

SENATE BILL REPORT

SB 6307

As of February 5, 1998

Title: An act relating to the sharing of extraordinary investment gains.

Brief Description: Sharing extraordinary investment gains.

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

Brief History:

Committee Activity: Ways & Means: 2/5/98.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Debrah Kime (786-7454)

Background: 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 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.

Summary of Bill: Effective July 1, 1998:

Gain Sharing. Gain sharing is used to fund benefit increases for Teachers Retirement System (TRS) Plan 1 and Public Employees Retirement System (PERS) Plan 1 members beginning on July 1, 1998 and on January 1 of even-numbered years thereafter. The benefit increases for July 1, 1998 include a retroactive pop-up feature and an increase to the Uniform COLA.

Fifty percent of the extraordinary gains is used in a gain sharing distribution to fund:

Retroactive Pop-ups: Any member of the Judges Retirement System, the Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Plan 2, Teachers Retirement System (TRS) 1 and 2; and Public Employees Retirement System (PERS) 1 and 2 who retired before January 1, 1996; elected a survivor option; and is predeceased by the beneficiary, has his or her monthly benefit increased.

Estimated present value cost of pop-up feature is \$56.8 million which includes using \$25 million from the Pension Funding Account. However, it should be noted that the amount to be used from the Pension Funding Account has been left blank in the bill.

Increased Uniform COLAs: The Uniform COLA, provided to TRS and PERS Plan 1 retirees who have reached age 66 started in 1995 at 59 cents per month per year of service credit and increases at 3 percent annually. The Uniform COLA is currently 63 cents per month per year of service. Increases due to gain sharing are permanent increases and are considered part of the base for determining the regular annual increases.

Estimated increase in Uniform COLA:

July 1, 1998: 10 cents per month per year of service

January 1, 2000: 8 cents per month per year of service

Future Plan 1 distributions are used solely to increase the Uniform COLA.

The other 50 percent of the extraordinary gains is used to shorten the number of years needed to pay off the Plan 1 unfunded liability by approximately 1.2 years. Statute requires the unfunded liability to be paid off by July 1, 2024.

Appropriation: Unspecified.

Fiscal Note: Requested on January 15, 1998.

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

Testimony For: Thank you to the Joint Committee on Pension Policy for the gain sharing bill. It is a fiscally responsible bill. Would like flexibility in the language concerning gain sharing for future. Question why half of the gain sharing would be used for the Plan 1 unfunded liability as it was caused by employers not paying their share. Would like 100 percent gain sharing when unfunded liability is paid off.

Testimony Against: None.

Testified: George Eisentrout, Pat Hougan, WSRTA; Joe Beck, RPEC; Page Carter; Helen Carlstrom, WEA-R; Devon Smith, WFSE; Bob Maier, WEA; Doug Nelson, PSE; John Kvamme, WASA, AWSP.