(13)a)) the amount required to fund the new system over a 10-year rolling period using estimated growth in future salaries and system membership, and could be impacted by minimum or maximum rates as per RCW 41.45.150. Additionally, 505(13)(b) states that the amounts needed to amortize any benefit improvements within the legacy retirement system that are effective after July 1, 2027 will take place over a ten-year fixed period also utilizing projected future salaries and system membership, with the same minimums and maximums as per RCW 41.45.150.

Subsection 506(3)(b) states that the supplemental rates charged to all PERS, SERS, PSERS and TRS employers will be 0% in fiscal years 2026 and 2027. Subsection 506(3)(c) declares that as of the effective date of this section, the supplemental rate to fund the benefit increases provided to members of the legacy retirement system are to be calculated as the level percentage of all systems pay required to fund the cost of the benefit over a fixed ten-year period via projected salary growth and system membership. This supplemental rate will be charged to all PERS, SERS, PSERS, and TRS employers. Subsection (506)(5) adds that the supplemental rate that is charged for postretirement adjustments (which began on July 1, 2009) for active or retired members of PERS 1 and TRS 1, will cease as of the effective date of this section.

Subsection 702(1) declares sections 401 through 404's effective date as July 1, 2025, whereas subsection 702(3)(a) states that with the exception of sections 401 through 404 and 615, the provisions of this bill take effect at the time in which DRS receives a favorable determination letter from the IRS or September 1, 2027, whichever occurs first. With regards to the IRS determination, subsection 702(3)(b) instructs that DRS must provide written notice of the effective date to impacted parties, the chief clerk of the House of Representatives, the secretary of the Senate, the Office of the Code Reviser and others as deemed appropriate by DRS.

Lastly, if the IRS issues a determination letter stating that the legacy retirement system is in conflict with the plan qualification requirements for 401(a) governmental plans and the conflict cannot be resolved through administrative action or statutory change, subsection 703(b)(i) states that sections 401 through 404 of this bill would expire on the next June 30th following receipt of the letter or notice and, as declared in subsection 703(b)(ii), with the exception of sections 401 through 404, the provisions of this bill are null and void. At that time, DRS must provide written notice of this expiration date to impacted parties, the chief clerk of the House of Representatives, the secretary of the Senate, the Office of the Code Reviser, and others as deemed appropriate by DRS.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ADMINISTRATIVE ASSUMPTIONS FOR PLAN 1 MERGER:

- DRS confirmed with external tax counsel that the state cannot anticipate when the private letter ruling and IRS determination letter will be granted by the IRS for the new legacy retirement system. DRS is assuming that the effective date could be anywhere between January 2026 to September 2027. As a result, our fiscal note includes the cost to update our existing legacy information technology systems and our new replacement information technology systems. Note: DRS cannot complete the change on the day the letter is received and will need some time after receiving the letter to complete its implementation.
- Administering the new legacy retirement system will result in a new plan ID for tax filing purposes. Customers will receive at least two separate tax forms for this reason, as the legacy retirement system will go into effect in the middle of the tax year.
- The Unfunded Actuarial Accrued Liability (UAAL) will continue to be collected and will need to be redirected to the legacy retirement system instead of the existing accounts.
- DRS will not change the Employer Reporting Application or member/employer invoices and will continue to allow use of the current system/plan designation for LEOFF 1, PERS 1, and TRS 1. DRS will accommodate those changes internally so there is no impact to Accounts Receivable.
- Because member and employer contributions and UAAL will continue to be collected by Plan (“tier”) under the new system, additional reconciliation is expected to be required. DRS will onboard a new fiscal analyst team member to accommodate additional disbursement related activities, including but not limited to: tax reporting of a new retirement system, weekly and monthly balancing duties, reissues of retirement payments, and research of missing payments or returned payments. Additional monitoring of tax withholding paid to the IRS will also be required.

ADMINISTRATIVE ASSUMPTIONS FOR COST-OF-LIVING ADJUSTMENTS (COLAs):

- The Auto-COLA will continue to be calculated the way it is currently (separately and removing all other non-Auto-COLA benefit increases).
- Retirees who fall below the Adjusted Minimum Benefit (AMB) limit or the Basic Minimum Increase COLA (BMI) will continue to receive the ongoing CPI-based COLA unless they qualify for the AMB or BMI. Eligibility for the AMB or BMI will be determined after the ongoing COLA has been applied to the retirement benefit.
- The Office of the State Actuary (OSA) will continue to provide the COLA letter, which will include the calculated CPI amount for the Plan 1 ongoing COLA as well.
- When beneficiaries are receiving the Auto-COLA, each year’s new July ongoing CPI-based COLA will be calculated separately using the previous month’s gross benefit and then added to the Auto-COLA calculated amount each July for the total adjustment.
- If inflation for the year is above 3%, the additional amount is assumed to be applied to future adjustments consistent with the approach for PERS Plan 2/3 and TRS Plan 2/3.
- DRS will need to implement the CPI-U based COLA in both our existing legacy system and our new pension administration system.

To implement the provisions of SB 5085, DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct legal analysis, business analysis and business process design,
- Complete systems changes, which includes defining system requirements, coding system changes in our existing legacy systems and new replacement systems, testing, and deploying those changes,
- Update agency WACs,
- Update plan guides, communicate to members by mail,
- Update the DRS administrative manual and train team members,
- Update processes and templates within Fiscal and train team members,
- Update financial spreadsheets and documents including the Annual Comprehensive Financial Report (ACFR) and the Participating Employer Financial Information (PEFI),

- Work with partners to implement changes to year end reporting, and
- Onboard a new ongoing fiscal analyst team member to accommodate additional tax reporting and balancing duties.

To support this implementation, DRS will form a project team that will include a project manager, fiscal analysts/team members, business analysts, communication consultant, rules coordinator, legal and compliance manager, and retirement specialist. DRS will also partner with our vendor to create and implement these updates in our new system.

Additionally, DRS will hire a contractor to implement changes to Linux applications and seek legal advice from outside legal counsel to ensure IRS compliance as well as prepare materials to submit for the IRS private letter ruling/letter of determination.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2026	FY 2027	2025-27	2027-29	2029-31
600-1	Department of Retirement Systems Expense Account	State	694,000	512,000	1,206,000	210,000	210,000
Total \$			694,000	512,000	1,206,000	210,000	210,000

III. B - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	3.4	2.5	3.0	1.0	1.0
A-Salaries and Wages	343,000	229,000	572,000	154,000	154,000
B-Employee Benefits	109,000	76,000	185,000	56,000	56,000
C-Professional Service Contracts	236,000	172,000	408,000		
E-Goods and Other Services	6,000	35,000	41,000		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	694,000	512,000	1,206,000	210,000	210,000

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2026	FY 2027	2025-27	2027-29	2029-31
Communications Consultant 5	93,348	0.1	0.1	0.1		
Fiscal Analyst 2	59,844	0.1	0.1	0.1		
Fiscal Analyst 4	76,608	0.8	1.0	0.9	1.0	1.0
Fiscal Analyst 5	86,712	0.1		0.1		
IT Business Analyst-Journey	107,148	1.0	0.5	0.8		
IT Project Management-Mgr	136,752	0.7	0.4	0.6		
Management Analyst 5	98,040	0.3	0.1	0.2		
Retirement Specialist 3	74,724	0.2	0.1	0.2		
Total FTEs		3.4	2.5	3.0	1.0	1.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Relevant WACs will be edited to align with the provisions of this bill.

Individual State Agency Fiscal Note

Bill Number: 5085 SB	Title: Closed retirement plans	Agency: 126-State Investment Board
-----------------------------	---------------------------------------	---

Part I: Estimates

☒ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/11/2025
Agency Preparation: Cliff Hicks	Phone: (360) 956-4761	Date: 01/31/2025
Agency Approval: Cliff Hicks	Phone: (360) 956-4761	Date: 01/31/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/03/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Sec. 201. (1) - The assets, liabilities, and membership of the Law Enforcement Officers' and Firefighters' Retirement System plan 1 (LEOFF 1), the Teachers' Retirement System Plan 1 (TRS 1), and the Public Employees' Retirement System Plan 1 (PERS 1), are hereby merged into a new plan to be called the Legacy Retirement System.

Sec. 303 (1) (b) - The LEOFF 1 Fund is hereby closed, and the assets transferred to the new Legacy Retirement System account established under subsection (6) of this section.

Sec. 303 (2) (b) - The TRS 1 Fund is hereby closed, and the assets transferred to the new Legacy Retirement System account established under subsection (6) of this section.

Sec. 303 (3) (b) – The PERS 1 Fund is hereby closed, and the assets transferred to the new Legacy Retirement System account established under subsection (6) of this section.

Sec. 303 (6) - There is hereby established in the State Treasury the Legacy Retirement System Account. The account shall consist of all moneys paid to finance the benefits provided to members of the TRS Plan 1, the PERS Plan 1, and the LEOFF Plan 1 tiers of the Legacy Retirement System.

Sec. 608 - The Washington State Investment Board (WSIB) shall provide for the investment of all funds of the newly formed Legacy Retirement System.

WSIB Assumptions:

> All cash flow instructed by the Department of Retirement Systems (DRS) will be at the merged fund level, not at the tier level.

> TRS1, PRS1 and LEOFF1 will be closed and no future reporting will be required of these closed funds or at their associated tier level within the merged fund.

> All unitization and reporting will be done at the merged fund level within the current monthly, quarterly, and annual processes. No changes or updates will be required outside of the initial merger.

> The Legacy Retirement System is qualified under Section 401(a) of the U.S. Internal Revenue Code.

Therefore, the WSIB anticipates a minor fiscal impact related to the proposed legislation. The additional workload can be met with existing resources.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5085 SB	Title: Closed retirement plans	Agency: 341-Law Enforcement Officer and Fire Fighters' Plan 2 Retirement Board
-----------------------------	---------------------------------------	---

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/11/2025
Agency Preparation: Seth Flory	Phone: (360) 407-8165	Date: 01/15/2025
Agency Approval: Seth Flory	Phone: (360) 407-8165	Date: 01/15/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/16/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Senate Bill 5085 seeks to consolidate three of the State's closed retirement plans under the management of a new legacy retirement system.

This legislation does change or otherwise impact the Law Enforcement Officers' and Fire Fighters' Plan 2 Board's operations and activities.

Adopting this legislation will not have a direct fiscal impact on the agency.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5085 SB	Title: Closed retirement plans	Agency: AFN-Actuarial Fiscal Note - State Actuary
-----------------------------	---------------------------------------	--

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
Account					
All Other Funds-State 000-1	(99,300,000)	(52,400,000)	(151,700,000)	(52,100,000)	11,700,000
General Fund-State 001-1	(206,700,000)	(154,300,000)	(361,000,000)	(237,400,000)	(37,600,000)
Total \$	(306,000,000)	(206,700,000)	(512,700,000)	(289,500,000)	(25,900,000)

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/11/2025
Agency Preparation: Aaron Gutierrez	Phone: 360-786-6152	Date: 01/22/2025
Agency Approval: Lisa Won	Phone: 360-786-6150	Date: 01/22/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/23/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2026	FY 2027	2025-27	2027-29	2029-31
000-1	All Other Funds	State	(99,300,000)	(52,400,000)	(151,700,000)	(52,100,000)	11,700,000
001-1	General Fund	State	(206,700,000)	(154,300,000)	(361,000,000)	(237,400,000)	(37,600,000)
Total \$			(306,000,000)	(206,700,000)	(512,700,000)	(289,500,000)	(25,900,000)

III. B - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits	(306,000,000)	(206,700,000)	(512,700,000)	(289,500,000)	(25,900,000)
C-Professional Service Contracts					
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	(306,000,000)	(206,700,000)	(512,700,000)	(289,500,000)	(25,900,000)

III. C - Operating FTE Detail: FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.
NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill merges the PERS 1, TRS 1, and LEOFF 1 retirement plans into a new retirement system, referred to as the Legacy Retirement System (LRS), creates ongoing COLAs for PERS 1 and TRS 1, and defines rates for the 2025-27 Biennium.

COST SUMMARY

Change in Projected Plan 1 UAAL Rates				
	FY 2026	FY 2027	FY 2028	FY 2029
PERS 1	(2.05%)	(1.05%)	(0.55%)	(0.45%)
TRS 1	(1.10%)	(1.10%)	(1.10%)	(0.89%)

Note: Actual results may vary from these projections.

The above table reflects the expected change in the total Plan 1 UAAL rates over the next two biennia. Please see the body of this fiscal note for the projected change in rates after FY 2029.

