

HOUSE BILL REPORT

HB 2490

As Reported By House Committee On: Appropriations

Title: An act relating to the sharing of extraordinary investment gains in teachers' retirement system plan III.

Brief Description: Sharing investment gains.

Sponsors: Representatives Carlson, Ogden, Conway, Wolfe, Lambert, H. Sommers, D. Sommers, Schoesler, Gardner and Carrell; by request of Joint Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 2/3/98, 2/7/98 [DPS].

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 29 members: Representatives Huff, Chairman; Alexander, Vice Chairman; Clements, Vice Chairman; Wensman, Vice Chairman; H. Sommers, Ranking Minority Member; Doumit, Assistant Ranking Minority Member; Gombosky, Assistant Ranking Minority Member; Benson; Carlson; Chopp; Cody; Cooke; Crouse; Grant; Keiser; Kenney; Kessler; Lambert; Linville; Mastin; McMorris; Parlette; Poulsen; Regala; D. Schmidt; Sehlin; Sheahan; Talcott and Tokuda.

Staff: Denise Graham (786-7137).

Background: Assets invested in the retirement funds have been experiencing growth in recent years substantially above the projected rate of 7.5 percent. The compound average rate of return for the last four years is 13.7 percent. Over the 1997 interim, the Joint Committee on Pension Policy (JCPP) studied ways of using these better-than-expected returns to fund benefit increases. As a result of this work, the JCPP recommended to the Legislature several bills containing gain-sharing provisions.

The Teachers' Retirement System (TRS) Plan III has two parts: a defined benefit plan and a defined contribution plan. The defined benefit plan provides a formula-driven benefit at retirement. The defined benefit portion of plan III is funded solely by employer contributions. Better-than-expected investment returns on TRS Plan III

employer contributions are held in the pension trust funds. The pension contribution rates paid by employers on TRS Plan III employees' salaries will be adjusted downward when earnings are higher than expected. Earnings below the projected level of 7.5 percent could result in higher employer contribution rates.

The defined contribution portion of plan III is funded by employee contributions (although an employer contribution can be made to these accounts if authorized in the appropriations act). Whenever a member terminates employment, he or she can receive all contributions and investment returns in the member's account. TRS Plan III employee contribution rates are unaffected by changing rates of return on investments.

Summary of Substitute Bill: When the compound average rate of investment returns on the pension funds over the previous four years exceeds 10 percent, certain TRS III members and retirees will receive half of the investment returns over 10 percent through a payment to their defined contribution accounts. The first extraordinary investment gain distribution is made July 1, 1998. Thereafter, distributions will be made January 1 of each even-numbered year whenever the compound average rate of return on the pension funds over the previous four years is more than 10 percent. The amount distributed to a plan III member is based on the member's years of service. The Office of the State Actuary will calculate the amount to be distributed per year of service and will inform the Department of Retirement Systems of that amount.

The following TRS III members and retirees will receive a gain-sharing distribution: Active members with more than \$1,000 in their member accounts; retired members; and vested members who have purchased an annuity from the trust or have more than \$1,000 in their member account.

The Legislature reserves the right to amend or repeal the gain-sharing provisions.

Substitute Bill Compared to Original Bill: The original bill used the term "geometrically averaged" to describe the calculation of the gain sharing amount. The substitute bill uses the term "compound average." The change in language does not change the actual calculation.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: The gain sharing provided in this bill is a good start. It would allow the state to share with employees the success of retirement investments in a fiscally

responsible manner. It would be better, though, if the gain-sharing formula were more generous to employees.

Testimony Against: None.

Testified: Bob Maier and Helen Carlstrom, Washington Education Association; and John Kvamme, Washington Association of School Administrators.