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## HOUSE BILL ANALYSIS

### HB 1098

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**Brief Description:** The defined contribution account of Teachers' Retirement System (TRS) Plan II members who choose to transfer to TRS Plan III will be increased by 40 percent.

**Background:** *The Teachers' Retirement System Plan III (TRS III) was enacted during the 1995 legislative session and was opened to membership July 1, 1996. The purpose of TRS III is to give vested employees more flexibility in determining the form and timing of their retirement benefits and to allow employees to change careers without a dramatic loss of retirement benefits.*

*The Joint Committee on Pension Policy (JCPP) developed and recommended TRS III to the Legislature. One of the principals followed in developing the TRS III was that any new plan was to be cost neutral to the state.*

*TRS III has two components: (1) a defined benefit component paid by the employer; and (2) a defined contribution component paid by the employee. This two-component approach is different from the Plan II retirement system where the employer and employee contributions are both used for the purpose of providing the defined retirement benefit.*

*New teachers hired after July 1, 1996, are required to be members of TRS III. Members of TRS II can make an irrevocable decision to join TRS III by transferring their Plan II service credit and contributions. If a TRS II member elects to switch to TRS III, their employee contributions, plus interest, are transferred to an individual-defined contribution account. In the enabling legislation, a two-year window was established beginning July 1, 1996, and ending January 1, 1998. If a TRS II member chooses to transfer in that window, an additional payment of 20 percent of the employee contributions as of January 1, 1996, will also be deposited into the member's defined contribution account at the end of the two-year window.*

*The purpose of the additional transfer payment was to maintain the cost neutrality of TRS III. The 20 percent calculation reflects the assumptions made in the original 1994 fiscal note.*

Legislation creating TRS III specifies that TRS II employee contribution rates will not exceed the Plan II and Plan III rates. The restriction becomes effective September 1, 1998.

**Summary:** The additional payment made to transferees' defined contribution account would increase from 20 percent to 40 percent.

A technical correction is also made by changing the effective date of the limitation on TRS II employee contributions to the beginning of the 1997- 99 biennium, September 1, 1997.

**Fiscal Note:** Available.