

FINAL BILL REPORT

ESHB 2491

C 340 L 98

Synopsis as Enacted

Brief Description: Sharing extraordinary investment gains.

Sponsors: By House Committee on Appropriations (originally sponsored by Representatives Carlson, H. Sommers, Ogden, Conway, Wolfe, Lambert, D. Sommers, O'Brien, Schoesler, Alexander and Gardner; by request of Joint Committee on Pension Policy).

House Committee on Appropriations
Senate Committee on Ways & Means

Background: Assets invested in state 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 several gain-sharing bills to the 1998 Legislature.

The Teachers' Retirement System (TRS) Plan I and the Public Employees' Retirement System (PERS) Plan I are defined benefit plans, which means that members receive a formula-driven benefit at retirement. Members of TRS Plan I and PERS Plan I pay 6 percent of their salary toward the cost of their benefits. This contribution rate is set in statute and does not vary when benefits are increased or when investment earnings are greater or less than assumed.

TRS Plan I and PERS Plan I are closed retirement systems that experienced chronic under-funding in the 1970s and 1980s. PERS Plan I and TRS Plan I employer contribution rates are set at the level percentage of pay necessary to pay off the total costs of the systems by July 1, 2024. The current unfunded liability in TRS Plan I and PERS Plan I is \$5.2 billion. Better-than-expected investment returns are held in the pension trust funds. The pension contribution rates paid by employers (including the state and local governments) have been adjusted downward when earnings are higher than expected. Earnings below the projected level of 7.5 percent could result in higher employer contribution rates.

"Pop-Up" Benefit. A retiree under the Judicial Retirement System, the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan II, TRS Plans I, II or III, or PERS Plans I or II may choose a lower monthly benefit in exchange for his or her spouse receiving a benefit after the retiree's death. This is called a survivor option.

Members of the pension systems who retired after January 1, 1996, receive a "pop-up" in their benefit if their spouse dies first; that is, the benefit the retiree receives "pops-up" to the level the benefit would have been if the retiree had not chosen the survivor option. (Surviving spouses of retired LEOFF Plan I members automatically receive the same benefit the retiree received during his or her lifetime, so the "pop-up" is irrelevant to the LEOFF Plan I system.)

Uniform COLA. PERS Plan I and TRS Plan I retirees receive an annual cost-of-living adjustment, called the Uniform COLA, beginning at age 66. As of 1998, COLA is 63 cents per month, per year of service. The COLA increases by 3 percent each year. In 1999, PERS Plan I and TRS Plan I retirees will receive a COLA of 64 cents per month per year of service, in addition to the COLA amounts received in previous years.

Summary: When the compound average rate of investment returns on the pension funds over the previous four years exceeds 10 percent, half the earnings over 10 percent must be used to increase benefits and the other half must be used to accelerate the amortization of the Public Employees' Retirement System (PERS) Plan I and the Teachers' Retirement System (TRS) Plan I costs.

The first gain sharing occurs July 1, 1998, and funds the present actuarial value of a retroactive "pop-up" benefit for retirees who retired prior to 1996, as well as a ten cent increase in the Uniform COLA. Thereafter, gain sharing occurs January 1 of each even-numbered year whenever the four-year compound average rate of investment returns on the pension funds is more than 10 percent. After the initial July 1, 1998, gain sharing, all subsequent gain sharing takes the form of an increase in the Uniform COLA.

The Office of the State Actuary must calculate the amount of the Uniform COLA increase and inform the Department of Retirement Systems of the amount.

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

Votes on Final Passage:

House 97 1
Senate 48 0

Effective: April 3, 1998
June 11, 1998 (Section 13)