

# SENATE BILL REPORT

## SSB 6306

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As Passed Senate, February 16, 1998

**Title:** An act relating to the Washington school employees' retirement system.

**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).

**Brief History:**

**Committee Activity:** Ways & Means: 1/27/98, 2/5/98, 2/9/98 [DPS].  
Passed Senate, 2/16/98, 48-0.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6306 be substituted therefor, and the substitute bill do pass.

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

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

**Background:** Plan 3. In 1995, two new retirement plans were proposed, one for the public employees (PERS) and one for state teachers (TRS). Only a TRS Plan 3 was enacted and it was implemented July 1, 1996.

The basic design of Plan 3 is different from Plan 1s and Plan 2s. Plan 3 has two components, a defined benefit and a defined contribution and Plan 1s and Plan 2s are defined benefit plans.

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 2 members who transferred to TRS Plan 3 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 1, 2 and 3 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 State Investment Board 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 1, 2, and 3 members and classified school district employees transferred from the Public Employees Retirement System Plan 2. (SB 5929)

**Summary of Bill:** Effective September 1, 1999:

Name Change. The Teachers' Retirement System is renamed to the Washington School Employees' Retirement System (SERS).

Membership. SERS 2 membership consists of classified school district employees transferred from PERS 2. Window opens for SERS 2 members to transfer to SERS 3.

Employees first hired after September 1, 1999 become members of SERS 3.

Transfer Payment. Members who choose to transfer from SERS 2 to SERS 3 before February 29, 2000 receive an additional 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 SERS 3 members who were TRS 2 members and transferred to TRS 3 prior to January 1, 1998.

On January 1, 2001 TRS Plan 2/3 members are merged into SERS Plan 2/3.

Gain Sharing. When investment earnings on the pension funds average more than 10 percent during a previous four-year period, SERS 3 members receive half of the gains over 10 percent through a payment to their defined contribution accounts. The amount of the distribution is based on each member's years of service. On July 1, 1998 TRS 3 members

will receive the first gain sharing distribution. On March 1, 2000 SERS Plan 3 transferees receive retroactive gain sharing.

State Investment Board (SIB) Assumes Responsibility For Selecting Plan 3 Investment Options. The SIB assumes responsibility from the Employee Retirement Benefits Board (ERBB) for preselecting Plan 3 investment options and becomes trustee for the money in members' defined contribution accounts. The ERBB is to make recommendations to the SIB regarding member's preference for types of investment options.

**Appropriation:** None.

**Fiscal Note:** Requested on January 15, 1998.

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

**Testimony For:** Classified school employees understand the design of Plan 3 and want the opportunity to transfer. Appreciate flexibility and choice. Still want to strive for improvements in Plan 2.

Thanks to the State Actuary, the Joint Committee on Pension Policy, and the Employee Retiree Benefit Board.

Interested Party: Kaarin Cargill, Washington Schools Information Processing Cooperative, says this bill will have an impact on their computer systems. She requested financial consideration for school districts because they will have to pay for the necessary software development if this bill passes.

**Testimony Against:** Strongly opposes both SB 6306 and SB 6309. Want the retirement age reduced in Plan 2 and have serious concerns about gain sharing in Plan 2.

**Testified:** PRO: PSE, Doug Nelson, Kathy Whitlock, Diane Straehle, Kye Killig, John Kvamme, WASA, AWSP; Bob Maier, WEA; CON: Devon Smith, WFSE; Sherry Appleton, AUT, MMP; Sara Scanlon, SEIU; Ellie Menzes, SEIU; Shantrell Nielson, Local 17.

**House Amendment(s):** The House striking amendment requires studies to be done concerning the merger of TRS and SERS and the administration costs of Plan 3. The TRS/SERS merger has been taken out of the bill.

The State Investment Board, with the Employee Retirement Board (ERBB), is required to develop and implement administrative changes to mitigate the impact on the other pension funds due to the movement of Plan 3 members in and out of the SIB portfolio.

The membership on ERBB is expanded to include classified school employees and a retiree before the creation of SERS.

Many of the implementation dates are moved into the future. The implementation of SERS is delayed until September 2000.