Budget Impacts			
(Dollars in Millions)	2025-2027	2027-2029	25-Year
General Fund-State	(\$361.0)	(\$237.4)	(\$803.0)
Local Government	(\$340.0)	(\$136.8)	(\$558.5)
Total Employer	(\$852.7)	(\$426.3)	(\$1,590.2)

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- ❖ This bill has an estimated total employer net savings of \$1.6B over the 25-year period, itemized as follows:
 - The estimated costs to provide ongoing COLAs to eligible PERS 1 and TRS 1 members is completely offset using excess assets from the merger.
 - The estimated net savings of \$1.6B over the 25-year period is due to lower expected contribution requirements because of the bill, after reflecting the cost of the ongoing PERS 1 and TRS 1 COLA.
- ❖ As of the assumed merger date, we expect the LRS will require UAAL payments to increase the merged plan funded status from 99.6% to 100%.
 - These additional payments are included in the 25-year net savings.
- ❖ The results of this analysis are based on two key assumptions: (1) the approval of the proposed merger by the Internal Revenue Service and (2) future investment returns matching long-term expectations.
 - If the merger is not approved, any COLAs granted to PERS 1 and TRS 1 members will require additional funding based on current law funding policy.
 - Higher than expected investment earnings can increase the estimated savings of this bill by up to \$0.3 billion; however, lower than expected investment earnings can reduce the estimated long-term savings or result in a long-term cost. Please see **How the Results Change When the Assumptions Change** section for additional detail.
- ❖ In terms of risk, the proposed merger lowers the projected level of excess assets available to offset any future adverse plan experience. As a result, we expect an increased chance of additional UAAL contributions in the future due to this bill. Please see **Comments on Risk** section for additional detail.

See the remainder of this fiscal note for additional details on this summary and highlights.

WHAT IS THE PROPOSED CHANGE?**Summary of Bill**

This bill impacts the following systems:

- ❖ Public Employees' Retirement System (PERS).
- ❖ Teachers' Retirement System (TRS).
- ❖ School Employees' Retirement System (SERS).
- ❖ Public Safety Employees' Retirement System (PSERS).
- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 and 2.

This bill merges the plan obligations and assets of the PERS 1, TRS 1, and LEOFF 1 plans into a new retirement system – the Legacy Retirement System (LRS) – and provides Cost-Of-Living Adjustments (COLAs) for PERS 1 and TRS 1 annuitants. Specifically, in the first year after enactment, this bill creates a one-time 3% COLA for PERS 1 and TRS 1 annuitants who are not receiving minimum benefits, then ongoing "Plans 2/3 style" COLAs thereafter. The "Plans 2/3 style" COLA is tied to the Seattle-Tacoma-Bellevue Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers, with COLA increases in excess of 3% per year being banked for future use when the COLA increase is below 3%. Recipients of the optional for-purchase COLA are eligible to receive the COLAs in this proposal on top of their currently entitled benefits.

The bill also prescribes the following:

- ❖ Base Unfunded Actuarial Accrued Liability (UAAL) and benefit improvement contribution rates of 0.00% for Fiscal Years (FYs) 2026 and 2027.
- ❖ If the actuarial value of assets is less than 100% of the accrued liability for the new LRS, the bill requires payment of that Base UAAL by PERS, TRS, SERS, and PSERS employers over a rolling 10-year period using projected future salary growth and growth in system membership with a minimum rate of 0.50%.
- ❖ Any future benefit improvements to the LRS, if enacted, will be funded over a fixed ten-year period using projected future salary growth and growth in system membership. The cost will be calculated as a level percentage of pay across all system salaries in PERS, TRS, SERS, and PSERS.

The bill explicitly does not impact decisions of the LEOFF disability boards or LEOFF 1 medical benefits paid by LEOFF employers.

Effective Date: The one-time COLA in this bill is effective July 1, 2025. The ongoing COLAs are effective July 1, 2026. The merger is effective on the earlier of September 1, 2027, or the date of receiving a determination letter from the IRS.

In this summary, we only include changes pertinent to our Actuarial Fiscal Note (AFN). See the legislative bill report for a complete summary of the bill.

What Is the Current Situation?

The LEOFF Plan 1, TRS 1, and PERS 1, have been closed to new members since 1977. LEOFF 1 has an ongoing COLA, but TRS 1 and PERS 1 do not have ongoing COLAs for all its members.

Before it was repealed in 2011, the primary COLA provided in the Plans 1 was the Uniform COLA (UCOLA). The UCOLA was a fixed dollar amount multiplied by the member's total Years Of Service (YOS) and increased annually by 3% every July 1. The UCOLA was payable on the first calendar year in which the recipient turned age 66 and had been retired for one year. By July 1, 2010, the UCOLA was \$1.88 per month/per YOS. This amounted to an annual increase of \$677 for a recipient with 30 YOS.

Statute specified that future increases to the UCOLA were not a contractual right, and the Legislature exercised the option to discontinue the UCOLA for most plan members during the 2011 Legislative Session.

Currently, the PERS and TRS Plans 1 provide automatic COLAs under two types of minimum retirement benefits only: The Basic Minimum and the Alternate Minimum.

The Basic Minimum is a fixed dollar amount per month, multiplied by the member's total YOS and increases on July 1 every year by the dollar amount of the UCOLA. The Basic Minimum is currently \$75.80¹. If a member's benefit falls below this amount, they receive the UCOLA annual increase, which is \$2.85 per month per YOS as of July 1, 2024.

The Alternate Minimum is a fixed dollar amount per month (currently \$2,268.87¹) that increases by 3% each year. Eligible members must have at least:

- ❖ 20 YOS and be retired for at least 25 years, or
- ❖ 25 YOS and be retired for at least 20 years.

An optional CPI-based COLA is available to PERS 1 and TRS 1 members who elect it at retirement. The optional COLA was first made available in 1990 and provides an annual percentage increase in the retirement allowance. The increase is based on changes in the CPI for Urban Wage Earners and Clerical Workers for the Seattle area, up to a maximum of 3% per year. The optional COLA begins one year after retirement—regardless of age or service—and is in addition to any other COLAs received. Members who elect the optional COLA receive an actuarially reduced retirement allowance to offset the expected cost of the COLA over their lifetime.

In recent years, the Legislature has granted one-time COLAs to eligible PERS and TRS Plans 1 annuitants who had been retired for one year prior to the effective date of the increase, as shown in the following table:

¹As of July 1, 2024: The Alternate and Basic Minimum amounts are adjusted if the member elects voluntary payment options upon retirement. Throughout this AFN, we refer to the Basic and Alternate Minimum amounts prior to any voluntary reductions.

