SENATE BILL REPORT

ESSB 5888

AS PASSED SENATE, APRIL 13, 1993

Brief Description: Improving retirement system benefits.

SPONSORS: Senate Committee on Ways & Means (originally sponsored by Senators Gaspard, Rinehart, Bauer, Snyder and Anderson)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5888 be substituted therefor, and the substitute bill do pass.
Signed by Senators Rinehart, Chairman; Spanel, Vice Chairman; Bluechel, Gaspard, Hargrove, Hochstatter, Jesernig, Moyer, Pelz, Roach, L. Smith, Snyder, Sutherland, Talmadge, West, and Williams.

Staff: Denise Graham (786-7715)

Hearing Dates: April 7, 1993

BACKGROUND:

Cost-of-Living Adjustments: A member of Plan I of the Public Employees' Retirement System (PERS I) or the Teachers' Retirement System (TRS I) receives a 3 percent cost-of-living adjustment (COLA) when his or her retirement benefit has lost 40 percent of the purchasing power the benefit had when the retiree was age 65. A member who receives the minimum retirement benefit (currently $17.18 per month per year of service) also receives a 3 percent COLA each year. The automatic COLA was granted in 1989, while the minimum benefit COLA was granted in 1987. Prior to that, members of TRS and PERS Plan I were granted only ad hoc COLAs.

The Legislature included in the 1991-1993 budget act a temporary cost-of-living adjustment for certain members of TRS and PERS Plan I. Beginning February 1992, through June 30, 1993, the retirement benefit of any member who was receiving the regular COLA or the minimum benefit was increased by whatever amount was necessary to bring the benefit up to 60 percent of the purchasing power the benefit had when the retiree was 65 years old.

Normal Retirement: Under Plan I of PERS and TRS, employees may retire with full retirement benefits if they have 30 years of service regardless of age, or have at least 25 years of service credit and are at least age 55, or have at least five years of service credit and are at least age 60.

In 1992, the Legislature created a temporary opportunity for PERS and TRS Plan I members to retire five years early.

Cities' Portability: Most city, county, and state employees are members of the Public Employees' Retirement System. However, the cities of Seattle, Tacoma, and Spokane each have a city employee retirement system that covers their general government employees.

If an employee leaves employment in one retirement system and moves to another, service credit is split between the two systems. If there is no portability between the two systems, the employee ends up with a lower retirement benefit than if he or she had remained in one system for an entire career. This is because the benefit from the first retirement system is calculated using what is typically a much lower salary because it is at the beginning of an employee's career.

With portability, the employee uses the highest base salary from any system to calculate the retirement allowance in both systems. Typically, this means that the retirement allowance received from the system with which the member first started is higher than it would be in the absence of portability.

Portability of service credit is allowed between most of the state retirement systems (PERS, TRS, and the Washington State Patrol Retirement System). In 1989, legislation was passed allowing portability among the state retirement systems and the systems in Seattle, Tacoma, and Spokane. The cities had to submit resolutions to the Department of Retirement Systems by December 1, 1990 to begin portability.

However, the 1989 legislation requires the city systems to pay for all additional costs associated with portability. Thus, the cities must pay for the increased costs to both the state and the cities' systems.

Pension Contribution Rates: In 1989, the Legislature passed a pension reform package requiring state and other public employer contribution rates to be set at the level necessary to pay off the unfunded liability in the Plan I pension systems by the year 2024 and to continue to fully fund the Plan II systems.

Pension rates are set in statute by the Legislature based on experience and economic assumptions recommended by the State Actuary and adopted by the Economic and Revenue Forecast Council. Every six years, the assumptions are to be reviewed by the council and the contribution rates adjusted in statute as necessary.

Current statutory rates were adopted by the Legislature in June 1990 and became effective September 1991. They are based on 1988 data. Under current law, these rates will be reviewed by the council in 1996.

The rates adopted by the council, plus any supplemental rates added for additional benefits granted by the Legislature since the last time rates were adopted, are used by state agencies in building their biennial budgets.

