

# HOUSE BILL ANALYSIS

## HB 1024

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**Brief Description:** Providing a retirement option for certain retirement system members.

### Brief Summary of Bill

- Allows members of PERS and TRS Plan 1 with thirty years of service to make an irrevocable choice to have future member retirement contributions returned to them with interest.
- Members making such a choice will have their retirement benefit calculated using the service and compensation earned prior to the election.

**Background:** The maximum retirement allowance paid by the Public Employees' Retirement System Plan 1 (PERS 1) and Teachers' Retirement System Plan 1 (TRS 1) is generally 60 percent of a retiree's average final compensation (AFC). This limit is often referred to as the "30-year cap" because the 60 percent limit is reached after 30 years of service (YOS).

PERS 1 and TRS 1 require a six percent member contribution for all periods of service. The member's accumulated contributions are credited quarterly with 5.5 percent interest.

TRS 1 is the only state retirement plan that permits members to withdraw their accumulated contributions at retirement and still receive a retirement allowance. If contributions are withdrawn, the retirement allowance is reduced to reflect the monthly annuity that could be purchased with the withdrawn contributions. About 80 percent of TRS 1 retirees withdraw all or part of their member contributions. The average withdrawal for those withdrawing all of their contributions between 1993 and 1997 was \$70,993.

A TRS 1 member who works more than 30 years, receives little or no salary increases after 30 years, and who withdraws member accumulated contributions at retirement can receive a smaller monthly retirement allowance than if the member had retired after just 30 years. This is because the amount of their accumulated contributions continues to grow each year, and the amount of annuity that can be purchased increases for every year the member delays retirement. As a result, the monthly annuity that can be purchased with the contributions increases even if the retirement allowance does not because of the 30 year cap. The member's retirement allowance is never reduced by working beyond 30 years if the member does not withdraw his or her accumulated contributions.

**Summary of Bill:** Within six months after attaining 30 years of service, a TRS 1 or PERS 1 member may make an irrevocable option to have future employee contributions returned to the member as a lump sum at retirement. Interest is paid on the future contributions at a rate determined by the Director of the Department of Retirement Systems (DRS). The member's retirement allowance is not reduced as a result of the withdrawal of the future contributions. Employer contributions continue to be required for the periods of service after the member election.

If a member makes the irrevocable election, the member's retirement allowance will be calculated using only compensation earned prior to the election. The one exception to this limitation is that any eligible cash-outs of sick and annual leave at retirement will be included in the compensation used to calculate the retirement allowance. The total compensation used for calculating the member's retirement allowance cannot be higher than if the member had not selected the option created by the bill. Members who already have more than 30 years of service may participate in the election by notifying DRS in writing no later than December 31, 1999.

**Appropriation:** None.

**Fiscal Note:** Available.

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