Recent One-time COLAs in the Plans 1		
Year	Increase	Enacted Law
2018	Ad hoc COLA of 1.5% with a \$62.50/month cap for all annuitants not receiving minimum benefits.	Senate Substitute Bill 6340 (Chapter 151, Laws of 2018)
2020	Ad hoc COLA of 3% with a \$62.50/month cap for all annuitants not receiving minimum benefits.	Engrossed House Bill 1390 (Chapter 329, Laws of 2020)
2022	Ad hoc COLA of 3% with a \$110.00/month cap for all annuitants not receiving minimum benefits.	Senate Bill 5676 (Chapter 52, Laws of 2022)
2023	Ad hoc COLA of 3% with a \$110.00/month cap for all annuitants not receiving minimum benefits.	Senate Bill 5350 (Chapter 397, Laws of 2023)
2024	Ad hoc COLA of 3% with a \$110.00/month cap for all annuitants not receiving minimum benefits	Substitute House Bill 1985 (Chapter 255, Laws of 2024)

For PERS 1 and TRS 1, the Legislature prescribed two amortization methods to determine total Plan 1 UAAL rates. Benefit improvements enacted after 2009 are amortized over a fixed ten-year period. Any remaining UAAL, the “base UAAL,” is funded through a rolling ten-year amortization period with 0.50% minimum contribution rate.

Under current law, the asset smoothing method adopted during the 2003 Legislative Session (Chapter 11, Laws of 2003, E1) was developed to address the volatility of actuarially determined contributions under the aggregate actuarial cost method when used in combination with the existing asset allocation policy of the WSIB.

Who Is Impacted and How?

The retirement benefits for LEOFF 1 members are not impacted under this bill, but PERS 1 and TRS 1 members could receive an increased retirement benefit. As of June 30, 2023, we expect this bill would increase the retirement benefits for 50,730 out of a total 67,862 PERS 1 and TRS 1 annuitants (75%) who are not receiving the Basic or Alternate Minimum benefits. Annuitants receiving a minimum benefit are not eligible for the COLA under this bill. However, the Minimum benefits increase annually and those increases are expected to be equal to or larger than the new COLAs. Members who elected to receive an optional COLA at retirement would also be eligible for this bill’s COLA.

All eligible annuitants would receive a fixed 3% COLA on July 1, 2025, and a CPI-based COLA thereafter. Additionally, all active and terminated vested members of Plans 1 are eligible for this COLA one year after retirement. The following table summarizes the estimated headcounts under this bill.

Estimated Headcounts as of June 30, 2023			
	PERS 1	TRS 1	Total
Total Annuitants	39,306	28,556	67,862
Annuitants Not Receiving Minimum Benefit That Will Receive the Annual COLA	25,956	24,774	50,730

Note: Additionally, approximately 780 active and terminated vested members will be eligible for annual COLAs at retirement.

Employers are impacted through a change in short-term UAAL contribution rates. Any change in long-term UAAL rates resulting from this bill would impact all employers of PERS, TRS, SERS, and PSERS. This bill will not affect member contribution rates.

WHY THIS BILL HAS A NET SAVINGS AND WHO RECEIVES IT

Why This Bill Has a Net Savings

This bill has both cost and savings components that impact the retirement systems. A cost occurs because this bill provides larger benefits for eligible PERS 1 and TRS 1 annuitants than the benefits provided under current law. A savings occurs when the plans are merged because LEOFF 1's assets, which exceed its plan obligations, will help to subsidize the unfunded obligations in PERS 1 and TRS 1 as well as the cost of the new benefit improvement.

Overall, we expect the savings to exceed the costs under this bill. Please see **Appendix B** for more detailed information of the cost and savings components of this bill and the expected annual funded status of the plans under current law and this bill.

Who Will Receive These Net Savings?

The expected net savings that result from this bill will be realized by employers of PERS, SERS, PSERS, and TRS. Under current law, PERS, SERS, and PSERS employers make PERS 1 Base UAAL and benefit improvement payments, while TRS employers make TRS 1 Base UAAL and benefit improvement payments. Under this bill, PERS, SERS, PSERS, and TRS employers will make any Base UAAL and benefit improvement payments to the LRS.

Under current law, LEOFF 2 employers are required to make LEOFF 1 UAAL payments if a UAAL were to emerge for LEOFF 1. These LEOFF 2 employers are no longer required to make UAAL payments for any UAAL that may emerge in the LRS.

HOW WE VALUED THESE COSTS

We modeled the current law cost of the retirement systems using our most recent Actuarial Valuation Report (AVR) – [June 30, 2023, AVR](#) – as well as the assumptions and methods found on our [Projections](#) webpage. To analyze the impact of this bill, we then adjusted the following assumptions and methods.

Assumptions We Made

We assumed CPI-based COLAs will match the current law inflation assumption of 2.75%. We assume demographic and eligibility changes occur as expected between the valuation date of June 30, 2023, and July 1, 2025, the date of the first COLA. We assume the cost of this benefit improvement will not be separately amortized.

This bill replaces the [PERS 1 and TRS 1 Base UAAL and benefit improvement rates adopted by the Pension Funding Council for FYs 2026 and 2027](#) with prescribed 0.00% rates. In addition, it is our understanding that the intent of the bill is for the LRS to have no Base UAAL or benefit improvement rates until such time that an actuarial valuation for the LRS is performed and additional funding is deemed necessary. As such, we assumed 0.00% Base UAAL and benefit improvement rates for FYs 2028 and 2029. We assume the first rate-setting year for LRS Base UAAL rates would be based on our actuarial valuation report for June 30, 2027, the date we assume the plans are merged. This valuation will set rates for the 2029-31 Biennium. In other words, our model assumes any Base UAAL that continues, or reemerges, from this bill would be first calculated for the 2029 31 Biennium and funded via a rolling ten-year amortization of future expected PERS, SERS, PSERS, and TRS payroll. If a future Base UAAL rate is required, then we assume it would be collected over a full biennium.

How We Applied These Assumptions

To determine the projected costs under this bill for the benefit improvement, we modified our valuation software (ProVal) programming to reflect eligible annuitants receiving a one-time 3% COLA on July 1, 2025, and an assumed 2.75% COLA each July thereafter (contingent on survival and eligibility). Members receiving a COLA through the Basic or Alternate Minimum monthly benefit are not eligible for COLAs provided under this bill.

To determine all other costs and savings under this bill, we created the LRS within our projections model based on the following:

- ❖ We merged the expected plan obligations, market value of assets, and benefit payments for PERS 1, TRS 1, and LEOFF 1. We also merged the expected payroll of employers who currently contribute to the PERS 1 or TRS 1 UAAL.
- ❖ As of June 30, 2027, we assumed and modeled the LRS immediately recognizing approximately \$333 million in PERS 1, TRS 1, and LEOFF 1 asset gains that are deferred under the current law asset smoothing method (i.e., the Actuarial Value of Assets). Following June 30, 2027, our model assumes the current law asset smoothing method will resume.
- ❖ We modeled any Base UAAL as being amortized over a rolling ten-year period, beginning with the 2029-31 Biennium and subject to a minimum contribution rate of 0.50%. The amortization uses the expected payroll of members in PERS, SERS, PSERS and TRS and is calculated as a level percentage of pay.