The State Actuary annually publishes an actuarial valuation which reviews the latest data available on the experience of the state-run retirement systems. The valuation published in 1991, which was based on 1990 data, revealed that the contribution rates set in statute in 1989 for PERS, TRS and Law Enforcement Officers’ and Fire Fighters’ (LEOFF) were higher than necessary to pay off the unfunded liability by the year 2024 and the rate for the Washington State Patrol Retirement System (WSPRS) was lower than was necessary. Legislation passed in 1992 lowered the contribution rates for TRS, PERS and LEOFF and raised the contribution rate for WSPRS.

The valuation published in November, 1992, uses 1991 data showing the statutory contribution rates for TRS, PERS and LEOFF are higher than necessary and the rate for WSPRS is lower than necessary.

State Investment Board: The State Investment Board is responsible for the investment of certain state trust and retirement system funds. The board is composed of 14 members, nine of whom vote and five of whom act in an advisory capacity regarding investments. The voting board members represent certain retirement plans, state agencies, the State Treasurer, and the Legislature.

The Speaker of the House of Representatives and the President of the Senate each appoint one member to represent the House and Senate. Legislative members serve two-year terms and may not serve as chairperson or vice chairperson.

SUMMARY:

Cost-of-Living Adjustments: A member of Plan I of the Public Employees’ Retirement System or the Teachers’ Retirement System who is currently receiving the cost-of-living adjustment granted in the 1991-1993 budget act will continue to receive this adjustment through June 30, 1995.

A member of Plan I of the Public Employees’ Retirement System or the Teachers’ Retirement System who is not receiving the minimum benefit or the regular automatic cost-of-living adjustment, is at least age 70 as of July 1, 1993, has been retired for at least five years and is not receiving temporary disability benefits will receive a temporary increase in benefits equal to $3.00 per month per year of service. The increase will last from July 1, 1993, through June 30, 1995.

Early Retirement: Plan I members of PERS and TRS who meet certain criteria can retire early. To qualify for this retirement, the member must have: (1) at least 25 years of service credit, regardless of age; (2) at least 20 years of service credit and be at least age 50; or (3) at least five years of service credit and be at least age 55.

Members who work for school districts must submit written notification to their employer and the required application form to the Department of Retirement Systems no later than

July 1, 1993, and must be retired no later than August 31, 1993. Other members have until August 31, 1993, to submit the notification and application, and must be retired no later than December 31, 1993.

State agencies and school districts are prohibited from engaging persons who retire under the early retirement option on personal service contracts through June 30, 1995, for state agencies, or August 31, 1995, for school districts. State agencies are also prohibited from rehiring early retirees as temporary or project employees. Exceptions can be granted under certain circumstances.

School district employees who retire early are eligible to receive, at the time they separate from district employment, at least one-half of the remuneration due to them for accrued leave for illness and injury. School districts must pay the remainder no later than three years after the employee separates from employment, or when the employee would ordinarily have been eligible to retire, whichever occurs first.

<u>Cities’ Portability</u>: The cities of Seattle, Spokane, and Tacoma may make their city retirement systems portable with the state’s retirement systems if they adopt a resolution to do so by December 31, 1993. If a city adopts a resolution, portability becomes effective January 1, 1994.

The additional cost incurred as a result of an employee utilizing portability between a state retirement system and a city retirement system is to be borne by the retirement system incurring the additional cost.

<u>Pension Contribution Rates</u>: The contribution rates to be used from September 1, 1993, through August 31, 1995, are the rates determined in the 1991 valuations prepared by the State Actuary.

Beginning September 30, 1994, and every two years after that, the Economic and Revenue Forecast Council will adopt the retirement contribution rates to be used during the ensuing biennium for the Public Employees’ Retirement System, the Teachers’ Retirement System, the Law Enforcement Officers’ and Fire Fighters’ Retirement System and the Washington State Patrol Retirement System.

Every six years, the Economic and Revenue Forecast Council will review information submitted by the State Actuary and will adopt the economic assumptions used by the State Actuary in conducting valuation studies of the state retirement systems.

The contribution rates adopted in 1992 for PERS, TRS, LEOFF and WSPRS are extended through August 31, 1993.

<u>State Investment Board</u>: The State Investment Board is increased from nine to eleven voting members. The two additional members increase the total legislative

representation to four members. The House Speaker and the Senate President both are authorized to appoint two members, one each from the majority and minority caucuses within their respective legislative bodies.

Appropriation: none

Revenue: none

Fiscal Note: none requested

TESTIMONY FOR:

TESTIMONY AGAINST:

TESTIFIED: