

# SENATE BILL REPORT

## SB 5223

---

As Passed Senate, March 7, 1997

**Title:** An act relating to the teachers' retirement system plan III contribution rates.

**Brief Description:** Changing teachers' retirement system plan III contribution rates.

**Sponsors:** Senators Roach, Winsley, Long, Loveland, Bauer, Franklin, Fraser and McAuliffe; by request of Joint Committee on Pension Policy.

**Brief History:**

**Committee Activity:** Ways & Means: 2/5/97, 2/6/97 [DP].  
Passed Senate, 3/7/97, 47-0.

---

### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Fraser, Hochstatter, Kohl, Long, McDonald, Roach, Rossi, Schow, Sheldon, Spanel, Swecker, Thibaudeau, Winsley and Zarelli.

**Staff:** Debrah Kime (786-7454)

**Background:** In 1995, legislation was passed creating the Teachers' Retirement System (TRS) Plan III. This new system provides retirement benefits through a combined defined benefit and defined contribution pension plan. During the development of this plan, the Joint Committee on Pension Policy (JCPP) asked that any new design have long-term costs similar to Plan II in that Plan III would be cost neutral and that there should be no short-term gain to the state. Cost neutrality is assumed to exist if the employer cost of Plan II is the same as the employer cost of the combination of Plans II and III. There would be no increase in the employer cost with the enactment of Plan III. The additional transfer payment— is an integral part of achieving those goals. It is calculated as a balancing item to maintain cost neutrality.

Plan III provides the opportunity for current members of Plan II to transfer to Plan III. Those electing to transfer will receive a retirement benefit at age 65 that is one-half of what they would have received in Plan II. They will also have their Plan II contributions along with 5.5 percent interest transferred to their defined contribution account.

All members who transfer to Plan III prior to January 1, 1998 will receive an additional payment from the Plan II fund into their defined contribution account of 20 percent of their accumulated contributions as of January 1, 1996. This is commonly referred to as the additional transfer payment.—

The office of State Actuary has listed factors that have caused the previously calculated 20 percent transfer payment to change:

- Delay of implementation from 1995 to 1997 has increased the current Plan II liability and correspondingly changed the liability released by transfer.
- New economic and demographic assumptions in 1995.
- Average investment return of more than 10 percent.
- Low salary increases.

**Summary of Bill:** The transfer payment is increased from 20 percent to 40 percent in order to maintain short term cost neutrality in Plan III.

**Appropriation:** None.

**Fiscal Note:** Requested on January 30, 1997.

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

**Testimony For:** This bill should provide incentive for employees to move to Plan III.

**Testimony Against:** None.

**Testified:** Bob Maier, WEA (pro); John Kvamme, WASA/AWSP.