For information regarding the calculation of this bill's expected fiscal impact, please see **Appendix A**.

Special Data Needed

There was no special data needed for this pricing.

ACTUARIAL RESULTS

How the Liabilities Changed

This bill could impact the actuarial funding of the impacted retirement plans by increasing the present value of future benefits payable to the eligible members currently in PERS 1 and TRS 1. The impact of increasing these benefits for current members, as of the most recent valuation date, is shown below.

Please note this table displays the impact as of the valuation date which is before the date of the creation of the LRS. See **Appendix B** for impacts as of our assumed date of the merger.

Impact on Pension Liability (As of 6/30/2023)			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to All Current Members)</i>			
PERS 1	\$10,716	\$1,091	\$11,808
TRS 1	7,810	970	8,780
LEOFF 1	\$4,269	\$0.0	\$4,269
UAAL			
<i>(The Portion of the Plan 1 Liability that is Amortized According to Funding Policy)*</i>			
PERS 1	\$566	\$1,091	\$1,657
TRS 1	208	970	1,178
LEOFF 1	(\$2,095)	\$0.0	(\$2,095)
Unfunded Entry Age Accrued Liability			
<i>(The Value of the Total Commitment to All Current Members Attributable to Past Service that is Not Covered by Current Assets)</i>			
PERS 1	\$2,140	\$1,090	\$3,230
TRS 1	1,075	970	2,045
LEOFF 1	(\$2,095)	\$0.0	(\$2,095)

Note: Totals may not agree due to rounding.

On the date of the merger, the liabilities associated with the PERS 1, TRS 1, and LEOFF 1 plans will be transferred to the LRS. Once transferred, all future benefits will be payable from the LRS.

How the Assets Changed

This bill does not change the June 30, 2023, asset values of the impacted retirement systems; however, assets from PERS 1, TRS 1, and LEOFF 1 will be transferred to the LRS on the date of the merger. Once transferred, all assets will be part of the LRS.

A change in assets will occur on the date of the creation of the LRS since we assume the assets transferred from each plan to the LRS are done on a market value basis. Thus any asset gains/losses currently being deferred in each plan will be recognized immediately on the date of the merger.

Please see **Appendix B** for asset values as of the expected date of the merged plans.

How the Present Value of Future Salaries (PVFS) Changed

This bill does not change the PVFS of the individual plans. The actuarial funding of the LRS will be based on the combined PVFS of the systems that currently fund the PERS 1 and TRS 1 UAAL.

How Projected Contribution Rates Changed

The table below summarizes the combined Plan 1 Base UAAL and benefit improvement rates used to estimate budget impacts under this bill.

Projected UAAL Rates for Each FY								
FY	Current Law				Under Bill			
	PERS 1	TRS 1	LEOFF 1	LRS	PERS 1	TRS 1	LEOFF 1	LRS
2026	2.05%	1.10%	0.00%	N/A	0.00%	0.00%	0.00%	N/A
2027	1.05%	1.10%	0.00%	N/A	0.00%	0.00%	0.00%	N/A
2028	0.55%	1.10%	0.00%	N/A	N/A	N/A	N/A	0.00%
2029	0.45%	0.89%	0.00%	N/A	N/A	N/A	N/A	0.00%
2030	0.45%	0.89%	0.00%	N/A	N/A	N/A	N/A	0.50%
2031	0.34%	0.66%	0.00%	N/A	N/A	N/A	N/A	0.50%
2032	0.34%	0.66%	0.00%	N/A	N/A	N/A	N/A	0.00%
2033	0.20%	0.39%	0.00%	N/A	N/A	N/A	N/A	0.00%
2034	0.08%	0.16%	0.00%	N/A	N/A	N/A	N/A	0.00%
2035+	0.00%	0.00%	0.00%	N/A	N/A	N/A	N/A	0.00%

This bill prescribes 0.00% Base UAAL and benefit improvement rates for the 2025-27 Biennium and we assume the intent is for the 2027-29 Biennium to also have 0.00% rates, and for the first rate-setting AVR to be based on our June 30, 2027, AVR. Given this, any Base UAAL resulting from this bill, not related to future benefit improvements, will first be amortized beginning with the 2029-31 Biennium.

How This Impacts Budgets and Employees

Budget Impacts						
(Dollars in Millions)	PERS	TRS	SERS	PSERS	LEOFF	Total
2025-2027						
General Fund	(\$99.5)	(\$181.4)	(\$61.3)	(\$18.8)	\$0.0	(\$361.0)
Non-General Fund	(149.2)	0.0	0.0	(2.4)	0.0	(151.7)
Total State	(\$248.7)	(\$181.4)	(\$61.3)	(\$21.2)	\$0.0	(\$512.7)
Local Government	(248.7)	(32.0)	(50.2)	(9.1)	0.0	(340.0)
Total Employer	(\$497.5)	(\$213.4)	(\$111.5)	(\$30.3)	\$0.0	(\$852.7)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2027-2029						
General Fund	(\$34.1)	(\$175.4)	(\$21.0)	(\$6.9)	\$0.0	(\$237.4)
Non-General Fund	(51.2)	0.0	0.0	(0.9)	0.0	(52.1)
Total State	(\$85.3)	(\$175.4)	(\$21.0)	(\$7.8)	\$0.0	(\$289.5)
Local Government	(85.3)	(31.0)	(17.2)	(3.3)	0.0	(136.8)
Total Employer	(\$170.5)	(\$206.3)	(\$38.2)	(\$11.1)	\$0.0	(\$426.3)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2025-2050						
General Fund	(\$149.9)	(\$531.1)	(\$92.4)	(\$29.5)	\$0.0	(\$803.0)
Non-General Fund	(224.9)	0.0	0.0	(3.8)	0.0	(228.7)
Total State	(\$374.8)	(\$531.1)	(\$92.4)	(\$33.4)	\$0.0	(\$1,031.7)
Local Government	(374.8)	(93.7)	(75.6)	(14.3)	0.0	(558.5)
Total Employer	(\$749.7)	(\$624.8)	(\$168.1)	(\$47.6)	\$0.0	(\$1,590.2)
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

