SENATE BILL REPORT

HB 2905

AS REPORTED BY COMMITTEE ON WAYS & MEANS, FEBRUARY 25, 1994

Brief Description: Making permanent and simplifying the age sixty-five cost-of-living adjustment to retirement allowances.

SPONSORS: Representatives Sommers, Long, Linville and Rayburn; by request of Joint Committee on Pension Policy

HOUSE COMMITTEE ON APPROPRIATIONS

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.
Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Anderson, Bauer, Gaspard, Hargrove, Ludwig, McDonald, Moyer, Owen, Pelz, Snyder, Spanel, Sutherland, Talmadge, West and Wojahn.

Staff: Denise Graham (786-7715)

Hearing Dates: February 24, 1994, February 25, 1994

BACKGROUND:

A retiree of the Public Employees' Retirement System (PERS) Plan I or the Teachers' Retirement System (TRS) Plan I receives a cost-of-living adjustment (COLA) when the purchasing power of retiree's benefit is less than 60 percent of the purchasing power the benefit had when the retiree was 65 years old. In years when inflation is greater than 3 percent, the retiree receives a 3 percent COLA and, in effect, "banks" the difference between the actual inflation rate and 3 percent. When inflation falls below 3 percent, the retiree can drawn on the "banked" inflation to receive a 3 percent COLA. Because of this, each retiree's COLA must be calculated individually each year.

Beginning in February 1992, an additional, temporary COLA was granted to retirees of PERS Plan I and TRS Plan I who were receiving the Plan I COLA. The retirement benefit of such a retiree was increased so that the purchasing power of the benefit was equal to 60 percent of the purchasing power the benefit had when the retiree was 65 years old. Funding for this COLA, known as the "February COLA," was continued in the 1993-95 biennial budget.

SUMMARY:

The temporary cost-of-living adjustment known as the February COLA is made permanent as of July 1, 1995; retirees will continue to receive the same adjustment they received beginning February 1992. No additional retirees will receive this COLA.

In addition, changes are made to the way the permanent Plan I COLA for the Teachers' Retirement System and the Public Employees' Retirement System is calculated. Annually, the actuary will calculate the age of the youngest retiree whose benefit is worth 60 percent of the purchasing power the benefit had when the retiree was 65 years old. The Department of Retirement Systems will then provide a COLA to all retirees who are that age or older. The COLA will be the lesser of 3 percent or the change in the Consumer Price Index between the year just prior to the year the calculation is made and the year two years prior to the year the calculation is made. A retiree may not receive a COLA greater than 3 percent.

Budget documents submitted for each biennial budget request to the Legislature must include estimated total payments made for post-retirement adjustments granted after 1991. Budget documents must also show and explain the amounts necessary to amortize the unfunded accrued liability of the state-run retirement systems and the contributions necessary to pay off the unfunded liability by the year 2024.

SUMMARY PROPOSED COMMITTEE AMENDMENT:

The effective date for using the new method of calculating the Plan I COLA is changed from July 1994 to July 1995. The change in the effective date ensures that the new calculation method will not interfere with the existing age 70 COLA.

Appropriation: none

Revenue: none

Fiscal Note: Available

TESTIMONY FOR:

We support making the February COLA permanent. Pensions for teachers who have been retired for a long time are low, and COLAs are very important to them.

TESTIMONY AGAINST: None

TESTIFIED: Wayne Mann, Washington State Retired Teachers' Assoc. (pro)