

# HOUSE BILL ANALYSIS

## HB 2490

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**Brief Description:** Sharing investment gains.

**Background:** Assets invested in the retirement funds have been experiencing growth in recent years substantially above the assumed long-term rate of 7.5 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 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 is paid solely by employer contributions. The defined contribution plan consists of employee contributions to member accounts, and all investment returns on those contributions. Whenever a member terminates employment, he or she can receive all contributions and investment returns in the member's account.

Under current law, better-than-expected investment returns on TRS 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. If earnings were to fall below the projected level of 7.5 percent, the employer contribution rate would be adjusted upward. TRS Plan III employee contribution rates are unaffected by changing rates of return on investment.

**Summary:** When investment earnings on the pension funds average more than 10 percent during the previous four years, certain TRS III members and retirees receive half of the gains over 10 percent through a payment to their defined contribution account. The gain sharing distribution is made once each biennium. The first distribution is made July 1, 1998. Thereafter, distributions will be made January 1 of each even-numbered year whenever the average earnings on the pension funds over the previous four years are more than 10 percent. The amount of the distribution is based on members' years of service.

The following TRS III members and retirees will receive a gain sharing distribution: Active members with more than \$1,000 in their member account; 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.

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## **The Distributions**