Please note: The analysis of this bill does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

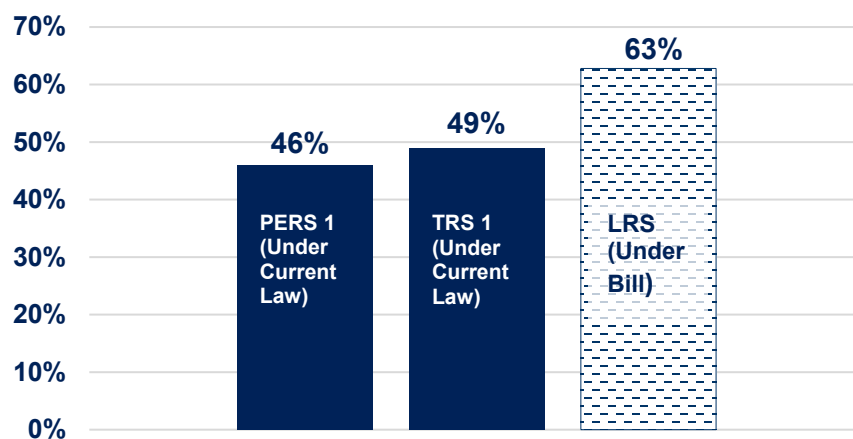
Comments on Risk

Our office performs risk analysis to help us demonstrate and assess the effect of unexpected experience on pension plans. Our analysis allows us to measure how certain plan health and pension risk metrics can change if actual experience varies from our assumptions. For more information, please see our [Risk Assessment](#), [Commentary on Risk](#), and [Glossary](#) webpages.

In terms of risk, we would expect this bill would worsen certain pension risk measures because eligible members in PERS 1 and TRS 1 would receive an ongoing COLA, which increases the overall plan obligations. As displayed in **Appendix B**, the liabilities of the LRS are expected to be approximately 14% higher, as of June 30, 2027, than under current law. In addition, the total assets of the LRS, as of June 30, 2027, are expected to be approximately 3% lower than our expectations for PERS 1, TRS 1, and LEOFF 1 combined, under current law. This is primarily due to fewer expected total UAAL contributions made by the employers.

We reviewed the chance of Base UAAL contributions occurring in the merged plan and compared it to the chance of Base UAAL contributions occurring, under current law, in PERS 1 and TRS 1. For this analysis, we estimated the likelihood of a Base UAAL emerging from FYs 2030 through 2039 because the LRS is first expected to begin funding Base UAAL, if present, beginning in FY 2030. As shown in the graph below, the LRS is expected to have higher chances of Base UAAL contributions than either PERS 1 or TRS 1 under current law. Any LRS Base UAAL contributions would be made by all employers of PERS, SERS, PSERS, and TRS. The calculated rate to pay off this UAAL would be subject to a minimum rate of 0.50%, based on the funding policies of these plans. For reference, if this minimum rate were to be charged for the 2029-31 Biennium, we estimate the PERS 1, TRS 1, and LRS total employer Base UAAL contributions would be \$240 million, \$110 million, and \$350 million, respectively.

Chance of Base UAAL Rate During FYs 2030-2039



Our analysis does not consider how this bill's COLAs would be funded if the IRS does not approve the new, merged retirement system. If the new LRS is not approved then it's our understanding that future additional COLAs from this bill would not be granted; however, any increases to annuitant benefits prior to the IRS decision would remain. Should this occur, any COLAs granted would result in unexpected funding shortfalls in the PERS 1 and TRS 1 retirement plans and require additional funding through a benefit improvement rate.

Additionally, this bill may impact the liquidity risks of the plans since fewer contributions are collected and higher benefits are paid. These changes to the cash flows could impact the liquidity of the Commingled Trust Fund (CTF) and ultimately the investment earnings of the trust. If cash flows are reduced, depending on the size and timing of those reductions, liquidity issues for the CTF could arise and may require selling assets earlier than expected.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The best estimate results can vary under a different set of assumptions. Under this bill, the LRS is expected to attain funding levels that exceed 100% by the end of FY 2030, if all assumptions are realized; however, the future asset returns, inflation, and member longevity experience can impact the funding levels of the plan and whether fewer/additional UAAL contributions are required.

To test how different investment earnings can impact our best estimate results, we looked at what would happen under different short-term and long-term return on assets experience. We also considered the potential impacts of inflation and longevity not matching our long-term expectations.

Unless noted otherwise, each sensitivity or stress test was performed using data, assets, assumptions, and methods consistent with those disclosed in the **How We Valued These Costs** section of this fiscal note.

Return on Assets Sensitivity

The following sensitivities focus on the impact to PERS 1, TRS 1, LEOFF 1, and the LRS. Please see **Appendix C** for the projected Base UAAL and benefit improvement rates for PERS 1, TRS 1, and the LRS under our best estimate and each individual sensitivity analysis contained in this section.

Long-Term Return on Assets Sensitivity

For this sensitivity, we examined the overall budget impact if the return on assets were 1% higher (or lower) than assumed for all future years beginning in FY 2025.

Budget Impacts – Total Employer			
(Dollars in Millions)	2025-2027	2027-2029	25-Year
6% Return on Assets	(\$853)	(\$530)	\$1,544
Best Estimate	(\$853)	(\$426)	(\$1,590)
8% Return on Assets	(\$853)	(\$426)	(\$1,936)

An 8% long-term return on assets would result in higher expected investment earnings, relative to our best estimate, which results in no expected UAAL payments in the LRS. This scenario would increase expected savings by approximately \$0.3 billion over the 25-year period and result in a system with an expected funded status that exceeds 100% as of the assumed merger date. For comparison, under the best estimate the LRS has an expected funded status of 99.6% on the assumed merger date.

A 6% long-term return on assets is not expected to result in sufficient assets to cover all pension obligations for the LRS until the end of the 25-year period. In this scenario, LRS Base UAAL contributions would be expected to resume in the 2029-31 Biennium and continue for

much of the life of the retirement system. Also, the funded status generally decreases annually because of consistent under-performance of the assets. Overall, the retirement system would experience a short-term savings due to assumed 0.00% Base UAAL and benefit improvement contribution rates in the 2025-27 and 2027-29 Biennia but a long-term cost of approximately \$1.5 billion over the 25-year period.

As displayed in the above table, the cost difference between our Best Estimate and the lower-than-expected return scenario exceeds the difference between the Best Estimate and the higher-than-expected return scenario. This occurs because there are no contributions required in the higher-than-expected return scenario. In other words, there is no further expected savings available once no additional contributions are required. However, underperforming assets can lead to more volatile budget impact results, so we performed additional testing on this downside risk of this bill.

