FINAL BILL REPORT

SSB 6306

C 341 L 98
Synopsis as Enacted

Brief Description: Creating the school employees' retirement system.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Long, Winsley, Rossi, Bauer, Roach and Anderson; by request of Joint Committee on Pension Policy).

Senate Committee on Ways & Means
House Committee on Appropriations

Background: ***Plan III.*** In 1995, two new retirement plans were proposed, one for the public employees (PERS) and one for state teachers (TRS). Only a TRS Plan III was enacted and it was implemented July 1, 1996.

The basic design of Plan III is different from Plans I and Plans II. Plan III has two components, a defined benefit and a defined contribution (Plans I and Plans II are defined benefit plans). For Plan III, the defined benefit provides a retirement allowance based on a formula that multiplies a member's years of service times his or her final average salary times 1 percent. The defined contribution allows a member to choose an investment contribution percentage option from a menu. The member may invest with the State Investment Board or one of several other funds offered through the Employee Retirement Benefits Board.

TRS Plan II members who transferred to TRS Plan III before January 1, 1998 were paid a transfer payment of 40 percent which is deposited into the member's defined contribution account.

Members of TRS Plans I, II, and III are certificated employees of school districts and educational service districts.

Classified employees of school districts are members of the Public Employees' Retirement System (PERS).

Extraordinary Gains and Gain Sharing. The Joint Committee on Pension Policy has proposed a means for using better-than-expected investment returns to develop a new mechanism for funding retirement benefits increases called gain sharing.–

The better-than-expected investment gains are defined as extraordinary gains– and occur when the State Investment Board (SIB) earns an average of 10 percent or more on the assets invested in the retirement trust accounts over a four-year period.

The distribution through gain sharing would be 50 percent of the amount over the 10 percent average for the four-year period. Using fiscal years 1993-1997 as an example, the SIB average rate of return for fiscal years 1993-1997 was 13.70 percent. Fifty percent of 3.7 percent, the amount over 10 percent, would be distributed as gain sharing.

The gain-sharing payment will be made once each biennium.

1997 Legislative Session. During the 1997 legislative session, a proposal was introduced to create the Washington Educational Employees' Retirement System (WEERS). WEERS would have included TRS I, II, and III members and classified school district employees transferred from the Public Employees' Retirement System Plan II. (SB 5929)

Summary: On September 1, 2000 classified school district employees are transferred from PERS II to the School Employees' Retirement System (SERS). They have the option of staying in Plan II (SERS II) or transferring into Plan III (SERS III). (Classified school district employees first hired after September 1, 2000 become members of SERS III.)

Members who choose to transfer from SERS II to SERS III before February 28, 2001 receive a transfer payment of 65 percent of their member contributions into their defined contribution accounts.

An additional 25 percent transfer payment, for a total of 65 percent, is made on July 1, 1998 to all TRS III members who were TRS II members and transferred to TRS III prior to January 1, 1998.

Both TRS III and SERS III members are eligible for gain sharing. TRS III members receive gain sharing effective July 1, 1998. SERS III members receive retroactive gain sharing March 1, 2001, based upon service credit accumulated as of August 1997. A second gain-sharing calculation is made for SERS III members in March 2001, based upon service credit accumulated as of August 1999. The amount distributed to a member is based upon the member's years of service.

The Office of the State Actuary calculates the amount per year of service to be distributed and informs the Department of Retirement Systems of that amount.

Provisions are made for ongoing gain-sharing distributions. However, the Legislature reserves the right to amend or repeal the gain-sharing provisions.

The Joint Committee on Pension Policy (JCPP) must study the policy and costs of merging TRS with SERS and report its findings to the Legislature by January 15, 1999.

The Department of Retirement Systems is directed to study the costs of administering the Plan III systems, ways to decrease those costs, and methods of charging members for higher cost investment options. The department must report to the JCPP by September 1998.

The SIB, in consultation with the Employee Retirement Benefits Board, must develop and implement administrative changes to mitigate the impact on the other pension funds of the movement of Plan III members in and out of the SIB portfolio.

Votes on Final Passage:

Senate	48	0	
House	64	33	(House amended)
Senate	46	1	(Senate concurred)

Effective: April 3, 1998 (Sections 303, 306-309, 404, 505, 507, 515, 701, 707, 710-713)
September 1, 2000