Expected Short-Term Return Stress Test

While we expect the CTF to earn 7.0% over the long-term, short-term volatility can impact the projected funded status and the resulting contribution rate requirements. The following analysis focuses on the risk of one year of underperforming investment earnings followed by the expected 7.0% return annually.

Budget Impacts – Total Employer			
<i>(Dollars in Millions)</i>	2025-2027	2027-2029	25-Year
3% Return on Assets in 2025	(\$853)	(\$530)	(\$56)
Best Estimate	(\$853)	(\$426)	(\$1,590)

Under this stress test, we found that a FY 2025 return of approximately 3% would result in ten years of LRS Base UAAL rates. The short-term savings under this bill would be offset by increased future Base UAAL contributions with a 25-year savings of \$56 million compared to \$1.6 billion under our best estimate. If, however, the 3% return is followed by one or more years of returns higher than the 7% expectation, the 25-year savings would be higher than \$56 million.

Other Thoughts on Sensitivity of Results

In addition to return on assets, there are other factors that can influence the plan experience. For example, future longevity of plan members can play a significant role in the funding requirements of a plan. Members living longer (or shorter) than expected would result in higher (or lower) pension obligations. Please see our Commentary on Risk webpage (Demographic Risks section) for examples of how mortality experience impacts AVR results.

Actual inflation experience that deviates from our expectations will also lead to impacts that differ from our best estimate results. Under this bill, the annual COLA provided to PERS 1 and TRS 1 members not receiving Minimum benefits is CPI-based, and our current regional CPI assumption is 2.75% per year. Any COLA increases for these impacted PERS 1 and TRS 1 members are capped at 3% but any CPI increase above 3% is banked for future use when the CPI is below 3%. In addition, LEOFF 1 annuitants receive an uncapped CPI-based retirement benefit. If actual inflation experience is lower/higher than our assumption, then the savings could be greater/less than our best estimate.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, and data used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods, and data may also be reasonable and might produce different results.
2. Unless noted otherwise in this AFN, the disclosures included in the 2023 AVR regarding the methods used to determine a plan's actuarially determined contribution, and the expected outcome of those methods, apply to this pricing exercise and remain unchanged.
3. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment. We believe that the assumptions, methods, and data used in our risk assessment model are reasonable for the purposes of this pricing exercise. However, the use of another set of assumptions, methods, and data could also be reasonable and could produce different results.
4. The models used are appropriate for the purpose of this pricing. We are not aware of any known weaknesses or limitations of the models that have a material impact on the results.
5. We prepared this AFN based on our current understanding of the bill as of the date shown in the footer. If the bill or our understanding of the bill changes, the results of a future AFN based on those changes may vary. Additionally, the results presented here may change after our next annual update of the underlying actuarial measurements.
6. We prepared this AFN and provided opinions in accordance with Washington State law and accepted Actuarial Standards of Practice as of the date shown in the footer.

We prepared this AFN to support legislative deliberations during the 2025 Legislative Session and it may not be appropriate for other purposes. We advise readers of this AFN to seek professional guidance as to its content and interpretation, and not to rely on this communication without such guidance. Please read the analysis shown in this AFN as a whole; distribution of, or reliance on, only parts of this AFN could result in its misuse and may mislead others.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this AFN is meant to be complete, the undersigned is available to provide extra advice and explanations as needed



Lisa Won, ASA, FCA, MAAA
Deputy State Actuary

APPENDIX A

We estimated the fiscal impact of this bill by comparing projected pension contributions under this bill to contributions under current law. The projected pension contributions reflect contributions from the current members as well as assumed future hires. To determine the projected contributions under current law, or the “base”, we relied on projection system output. Projected pension contributions equal contributions rates from future AVRs multiplied by future payroll. To determine the projected costs under this bill, we modified the base to reflect the provisions of the bill, and the assumptions noted in the **How We Valued These Costs** section. We then multiplied the respective new contribution rates reflecting these changes by future payroll.

We determined these projected pension contributions using a Microsoft Excel model we developed. This model uses projected salary data from our valuation model in ProVal to calculate contribution rate and budget impacts based on the change in liabilities between current law and the provisions of this bill. We assessed the reasonableness of this model as part of our annual update, and we compared the results of this model to simplified estimates made by hand as part of individual pricings.

APPENDIX B**Funded Status as of June 30, 2027**

The following table displays our expected projection of the funded statuses of the impacted plans under current law and under this bill.

Please note that the PERS 1, TRS 1, and LEOFF 1 totals will not equal the totals displayed for the LRS. The difference is due to the following:

- ❖ **Asset (AVA) differences** – The PERS 1 and TRS 1 current law projections assume the adopted UAAL contribution rates will be collected during the 2025-27 Biennium. In addition, the merged plan is assumed to immediately recognize all investment gain/loss deferrals at the time of the plan merger (approximately \$0.3 billion).
- ❖ **EAN liability differences** – The plan obligations are higher in the LRS due to the benefit improvement provided by this bill. We estimate this benefit improvement to be approximately \$2.6 billion as of June 30, 2027.

Funded Status Calculation					
<i>(Dollars in Millions)</i>	As of June 30, 2023	As of June 30, 2024	As of June 30, 2025	As of June 30, 2026	As of June 30, 2027
PERS 1 – Under Current Law					
AVA	\$8,561	\$8,812	\$8,927	\$8,981	\$8,858
EAN Liability	\$10,711	\$10,252	\$9,773	\$9,292	\$8,809
Funded Status	80%	86%	91%	97%	101%
TRS 1 – Under Current Law					
AVA	\$6,732	\$6,641	\$6,495	\$6,314	\$6,144
EAN Liability	\$7,816	\$7,469	\$7,103	\$6,737	\$6,372
Funded Status	86%	89%	91%	94%	96%
LEOFF 1 – Under Current Law					
AVA	\$6,365	\$6,600	\$6,769	\$6,944	\$7,127
EAN Liability	\$4,269	\$4,156	\$4,023	\$3,882	\$3,733
Funded Status	149%	159%	168%	179%	191%
LRS – Under Bill					
AVA					\$21,394
EAN Liability					\$21,474
Funded Status					99.6%

LEOFF 1's roughly \$3.4 billion expected difference between assets and plan obligations (\$7.1 billion - \$3.7 billion = \$3.4 billion) subsidizes both the \$2.6 billion benefit improvement and the PERS 1 and TRS 1 UAAL contributions that were expected to be made by employers in FYs 2026 and 2027.

APPENDIX C**How the Results Change When the Assumptions Change**

The following tables display how the best estimate combined Base UAAL and benefit improvement contribution rates change under the sensitivity scenarios described in the **Return on Assets Sensitivity** section. Please note that LEOFF 1 is not expected to have UAAL rates under any of these scenarios.

Best Estimate				Sensitivity of Return on Assets Assumption 8% Return on Assets			
Under Current Law			Under Bill	Under Current Law			Under Bill
FY	PERS 1 UAAL	TRS 1 UAAL	LRS UAAL	FY	PERS 1 UAAL	TRS 1 UAAL	LRS UAAL
2026	2.05%	1.10%	0.00%	2026	2.05%	1.10%	0.00%
2027	1.05%	1.10%	0.00%	2027	1.05%	1.10%	0.00%
2028	0.55%	1.10%	0.00%	2028	0.55%	1.10%	0.00%
2029	0.45%	0.89%	0.00%	2029	0.45%	0.89%	0.00%
2030	0.45%	0.89%	0.50%	2030	0.45%	0.89%	0.00%
2031	0.34%	0.66%	0.50%	2031	0.34%	0.66%	0.00%
2032	0.34%	0.66%	0.00%	2032	0.34%	0.66%	0.00%
2033	0.20%	0.39%	0.00%	2033	0.20%	0.39%	0.00%
2034	0.08%	0.16%	0.00%	2034	0.08%	0.16%	0.00%
2035+	0.00%	0.00%	0.00%	2035+	0.00%	0.00%	0.00%

Sensitivity of Return on Assets Assumption 6% Return on Assets			
FY	Under Current Law		Under Bill
	PERS 1 UAAL	TRS 1 UAAL	LRS UAAL
2026	2.05%	1.10%	0.00%
2027	1.05%	1.10%	0.00%
2028	0.55%	1.60%	0.00%
2029	0.45%	1.39%	0.00%
2030	0.45%	0.89%	0.50%
2031	0.34%	0.66%	0.50%
2032	0.34%	0.66%	0.50%
2033	0.20%	0.39%	0.50%
2034	0.08%	0.16%	0.50%
2035	0.00%	0.00%	0.50%
2036	0.00%	0.50%	0.50%
2037	0.00%	0.50%	0.50%
2038	0.50%	0.00%	0.50%
2039	0.50%	0.00%	0.50%
2040	0.00%	0.50%	0.50%
2041	0.00%	0.50%	0.50%
2042	0.00%	0.00%	0.50%
2043	0.00%	0.00%	0.50%
2044	0.00%	0.50%	0.50%
2045	0.00%	0.50%	0.50%
2046	0.50%	0.00%	0.50%
2047	0.50%	0.00%	0.50%
2048	0.00%	0.00%	0.50%
2049	0.00%	0.00%	0.50%
2050	0.00%	0.00%	0.00%

Sensitivity of Return on Assets Assumption 3% Return on Assets in 2025			
FY	Under Current Law		Under Bill
	PERS 1 UAAL	TRS 1 UAAL	LRS UAAL
2026	2.05%	1.10%	0.00%
2027	1.05%	1.10%	0.00%
2028	0.55%	1.60%	0.00%
2029	0.45%	1.39%	0.00%
2030	0.45%	0.89%	0.50%
2031	0.34%	0.66%	0.50%
2032	0.34%	0.66%	0.50%
2033	0.20%	0.39%	0.50%
2034	0.08%	0.16%	0.50%
2035	0.00%	0.00%	0.50%
2036	0.00%	0.00%	0.50%
2037	0.00%	0.00%	0.50%
2038	0.00%	0.00%	0.50%
2039	0.00%	0.00%	0.50%
2040+	0.00%	0.00%	0.00%

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5085 SB	Title: Closed retirement plans
-----------------------------	---------------------------------------

Part I: Jurisdiction—Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- ☐ Cities:
- ☐ Counties:
- ☐ Special Districts:
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

Part II: Estimates

- ☒ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☐ Legislation provides local option:
- ☐ Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Kristine Williams	Phone: (564) 669-3002	Date: 01/20/2025
Leg. Committee Contact: Amanda Cecil	Phone: 360-786-7460	Date: 01/11/2025
Agency Approval: Alice Zillah	Phone: 360-725-5035	Date: 01/20/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/22/2025

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

This bill increases parity in cost-of-living adjustments in three of Washington state's closed retirement plans (Law Enforcement Officers' and Firefighters Retirement System Plan 1, Teachers' Retirement System Plan 1, and Public Employees' Retirement System Plan 1) by merging the plans into a new plan called the "legacy retirement system". The bill designates the Department of Retirement Systems (DRS) to be the administrator of the legacy retirement system. The bill further updates various RCWs to reflect these changes and ensures that members, or their eligible beneficiaries, shall receive at least the same benefits they received under their previous retirement plan.

Sec. 506 amends RCW 41.45.070 to include a description of the supplemental rate that will be charged to all system employers in the Public Employees' Retirement System (PERS), School Employees' Retirement System (SERS), the Public Safety Employees Retirement System (PSERS), and the Teachers' Retirement System (TRS) to fund benefit increases to members of the legacy retirement system over a fixed 10-year period. The supplemental rates charged to these employers shall be 0% in fiscal years 2026 and 2027.

Section 702 includes an emergency provision for sections 401 through 404 to take effect July 1, 2025. Section 615 takes effect July 1, 2028. For all other sections of this act, the remaining sections take effect on the earlier of DRS receiving a favorable determination letter from the federal Internal Revenue Service, or September 1, 2027.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This legislation would have no impact on local government expenditures.

According to the Department of Retirement Systems (DRS) fiscal note, DRS will continue to allow use of the current system/plan designations for the closed retirement plans (LEOFF 1, PERS 1, and TRS 1) so there will be no additional reporting costs for local governments. DRS will also send at least two separate tax forms to members or their beneficiaries advising them of the changes.

The contribution rate for the legacy retirement system to employers of the PERS, SERS, PSERS, and TRS plans will be the amount required to fund the new system over a 10-year rolling period using estimates as per RCW 41.45.150. The bill also states in subsection 3(b) that the supplemental rates charged to employers in fiscal years 2026 and 2027 for active members of the PERS1 system will be zero. Until further information is provided by the Office of the State Actuary, the Local Fiscal Note Program assumes that supplemental rates will continue to be zero for subsequent fiscal years.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

This legislation would have no revenue impact on local governments.

SOURCES

Department of Retirement Systems fiscal note 5085 (2025)